

# OKP

## Back to Basics

### Interim results within expectations

OKP reported 1HFY08 net profit of \$4.3m (+6% yoy, -35% hoh) which met 57% of our new FY08 estimates. Interim revenue was \$50.9m (+4% yoy, -33% hoh) while gross profit slipped by 3% to 16.8%; both resulting from the completion of a major oil and gas project for Foster Wheeler. Balance sheet remains strong with a net cash position of \$26m (17¢/share).

### More government contracts drive earnings

OKP was awarded three additional government contracts since our previous report dated 9 May 2006 "Earnings drivers to switch gears". The contracts totalled \$22.4m were awarded by both LTA and PUB. Based on our estimates, orderbook stands at \$215.9m of which 45% will be recognised in FY08. 79% of its outstanding orderbooks are government projects but margins are expected to hold given the shortage of contractors.

### Far from over for government contracts

Despite a \$4.7b deferment of public sector projects to 2010 and beyond, management still sees no slowdown of public project tenders. Management also revealed the possibility of more government projects available for tender in 3Q08 onwards. These projects will likely include widening of major expressways and major road connections i.e phase two of the widening of CTE and joining of TPE to Seletar Airbase. Each project could significantly be larger than their previous contracts (estimated \$70-\$80m each) given OKP's recent upgrade to an A1 contractor status.

### No upside from O&G yet

Management did note that projects from the O&G have slowed due to various reasons such as high oil prices, inflation leading to higher material costs and shortage of skilled labour. Any new projects will likely be end 2008 given the long tender and qualification stages. For conservatism, we are cutting our FY08 earnings estimates by 29% to \$7.6m.

### Maintain Hold, TP @ \$0.36

We are maintaining our Hold recommendation and cutting our target price to \$0.36 based on a 7x FY08 PE; the valuation is benchmarked against Rotary.

Year End Dec	2004	2005	2006	2007	2008F
Sales (\$m)	72.7	61.4	73.3	124.7	97.9
Pretax profit (\$m)	1.7	0.5	5.4	14.1	9.6
Net profit (\$m)	1.6	0.3	4.1	10.9	7.6
EPS (cts)	1.1	0.2	3.0	7.3	5.1
EPS growth (%)	11.0	(81.7)	1354.0	141.2	(31.1)
PER (x)	34.0	186.3	12.8	5.3	7.7
Ex. cash PER (x)	30.4	293.7	11.2	3.5	4.5
EV/EBITDA (x)	14.4	23.1	6.6	2.3	3.0
Dividends (cts)	0.5	0.0	1.5	2.0	1.5
Yield (%)	1.3	0.0	3.8	5.1	3.9

# HOLD

Price	\$0.39
Target	\$0.36
ST Index	2910.36

### Historical Chart



### Stock Information

Bloomberg ticker code	OKP SP
Reuters ticker code	5CF.SI
Market Cap (\$m)	58.4
52-week high (\$)	0.98
52-week low (\$)	0.355
Shares issued (m)	149.9
6m avg. daily vol (m)	0.6
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 (\$ c)	21.3
P/NTA (x)	1.8

### Analyst:

Geraldine Eu  
 geraldineeu@kimeng.com  
 (65) 6432 1469

### www.kelive.com

Co. REg No. : 198700034E  
 MICA (P): 056/11/2007

**PROFIT & LOSS (\$m)**

Year end Dec	2004	2005	2006	2007	2008F
<b>Turnover</b>	<b>72.7</b>	<b>61.4</b>	<b>73.3</b>	<b>124.7</b>	<b>97.9</b>
COGS	(67.3)	(57.8)	(62.8)	(102.8)	(82.6)
<b>Gross Profit</b>	<b>5.4</b>	<b>3.7</b>	<b>10.4</b>	<b>21.8</b>	<b>15.3</b>
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)	(6.8)
Other Operating Expenses	(0.0)	(0.0)	(0.1)	(0.2)	(0.2)
<b>Operating Profit</b>	<b>1.9</b>	<b>0.6</b>	<b>5.5</b>	<b>14.3</b>	<b>9.8</b>
Interest Expense	(0.2)	(0.1)	(0.1)	(0.1)	(0.2)
Associates	(0.0)	0.0	0.0	0.0	0.0
Exceptionals	0.0	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>14.1</b>	<b>9.6</b>
Taxation	(0.2)	(0.2)	(1.3)	(3.1)	(1.9)
Minority Interests	0.0	0.0	0.1	(0.1)	(0.1)
<b>Net Profit</b>	<b>1.6</b>	<b>0.3</b>	<b>4.1</b>	<b>10.9</b>	<b>7.6</b>

