

Analyse This...

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OKP Holdings

Record profit; outlook looking bright with massive public projects

 OKP SP
 BUY; TP:\$0.98

 Price @16/2/12: S\$0.64
 52-week range (SGD): 0.52 – 0.69
 Market cap: S\$188m

Record earnings grab the headlines

- Results exceeded our above consensus estimates. 4Q11 net profit of S\$9.5m (+105% yoy) was a surprise, bringing the entire FY11 net profit to S\$26.6m (+57% yoy), beating our numbers by 27%. This figure was in fact our previous FY12 forecast, and the beat was spectacular owing to cost savings in certain design-and-build construction projects, which yielded higher gross profit margins. Overall better project management and tighter cost controls also helped.
- Group's revenue came in at S\$23.2m (-22% yoy) in 4Q11, attributable to the higher degree of completion of existing projects, coupled with a lower percentage of revenue recognised from a few newly-awarded projects.
- ... but gross profit increased by 50% yoy to S\$15m in 4Q11, lifting GP margin to 64.8% in 4Q11 (from 33.8% in 4Q10). Variation orders on a few projects, as well as some existing design-and-build projects that gave the group the autonomy and flexibility in design, project management and labour management, helped to boost this robust gross margin. The relatively high profit margin also reflected the success of the group's continuous cost control efforts.
- Order book replenishment on the card; current S\$248.6m outstanding order book can last till FY2014. OKP's total gross order book stands at a healthy S\$248.6m based on secured civil engineering and construction contracts, with projects stretching up to 2014. However, we believe order book replenishment is on the card, and the group should have no problem securing contracts to bring it back to the S\$450m by end FY12. We believe the appetite for more projects will materialize in months ahead, providing short to mid-term catalysts.
- 48% of market cap backed by net cash of S\$91m. The financials and balance sheet of OKP remains one of the best, if not the best among peers. Group's assets totaled S\$148m at the end of FY11, implying an NTA of 28.34 Scts/share. More importantly, OKP now has a net cash position of S\$93m or 48% of its current market cap of S\$193m.
- Dividends not bad; but so are things to come. We see a deliberate shift down of dividend proposed, total of 3 Scts for FY11 as an effort to shore up capital and cash for better things to come. This could come in to support group's effort to grow business and to diversify into property development, which has seen the group actively exploring investment opportunities and strategic business alliances both locally and overseas.

Where are the numbers coming from

- Results may entail a backward looking reporting. We think otherwise. OKP will continue to drive its profitability in the years to come. Government's effort to improve existing traffic situation, would continue to drive road related construction activity. As such, the outlook for OKP remains positive for the next twelve months.
- This excitement is anchored by a few road-related projects likely to be awarded in 2012 include: (1) Expansion of Kallang Paya Lebar Expressway (KPE)/ Tampines Expressway (TPE) Interchange; (2) Extension and reconstruction of Newton Flyover; and (3) Construction of New Lornie Road. We would be surprised if OKP cannot secure a single one of them.
- Additionally, Public Utilities Board announced that it would spend S\$750m over the next five years on 20 drainage projects. It will deepen and widen six other major canals, in places such as Bukit Timah, Geylang and Bedok, to increase their capacity by 30% to 45%. OKP has prior experience in drainage improvement works.

