

# Analyse This

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## OKP Holdings

*Relentless pursuit of profitability*

 OKP SP  
 BUY; TP: S\$0.85

 Price @29/07/10: S\$0.48  
 52-week range (SGD): 0.30 – 0.65  
 Market cap – S\$123m

### Recommendation – maintain BUY

- **Maintain BUY rating with target price set at S\$0.85**, still pegged at 10x CY11 earnings, below the mid-cycle valuation, and discount to bigger peers who re-rated upon awards of overseas contracts.
- **Positive dividend surprises.** We kept our estimates unchanged, which captured OKP's higher order book and margin recovery. Our earnings estimates have not factored in the potential catalyst of the possible overseas projects.
- We like OKP for its projects visibility in the public sector, and its strong potential overseas expansion story. OKP offers excellent value trading at 6.1x CY11 P/E against its 3-year core earnings CAGR forecast of 20.4%.

### 2QFY10 result review

FYE Dec (\$\$ m)	2QFY10	2QFY09	yoy %	1QFY10	qoq %	2QFY10	2QFY09	yoy %	Prev.
			chg		chg	Cum	Cum	chg	FY10F
Revenue	39.8	31.9	24.7	33.9	157.3	73.7	61.5	19.8	157.3
Operating costs	(34.0)	(28.0)	21.4	(28.6)	(137.3)	(61.8)	(53.0)	16.7	(137.3)
EBITDA	5.8	3.9	48.1	5.3	20.1	11.8	8.5	38.9	20.1
EBITDA margin (%)	14.6	12.3		15.6	12.8	16.1	13.9		12.8
Depn & amort.	(0.6)	(0.6)	10.1	(1.1)	(1.6)	(2.5)	(1.6)	53.8	(1.6)
EBIT	5.2	3.4	54.5	4.2	18.5	9.4	6.9	35.5	18.5
Interest expense	(0.0)	(0.1)	(25.5)	(0.0)	(0.3)	(0.1)	(0.1)	(25.5)	(0.3)
Interest & invt inc	0.1	1.1	(95.1)	0.1	1.9	0.1	1.3	(90.5)	1.9
Associates' contrib	-	-	-	-	-	-	-	-	-
Exceptionals	-	-	-	-	-	-	-	-	-
<b>Pretax profit</b>	<b>5.2</b>	<b>4.4</b>	<b>19.0</b>	<b>4.2</b>	<b>20.1</b>	<b>9.4</b>	<b>8.1</b>	<b>16.6</b>	<b>20.1</b>
Tax	(0.9)	(0.7)	21.9	(0.7)	(3.6)	(1.6)	(1.3)	28.0	(3.6)
Tax rate (%)	17.5	17.0		17.3	18.0	17.4	15.8		18.0
Minority interests	(0.0)	(0.0)	-	0.0	0.0	-	(0.0)	(100.0)	0.0
<b>Net profit</b>	<b>4.3</b>	<b>3.6</b>	<b>18.4</b>	<b>3.5</b>	<b>16.5</b>	<b>7.8</b>	<b>6.8</b>	<b>14.6</b>	<b>16.5</b>
<b>Core net profit</b>	<b>4.3</b>	<b>3.6</b>	<b>18.4</b>	<b>3.5</b>	<b>16.5</b>	<b>7.8</b>	<b>6.8</b>	<b>14.6</b>	<b>16.5</b>
EPS (cts)	2.9	2.4	18.4	2.3	11.0	5.2	4.5	14.6	11.0
Core EPS (cts)	2.9	2.4	18.4	2.3	11.0	5.2	4.5	14.6	11.0

- **2QFY10 results came in within our expectation.** 2Q10 and 1H10 net profit of S\$4.3m (+18.3% yoy) and S\$7.8m (+14.4%) were in-line with our expectation. 1H10 earnings formed 47.2% of our FY10 estimates. On a quarterly basis, 2Q10 was also the group's strongest-ever quarter.
- ... along with its revenue for the quarter, also its highest ever. Revenue registered a 24.7% yoy growth to S\$39.8m in 2Q10, underpinned by a 52% yoy increase in revenue from the construction segment to S\$34.7m, partially offset by a lower contribution from the maintenance segment (S\$5.0m).
- **Timing of recognition was in play in this set of result.** The higher percentage of revenue recognition for the construction segment came from a few key construction projects which were in full swing in 2Q10. The maintenance segment saw a lower percentage of revenue recognition due to the substantial completion of existing maintenance projects and lower contribution from the newly-awarded maintenance projects in 2Q10.
- **Overall gross profit increased by 38.8% yoy to S6.6m in 2Q10**, while gross profit margin remained fairly constant at approximately 16.5%, up 1.6% point.
- **71% of market cap backed by net cash of S\$87.4m.** OKP's NTA stood at 22.8 Scts/share. Net working capital remained substantial at S\$46.8m. The group continued to build up its balance sheet, and the current net cash pile of the group stacked to S\$87.4m, more than 70% of the share price is backed by cash, a rarity for a civil-engineering company that is operating a high growth phase.

