

Analyse This...

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OKP Holdings

Results great but it ain't over till the fat lady sings

 OKP SP
 BUY; TP:\$0.98

 Price @24/10/11: S\$0.56
 52-week range (SGD): 0.51 – 0.69
 Market cap: S\$171m

It's a high conviction BUY

- Excellence is now an understatement describing OKP, as another strong quarterly profit power drives its figure further north. Earnings momentum is red hot. We believe the appetite for more projects will materialize in months ahead, providing short to mid-term catalysts. We see superior dividend yield of above 9% shifting this stock to another universe, where the hybrid of blazing earnings growth and defensive characteristic truly exists. Perhaps, the best word to describe OKP to investors is, BUY.

It ain't over till the fat lady sings

- Results may entail a backward looking reporting. We think otherwise. OKP will continue to drive its profitability in the years to come. Firstly, 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. Secondly, effort to grow business and to diversify into property development has seen the group actively exploring investment opportunities and strategic business alliances both locally and overseas.

3QFY11 result at a glance

FYE Dec (\$\$ m)	3QFY11	3QFY10	yoy %	qoq %	3QFY11	3QFY10	yoy %	Prev. FY11F
	chg	chg	chg	Cum	Cum	chg		
Revenue	25.5	36.6	(30.4)	(10.0)	86.6	110.3	(21.4)	185.7
Operating costs	(19.1)	(30.6)	(37.4)	(1.3)	(64.4)	(93.6)	(31.2)	(159.2)
EBITDA	6.3	6.0	4.9	(28.8)	22.2	16.6	33.6	26.5
EBITDA margin (%)	24.9	16.5			25.6	15.1		14.3
Deprn & amort.	(0.8)	(0.7)	16.0	4.6	(2.2)	(1.9)	17.2	(3.5)
EBIT	5.5	5.4	3.5	(31.9)	20.0	14.7	35.7	23.0
Interest expense	(0.0)	(0.0)	(31.6)	-	(0.1)	(0.1)	(22.8)	(0.4)
Interest & invt inc	0.3	0.2	57.1	50.7	0.7	0.2	178.4	2.5
Associates' contrib	-	-	-	-	-	-	-	-
Exceptionals	-	-	-	-	-	-	-	-
Pretax profit	5.8	5.5	5.8	(29.8)	20.6	14.9	38.5	25.1
Tax	(1.0)	(1.0)	(4.9)	(33.4)	(3.6)	(2.7)	34.8	(4.5)
Tax rate (%)	16.5	18.3			17.4	17.8		18.0
Minority interests	0.0	-	-	-	0.0	-	-	0.1
Net profit	4.9	4.5	8.3	(29.1)	17.0	12.2	39.3	20.7
Core net profit	4.9	4.5	8.3	(29.1)	17.0	12.2	39.3	20.7
EPS (cts)	1.7	1.7	(1.4)	(30.8)	6.5	5.1	27.3	7.3
Core EPS (cts)	1.7	1.7	(1.4)	(30.8)	6.5	5.1	27.3	7.3

Source: Company, CIMB Research

- 3Q11 net profit of S\$4.9m (+8.3% yoy) is not a surprise, but this strong set of numbers indicated that OKP's its growth trajectory is still climbing. More meaningfully, if we look at the result on a 9M consolidated basis. 3Q11 and 9M11 EPS (after adjusting conversion of warrants) accounted for 23% and 90% of our FY11 EPS forecast respectively.
- Revenue dipped.** OKP saw lower revenue contribution from both the construction and maintenance segments, the decrease due mainly to the completion and substantial completion of existing projects, coupled with a lower percentage of revenue recognised from a few newly-awarded projects on a 9MFY11 period.
- ... but margins climbed.** Despite recording lower revenue, OKP's gross profit increased 44.6% yoy to S\$28.2m during the period. Gross margin improved from 17.7% to 32.5% due largely to cost savings in certain design-and-build construction projects, which yielded higher gross profit margins. Overall better project management and tighter cost controls also helped.
- OKP's current S\$433m 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.
- 56% of market cap backed by net cash of S\$95m.** The financials and balance sheet of OKP remains one of the best, if not the best among peers. Group's assets totaled S\$149m in 3Q11, implying an NTA of 25.2 Scts/share. More importantly, OKP now has a net cash position of S\$95m

or 56% of its current market cap of S\$171m.

Valuation and recommendation

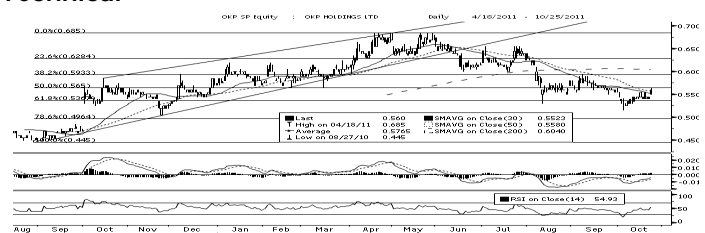
- Maintained BUY, target price S\$0.98.** We like OKP for its high projects visibility in the public sector, and its strong potential overseas expansion story. OKP is a prime candidate to government infrastructural spending and the stock offers excellent value trading at 6.3x CY12 P/E against its 3-year core earnings CAGR forecast of 23%.
- 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\$433m order book can last till FY2014.
- 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	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	41.9
Net profit (\$\$ m)	14.4	17.0	20.7	26.4	33.6
EPS (cts)	6.1	6.5	7.1	9.1	11.6
EPS growth (%)	-4%	7%	9%	28%	27%
P/E (x)	9.2	8.6	7.9	6.2	4.8
Core EPS (cts)	6.1	6.5	7.1	8.7	10.9
Core EPS growth (%)	-4%	7%	9%	23%	24%
Core P/E (x)	9.2	8.6	7.9	6.4	5.1
FD EPS (cts)	5.4	5.9	7.0	8.7	10.8
FD P/E (x)	10.4	9.5	8.0	6.5	5.2
Gross DPS (cts)	2.0	5.0	5.0	5.0	5.3
Dividend yield (%)	3.6%	8.9%	8.9%	8.9%	9.4%
P/NTA (x)	2.3	2.2	2.2	1.9	1.5
ROE (%)	24.5%	24.6%	27.7%	30.2%	31.5%
Net gearing (%)	nil	nil	nil	nil	nil
Net cash per share (\$\$)	0.3	0.4	0.3	0.3	0.4
P/CF (x)	7.9	7.4	6.7	5.4	4.3
EV/EBITDA (x)	2.8	2.4	1.9	1.6	1.3
% change in EPS estimates			0.0%	0.0%	0.0%

Source: Company, CIMB Research

Technical



- The bullish divergence on the MACD indicator suggests that selling pressure has tapered off. RSI too has bounced off its lows. If the candles can stay above its 50-day SMA, there is a good chance that the stock may re-rate towards S\$0.595 and S\$0.625. As long as prices stay above its recent swing low of S\$0.515, we think the bulls have the upper hand here. Hence, any pullback is an opportunity to accumulate. Cut loss quick if the S\$0.515 level is violated.

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.

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