

Analyse This...

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OKP Holdings

Give me lemon and I'll make it into lemonade

 OKP SP
 BUY; TP:\$0.63

 Price @24/7/12: S\$0.52
 52-week range (SGD): 0.52 – 0.66
 Market cap: S\$159m

What happens

- **Result below estimates.** Result was shocking, the headline numbers recorded a 58% yoy fall in profit to S\$3.1m. This is not what we expected though the explanation was obvious.
- The decrease in revenue contribution from both construction and maintenance segments were a result of a lower percentage of revenue recognised from a few newly awarded contracts up to the half-way mark in FY12.
- **Share price has corrected.** We believe this is related to the perceived headline numbers from recent 2Q12 result. What happens from here is never a case of lamentation but recognizing that valuation gap has emerged as share price has already been published.

- Net cash used in investing activities came up to S\$24.6m in 1H12 (vs. S\$2.6m in 1H11) primarily due to the increase in outflow related to a S\$18.4m loan to its associated company, CS Amber Development Pte Ltd. This is in fact a good news such venture marks OKP's maiden foray into property development since it obtained shareholders' approval in September 2010 to diversify into property development. It had said then that the move would enable the group to tap the private sector for further business opportunities and ultimately help create shareholder value.
- **As a matter of fact, 1/3 of market cap backed by net cash of S\$85m.** The financials and balance sheet of OKP remains one of the best, if not the best among peers. Group's assets totaled S\$138m at the end of 1H12, implying an NTA of 28.3 Scts/share. More importantly, despite usage of cash (which we argue that would give rise to growth activities), OKP still has a strong net cash position of S\$53m or 1/3 of its current market cap of S\$159m.

2QFY12 result at a glance

FYE Dec (\$\$ m)	2QFY12	2QFY11	yoy % chg	qoq % chg	2QFY12 Cum	2QFY11 Cum	yoy % chg	Prev. FY12F
Revenue	23.6	28.3	(16.7)	(5.5)	48.5	61.1	(20.6)	136.8
Operating costs	(19.5)	(19.4)	0.3	(9.0)	(40.8)	(45.3)	(9.8)	(106.7)
EBITDA	4.1	8.9	(53.7)	15.0	7.7	15.9	(51.4)	30.2
EBITDA margin (%)	17.5	31.5			15.9	25.9		22.0
Deprn & amort.	(0.7)	(0.8)	(2.4)	9.5	(1.4)	(1.4)	(0.8)	(3.7)
EBIT	3.4	8.1	(58.4)	16.3	6.3	14.4	(56.4)	26.4
Interest expense	(0.0)	(0.0)	(7.7)	(11.1)	(0.1)	(0.1)	(17.7)	(0.3)
Interest & invt inc	0.4	0.2	97.7	(42.2)	1.2	0.4	231.1	2.3
Associates' contrib	-	-	-	-	-	-	-	-
Exceptionals	-	-	-	-	-	-	-	-
Pretax profit	3.8	8.3	(54.5)	4.4	7.4	14.7	(49.6)	28.4
Tax	(0.7)	(1.4)	(51.0)	22.4	(1.3)	(2.6)	(50.6)	(5.1)
Tax rate (%)	18.7	17.4			17.4	17.7		18.0
Minority interests	0.0	0.0			0.0	0.0		0.1
Net profit	3.1	6.9	(55.2)	1.0	6.1	12.1	(49.4)	23.4
Core net profit	3.1	6.9	(55.2)	1.0	6.1	12.1	(49.4)	23.4
EPS (cts)	1.0	2.4	(58.4)	1.0	2.4	5.1	(53.7)	7.7
Core EPS (cts)	1.0	2.4	(58.4)	1.0	2.4	5.1	(53.7)	7.7

Source: Company, CIMB Research

What we think

- 1H12 construction segment contributed S\$41.1m (85% of group's revenue) was a 21% drop yoy as a lower percentage of revenue recognition was captured in this period. This is not surprising as there were fewer newly-awarded construction projects in 1H12. Likewise, the 18% yoy decline in maintenance segment of the business also reflect such lower percentage of revenue recognized from a few projects that were reaching completion and the absence of new maintenance contracts secured during the period.
- Gross profit margin came in at 22.6% (1H12) versus 32.6% (1H11), which was then driven by a one-off design-and-build construction project with high gross profit margin.
- **Order book replenishment on the card.** Moreover, 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\$400m level by end FY12. 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.
- **S\$341.6m worth of contracts till end-FY15.** Already, the group has secured four public sector projects totaling S\$93m year-to-date. 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\$341.6m, with some projects completing in 2015.

What you should do

- **Share price correction has 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), OKP's current S\$341.6m order book can last till FY2015. However, we made changes to our numbers to capture a normalized growth angle for the group.
- **Reduced target price, we reduced it to S\$0.63 (from S\$0.75), still based on 7.5x CY13 P/E, 3.7x ex net cash CY13 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 2.1x ex cash CY13 P/E.
- 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	92.6	138.0	173.3
EBITDA (\$\$ m)	23.4	35.3	23.9	35.4	40.2
EBITDA margins (%)	16.7	32.2	25.8	25.6	23.2
Pretax profit (\$\$ m)	20.4	32.2	20.0	31.2	35.7
Net profit (\$\$ m)	17.0	26.6	16.5	25.6	29.4
EPS (cts)	6.5	9.0	5.4	8.4	9.6
EPS growth (%)	7%	39%	-40%	56%	15%
P/E (x)	8.0	5.8	9.6	6.2	5.4
Core EPS (cts)	6.5	9.0	5.4	8.4	9.6
Core EPS growth (%)	7%	39%	-40%	56%	15%
Core P/E (x)	8.0	5.8	9.6	6.2	5.4
FD EPS (cts)	5.9	8.9	5.3	8.3	9.5
FD P/E (x)	8.8	5.8	9.7	6.2	5.4
Gross DPS (cts)	5.0	5.0	3.0	3.0	3.0
Dividend yield (%)	9.6%	9.6%	5.8%	5.8%	5.8%
P/NTA (x)	2.1	1.8	1.7	1.4	1.2
ROE (%)	24.6%	30.1%	17.2%	22.9%	22.2%
Net gearing (%)	nil	nil	nil	nil	nil
Net cash per share (\$\$)	0.4	0.3	0.3	0.3	0.4
P/CF (x)	6.9	5.1	7.9	5.4	4.7
EV/EBITDA (x)	2.0	1.3	2.0	1.3	1.2
% change in EPS estimates			-29.6%	-16.0%	-11.3%

Source: Company, CIMB Research

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