

Analyse This...

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OKP Holdings

Stellar set of results exceed all expectations

 OKP SP
 BUY; TP:\$0.98

 Price @25/07/11: S\$0.65
 52-week range (SGD): 0.45 – 0.69
 Market cap: S\$197.9m

61% jump in 2Q11 net profit!

- **This is an exceptional record profit.** 2Q11 net profit of S\$6.9m (+61% yoy) far exceeds all expectations. This strong set of numbers indicated that OKP's growth trajectory is still climbing. 2Q11 and 1H11 EPS (after adjusting conversion of warrants) were above our higher than consensus forecast and accounted for 33% and 61% of our FY11 EPS forecast respectively.
- **Interim dividends declared.** Similar to last year, the group also has approved an interim dividend of 1Scts, which works out to a dividend payout ratio of 23.4% based on 1H11 profits.
- **OKP's current S\$381.6m order book can last till FY2014.** OKP's total gross order book stands at a healthy S\$381.6m based on secured civil engineering and construction contracts, with projects stretching up to 2014. We are not surprised by that as OKP is one of the market leaders in public sector infrastructure works. Year to date, OKP's total new order wins (five public sector projects) already totaled S\$100m, forming two-third of our new order win assumptions.
- **Maintain BUY.** Despite this robust set of result, we are keeping our estimates unchanged given the current competitive environment and some minor adjustment of diluted EPS. Our **target price remains at S\$0.98**, peg 10x CY12 earnings, below the mid-cycle valuation, and discount to bigger peers who re-rated upon awards of overseas contracts.

cash flows generated by operating activities of S\$6.1m for the six months ended 30 June 2011. More importantly, OKP now has a net cash position of S\$97m or 49% of its current market cap of S\$197.9m.

Outlook for OKP remains very bright

- Management expects the outlook for the construction industry to remain positive and competitive over the next 12 months. Even though government figures show that the Singapore economy grew 0.5% year-on-year in the second quarter of 2011, down from 9.3% growth in the previous quarter, the construction sector grew by 1.6% on a year-on-year basis in the second quarter of 2011, supported by increasing construction activities in the industrial building segment.
- There are still opportunities for the group, considering the strong pipeline of committed large public infrastructure projects such as the extension of MRT lines including the Downtown Line, Eastern Region Line, Thomson Line, and Tuas West Extension, and major road works such as the North South Highway.

Valuation and recommendation

- We note that OKP has over the year has been very consistently and selective in its tender participation, and only taking up projects that promise a reasonable rate of return. Management has always exercised prudence both financially and in its business operations. We believe this will engineered high degree of success to the group.
- **Maintained BUY, target price S\$0.98.** 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 6.7x CY12 P/E against its 3-year core earnings CAGR forecast of 23.2%.
- Our above consensus estimates reflect OKP's higher order book and robust margin. Further upside to our earnings estimates could emerge with potential catalyst of the possible overseas projects.
- 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.

1QFY11 result at a glance

FYE Dec (\$\$ m)	2QFY11	2QFY10	yoy % chg	qoq % chg	2QFY11 Cum	2QFY10 Cum	yoy % chg	Prev. FY11F
Revenue	28.3	39.8	(28.8)	(13.8)	61.1	73.7	(17.0)	185.7
Operating costs	(19.4)	(34.0)	(42.9)	(25.1)	(45.3)	(63.1)	(28.2)	(156.7)
EBITDA	8.9	5.8	53.4	27.9	15.9	10.6	49.7	29.0
EBITDA margin (%)	31.5	14.6			25.9	14.4		15.6
Depn & amort.	(0.8)	(0.6)	22.3	13.2	(1.4)	(1.2)	17.9	(3.5)
EBIT	8.1	5.2	57.2	29.4	14.4	9.4	53.8	25.5
Interest expense	(0.0)	(0.0)	(31.6)	(27.8)	(0.1)	(0.1)	(18.4)	(0.4)
Interest & invt inc	0.2	0.1	32.2	58.7	0.4	0.1	197.5	2.5
Associates' contrib	-	-	-	-	-	-	-	-
Exceptionals	-	-	-	-	-	-	-	-
Pretax profit	8.3	5.2	60.5	30.4	14.7	9.4	56.2	25.1
Tax	(1.4)	(0.9)	59.6	24.5	(2.6)	(1.6)	59.4	(4.5)
Tax rate (%)	17.4	17.5			17.7	17.4		18.0
Minority interests	0.0	(0.0)			0.0	-		0.1
Net profit	6.9	4.3	60.7	31.6	12.1	7.8	55.6	20.7
Core net profit	6.9	4.3	60.7	31.6	12.1	7.8	55.6	20.7
EPS (cts)	2.4	1.7	45.3	25.7	4.6	3.3	42.2	7.6
Core EPS (cts)	2.4	1.5	60.0	25.7	4.6	3.3	42.2	7.6

