

# Analyse This...

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## OKP Holdings

*Positioned to tap the construction boom*

 OKP SP  
 BUY; TP:\$0.63

 Price @21/2/13: S\$0.52  
 52-week range (SGD): 0.485 – 0.65  
 Market cap: S\$160m

### 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 Scts/share. More importantly, 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 secured four public sector projects totaling S\$22.1m in FY12. We believe the appetite for more projects will materialize in months ahead, providing short to mid-term catalysts. Group's gross order book based on secured contracts stands at S\$376.6m, with some projects completing in 2015.

### 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.
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### 4QFY12 result at a glance

FYE Dec (\$\$ m)	4QFY12	4QFY11	yoy %	3QFY12	qoq %	4QFY12	4QFY11	yoy %	Prev.
			chg		chg	Cum	Cum	chg	FY12F
Revenue	27.5	23.2	18.4	28.5	(3.6)	104.5	109.8	(4.9)	92.6
Operating costs	(23.4)	(11.1)	111.1	(24.7)	(5.1)	(88.9)	(75.5)	17.8	(77.1)
EBITDA	4.0	12.1	(66.6)	3.8	6.6	15.5	34.3	(54.7)	15.6
EBITDA margin (%)	14.7	52.1		13.3		14.9	31.2		16.8
Deprn & amort.	(0.9)	(0.8)	11.2	(1.0)	(7.5)	(3.4)	(3.1)	9.8	(3.7)
EBIT	3.1	11.3	(72.4)	2.8	11.8	12.2	31.2	(61.0)	11.8
Interest expense	(0.0)	(0.0)	(30.8)	(0.0)	(10.0)	(0.1)	(0.1)	(21.9)	(0.2)
Interest & invt inc	1.1	0.3	230.7	0.4	183.4	2.7	1.0	163.6	2.3
Associates' contrib	(0.0)	-	-	(0.0)	-	(0.0)	-	-	(0.0)
Exceptionals	-	-	-	-	-	-	-	-	-
<b>Pretax profit</b>	<b>4.2</b>	<b>11.6</b>	<b>(63.7)</b>	<b>3.1</b>	<b>33.6</b>	<b>14.8</b>	<b>32.2</b>	<b>(54.1)</b>	<b>13.9</b>
Tax	(0.2)	(2.1)	(88.4)	(0.7)	(66.3)	(2.2)	(5.6)	(60.3)	(2.8)
Tax rate (%)	5.7	17.8		22.6		15.2	17.5		20.0
Minority interests	(0.2)	0.0		0.0		(0.2)	0.0		0.1
<b>Net profit</b>	<b>3.8</b>	<b>9.5</b>	<b>(60.3)</b>	<b>2.4</b>	<b>56.0</b>	<b>12.4</b>	<b>26.6</b>	<b>(53.4)</b>	<b>11.2</b>
<b>Core net profit</b>	<b>3.8</b>	<b>9.5</b>	<b>(60.3)</b>	<b>2.4</b>	<b>56.0</b>	<b>12.4</b>	<b>26.6</b>	<b>(53.4)</b>	<b>11.2</b>
EPS (cts)	1.2	3.2	(61.7)	0.8	55.8	4.0	9.0	(55.2)	3.7
Core EPS (cts)	1.2	3.2	(61.7)	0.8	55.8	4.0	9.0	(55.2)	3.7

Source: Company, CIMB Research

### Financial analysis

FYE Dec	2010	2011	2012	2013F	2014F
Revenue (\$\$ m)	139.9	109.8	104.5	113.2	158.5
EBITDA (\$\$ m)	23.4	35.3	18.2	25.3	33.9
EBITDA margins (%)	16.7	32.2	17.4	22.4	21.4
Pretax profit (\$\$ m)	20.4	32.2	14.8	21.3	29.6
Net profit (\$\$ m)	17.0	26.6	12.4	17.3	24.1
EPS (cts)	6.5	9.0	4.0	5.6	7.9
EPS growth (%)	7%	39%	-55%	40%	39%
P/E (x)	8.0	5.8	12.9	9.2	6.6
Core EPS (cts)	6.5	9.0	4.0	5.6	7.9
Core EPS growth (%)	7%	39%	-55%	40%	39%
Core P/E (x)	8.0	5.8	12.9	9.2	6.6
FD EPS (cts)	5.9	8.9	4.0	5.6	7.8
FD P/E (x)	8.8	5.8	12.9	9.2	6.6
Gross DPS (cts)	5.0	5.0	1.5	2.5	3.0
Dividend yield (%)	9.6%	9.6%	2.9%	4.8%	5.8%
P/NTA (x)	2.1	1.8	1.7	1.5	1.4
ROE (%)	24.6%	30.1%	12.8%	16.5%	20.2%
Net gearing (%)	nil	nil	nil	nil	nil
Net cash per share (\$\$)	0.4	0.3	0.2	0.2	0.3
P/CF (x)	6.9	5.1	10.0	7.5	5.7
EV/EBITDA (x)	2.0	1.3	2.6	1.8	1.4

Source: Company, CIMB Research

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