

# OKP Holdings

## Making inroads into O&G

**BUY**

### ▪ Landing a beachhead in the O&G sector

OKP's JV with Rotary, OKP (Oil and Gas) infrastructure Pte Ltd, bagged its maiden S\$3m contract to carry out civil engineering works for an isotherm power plant on Jurong Island. The facility will treat hydrocarbon industrial waste products to generate steam energy for reuse in the process plants; the contract was awarded by Itro Pte Ltd. Although, this contract will not have any material impact on earnings given the size, it affirms OKP's beachhead in the O&G arena. OKP's 55% share of the contract value will be recognised this financial year.

### ▪ Singapore O&G sector: A growth industry

Singapore has launched several initiatives to fortify its status as the third largest oil refining centre and differentiate itself from world-class competitors such as Dubai, Hong Kong and Shanghai. As a result, major investments such as Shell's S\$4.6b petrochemical cracker, Vopak's US\$130m biodiesel refinery and Hin Leong's S\$750m Universal Terminal are all testament of the sector's robust FDI outlook. Near term triggers for O&G vendors will be the estimated S\$1b Jurong Cavern project, which is currently in Phase I tender.

### ▪ OKP's \$153m orderbook poised for further growth

OKP's order book has grown to S\$153m with this latest deal. We expect c68% of this contract value to be captured in FY07E; as a result, we are anticipating 41% y/y topline growth for FY07. Management has also expressed keen interest in tendering for the Jurong Cavern Phase 1 project which is estimated to be worth S\$700m with completion by 2010 - JTC expects to call for a construction tender by year end. Should OKP succeed in this tender award, there could be significant scope for upside revision to our earnings forecasts.

### ▪ Limited impact from sand shortage

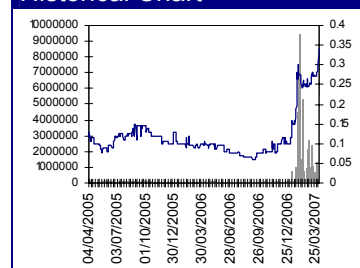
Management has assured us that the recent sand shortage and reduced granite supply will not result in cost overruns for OKP. Sand and granite each consists c5% of COGS hence significant increase of COGS is not expected. In addition, escalation clauses are built into the contracts which will insulate OKP from higher raw material costs.

### ▪ Maintain Buy; TP raised to \$0.43 based on 2x P/B

We are raising our fair value target from S\$0.37 to \$0.43 based on a 2x P/B versus the peer range of 3x FY07 P/B. Despite the strong price performance, OKP continues to trade at attractive valuations of 5.3x FY07 PE (3.1x FY07 ex cash PE). Buy maintained.

<b>Price</b>	<b>\$0.34</b>
<b>Target</b>	<b>\$0.43</b>
<b>ST Index</b>	<b>3332.92</b>

#### Historical Chart



#### Stock Information

Bloomberg Ticker Code	OKP SP
Market Cap (S\$m)	51.0
52-week high (\$)	0.345
52-week low (\$)	0.060
Shares issued (m)	149.9
6m avg. daily vol (m)	0.6
Free float (%)	28.9
Major Shareholders (%)	
	Mr. Or Kim Peow (63.21)
	Mr. Or Toh Wat (60.0)

#### Key Indicators

ROE (%)	20.1
Net Gearing	Net cash
NTA (S c)	15.41
Interest cover (x)	52.0

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Year End Dec	2004	2005	2006	2007F
Sales (\$m)	72.7	61.4	73.3	103.5
Pretax profit (\$m)	1.7	0.5	5.4	11.5
Net profit (\$m)	1.6	0.3	4.1	9.6
EPS (cts)	1.1	0.2	3.0	6.4
EPS growth (%)	11.0	(81.7)	1354.0	110.9
PER (x)	29.7	162.4	11.17	5.3
Ex. Cash PER (x)	25.5	245.5	9.3	3.1
EV/EBITDA (x)	12.3	19.4	5.5	2.3
Gross dividends (cts)	0.5	0.0	1.5	3.0
Yield (%)	1.4	-	4.4	8.8

## HALF YEARLY PERFORMANCE

6 months to (\$ m)	Dec-06	Dec-05	% yoy	Jun-06	% hoh
Turnover	39.9	24.7	62%	33.4	19%
Operating Profit	4.7	-0.7	-773%	0.8	498%
Pretax Profit	4.6	1.3	270%	0.7	536%
Net Profit	3.5	-2.0	-281%	0.6	487%
EPS Cents	2.6	-1.4	-281%	0.4	487%
<i>Key ratios</i>					
Operating Margin	12%	-3%	nm	2%	+1000bp
Pretax Margin	12%	-3%	nm	2%	+1000bp
Net Margin	9%	-8%	nm	2%	+700bp

