

OKP

Raring to go!

BUY

▪ FY07 results beat expectations

OKP's FY07 net profit surged 171% to \$11m (well above our forecast of \$8.8m) underpinned by better margins and 70% uptick in revenue to \$124.7m. Gross margin widened to 18% from 14% in FY06 as the group commenced work on ExxonMobil's Singapore Parallel Train project in conjunction with its existing Universal Terminal project as well as benefitted from good cost management. Return on equity jumped to 35% while net cash position improved to \$21.1m (14¢/share).

▪ Public projects become lucrative

Total construction demand in Singapore remains buoyant with URA estimates projecting S\$23-27bn worth of contracts to be awarded in 2008, of which public civil engineering work will account for S\$2.8-3.5bn. Based on LTA project schedule, OKP has tendered for another five contracts totalling S\$86.9m and management is quite confident of bagging some of these projects. In addition to larger contract values, margins for public projects have also risen at least 3x to be almost on par with private O&G projects due to the severe shortage of contractors.

▪ Private O&G projects to pick up momentum in 2H08

We are likely to see more O&G deals coming up for grabs given Jurong Island's mega project pipeline, which includes ExxonMobil's second cracker, Shell's Petrochemical Cracker in 2009/2010, Finland's Neste Oil S\$1.1bn biodiesel plant and Powerseraya's S\$800m co-generation combined cycle plant. Although the group's 1H08 revenues might suffer a slight dip as its existing major projects are nearing completion and new contracts are yet to be awarded, we anticipate a strong orderbook built-up in 2H08 and beyond based on the rosy contract outlook in the coming years. We have raised our FY08 bottomline by 35% to \$15.7m based on potential contract awards.

▪ Maintain Buy, TP at \$0.95

We are maintaining our Buy recommendation on OKP. We have, however, lowered our TP to \$0.95 premised on 9x FY08 PE, placing a 20% discount to peer valuation to factor in tight liquidity issue. Key risks include project execution risks, unforeseen material cost hikes and contingent liabilities. Management is also declaring 2¢ dividend for FY07.

Price	\$0.595
Target	\$0.95
ST Index	3077.83

Historical Chart



Stock Information

Bloomberg code	OKP SP
Reuters code	5CF.SI
Market Cap (\$m)	89.1
52-week high (\$)	1.05
52-week low (\$)	0.21
Shares issued (m)	149.9
6m avg. daily vol (m)	2.4
Free float (%)	34.8
Major Shareholders (%)	
Or Kim Peow - Chairman	(61.6%)

Key Indicators (FY07)

Gross Margin (%)	17.5
Operating Margin (%)	11.4
ROE (%)	38.8
ROA (%)	17.5
Current Ratio (x)	1.6
Net Debt/Equity (%)	(62.6)
Interest cover (x)	104.0
NTA (S c)	21.3
P/NTA (x)	2.8

Year End Dec	2004	2005	2006	2007	2008F
Sales (\$m)	72.7	61.4	73.3	124.7	166.5
Pretax profit (\$m)	1.7	0.5	5.4	14.1	20.3
Net profit (\$m)	1.6	0.3	4.1	10.9	15.7
EPS (cts)	1.1	0.2	3.0	7.3	10.5
EPS growth (%)	11.0	(81.7)	1354.0	141.2	43.0
PER (x)	51.9	284.2	19.5	8.1	5.7
Non Cash PER (x)	50.5	491.3	19.0	6.1	4.4
EV/EBITDA (x)	23.4	38.2	11.0	4.3	3.1
DPS (cts)	0.5	0.0	1.5	2.0	3.2
Yield (%)	0.8	0.0	2.5	3.4	5.3

