

Analyse this...

Retail Research

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OKP Holdings

 OKP SP
BUY: TP: S\$1.19

 Price @26/10/09: S\$0.92
52-week range (SGD): 0.13 – 0.98
Market cap – S\$151.7m

Recommendation – maintain BUY

- Maintain **BUY** rating with target price kept at S\$1.19, 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 earnings surprises.** We upped FY09 forecast by 8.7% to reflect OKP's deliverance of an above expectation numbers. FY10-11 estimates were kept unchanged. 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 7.7x CY11 P/E against its 3-year core earnings CAGR forecast of 27.5%.

9M09 Result Review

FYE Dec (S\$ m)	3QFY09	3QFY08	yoy %	qoq %	3QFY09	3QFY08	yoy %	Prev.
			chg	chg	Cum	Cum	chg	FY09F
Revenue	35.1	23.3	50.8	10.2	96.6	74.2	30.2	128.2
Operating costs	(29.2)	(18.6)	57.2	6.6	(83.2)	(66.0)	26.0	(113.8)
EBITDA	5.9	4.7	25.3	32.4	13.4	8.2	64.1	14.4
EBITDA margin (%)	16.7	20.1			13.9	11.0		11.2
Depn & amort.	(1.1)	(2.3)	(51.7)	-	(1.7)	(0.6)	202.5	-
EBIT	4.8	2.4	96.3	42.9	11.7	7.6	53.9	14.4
Interest expense	(0.0)	(0.1)	(13.5)	(11.8)	(0.1)	(0.1)	3.5	(0.3)
Interest & invt inc	0.1	0.4	(69.2)	(89.6)	1.4	0.8	76.0	1.1
Associates' contrib	-	-	-	-	-	-	-	-
Exceptionals	-	-	-	-	-	-	-	-
Pretax profit	4.9	2.8	76.7	11.3	12.9	8.3	56.8	15.2
Tax	(0.9)	(0.6)	33.1	15.1	(2.1)	(1.7)	22.3	(2.7)
Tax rate (%)	17.6	23.4			16.5	21.2		18.0
Minority interests	0.0	0.0	(96.4)	200.0	0.0	(0.1)	107.6	(0.1)
Net profit	4.0	2.1	87.6	10.5	10.8	6.4	67.9	12.4
Core net profit	4.0	2.1	87.6	10.5	10.8	6.4	67.9	12.4
EPS (cts)	2.7	1.4	87.6	10.5	7.2	4.3	67.9	8.3
Core EPS (cts)	2.7	1.4	87.6	10.5	7.2	4.3	67.9	8.3

Source: Company, CIMB-GK Research

- **9M09 result was ahead of our expectation.** 3Q09 and 9M09 net profit of S\$4.0m (+87.6% yoy) and S\$10.8m (+67.9% yoy) formed 32.3% and 87.2% of our previous FY09 estimates respectively.
- A huge chunk of the revenue (75% or S\$72m) was attributable to the construction segment (+28.3% yoy). Maintenance segment also saw a healthy growth of 736.1% yoy to S\$18m in the 9M09.
- Gross profit margin decreased slightly in 9M09 to 16.3% (from 17.2% in 9M08). The decrease was due mainly to the relatively higher costs accrued during the initial stages of a few new projects, which commenced towards the end of the 2Q09 and which had spilled over to the 3Q09. We would like to point out that over the course of a project cycle, gross margin would even out at the tail-end. In fact, as a comparison, YTD in FY09, 3Q shown the strongest gross margin thus far.
- 9M09 pre-tax profit increased to S\$12.9m (+56.8% yoy) due mainly to an increase in gross profit and other income coupled with a decrease in administrative expenses and flattish finance costs.

Catalysts to stock price

- **Strong tailwind of the construction industry.** Management said that the construction sector is expected to remain positive in the next 12 months on the back of a gradual economic recovery and a strong pipeline of committed public sector projects. The string of government infrastructure spending is expected to continue to boost Singapore's construction industry and provide numerous opportunities for OKP to bid for new projects.
- **Order book last till FY2011.** Apart from public sector works, OKP also secured a S\$21.7m project from Foster Wheeler Asia Pacific Pte Ltd and WorleyParsons Pte Ltd to carry out civil works on Jurong Island. These projects will keep OKP busy with progressive completion and deliveries from now until 2011.
- **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.
- 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. OKP's participation of such projects will provide a visible order book pipeline (out of Singapore). Earnings estimates have yet to factor in the potential catalyst of such lucrative overseas projects.
- **Increase liquidity serves to catalyses share price.** OKP has recently announced that it has received the approval in-principle (AIP) obtained from the SGX in respect of the company's proposed bonus issue and rights issue of warrants to shareholders. We believe the eventual increase in its issued capital base will served to increase the liquidity in the market and catalyses share price.

Financial summary

FYE Dec	2007	2008	2009F	2010F	2011F
Revenue (S\$ m)	124.7	101.8	128.2	157.3	185.7
EBITDA (S\$ m)	15.8	14.7	18.4	21.2	26.0
EBITDA margins (%)	12.7	14.4	14.4	13.5	14.0
Pretax profit (S\$ m)	13.7	12.2	16.5	19.3	24.1
Net profit (S\$ m)	10.9	9.5	13.5	15.8	19.6
EPS (cts)	7.3	6.3	8.2	9.6	11.9
EPS growth (%)	150%	-13%	30%	17%	25%
P/E (x)	12.6	14.6	11.2	9.6	7.7
Gross DPS (cts)	2.0	1.5	2.0	2.3	3.3
Dividend yield (%)	2.2%	1.6%	2.2%	2.4%	3.5%
P/NTA (x)	4.3	3.6	2.7	2.2	1.9
ROE (%)	32.5%	23.6%	23.6%	22.8%	23.5%
Net gearing (%)	nil	nil	nil	nil	nil
Net cash per share (S\$)	0.2	0.2	0.3	0.4	0.5
P/CF (x)	10.7	11.8	10.0	8.7	7.1
EV/EBITDA (x)	6.7	7.2	5.7	5.0	4.1
% change in EPS estimates			8.7%	0.0%	0.0%

Source: Company, CIMB-GK Research

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

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