

OKP

Earnings drivers to switch gears

Government contracts to drive earnings

We held a teleconference with OKP's management recently to get an update on their orderbook. As announced, OKP has been awarded 80% of the tendered LTA contracts totalling S\$71.4m. Margins for these contracts have increased substantially compared to a year ago due to the shortage of available contractors and the rising cost of raw materials such as steel and cement. We do not expect any compression of margins as OKP has secured fixed-price terms with their raw material suppliers for all of their contracts. Based on our estimates, outstanding orderbook stands at S\$193.5m of which 63% will be recognised this year.

Oil and Gas contracts to slow

In the update, management disclosed that OKP was unsuccessful in two of its three Oil and Gas tenders. These tenders relate to underground cabling works and civil engineering work for a joint project with Rotary. Consequently, this reduces our FY08 earnings estimates by 47% to \$10.7m as we had previously assumed them in our earnings. Replacement projects in filling the orderbook void is still a possibility given the buoyancy of the construction sector. Barring this, government civil projects will become the lead orderbook driver for FY08.

Rerating call from Buy to Outperform

Management will be releasing their 1st quarter results soon and we expect the 1Q08F performance to be significantly better viz. prior corresponding period because of the contribution from the Singapore Parallel Train project. We are rerating OKP from a Buy to an Outperform based on the new updates. We are using 9x FY08 PE, on par with Rotary's earnings multiple, which supports our model target price of \$0.65 from \$0.95 previously.

OUTPERFORM

Price	\$0.57
Target	\$0.65
ST Index	3161.33

Historical Chart



Stock Information

Bloomberg ticker code	OKP SP
Reuters ticker code	5CF.SI
Market Cap (S\$m)	85.4
52-week high (\$)	1.05
52-week low (\$)	0.42
Shares issued (m)	149.9
6m avg. daily vol (m)	1.9
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)	2.7

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Year End Dec	2004	2005	2006	2007	2008F
Sales (S\$m)	72.7	61.4	73.3	124.7	122.0
Pretax profit (S\$m)	1.7	0.5	5.4	14.1	13.9
Net profit (S\$m)	1.6	0.3	4.1	10.9	10.7
EPS (¢)	1.1	0.2	3.0	7.3	7.2
EPS growth (%)	11.0	(81.7)	1354.0	141.2	-2.6
PER (x)	49.7	272.2	18.7	7.8	8.0
Non Cash PER (x)	48.0	467.2	18.1	6.3	5.9
EV/EBITDA (x)	22.3	36.3	10.5	4.0	3.9
DPS (¢)	0.5	0.0	1.5	2.0	2.1
Yield (%)	0.9	0.0	2.6	3.5	3.8

Figure 1: Government projects awarded

ANTICIPATED PROJECTS	Clients	Commencement	Completion	Contract size (S\$m)	Contract Awarded
Contract ER 213 - Widening of CTE from AMK 1 to AMK 3	LTA	April-08	August-09	16.87	√
Contract ER 194 - Widening of Eunos Link and Jln Eunos	LTA	April-08	October-10	28.51	√
RP125 - Repairs and Upgrading of roads in Central Sector	LTA	April-08	April-10	12.70	√
RP126 - Painting and Cleansing of Road Related Facilities in the East	LTA	April-08	April-10	13.33	√
RP127 - Painting and Cleansing of Road Related Facilities in the West and Central Sectors	LTA	April-08	March-10	19.33	x

Source: LTA, KELive

PROFIT & LOSS (\$m)

Year end Dec	2004	2005	2006	2007	2008F
Turnover	72.7	61.4	73.3	124.7	122.0
COGS	(67.3)	(57.8)	(62.8)	(102.8)	(99.6)
Gross Profit	5.4	3.7	10.4	21.8	22.4
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)	(9.5)
Other Operating Expenses	(0.0)	(0.0)	(0.1)	(0.2)	(0.2)
Operating Profit	1.9	0.6	5.5	14.3	14.2
Interest Expense	(0.2)	(0.1)	(0.1)	(0.1)	(0.3)
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	13.9
Taxation	(0.2)	(0.2)	(1.3)	(3.1)	(3.1)
Minority Interests	0.0	0.0	0.1	(0.1)	(0.1)
Net Profit	1.6	0.3	4.1	10.9	10.7