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Figure 1: Half-Year Results

Year End Dec (\$m)	2H07	2H06	% YoY	1H07	% HoH
Civil Building and Construction	63.0	29.1	117%	41.7	51%
Road Maintenance	12.6	11.0	14%	7.4	71%
Sales	75.6	39.9	90%	49.1	54%
Cost of works	(63.5)	(32.2)	97%	(39.3)	61%
Gross Profit	12.1	7.6	59%	9.7	25%
Other Operating Income	1.1	0.3	248%	0.4	169%
Administration Expenses	(5.1)	(3.2)	59%	(3.8)	33%
Other Operating Expenses	(0.2)	(0.1)	112%	(0.1)	198%
Operating Profit	8.0	4.7	71%	6.3	28%
Interest Expense	(0.1)	(0.1)	45%	(0.1)	17%
Pretax Profit	7.9	4.6	71%	6.2	28%
Taxation	(1.0)	(1.2)	-14%	(2.1)	-52%
Minority Interests	(0.1)	0.1	-225%	0.0	-414%
Net Profit	6.8	3.5	92%	4.1	64%
EPS (\$ cts)	4.6	2.6	76%	2.8	64%
Gross Margins (%)	16%	19%	-300bps	20%	-400bps
Operating Margins (%)	11%	12%	-100bps	13%	-200bps
Pretax Margins (%)	10%	12%	-200bps	13%	-300bps

Source: Company data, KELive

Figure 2: Public contracts tendered for 2008

ANTICIPATED PROJECTS	Clients	Commencement	Completion	Contract size (\$m)
Contract ER 213 - Widening of CTE from AMK 1 to AMK 3	LTA	April-08	March-10	16.87
Contract ER 194 - Widening of Eunos Link and Jln Eunos	LTA	April-08	March-10	24.63
RP125 - Repairs and Upgrading of roads in Central Sector	LTA	April-08	March-10	12.70
RP126 - Painting and Cleansing of Road Related Facilities in the East	LTA	April-08	March-10	13.33
RP127 - Painting and Cleansing of Road Related Facilities in the West and Central Sectors	LTA	April-08	March-10	19.33

Source: LTA, KELive

PROFIT & LOSS (\$m)

Year end Dec	2004	2005	2006	2007	2008F
Turnover	72.7	61.4	73.3	124.7	166.5
COGS	(67.3)	(57.8)	(62.8)	(102.8)	(134.3)
Gross Profit	5.4	3.7	10.4	21.8	32.3
Other Operating Income	0.4	0.9	0.6	1.5	1.5
Distribution Costs	0.0	0.0	0.0	0.0	0.0
Administration Expenses	(4.0)	(3.9)	(5.4)	(8.9)	(13.0)
Other Operating Expenses	(0.0)	(0.0)	(0.1)	(0.2)	(0.3)
Operating Profit	1.9	0.6	5.5	14.3	20.5
Interest Expense	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)
Associates	(0.0)	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Pretax Profit	1.7	0.5	5.4	14.1	20.3
Taxation	(0.2)	(0.2)	(1.3)	(3.1)	(4.5)
Minority Interests	0.0	0.0	0.1	(0.1)	(0.1)
Net Profit	1.6	0.3	4.1	10.9	15.7

EPS (¢)	1.1	0.2	3.0	7.3	10.5
EPS Growth	11.0%	-81.7%	1354.0%	141.2%	43.0%
Gross DPS (¢)	0.5	0.0	1.5	2.0	3.2
Sales Growth	28.1%	-15.5%	19.2%	70.1%	33.6%
Gross Profit Growth	-24.4%	-32.7%	185.0%	109.1%	47.7%
Operating Profit Growth	-33.6%	-67.7%	786.8%	161.0%	43.6%
Pretax Profit Growth	-36.1%	-70.3%	953.6%	163.6%	44.1%
Net Profit Growth	11.0%	-81.7%	1354.0%	163.3%	44.1%
Gross Margin	7.5%	6.0%	14.3%	17.5%	19.4%
Operating Margin	2.6%	1.0%	7.5%	11.4%	12.3%
Pretax Margin	2.4%	0.8%	7.3%	11.3%	12.2%
Effective Tax Rate	8.8%	45.9%	24.2%	22.1%	22.0%
Interest Cover (x)	10.6	5.7	52.0	104.0	155.3
Dividend Cover (x)	2.3	-	1.8	3.6	3.3

SEGMENT BREAKDOWN (\$m)