<b>EPS (¢)</b>	<b>1.1</b>	<b>0.2</b>	<b>3.0</b>	<b>7.3</b>	<b>5.1</b>
<b>EPS Growth</b>	<b>11.0%</b>	<b>-81.7%</b>	<b>1354.0%</b>	<b>141.2%</b>	<b>-31.1%</b>
<b>Gross DPS (¢)</b>	<b>0.5</b>	<b>0.0</b>	<b>1.5</b>	<b>2.0</b>	<b>1.5</b>
<b>Sales Growth</b>	<b>28.1%</b>	<b>-15.5%</b>	<b>19.2%</b>	<b>70.1%</b>	<b>-21.5%</b>
<b>Gross Profit Growth</b>	<b>-24.4%</b>	<b>-32.7%</b>	<b>185.0%</b>	<b>109.1%</b>	<b>-30.1%</b>
<b>Operating Profit Growth</b>	<b>-33.6%</b>	<b>-67.7%</b>	<b>786.8%</b>	<b>161.0%</b>	<b>-31.0%</b>
<b>Pretax Profit Growth</b>	<b>-36.1%</b>	<b>-70.3%</b>	<b>953.6%</b>	<b>163.6%</b>	<b>-31.8%</b>
<b>Net Profit Growth</b>	<b>11.0%</b>	<b>-81.7%</b>	<b>1354.0%</b>	<b>163.3%</b>	<b>-30.6%</b>
<b>Gross Margin</b>	<b>7.5%</b>	<b>6.0%</b>	<b>14.3%</b>	<b>17.5%</b>	<b>15.6%</b>
<b>Operating Margin</b>	<b>2.6%</b>	<b>1.0%</b>	<b>7.5%</b>	<b>11.4%</b>	<b>10.0%</b>
<b>Pretax Margin</b>	<b>2.4%</b>	<b>0.8%</b>	<b>7.3%</b>	<b>11.3%</b>	<b>9.8%</b>
<b>Effective Tax Rate</b>	<b>8.8%</b>	<b>45.9%</b>	<b>24.2%</b>	<b>22.1%</b>	<b>20.0%</b>
<b>Interest Cover (x)</b>	<b>10.6</b>	<b>5.7</b>	<b>52.0</b>	<b>104.3</b>	<b>47.5</b>
<b>Dividend Cover (x)</b>	<b>2.3</b>	<b>-</b>	<b>1.8</b>	<b>3.6</b>	<b>3.3</b>

**SEGMENT BREAKDOWN (\$m)**

Year end Dec	2004	2005	2006	2007	2008F
Civil and Building Construction	54.1	48.8	53.3	104.7	52.2
Road Maintenance	18.6	12.7	20.2	20.0	45.7
Revenue	72.7	61.4	73.3	124.7	97.9
Civil and Building Construction	74%	79%	73%	84%	53%
Road Maintenance	26%	21%	28%	16%	47%
% breakdown	100%	100%	100%	100%	100%
Civil and Building Construction	65%	-10%	9%	96%	-50%
Road Maintenance	-23%	-32%	60%	-1%	129%
Revenue Growth	28%	-15%	19%	70%	-21%