Source: Bloomberg, Company, CIMB Research

Some finer points on the result

- **Revenue dipped.** OKP recorded a 29% yoy decrease in revenue to \$28.3m in 2Q11 due mainly to the completion and substantial completion of existing projects, coupled with a lower percentage of revenue recognized from a few newly-awarded projects.
- **... but margins climbed.** Despite the lower revenue, gross profit climbed to S\$11.2m (+70% yoy) in 2Q11, with gross margin climbing to a whopping 39.4% in the period (versus 16.5% in 2Q10 and 26.7% in 1Q11).
- **... amid one-off.** The increase in gross profit was due mainly to cost savings in certain design-and-build construction projects which resulted in a higher gross profit margin. These high gross profit margin projects are non-recurrent as all its current projects are priced competitively in the light of the more aggressive pricing environment.
- **49% of market cap backed by net cash of S\$97m.** The financials and balance sheet of OKP remains one of the best, if not the best among peers. Group's assets totaled S\$152m in 2Q11, implying an NTA of 24.6 Scts/share. Group's net working capital was positive at S\$54.5m net

Financial analysis

FYE Dec	2009	2010	2011F	2012F	2013F
Revenue (\$\$ m)	130.0	139.9	185.7	224.6	267.1
EBITDA (\$\$ m)	19.8	23.4	29.0	35.7	44.4
EBITDA margins (%)	15.2	16.7	15.6	15.9	16.6
Pretax profit (\$\$ m)	17.1	20.4	25.1	32.5	42.0
Net profit (\$\$ m)	14.4	17.0	20.7	26.4	33.7
EPS (cts)	6.1	6.5	7.6	9.8	12.4
EPS growth (%)	-4%	7%	17%	28%	27%
P/E (x)	10.7	10.0	8.5	6.7	5.2
Core EPS (cts)	6.1	6.5	7.6	9.4	11.7
Core EPS growth (%)	-4%	7%	17%	23%	25%
Core P/E (x)	10.7	10.0	8.5	6.9	5.6
FD EPS (cts)	5.4	5.9	7.1	8.8	11.0
FD P/E (x)	12.0	11.0	9.1	7.4	5.9
Gross DPS (cts)	2.0	5.0	5.0	5.0	5.3
Dividend yield (%)	3.1%	7.7%	7.7%	7.7%	8.1%
P/NTA (x)	2.7	2.6	2.4	2.0	1.6
ROE (%)	24.5%	24.6%	27.3%	29.5%	30.6%
Net gearing (%)	nil	nil	nil	nil	nil
Net cash per share (\$\$)	0.3	0.4	0.3	0.3	0.4
P/CF (x)	9.2	8.6	7.3	5.8	4.7
EV/EBITDA (x)	3.9	3.3	2.7	2.2	1.7
% change in EPS estimates			0.0%	0.0%	0.0%

Source: Bloomberg, Company, CIMB Research

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HOLD: The stock's total return is expected to range between +15% and -15% over the next three months.

SELL: The stock's total return is expected to be -15% or worse over the next three months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next three months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +15% (or better) or -15% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +15% to -15%; both over the next three months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next three months.