## PROFIT &amp; LOSS

Year end Dec	2004	2005	2006	2007F
<b>Turnover</b>	<b>72.7</b>	<b>61.4</b>	<b>73.3</b>	<b>103.5</b>
COGS	(67.3)	(57.8)	(62.8)	(86.2)
<b>Gross Profit</b>	<b>5.4</b>	<b>3.7</b>	<b>10.4</b>	<b>17.3</b>
Other Operating	0.4	0.9	0.6	0.6
Distribution Costs	0.0	0.0	0.0	0.0
Administration	(4.0)	(3.9)	(5.4)	(6.0)
Other Operating	(0.0)	(0.0)	(0.1)	(0.2)
<b>Operating Profit</b>	<b>1.9</b>	<b>0.6</b>	<b>5.5</b>	<b>11.7</b>
Interest Expense	(0.2)	(0.1)	(0.1)	(0.1)
Associates	(0.0)	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0
<b>Pretax Profit</b>	<b>1.7</b>	<b>0.5</b>	<b>5.4</b>	<b>11.5</b>
Taxation	(0.2)	(0.2)	(1.3)	(2.1)
Minority Interests	0.0	0.0	0.1	0.2
<b>Net Profit</b>	<b>1.6</b>	<b>0.3</b>	<b>4.1</b>	<b>9.6</b>
<b>EPS (¢)</b>	<b>1.1</b>	<b>0.2</b>	<b>3.0</b>	<b>6.4</b>
<b>EPS Growth</b>	<b>11.0%</b>	<b>-81.7%</b>	<b>1354.0%</b>	<b>110.9%</b>
<b>Gross DPS (¢)</b>	<b>0.5</b>	<b>0.0</b>	<b>1.5</b>	<b>3.0</b>
<b>Sales Growth</b>	<b>28.1%</b>	<b>-15.5%</b>	<b>19.2%</b>	<b>41.2%</b>
<b>Gross Profit Growth</b>	<b>-24.4%</b>	<b>-32.7%</b>	<b>185.0%</b>	<b>65.7%</b>
<b>Operating Profit Growth</b>	<b>-33.6%</b>	<b>-67.7%</b>	<b>786.8%</b>	<b>113.9%</b>
<b>Pretax Profit Growth</b>	<b>-36.1%</b>	<b>-70.3%</b>	<b>953.6%</b>	<b>115.7%</b>
<b>Net Profit Growth</b>	<b>11.0%</b>	<b>-81.7%</b>	<b>1354.0%</b>	<b>131.9%</b>
<b>Gross Margin</b>	<b>7.5%</b>	<b>6.0%</b>	<b>14.3%</b>	<b>16.7%</b>
<b>Operating Margin</b>	<b>2.6%</b>	<b>1.0%</b>	<b>7.5%</b>	<b>11.3%</b>
<b>Pretax Margin</b>	<b>2.4%</b>	<b>0.8%</b>	<b>7.3%</b>	<b>11.2%</b>
<b>Effective Tax Rate</b>	<b>8.8%</b>	<b>45.9%</b>	<b>24.2%</b>	<b>18.0%</b>
<b>Interest Cover (x)</b>	<b>10.6</b>	<b>5.7</b>	<b>52.0</b>	<b>90.1</b>
<b>Dividend Cover (x)</b>	<b>2.3</b>	<b>-</b>	<b>2.0</b>	<b>2.1</b>

## SEGMENT BREAKDOWN

Year end Dec	2004	2005	2006	2007F
Road and Building	54.1	48.8	53.3	76.0
Road Maintenance	18.6	12.7	20.2	27.5
Revenue	72.7	61.4	73.3	103.5
Road and Building	74%	79%	73%	73%
Road Maintenance	26%	21%	28%	27%
% breakdown	100%	100%	100%	100%
Road and Building	65%	-10%	9%	43%
Road Maintenance	-23%	-32%	60%	36%
Revenue Growth	28%	-15%	19%	41%