**BALANCE SHEET (\$m)**

As at Dec	2004	2005	2006	2007	2008F
<b>Current Assets</b>	<b>31.5</b>	<b>25.4</b>	<b>37.6</b>	<b>63.2</b>	<b>54.4</b>
Cash & ST Invt	11.9	12.8	14.7	24.9	26.8
Receivables	14.3	10.0	21.7	36.0	25.9
Construction contracts WIP	5.3	2.6	1.2	1.8	1.8
Others	0.0	0.0	0.0	0.5	0.0
<b>Fixed Assets</b>	<b>7.2</b>	<b>6.7</b>	<b>7.8</b>	<b>10.6</b>	<b>9.8</b>
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
<b>Total Assets</b>	<b>41.3</b>	<b>34.7</b>	<b>48.0</b>	<b>76.9</b>	<b>67.2</b>
<b>Current Liabilities</b>	<b>20.8</b>	<b>14.8</b>	<b>23.5</b>	<b>40.1</b>	<b>25.9</b>
ST Borrowings	1.9	0.6	0.8	1.3	1.6
Payables	18.4	14.1	21.2	35.1	20.7
Others	0.4	0.2	1.5	3.7	3.7
LT Loans	1.3	0.9	1.5	2.5	2.9
Deferred Liabilities	0.3	0.4	0.3	0.2	0.2
<b>Total Liabilities</b>	<b>22.4</b>	<b>16.1</b>	<b>25.3</b>	<b>42.8</b>	<b>29.0</b>
Share Capital	13.6	13.6	15.0	17.2	17.2
Reserves	5.3	4.9	7.7	16.4	21.0
Minority Interests	0.0	(0.0)	(0.0)	0.5	0.0
<b>Total Equity + MI</b>	<b>18.9</b>	<b>18.5</b>	<b>22.7</b>	<b>34.2</b>	<b>38.2</b>

<b>Debtors Turnover (days)</b>	<b>60</b>	<b>68</b>	<b>75</b>	<b>83</b>	<b>113</b>
<b>Creditors Turnover (days)</b>	<b>68</b>	<b>85</b>	<b>71</b>	<b>64</b>	<b>91</b>
<b>Current Ratio (x)</b>	<b>1.5</b>	<b>1.7</b>	<b>1.6</b>	<b>1.6</b>	<b>2.1</b>
<b>Net Debt/Equity (x)</b>	<b>-46.1%</b>	<b>-60.9%</b>	<b>-54.5%</b>	<b>-62.6%</b>	<b>-58.2%</b>
<b>Total Debt/Equity (x)</b>	<b>17.0%</b>	<b>8.1%</b>	<b>10.2%</b>	<b>11.3%</b>	<b>11.7%</b>
<b>NBV/Share (\$)</b>	<b>5.27</b>	<b>12.36</b>	<b>15.41</b>	<b>21.32</b>	<b>24.38</b>
<b>ROE</b>	<b>8.5%</b>	<b>1.5%</b>	<b>20.1%</b>	<b>38.8%</b>	<b>21.1%</b>
<b>ROA</b>	<b>4.1%</b>	<b>0.8%</b>	<b>10.0%</b>	<b>17.5%</b>	<b>10.5%</b>

**CASH FLOW (\$m)**

Year end Dec	2004	2005	2006	2007	2008F
Pretax Profit	1.7	0.5	5.4	14.1	9.6
Depreciation	1.6	1.4	1.5	1.9	2.3
(Profit)/Loss on Sale of Asset	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)	(1.9)
Change in Working Capital	1.7	2.6	(3.2)	(1.5)	(3.7)
<b>Operating Cash Flow</b>	<b>4.1</b>	<b>4.1</b>	<b>3.7</b>	<b>13.5</b>	<b>6.3</b>
Net Capex	(1.8)	(0.9)	(2.7)	(4.7)	(1.4)
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
<b>Investing Cash Flow</b>	<b>(1.7)</b>	<b>(0.9)</b>	<b>(2.7)</b>	<b>(5.3)</b>	<b>(1.4)</b>
Change in Share Capital	0.0	0.0	0.0	2.3	0.0
Net Change in Debt	0.0	0.0	0.8	1.5	0.7
Dividends Paid	(0.6)	(0.7)	0.0	(2.2)	(3.0)
Others	0.0	0.0	0.1	0.5	(0.7)
<b>Financing Cash Flow</b>	<b>(0.8)</b>	<b>(2.4)</b>	<b>0.9</b>	<b>2.0</b>	<b>(3.0)</b>
<b>Net Cash Flow</b>	<b>1.5</b>	<b>0.8</b>	<b>1.9</b>	<b>10.2</b>	<b>1.9</b>
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	26.8

Source: Company data, KELive estimates

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**Singapore**

**Kim Eng Securities Pte Ltd**  
**Kim Eng Research Pte Ltd**  
9 Temasek Boulevard  
#39-00 Suntec Tower 2  
Singapore 038989

