

Analyse This...

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OKP Holdings

Conference call takeaways - Growth trajectory intact

 OKP SP
 BUY; TP:\$0.75

 Price @10/5/12: S\$0.545
 52-week range (SGD): 0.52 – 0.69
 Market cap: S\$167m

What happens

- **Share price has corrected 14% this week.** We believe this is related to the perceived headline numbers from recent 1Q12 result.
- **Result is in-line with estimates.** On first glance, the headline numbers recorded a 42% fall in profit to S\$3.1m, though we believe that this set of result is broadly in-line with our estimates for FY12.

1QFY12 result at a glance

FYE Dec (\$\$ m)	1QFY12	1QFY11	yoy %	4QFY11	qoq %	Prev. FY12F
			chg		chg	
Revenue	25.0	32.8	(24.0)	23.2	7.6	136.8
Operating costs	(21.4)	(25.9)	(17.4)	(11.1)	92.5	(106.7)
EBITDA	3.6	7.0	(48.5)	12.1	(70.4)	30.2
EBITDA margin (%)	14.4	21.2		52.1		22.0
Depn & amort.	(0.7)	(0.7)	0.9	(0.8)	(19.5)	(3.7)
EBIT	2.9	6.3	(53.7)	11.3	(74.1)	26.4
Interest expense	(0.0)	(0.0)	(25.0)	(0.0)	3.8	(0.3)
Interest & invt inc	0.7	0.1	442.8	0.3	123.6	2.3
Associates' contrib	-	-	-	-	-	-
Exceptionals	-	-	-	-	-	-
Pretax profit	3.6	6.4	(43.2)	11.6	(68.6)	28.4
Tax	(0.6)	(1.2)	(50.1)	(2.1)	(71.9)	(5.1)
Tax rate (%)	16.0	18.2		17.8		18.0
Minority interests	0.0	0.0		0.0		0.1
Net profit	3.1	5.2	(41.7)	9.5	(68.0)	23.4
Core net profit	3.1	5.2	(41.7)	9.5	(68.0)	23.4
EPS (cts)	1.0	1.9	(48.2)	3.2	(69.2)	7.7
Core EPS (cts)	1.0	1.9	(48.2)	3.2	(69.2)	7.7

Source: Company, CIMB Research

What we think

- **Accounting treatment not operational ability that set the numbers down.** Construction segment contributed S\$20.7m (83% of group's revenue) was a 26% 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 1Q12. Likewise, the 15% 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.
- **Results may entail a backward looking reporting.** We think otherwise. OKP will continue to drive its profitability in the years to come. 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.
- **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\$450m by end FY12. We believe the appetite for more projects will materialize in months ahead, providing short to mid-term catalysts.
- **A few road-related projects likely to be awarded in 2012 include:** (1) Expansion of Kallang Paya Lebar Expressway (KPE)/ Tampines Expressway (TPE) Interchange; (2) Extension and reconstruction of Newton Flyover; and (3) Construction of New Lornie Road. We would be surprised if OKP cannot secure a single one of them.

- Additionally, OKP has prior experience in drainage improvement works. Public Utilities Board announced that it would spend S\$750m over the next five years on 20 drainage projects. It will deepen and widen six other major canals, in places such as Bukit Timah, Geylang and Bedok, to increase their capacity by 30% to 45%.
- **Order book S\$323.8m outstanding order book can last till FY2015.** OKP's total gross order book stands at a healthy S\$323.8m based on secured civil engineering and construction contracts, with projects stretching up to 2015.
- **As a matter of fact, 51% 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\$148m at the end of 1Q12, implying an NTA of 29.34 Scts/share (+3.5% from 28.34Scts/shares 3-moth back). More importantly, OKP now has a net cash position of S\$85m or 51% of its current market cap of S\$167m.

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\$323.8m order book can last till FY2015.
- **Reflecting a more realistic target price, we reduced it to S\$0.75 (from S\$0.98), 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 1.6x 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	136.8	165.0	195.9
EBITDA (\$\$ m)	23.4	35.3	32.5	41.4	44.8
EBITDA margins (%)	16.7	32.2	23.7	25.1	22.9
Pretax profit (\$\$ m)	20.4	32.2	28.4	37.1	40.3
Net profit (\$\$ m)	17.0	26.6	23.4	30.5	33.1
EPS (cts)	6.5	9.0	7.7	10.0	10.9
EPS growth (%)	7%	39%	-15%	30%	9%
P/E (x)	8.3	6.0	7.0	5.4	5.0
Core EPS (cts)	6.5	9.0	7.7	10.0	10.9
Core EPS growth (%)	7%	39%	-15%	30%	9%
Core P/E (x)	8.3	6.0	7.0	5.4	5.0
FD EPS (cts)	5.9	8.9	7.6	9.9	10.8
FD P/E (x)	9.1	6.0	7.1	5.5	5.0
Gross DPS (cts)	5.0	5.0	3.0	4.0	4.0
Dividend yield (%)	9.3%	9.3%	5.6%	7.4%	7.4%
P/NTA (x)	2.1	1.9	1.6	1.4	1.2
ROE (%)	24.6%	30.1%	22.8%	25.3%	23.4%
Net gearing (%)	nil	nil	nil	nil	nil
Net cash per share (\$\$)	0.4	0.3	0.3	0.4	0.5
P/CF (x)	7.1	5.3	6.1	4.8	4.4
EV/EBITDA (x)	2.2	1.5	1.6	1.2	1.1
% change in EPS estimates			0.0%	0.0%	0.0%

Source: Company, CIMB Research

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