Sources: Company data, KE estimates

## BALANCE SHEET (\$m)

As at Dec	2004	2005	2006	2007F
<b>Current Assets</b>	<b>31.5</b>	<b>25.4</b>	<b>37.4</b>	<b>48.7</b>
Cash & ST Invt	11.9	12.8	14.7	21.8
Receivables	14.3	10.0	21.5	22.8
Construction projects	5.3	2.6	1.2	4.1
Others	0.0	0.0	0.0	0.0
<b>Fixed Assets</b>	<b>7.2</b>	<b>6.7</b>	<b>7.8</b>	<b>10.3</b>
Associates	0.1	0.0	0.0	0.0
Investments	0.8	0.8	0.8	0.8
Other Assets	1.8	1.8	1.8	1.8
<b>Total Assets</b>	<b>41.3</b>	<b>34.7</b>	<b>47.8</b>	<b>61.6</b>
<b>Current Liabilities</b>	<b>20.8</b>	<b>14.8</b>	<b>23.2</b>	<b>27.6</b>
ST Borrowings	1.9	0.6	0.8	0.7
Payables	18.4	14.1	20.9	25.4
Others	0.4	0.2	1.5	1.5
LT Loans	1.3	0.9	1.5	1.2
Deferred Liabilities	0.3	0.4	0.3	0.3
<b>Total Liabilities</b>	<b>22.4</b>	<b>16.1</b>	<b>25.0</b>	<b>29.1</b>
Share Capital	13.6	13.6	15.0	17.2
Reserves	5.3	4.9	7.7	15.3
Minority Interests	0.0	(0.0)	(0.0)	0.0
<b>Total Equity + MI</b>	<b>18.9</b>	<b>18.5</b>	<b>22.7</b>	<b>32.5</b>
<b>Debtors Turnover (days)</b>	<b>60</b>	<b>68</b>	<b>75</b>	<b>75</b>
<b>Stock Turnover (days)</b>	<b>22</b>	<b>23</b>	<b>10</b>	<b>9</b>
<b>Creditors Turnover</b>	<b>68</b>	<b>85</b>	<b>88</b>	<b>87</b>
<b>Current Ratio (x)</b>	<b>1.5</b>	<b>1.7</b>	<b>1.6</b>	<b>1.8</b>
<b>Net Debt/Equity (x)</b>	<b>-46.1%</b>	<b>-60.9%</b>	<b>-54.5%</b>	<b>-61.3%</b>
<b>Total Debt/Equity (x)</b>	<b>17.0%</b>	<b>8.1%</b>	<b>10.2%</b>	<b>5.7%</b>
<b>NBV/Share (\$ c)</b>	<b>5.27</b>	<b>12.36</b>	<b>15.41</b>	<b>20.59</b>
<b>ROE</b>	<b>8.5%</b>	<b>1.5%</b>	<b>20.1%</b>	<b>34.8%</b>
<b>ROA</b>	<b>4.1%</b>	<b>0.8%</b>	<b>10.0%</b>	<b>17.6%</b>

## CASH FLOW (\$m)

Year end Dec	2004	2005	2006	2007F
Pretax Profit	1.7	0.5	5.4	11.5
Depreciation	1.6	1.4	1.5	1.6
(Profit)/Loss on Sale of A	0.0	0.0	0.0	0.0
Associates Profits	(0.0)	0.0	0.0	0.0
Tax Paid	(0.8)	(0.4)	(0.0)	(2.1)
Change in Working capital	1.7	2.6	(3.3)	0.4
<b>Operating Cash Flow</b>	<b>4.1</b>	<b>4.1</b>	<b>3.6</b>	<b>11.4</b>
Net Capex	(1.8)	(0.9)	(2.7)	(4.1)
Associates & Investments	0.1	0.1	0.0	0.0
Change in Other Assets	0.0	0.0	(0.0)	0.0
<b>Investing Cash Flow</b>	<b>(1.7)</b>	<b>(0.9)</b>	<b>(2.7)</b>	<b>(4.1)</b>
Change in Share Capital	0.0	0.0	(0.0)	2.3
Net Change in Debt	0.0	0.0	0.9	(0.6)
Dividends Paid	(0.6)	(0.7)	0.0	(2.0)
Others	0.0	0.0	0.1	0.2
<b>Financing Cash Flow</b>	<b>(0.8)</b>	<b>(2.4)</b>	<b>1.0</b>	<b>(0.2)</b>
<b>Net Cash Flow</b>	<b>1.5</b>	<b>0.8</b>	<b>1.9</b>	<b>7.1</b>
Cash/(Debt) at Beg of Yr	10.4	11.9	12.8	14.7
Cash/(Debt) at End of Yr	11.9	12.8	14.7	21.8

Sources: Company data, KE estimates

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