Year end Dec	2004	2005	2006	2007	2008F
Civil and Building Construction	54.1	48.8	53.3	104.7	116.3
Road Maintenance	18.6	12.7	20.2	20.0	50.2
Revenue	72.7	61.4	73.3	124.7	166.5
Civil and Building Construction	74%	79%	73%	84%	70%
Road Maintenance	26%	21%	28%	16%	30%
% breakdown	100%	100%	100%	100%	100%
Civil and Building Construction	65%	-10%	9%	96%	11%
Road Maintenance	-23%	-32%	60%	-1%	152%
Revenue Growth	28%	-15%	19%	70%	34%

BALANCE SHEET (\$m)

As at Dec	2004	2005	2006	2007	2008F
Current Assets	31.5	25.4	37.6	61.9	66.3
Cash & ST Invt	11.9	12.8	14.7	24.9	19.3
Receivables	14.3	10.0	21.7	35.2	44.0
Construction contracts work-in-progress	5.3	2.6	1.2	1.8	3.0
Others	0.0	0.0	0.0	0.0	0.0
Fixed Assets	7.2	6.7	7.8	10.6	16.7
Associates	0.1	0.0	0.0	0.0	0.0
Investments	0.8	0.8	0.8	1.4	1.4
Other Assets	1.8	1.8	1.8	1.7	1.7
Total Assets	41.3	34.7	48.0	75.6	86.0
Current Liabilities	20.8	14.8	23.5	39.7	38.0
ST Borrowings	1.9	0.6	0.8	1.3	0.8
Payables	18.4	14.1	21.2	34.7	33.6
Others	0.4	0.2	1.5	3.7	3.7
LT Loans	1.3	0.9	1.5	2.5	1.4
Deferred Liabilities	0.3	0.4	0.3	0.2	0.2
Total Liabilities	22.4	16.1	25.3	42.4	39.6
Share Capital	13.6	13.6	15.0	17.2	17.2
Reserves	5.3	4.9	7.7	16.4	29.1
Minority Interests	0.0	(0.0)	(0.0)	0.5	0.0
Total Equity + MI	18.9	18.5	22.7	34.2	46.4

Debtors Turnover (days)	60	68	75	82	85
Creditors Turnover (days)	68	85	71	84	86
Current Ratio (x)	1.5	1.7	1.6	1.6	1.7
Net Debt/Equity (x)	-46.1%	-60.9%	-54.5%	-62.6%	-36.9%
Total Debt/Equity (x)	17.0%	8.1%	10.2%	11.3%	4.8%
NBV/Share (\$)	5.27	12.36	15.41	21.32	29.82
ROE	8.5%	1.5%	20.1%	38.8%	39.3%
ROA	4.1%	0.8%	10.0%	17.5%	19.3%

CASH FLOW (\$m)

Year end Dec	2004	2005	2006	2007	2008F
Pretax Profit	1.7	0.5	5.4	14.1	20.3
Depreciation	1.6	1.4	1.5	1.7	1.9
(Profit)/Loss on Sale of Assets	0.0	0.0	0.0	0.0	0.0
Associates Profits	(0.0)	0.0	0.0	0.0	0.0
Tax Paid	(0.8)	(0.4)	(0.0)	(1.0)	(4.5)
Change in Working Capital	1.7	2.6	(3.2)	(0.6)	(11.1)
Operating Cash Flow	4.1	4.1	3.7	14.3	6.6
Net Capex	(1.8)	(0.9)	(2.7)	(4.5)	(7.9)
Associates & Investments	0.1	0.1	0.0	(0.6)	0.0
Change in Other Assets	0.0	0.0	0.0	(0.0)	0.0
Investing Cash Flow	(1.7)	(0.9)	(2.7)	(5.1)	(7.9)
Change in Share Capital	0.0	0.0	0.0	2.3	0.0
Net Change in Debt	0.0	0.0	0.8	0.5	(0.6)
Dividends Paid	(0.6)	(0.7)	0.0	(2.2)	(3.0)
Others	0.0	0.0	0.1	0.4	(0.7)
Financing Cash Flow	(0.8)	(2.4)	0.9	1.0	(4.3)
Net Cash Flow	1.5	0.8	1.9	10.2	(5.5)
Cash/(Debt) at Beg of Year	10.4	11.9	12.8	14.7	24.9
Cash/(Debt) at End of Year	11.9	12.8	14.7	24.9	19.3

Source: Company data, KELive estimates

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