

OKP Holdings

Eyeing more O&G deals

BUY

On target to meet S\$4.7m profit estimate in 1H07

OKP is expected to announce its 1H07 results sometime in August. We believe that the company will be able to meet our net profit forecast of S\$4.7m in 1H07 (50% of full year estimate), implying a seven-fold yoy jump underpinned by 59% growth in revenue and margin expansion from both Universal Terminal Project and a mega-oil project from an oil company. Current order book stands at \$156m, of which 68% would be recognised in FY07.

More local O&G projects in the pipeline

OKP has tendered for more Oil and Gas (O&G) civil engineering projects on Jurong Island. We believe that based on its strong financial strength, 41-year track record in road building and prior working experience with engineering and construction contractor, Foster Wheeler, the group stands a favourable chance of being awarded some of the contracts. Other competing bidders are mainly private companies. This contract order will likely be recognised in FY08. Civil engineering works typically account for c10-20% of total construction costs.

Overseas forays beckon

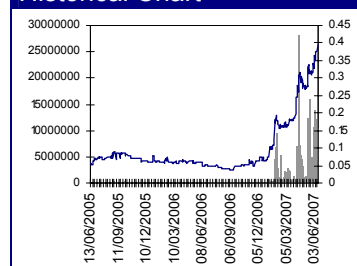
Middle East could potentially become a key growth market for OKP. Its 55/45 JV with Rotary Engineering, OKP (Oil and Gas) provides the platform for both companies to leverage on each other's expertise and jointly tender for overseas contracts. Rotary Engineering has already been pre-qualified by Saudi Aramco (Saudi's national oil company) to bid for jobs.

Maintain Buy, raised target price to S\$0.75

Despite the recent surge in OKP's share price, we anticipate a stronger deal flows from local and overseas forays buoyed by a robust O&G sector will continue to drive its share price performance. Other near term triggers include the S\$700m Jurong Cavern Phase 1 project with completion due in 2010 and potential Formula One contracts, which would fill its FY08 orderbook. We are raising our target price to S\$0.75 based on a 12x FY07 PE (10x FY07 non-cash PE). Peers are currently trading at 19x FY07 PE. Maintain BUY.

| | |
|-----------------|----------------|
| Price | \$0.605 |
| Target | \$0.75 |
| ST Index | 3561.54 |

Historical Chart



Stock Information

| | |
|--------------------------|--------|
| Bloomberg Ticker code | OKP SP |
| Market Cap (S\$m) | 90.7 |
| 52-week high (\$) | 0.61 |
| 52-week low (\$) | 0.06 |
| Shares issued (m) | 149.9 |
| 6m avg. daily vol (m) | 0.25 |
| Free float (%) | 23.1 |
| Major Shareholders (%) | |
| Or Kim Peow – Exec. Dir | (61.3) |
| Ang Beng Tin – Exec. Dir | (1.96) |

Key Indicators – FY06

| | |
|----------------------|----------|
| Gross Margin (%) | 14.3 |
| Operating Margin (%) | 7.5 |
| ROE (%) | 20.1 |
| ROA (%) | 10.0 |
| Current Ratio (x) | 1.6 |
| Net Debt/Equity (%) | Net Cash |
| Interest cover (x) | 52 |
| BVPS (S c) | 15.4 |
| P/B (x) | 2.8 |

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| Year End Dec | 2004 | 2005 | 2006 | 2007F |
|---------------------|------|--------|--------|-------|
| Sales (\$m) | 72.7 | 61.4 | 73.3 | 106.5 |
| Pretax profit (\$m) | 1.7 | 0.5 | 5.4 | 11.9 |
| Net profit (\$m) | 1.6 | 0.3 | 4.1 | 9.4 |
| EPS (cts) | 1.1 | 0.2 | 3.0 | 6.3 |
| EPS growth (%) | 11.0 | (81.7) | 1354.0 | 106.9 |
| PER (x) | 52.8 | 289.0 | 19.87 | 9.6 |
| Ex. Cash PER (x) | 51.5 | 500.9 | 19.4 | 7.5 |
| EV/EBITDA (x) | 23.8 | 38.9 | 11.2 | 5.2 |
| DPS (cts) | 0.5 | 0.0 | 1.5 | 3.0 |
| Yield (%) | 0.8 | - | 2.5 | 5.0 |

HALF-YEAR PERFORMANCE (\$m)

| 6 months to (\$ m) | Dec 06 | Dec 05 | % YoY | Jun 05 | %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% |
| Key ratios | | | | | |
| Operating Margin | 12% | -3% | nm | 2% | +1000b |
| Pretax Margin | 12% | -3% | nm | 2% | +1000b |
| Net Margin | 9% | -8% | nm | 2% | +700bp |

PROFIT & LOSS

| Year end Dec | 2004 | 2005 | 2006 | 2007F |
|-------------------------|-------------|-------------|-------------|--------------|
| Turnover | 72.7 | 61.4 | 73.3 | 106.5 |
| COGS | (67.3) | (57.8) | (62.8) | (88.7) |
| Gross Profit | 5.4 | 3.7 | 10.4 | 17.8 |
| Other Operating Income | 0.4 | 0.9 | 0.6 | 0.6 |
| Distribution Costs | 0.0 | 0.0 | 0.0 | 0.0 |
| Administration Expenses | (4.0) | (3.9) | (5.4) | (6.2) |
| Other Operating | (0.0) | (0.0) | (0.1) | (0.2) |
| Operating Profit | 1.9 | 0.6 | 5.5 | 12.0 |
| 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 |
| Pretax Profit | 1.7 | 0.5 | 5.4 | 11.9 |
| Taxation | (0.2) | (0.2) | (1.3) | (2.1) |
| Minority Interests | 0.0 | 0.0 | 0.1 | (0.3) |
| Net Profit | 1.6 | 0.3 | 4.1 | 9.4 |