### Order book lasting till 2013

- **S\$312 order book lasting till FY2013.** YTD, OKP has secured four public sector projects comprising of : - a S\$6.0m contract from the PUB for desilting works for the 2-km Bukit Timah Phase II Diversion Canal, a S\$5.2m contract from the JTC involving construction and maintenance works at Tuas South Avenue 12 and Tuas South Avenue 14 and two contracts totalling \$34.3m from the LTA for upgrading and maintenance of roads and related facilities in the Central and North-West Sectors. Other ongoing works include a S\$119.3m contract from LTA to widen the stretch of Central Expressway from Pan Island Expressway to Braddell Interchange due for completion in end-2011 and a S\$15.4m contract from the PUB for drainage works at Opera and East View Garden Estates to be completed in January 2011. The total order book currently stands at S\$312m, and these projects will be completed and delivered progressively from now until 2013.
- **Strong industry tailwind.** The outlook for the construction industry to remain healthy over the next 12 months. The Building and Construction Authority's (BCA) latest statistics also estimated Singapore's construction demand for 2010 to be between S\$21bn and S\$27bn with the bulk of demand originating from the public sector (MRT projects for Downtown Line Stage 3 and major road projects).
- **Relentless pursuit of profitability.** Management reiterates its focus on its traditional core business of construction and maintenance activities. The group will leverage its track record and financial strength to participate in tenders for larger and more complex civil engineering projects in order to generate higher profitability. OKP will also extend its civil engineering capabilities to the oil and gas sector.
- **Potential business opportunities for OKP lie overseas.** We believe overseas ventures will serve to broaden OKP's income base and underpin longer term profitability. We think that the group would eventually make its foray to overseas market, which would mean higher margins due to the higher premium that the group required for outside Singapore projects.
- OKP's participation of such projects will provide a visible order book pipeline (out of Singapore). This came on the back of its recent joint venture agreement with CIF Singapore, a subsidiary of China Sonangol International (S) Pte Ltd, to further grow the external wing of its business and to undertake large urban development projects overseas. If execution is done perfectly, OKP could stand to win other fresh projects of such nature to be awarded out by other African states.

### Financial summary

FYE Dec	2008	2009	2010F	2011F	2012F
Revenue (\$\$ m)	101.8	130.0	157.3	185.7	220.4
EBITDA (\$\$ m)	14.7	19.8	22.0	26.7	33.3
EBITDA margins (%)	14.4	15.2	14.0	14.4	15.1
Pretax profit (\$\$ m)	12.2	17.1	20.1	24.8	32.3
<b>Net profit (\$\$ m)</b>	<b>9.5</b>	<b>14.4</b>	<b>16.5</b>	<b>20.3</b>	<b>26.2</b>
EPS (cts)	6.3	6.1	6.9	8.5	11.0
EPS growth (%)	-13%	-4%	14%	23%	29%
P/E (x)	7.6	7.9	6.9	5.6	4.4
Core EPS (cts)	6.3	5.4	6.2	7.6	9.4
Core EPS growth (%)	-13%	-14%	14%	23%	24%
Core P/E (x)	7.6	8.9	7.8	6.3	5.1
FD EPS (cts)	6.3	5.4	6.2	7.6	9.4
FD P/E (x)	7.6	8.9	7.8	6.3	5.1
Gross DPS (cts)	1.5	2.0	2.3	3.3	4.3
Dividend yield (%)	3.1%	4.2%	4.7%	6.8%	8.9%
P/NTA (x)	1.9	2.0	1.7	1.4	1.2
ROE (%)	23.6%	24.5%	23.8%	24.8%	26.4%
Net gearing (%)	nil	nil	nil	nil	nil
Net cash per share (\$\$)	0.2	0.3	0.4	0.4	0.4
P/CF (x)	6.1	6.8	6.3	5.2	4.1
EV/EBITDA (x)	2.5	1.9	1.7	1.4	1.1

Source: Company, CIMB-GK Research