

Analyse This...

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OKP Holdings

Stay long for the construction boom angle

 OKP SP
 BUY; TP:\$0.63

 Price @23/10/12: S\$0.54
 52-week range (SGD): 0.51 – 0.66
 Market cap: S\$165m

What happens

- **Result below estimates.** Result is not as stellar, as 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 nine-month mark in FY12.
- **Share price reflected muted expectation.** However, that is not everything, as the share price has reflected the low expectation for FY12.
- Construction segment contributed S\$25.7m (90% of group's revenue) was a 23% increase yoy as higher percentage of revenue was recognised from the construction segment as some of the design and build related construction projects progressed to a more active construction phase.
- Gross profit margin came in at 22.6% (3Q12) versus 32.4% (3Q11), which was attributable to lower profit margins for new and on-going projects and cost overrun on some sewer related projects in 3Q12. There was element of cost overrun resulted from unfavourable ground conditions which required additional unforeseen works. We view this as one-off.

3QFY12 result at a glance

FYE Dec (\$\$ m)	3QFY12	3QFY11	yoy %	2QFY12	qoq %	3QFY12	3QFY11	yoy %
			chg		chg	Cum	Cum	chg
Revenue	28.5	25.5	11.8	23.6	20.8	77.0	86.6	(11.1)
Operating costs	(24.7)	(19.1)	29.1	(19.5)	27.0	(65.5)	(64.4)	1.7
EBITDA	3.8	6.3	(40.4)	4.1	(8.4)	11.5	22.2	(48.3)
EBITDA margin (%)	13.3	24.9		17.5		14.9	25.6	
Deprn & amort.	(1.0)	(0.8)	27.3	(0.7)	36.4	(2.4)	(2.2)	9.2
EBIT	2.8	5.5	(50.0)	3.4	(18.2)	9.1	20.0	(54.6)
Interest expense	(0.0)	(0.0)	(23.1)	(0.0)	(16.7)	(0.1)	(0.1)	(19.3)
Interest & invt inc	0.4	0.3	18.5	0.4	(9.7)	1.6	0.7	130.6
Associates' contrib	-	-	-	-	-	-	-	-
Exceptionals	-	-	-	-	-	-	-	-
Pretax profit	3.1	5.8	(46.3)	3.8	(17.2)	10.6	20.6	(48.7)
Tax	(0.7)	(1.0)	(26.3)	(0.7)	-	(2.0)	(3.6)	(44.1)
Tax rate (%)	22.6	16.5		18.7		18.9	17.4	
Minority interests	0.0	0.0		0.0		0.0	0.0	
Net profit	2.4	4.9	(50.2)	3.1	(21.2)	8.6	17.0	(49.6)
Core net profit	2.4	4.9	(50.2)	3.1	(21.2)	8.6	17.0	(49.6)
EPS (cts)	0.8	1.7	(52.6)	1.0	(21.2)	2.8	5.9	(52.1)
Core EPS (cts)	0.8	1.7	(52.6)	1.0	(21.2)	2.8	5.9	(52.1)

Source: Company, CIMB Research

What we think

- **On the card will be further order book replenishment.** Moreover, we believe order book replenishment is on the card, likely mid 4Q12, 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\$346m worth of contracts till end-FY15.** Already, the group has secured four public sector projects totaling S\$97.5m 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\$346.1m, with some projects completing in 2015.
- 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 9M12, implying an NTA of 29.1 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\$51m or 1/3 of its current market cap of S\$165m.

What you should do

- **Stay long on OKP for the construction boom angle.** The outlook for the construction sector is expected to be positive but competitive for the next twelve months. The optimism mainly stems from a pipeline of government projects. Based on expected expenditures announced, at least S\$55bn worth of transport infrastructure is being built in Singapore, or will be built by 2021. Some of the larger projects include the Thomson Line worth S\$18bn, Downtown Line worth S\$20.7bn and the North South Expressway worth S\$8b.
- 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.
- **Low share price 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\$346.1m order book can last till FY2015. However, we made changes to our numbers to capture a normalized growth angle for the group.
- **Target price reminds unchanged at S\$0.63 as we roll our target multiples of 7.5x to CY14 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 6.2x CY14 P/E.

Financial analysis

FYE Dec	2010	2011	2012F	2013F	2014F
Revenue (\$\$ m)	139.9	109.8	92.6	118.0	163.3
EBITDA (\$\$ m)	23.4	35.3	17.9	26.8	35.5
EBITDA margins (%)	16.7	32.2	19.3	22.7	21.7
Pretax profit (\$\$ m)	20.4	32.2	13.9	22.7	31.0
Net profit (\$\$ m)	17.0	26.6	11.2	18.6	25.5
EPS (cts)	6.5	9.0	3.7	6.1	8.4
EPS growth (%)	7%	39%	-59%	66%	37%
P/E (x)	8.0	5.8	14.2	8.5	6.2
Core EPS (cts)	6.5	9.0	3.7	6.1	8.4
Core EPS growth (%)	7%	39%	-59%	66%	37%
Core P/E (x)	8.0	5.8	14.2	8.5	6.2
FD EPS (cts)	5.9	8.9	3.6	6.1	8.3
FD P/E (x)	8.8	5.8	14.3	8.6	6.3
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	1.8	1.6	1.4
ROE (%)	24.6%	30.1%	12.4%	18.7%	22.0%
Net gearing (%)	nil	nil	nil	nil	nil
Net cash per share (\$\$)	0.4	0.3	0.2	0.3	0.4
P/CF (x)	6.9	5.1	10.6	7.0	5.4
EV/EBITDA (x)	2.0	1.3	2.6	1.7	1.3
% change in EPS estimates			-32.0%	-27.3%	-13.0%

Source: Company, CIMB Research

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