4QFY11 result at a glance

FYE Dec (\$ m)	4QFY11	4QFY10	yoy %	3QFY11	qoq %	4QFY11	4QFY10	yoy %	Prev. FY11F
			chg		chg	Cum	Cum	chg	
Revenue	23.2	29.6	(21.6)	142.9	(83.8)	109.8	139.9	(21.5)	185.7
Operating costs	(11.1)	(23.7)	(53.2)	(14.1)	(21.3)	(75.5)	(117.3)	(35.6)	(159.2)
EBITDA	12.1	5.9	105.1	128.7	(90.6)	34.3	22.5	52.3	26.5
EBITDA margin (%)	52.1	19.9		90.1		31.2	16.1		14.3
Deprn & amort.	(0.8)	(0.9)	(9.6)	(5.8)	(85.6)	(3.1)	(2.8)	8.4	(3.5)
EBIT	11.3	5.0	126.5	122.9	(90.8)	31.2	19.7	58.6	23.0
Interest expense	(0.0)	(0.0)	(29.7)	(0.0)	-	(0.1)	(0.2)	(24.5)	(0.4)
Interest & invt inc	0.3	0.5	(38.9)	0.3	1.5	1.0	0.9	14.7	2.5
Associates' contrib	-	-	-	-	-	-	-	-	-
Exceptionals	-	-	-	-	-	-	-	-	-
Pretax profit	11.6	5.5	111.0	123.2	(90.6)	32.2	20.4	57.3	25.1
Tax	(2.1)	(0.9)	127.9	(1.0)	114.2	(5.6)	(3.6)	58.5	(4.5)
Tax rate (%)	17.8	16.5		0.8		17.5	17.4		18.0
Minority interests	0.0	0.1		0.0		0.0	0.1		0.1
Net profit	9.5	4.6	105.4	122.3	(92.2)	26.6	17.0	56.7	20.7
Core net profit	9.5	4.6	105.4	122.3	(92.2)	26.6	17.0	56.7	20.7
EPS (cts)	3.2	1.8	82.0	42.0	(92.3)	10.2	7.1	43.2	7.3
Core EPS (cts)	3.2	1.8	82.0	42.0	(92.3)	10.2	7.1	43.2	7.3

Source: Company, CIMB Research

Valuation and recommendation

- Maintained BUY, target price S\$0.98, based on 6.5x ex net cash CY13 P/E. We like OKP for its high projects visibility in the public sector, and its strong potential overseas expansion story. OKP is a prime candidate to government infrastructural spending and the stock offers excellent value trading at 3.3x ex cash CY13 P/E.
- We think OKP's conservatism to beefing up balance sheet provides the importance of liquidity to the group – a condition for assured survival. If the current market uncertainties prolonged, in the worst case scenario, even when there is no new replenishment of contracts (though very unlikely), OKP's current S\$248.6m order book can last till FY2014.
- Fresh order wins from public and private sector civil engineering projects will be the primary growth drivers that fuel sustainable earnings growth. In our view, immediate re-rating catalysts are likely to come from stronger than expected order momentum, strong margins from recently awarded road-raising works that will bring the group to another record profits and higher dividend payout. Apart from public sector works, the group also looks to increase its presence in the oil and gas sector.

Financial analysis

FYE Dec	2010	2011	2012F	2013F	2014F
Revenue (\$ m)	139.9	109.8	136.8	165.0	195.9
EBITDA (\$ m)	23.4	35.3	32.5	41.4	44.8
EBITDA margins (%)	16.7	32.2	23.7	25.1	22.9
Pretax profit (\$ m)	20.4	32.2	28.4	37.1	40.3
Net profit (\$ m)	17.0	26.6	23.4	30.5	33.1
EPS (cts)	6.5	9.0	7.7	10.0	10.9
EPS growth (%)	7%	39%	-15%	30%	9%
P/E (x)	9.8	7.1	8.4	6.4	5.9
Core EPS (cts)	6.5	9.0	7.7	10.0	10.9
Core EPS growth (%)	7%	39%	-15%	30%	9%
Core P/E (x)	9.8	7.1	8.4	6.4	5.9
FD EPS (cts)	5.9	8.9	7.6	9.9	10.8
FD P/E (x)	10.8	7.2	8.4	6.5	5.9
Gross DPS (cts)	5.0	5.0	3.0	4.0	4.0
Dividend yield (%)	7.8%	7.8%	4.7%	6.3%	6.3%
P/NTA (x)	2.5	2.3	1.9	1.6	1.4
ROE (%)	24.6%	30.1%	22.8%	25.3%	23.4%
Net gearing (%)	nil	nil	nil	nil	nil
Net cash per share (\$)	0.4	0.3	0.3	0.4	0.5
P/CF (x)	8.4	6.3	7.2	5.7	5.2
EV/EBITDA (x)	3.2	2.1	2.3	1.8	1.7

Source: Company, CIMB Research