

Analyse this...

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OKP Holdings

Fortifying a rock-solid foundation

 OKP SP
 BUY; TP: S\$0.85

 Price @09/11/10: S\$0.55
 52-week range (SGD): 0.42 – 0.65
 Market cap – S\$145m

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.
- 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 7.2x CY11 P/E against its 3-year core earnings CAGR forecast of 28.9%.
- **We kept our above consensus 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. Sustainable earnings growth will be primarily driven by fresh order wins, particularly opportunities arising from Downtown Lines awards. 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.

Recent 3Q result – another quarter of record profit!

FYE Dec (S\$ m)	3QFY10	3QFY09	yoy %	2QFY10	qoq %	3QFY10	3QFY09	yoy %
			chg		chg	Cum	Cum	chg
Revenue	36.6	35.1	4.2	39.8	(7.9)	110.3	96.6	14.1
Operating costs	(30.5)	(29.7)	2.7	(31.4)	(3.1)	(93.5)	(83.1)	12.5
EBITDA	6.1	5.5	12.4	8.3	(26.3)	16.7	13.5	24.2
EBITDA margin (%)	16.7	15.5	20.9	15.2	13.9			
Depn & amort.	(0.7)	(0.7)	4.0	(3.1)	(78.2)	(1.9)	(1.7)	8.4
EBIT	5.4	4.8	13.5	5.2	5.0	14.8	11.7	26.5
Interest expense	(0.0)	(0.0)	(15.6)	(0.0)	-	(0.1)	(0.1)	(22.4)
Interest & invt inc	0.1	0.1	12.6	0.1	140.4	0.2	1.4	(82.1)
Associates' contrib	-	-	-	-	-	-	-	-
Exceptionals	-	-	-	-	-	-	-	-
Pretax profit	5.5	4.9	13.8	5.2	6.4	15.0	12.9	15.6
Tax	(1.0)	(0.9)	18.5	(0.9)	11.8	(2.7)	(2.1)	24.2
Tax rate (%)	18.3	17.6	17.5	17.5	17.7	16.5		
Minority interests	-	0.0	(100.0)	(0.0)	(100.0)	-	0.0	(100.0)
Net profit	4.5	4.0	12.7	4.3	5.3	12.3	10.8	13.8
Core net profit	4.5	4.0	12.7	4.3	5.3	12.3	10.8	13.8
EPS (cts)	3.0	2.7	12.7	2.9	5.3	8.2	7.2	13.8
Core EPS (cts)	3.0	2.7	12.7	2.9	5.3	8.2	7.2	13.8

- **Making record profits is fast becoming a hallmark of OKP.** Recent record 3QFY10 results came in within our expectation. 3Q10 and 9M10 net profit of S\$4.5m (+13% yoy) and S\$12.3m (+14%) were in-line with our expectation. 9M10 record earnings formed 75% of our FY10 estimates. On a quarterly basis, 3Q10 was also the group's strongest-ever quarter.
- **62% of market cap backed by net cash of S\$90.0m.** OKP's NTA stood at 23.6 Scts/share. The group continued to build up its balance sheet, and the current net cash pile of the group stacked to S\$90.0m, more than 60% of the share price is backed by cash, a rarity for a civil-engineering company that is operating a high growth phase.

Order book momentum gaining speed

- **S\$328 order book lasting till FY2013.** YTD, OKP has secured seven contracts, including two public ones last month (JTC and PUB). The total order book currently stands at S\$328m, with some projects to be completed and delivered progressively from now until 2013, thereby providing a high earnings visibility to the group.
- **Order momentum to propel growth in FY11.** OKP is the only recognisable name in this country, with vast knowledge under its belt when it comes to the construction of road-works projects. We the group is in pole position to secure various high profile road-works public contracts in the next couple of months. We estimated a conservative S\$150-180m new order to add on the order book to replace the equivalent amount of orders to be delivered in FY11.

Prime candidate to government infrastructure spending

- **OKP is a prime candidate to government infrastructure spending.** The outlook for the construction industry to remain healthy over the next 12 months. This came on the back of the Singapore government plan to spend S\$60bn to double Singapore's existing rail network over the next ten years.
- **Tender for complex civil engineering projects.** 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.

Sustainability through diversification

- **Fortifying a rock-solid foundation.** We believe with the expansive balance sheet and free cash flow built up by the group, it is natural for the group to branch out into various business segments that will ensure long term sustainable earnings. While the group is able to leverage on its strengths and expertise to tender for larger and more complex civil engineering projects in order to generate higher profitability, it is paramount to diversify and explore suitable opportunities to regionalise the group's core business and reduce its reliance on a single source of revenue. Management has in recent time hinted that there is intention to beef up its property development capability, thereby fortifying its already rock-solid income quality.
- **Potential business opportunities overseas.** We believe overseas ventures will serve to broaden and invigorate 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 executed 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 (S\$ m)	101.8	130.0	157.3	185.7	220.4
EBITDA (S\$ m)	14.7	19.8	23.0	28.2	35.0
EBITDA margins (%)	14.4	15.2	14.6	15.2	15.9
Pretax profit (S\$ m)	12.2	17.1	20.1	24.7	32.2
Net profit (S\$ m)	9.5	14.4	16.5	20.3	26.1
EPS (cts)	6.3	6.1	6.2	7.7	9.9
EPS growth (%)	-13%	-4%	3%	23%	29%
P/E (x)	8.7	9.1	8.8	7.2	5.6
Core EPS (cts)	6.3	6.1	6.2	7.7	9.5
Core EPS growth (%)	-13%	-4%	3%	23%	24%
Core P/E (x)	8.7	9.1	8.8	7.2	5.8
FD EPS (cts)	6.3	5.4	5.7	7.0	8.6
FD P/E (x)	8.7	10.2	9.7	7.9	6.4
Gross DPS (cts)	1.5	2.0	2.3	3.3	4.3
Dividend yield (%)	2.7%	3.6%	4.1%	5.9%	7.7%
P/NTA (x)	2.1	2.3	2.2	1.8	1.5
ROE (%)	23.6%	24.5%	24.0%	25.2%	27.1%
Net gearing (%)	nil	nil	nil	nil	nil
Net cash per share (S\$)	0.2	0.3	0.3	0.3	0.4
P/CF (x)	7.0	7.8	7.6	6.2	4.9
EV/EBITDA (x)	3.7	2.7	2.3	1.9	1.5
% change in EPS estimates			0.0%	0.0%	0.0%

Source: 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

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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.

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