Tel: +65 6336 9090  
Fax: +65 6339 6003

LAU Wai Kwok (sales)  
lauwk@kimeng.com

Ong Seng Yeow (research)  
ongsengyeow@kimeng.com

**London**

**Kim Eng Securities (London) Ltd**  
6/F, 20 St. Dunstan's Hill  
London EC3R 8HY, UK

Tel: +44 20 7621 9298  
Dealers' Tel: +44 20 7626 2828  
Fax: +44 20 7283 6674

David PIRKIS (sales)  
dpirkis@kimeng.co.uk

Geoff HO (sales)  
gho@kimeng.co.uk

James JOHNSTONE (sales)  
jjohnstone@kimeng.co.uk

**New York**

**Kim Eng Securities USA Inc**  
406, East 50<sup>th</sup> Street  
New York, NY 10022, U.S.A.

Tel: +1 212 688 8886  
Fax: +1 212 688 3500

Jeffrey S. SEO  
jseo@kesusa.com

Lucy CHUAH  
lchuah@kesusa.com

Lynda KOMMEL-BROWNE  
lkommel@kesusa.com

Jonathan NASSER  
jnasser@kesusa.com

Peter HWANG  
phwang@kesusa.com

**Taiwan**

**Yuanta Core Pacific Securities**  
11/F, No 225, Nanking East Rd  
Section 3  
Taipei, Taiwan

Tel: +886 2 2717 6391  
Fax: +886 2 2545 6394

Arthur LO (sales)  
Arthur.lo@yuanta.com.tw

Gary CHIA (research)  
Gary.chia@yuanta.com.tw

**Hong Kong**

**Kim Eng Securities (HK) Ltd**  
Level 30,  
Three Pacific Place,  
1 Queen's Road East,  
Hong Kong

Tel: +852 2268 0800  
Fax: +852 2877 0104

Ray LUK (sales)  
rluk@kimeng.com.hk

**Thailand**

**Kim Eng Securities (Thailand)**  
**Public Company Limited**  
999/9 The Offices at Central World,  
20<sup>th</sup> - 21<sup>st</sup> Floor,  
Rama 1 Road, Pathumwan,  
Bangkok 10330, Thailand

Tel: +66 2 658 6300  
Fax: +66 2 658 6384

Vikas KAWATRA (sales)  
vkawatra@kimeng.co.th

**Indonesia**

**PT Kim Eng Securities**  
9/F, Deutsche Bank Bldg  
Jl. Imam Bonjol 80  
Jakarta 10310, Indonesia

Tel: +62 21 3983 1360  
Fax: +62 21 3983 1361

Kurnia SALIM (sales)  
ksalim@kimeng.co.id

Katarina SETIAWAN (research)  
ksetiawan@kimeng.co.id

**Malaysia**

**Kim Eng Research Sdn Bhd**  
16/F, Kompleks Antarabangsa  
Jalan Sultan Ismail  
50250 Kuala Lumpur, Malaysia

Tel: +603 2141 1555  
Fax: +603 2141 1045

YEW Chee Yoon (research)  
cheeyoon@kimengkl.com

**Philippines**

**ATR-Kim Eng Securities Inc.**  
17/F, Tower One & Exchange  
Plaza  
Ayala Triangle, Ayala Avenue  
Makati City, Philippines 1200

Tel: +63 2 849 8888  
Fax: +63 2 848 5738

Lorenzo ROXAS (sales)  
lorenzo\_roxas@atr.com.ph

Ed BANCOD (research)  
ed\_bancod@atr.com.ph

**Vietnam**

**Kim Eng Vietnam Securities Joint**  
**Stock Company**  
1st Floor, 255 Tran Hung Dao St.  
District 1  
Ho Chi Minh City, Vietnam

Tel : (84) 8 8386636  
Fax : (84) 8 8386639

DAO Minh Duc (sales)  
Duc.dao@kimeng.com.vn

LE Huy Hoang (research)  
hoang.le@kimeng.com.vn

**South Asia Sales Trading**


Connie TAN  
connie@kimeng.com  
Tel: +65 6333 5775  
US Toll Free: +1 866 406 7447

**North Asia Sales Trading**

Eddie LAU  
eddielau@kimeng.com.hk  
Tel: +852 2268 0800  
US Toll Free: +1 866 598 2267

**North America Sales Trading**

Warren KIM  
wkim@kesusa.com  
Tel: +1 212 688 8886



Ong Seng Yeow Director, Retail Research  
SINGAPORE EQUITY RESEARCH