OKP Holdings
Positioned to tap the construction boom

Quick run through of 4Q12 results
- Results exceeded our estimates. 4Q12 net profit of S$3.8m (-60% yoy) was a surprise, bringing the entire FY12 net profit to S$12.4m (-53% yoy), beating our numbers by 10%. The beat was commendable as the group endures a torrid year, faced with two evils of keen price competition and rising labour costs.
- ... but gross profit margin declined from 39.3% to 22.4%. This was on the back of a more competitive pricing environment and costs which were higher than expected as a result of unfavourable ground conditions. Consequently, the completion dates of the affected projects were extended and additional prolongation costs were incurred.

Other stuffs
- 34% of market cap backed by net cash of S$54m. The financials and balance sheet of OKP remains one of the best, if not the best among peers. Group’s assets totaled S$137.5m at the end of FY12, implying an NTA of 30.71. OKP now has a net cash position of S$54m or 34% of its current market cap of S$160m.
- Dividends scaled back hinting of better usage of cash. We see a deliberate shift down of dividend proposed, total of 1.5 Scts for FY12 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.
- S$376.6m worth of contracts till end-FY15. Already, the group has 34% of market cap backed by net cash of S$54m. OKP looks to increase its presence in the oil and gas sector.
- 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.

Valuation and recommendation
- Low share price brought forth a value proposition. Maintained BUY, as 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).
- Target price reminds unchanged at S$0.63 on multiples of 7.5x to CY14 P/E, its 3-year forward multiples. With its high projects visibility in the public sector, OKP is a prime candidate to government infrastructural spending and the stock offers excellent value trading at 6.6x CY14 P/E.
- Stay long on OKP for the construction boom angle. The outlook for the construction sector is expected to be positive but competitive for the next twelve months. The optimism mainly stems from a pipeline of government projects.
- Overall construction demand, according to the Building and Construction Authority, is expected to remain strong at between S$26bn and S$32bn for 2013. The demand for public sector construction is expected to strengthen and contribute about 53% of the industry demand, or between S$14bn and S$17bn worth of construction orders. 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

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