| | | | | |
|--------------------------------|--------------|---------------|---------------|---------------|
| EPS (¢) | 1.1 | 0.2 | 3.0 | 6.3 |
| EPS Growth | 11.0% | -81.7% | 1354.0 | 106.9% |
| Gross DPS (¢) | 0.5 | 0.0 | 1.5 | 3.0 |
| Sales Growth | 28.1% | -15.5% | 19.2% | 45.4% |
| Gross Profit Growth | - | -32.7% | 185.0% | 70.5% |
| Operating Profit Growth | - | -67.7% | 786.8% | 119.8% |
| Pretax Profit Growth | - | -70.3% | 953.6% | 121.7% |
| Net Profit Growth | 11.0% | -81.7% | 1354.0 | 127.5% |
| Gross Margin | 7.5% | 6.0% | 14.3% | 16.7% |
| Operating Margin | 2.6% | 1.0% | 7.5% | 11.3% |
| Pretax Margin | 2.4% | 0.8% | 7.3% | 11.1% |
| Effective Tax Rate | 8.8% | 45.9% | 24.2% | 18.0% |
| Interest Cover (x) | 10.6 | 5.7 | 52.0 | 92.6 |
| Dividend Cover (x) | 2.3 | - | 2.0 | 2.1 |

SEGMENT BREAKDOWN

| Year end Dec | 2004 | 2005 | 2006 | 2007F |
|-------------------|------|------|------|-------|
| Road and Building | 54.1 | 48.8 | 53.3 | 79.0 |
| Road Maintenance | 18.6 | 12.7 | 20.2 | 27.5 |
| Revenue | 72.7 | 61.4 | 73.3 | 106.5 |
| Road and Building | 74% | 79% | 73% | 74% |
| Road Maintenance | 26% | 21% | 28% | 26% |
| % breakdown | 100% | 100% | 100% | 100% |
| Road and Building | 65% | -10% | 9% | 48% |
| Road Maintenance | -23% | -32% | 60% | 36% |
| Revenue Growth | 28% | -15% | 19% | 45% |

Sources: Company data, KE estimates

BALANCE SHEET (\$m)

| As at Dec | 2004 | 2005 | 2006 | 2007F |
|--------------------------------|--------------|---------------|---------------|---------------|
| Current Assets | 31.5 | 25.4 | 37.4 | 49.0 |
| Cash & ST Invt | 11.9 | 12.8 | 14.7 | 21.3 |
| Receivables | 14.3 | 10.0 | 21.5 | 23.4 |
| Construction contracts | 5.3 | 2.6 | 1.2 | 4.3 |
| Others | 0.0 | 0.0 | 0.0 | 0.0 |
| Fixed Assets | 7.2 | 6.7 | 7.8 | 10.7 |
| 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 |
| Total Assets | 41.3 | 34.7 | 47.8 | 62.2 |
| Current Liabilities | 20.8 | 14.8 | 23.2 | 28.3 |
| ST Borrowings | 1.9 | 0.6 | 0.8 | 0.7 |
| Payables | 18.4 | 14.1 | 20.9 | 26.2 |
| 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 |
| Total Liabilities | 22.4 | 16.1 | 25.0 | 29.8 |
| Share Capital | 13.6 | 13.6 | 15.0 | 17.2 |
| Reserves | 5.3 | 4.9 | 7.7 | 15.1 |
| Minority Interests | 0.0 | (0.0) | (0.0) | 0.0 |
| Total Equity + MI | 18.9 | 18.5 | 22.7 | 32.4 |
| Debtors Turnover (days) | 60 | 68 | 75 | 74 |
| Stock Turnover (days) | 22 | 23 | 10 | 9 |
| Creditors Turnover | 68 | 85 | 88 | 85 |
| Current Ratio (x) | 1.5 | 1.7 | 1.6 | 1.7 |
| Net Debt/Equity (x) | - | -60.9% | -54.5% | -60.1% |
| Total Debt/Equity (x) | 17.0% | 8.1% | 10.2% | 5.7% |
| NBV/Share (\$ c) | 5.27 | 12.36 | 15.41 | 20.47 |
| ROE | 8.5% | 1.5% | 20.1% | 34.3% |
| ROA | 4.1% | 0.8% | 10.0% | 17.1% |

CASH FLOW (\$m)

| Year end Dec | 2005 | 2006 | 2007F | 2008F |
|----------------------------|--------------|--------------|--------------|--------------|
| Pretax Profit | 1.7 | 0.5 | 5.4 | 11.9 |
| 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) | 0.3 |
| Operating Cash Flow | 4.1 | 4.1 | 3.6 | 11.6 |
| Net Capex | (1.8) | (0.9) | (2.7) | (4.4) |
| Associates & Investments | 0.1 | 0.1 | 0.0 | 0.0 |
| Change in Other Assets | 0.0 | 0.0 | (0.0) | 0.0 |
| Investing Cash Flow | (1.7) | (0.9) | (2.7) | (4.4) |
| 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 | (0.3) |
| Financing Cash Flow | (0.8) | (2.4) | 1.0 | (0.6) |
| Net Cash Flow | 1.5 | 0.8 | 1.9 | 6.6 |
| 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 | 21.3 |

Sources: Company data, KE estimates

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