EPS (¢)	1.1	0.2	3.0	7.3	7.2
EPS Growth	11.0%	-81.7%	1354.0%	141.2%	-2.6%
Gross DPS (¢)	0.5	0.0	1.5	2.0	2.1
Sales Growth	28.1%	-15.5%	19.2%	70.1%	-2.1%
Gross Profit Growth	-24.4%	-32.7%	185.0%	109.1%	2.6%
Operating Profit Growth	-33.6%	-67.7%	786.8%	161.0%	-0.5%
Pretax Profit Growth	-36.1%	-70.3%	953.6%	163.6%	-1.5%
Net Profit Growth	11.0%	-81.7%	1354.0%	163.3%	-1.8%
Gross Margin	7.5%	6.0%	14.3%	17.5%	18.4%
Operating Margin	2.6%	1.0%	7.5%	11.4%	11.6%
Pretax Margin	2.4%	0.8%	7.3%	11.3%	11.4%
Effective Tax Rate	8.8%	45.9%	24.2%	22.1%	22.0%
Interest Cover (x)	10.6	5.7	52.0	104.3	52.3
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	81.2
Road Maintenance	18.6	12.7	20.2	20.0	40.8
Revenue	72.7	61.4	73.3	124.7	122.0
Civil and Building Construction	74%	79%	73%	84%	67%
Road Maintenance	26%	21%	28%	16%	33%
% breakdown	100%	100%	100%	100%	100%
Civil and Building Construction	65%	-10%	9%	96%	-22%
Road Maintenance	-23%	-32%	60%	-1%	104%
Revenue Growth	28%	-15%	19%	70%	-2%

BALANCE SHEET (\$m)

As at Dec	2004	2005	2006	2007	2008F
Current Assets	31.5	25.4	37.6	63.2	59.4
Cash & ST Invt	11.9	12.8	14.7	24.9	25.0
Receivables	14.3	10.0	21.7	36.0	32.2
Construction contracts work-	5.3	2.6	1.2	1.8	2.2
Others	0.0	0.0	0.0	0.5	0.0
Fixed Assets	7.2	6.7	7.8	10.6	12.2
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	76.9	74.7
Current Liabilities	20.8	14.8	23.5	40.1	30.2
ST Borrowings	1.9	0.6	0.8	1.3	1.6
Payables	18.4	14.1	21.2	35.1	24.9
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
Total Liabilities	22.4	16.1	25.3	42.8	33.3
Share Capital	13.6	13.6	15.0	17.2	17.2
Reserves	5.3	4.9	7.7	16.4	24.1
Minority Interests	0.0	(0.0)	(0.0)	0.5	0.0
Total Equity + MI	18.9	18.5	22.7	34.2	41.4

Debtors Turnover (days)	60	68	75	83	100
Creditors Turnover (days)	68	85	71	64	82
Current Ratio (x)	1.5	1.7	1.6	1.6	2.0
Net Debt/Equity (x)	-46.1%	-60.9%	-54.5%	-62.6%	-49.4%
Total Debt/Equity (x)	17.0%	8.1%	10.2%	11.3%	11.0%
NBV/Share (\$)	5.27	12.36	15.41	21.32	26.48
ROE	8.5%	1.5%	20.1%	38.8%	28.6%
ROA	4.1%	0.8%	10.0%	17.5%	14.1%

CASH FLOW (\$m)

Year end Dec	2004	2005	2006	2007	2008F
Pretax Profit	1.7	0.5	5.4	14.1	13.9
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)	(3.1)
Change in Working Capital	1.7	2.6	(3.2)	(1.5)	(6.3)
Operating Cash Flow	4.1	4.1	3.7	13.5	6.9
Net Capex	(1.8)	(0.9)	(2.7)	(4.7)	(3.8)
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)	(5.3)	(3.8)
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	0.8
Dividends Paid	(0.6)	(0.7)	0.0	(2.2)	(3.0)
Others	0.0	0.0	0.1	0.5	(0.7)
Financing Cash Flow	(0.8)	(2.4)	0.9	2.0	(2.9)
Net Cash Flow	1.5	0.8	1.9	10.2	0.1
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	25.0

Source: Company data, KELive estimates

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