

Kingsmen Creatives

PRICE S\$ 0.15
Buy
Key Stock Statistics

NRA EPS Est. 2004	1.8
P/E on NRA Est. 2004	8.3
NRA EPS Est. 2005	2.6
P/E on NRA Est. 2005	5.7
Dividend/Share	0.75
Dividend yield (%)	5.0
Shs. Outstg. (m)	101.09
Market capitalisation \$m	15.16
Avg. daily vol (m)	0.02495
Book Value/Share	0.12
Shareholders:	
Benedict Soh	25.3%
Simon Ong	25.3%

Per share data

Year:	2001	2002	2003	2004F	2005F
Book Value (S\$)	na	0.08	0.12	0.12	0.14
Cash Flow (cts)	na	3.6	2.0	2.3	3.2
Earnings (cts)	na	4.1	1.8	1.8	2.6
Dividend (cts)	na	na	0.75	0.75	0.75
Payout Ratio	na	na	38.7%	33.3%	22.8%
PER (x)	na	3.6	8.4	8.3	5.7
P/CF (x)	na	4.2	7.7	6.4	4.7
P/BV (x)	na	2.0	1.2	1.3	1.0
Dividend yield %	na	na	5.0%	5.0%	5.0%
ROE (%)	na	55.0%	12.5%	15.3%	18.3%

P&L analysis (\$m)

	2001	2002	2003	2004F	2005F
Revenue	45.26	60.84	53.48	63.39	70.47
Operating Profit	1.93	4.42	2.54	2.82	3.74
Depreciation	0.17	0.33	0.44	0.54	0.59
Interest Expense	0.08	0.06	0.08	0.10	0.12
Pretax Profit	1.99	4.25	2.13	2.29	3.16
Effective tax rate	26.9%	18.9%	25.7%	22.3%	21.2%
Net Profit	1.45	3.30	1.53	1.82	2.66

Margins

Gross	28.9%	26.6%	27.8%	24.5%	25.2%
Operating	4.3%	7.3%	4.7%	4.4%	5.3%
Pre tax	4.4%	7.0%	4.0%	4.1%	5.2%
Net	3.2%	5.4%	2.9%	2.9%	3.8%

Kingsmen has a good start in FY05

- We surmised from our recent company visit that turnover and earnings in FY04 are unlikely to meet our earlier forecast and we are adjusting it downwards.
- The group has so far secured \$20m worth of contracts that signaled a good start for FY05.
- New customers include Harvey Norman, Osim, Esprit, Performance Motors and Borneo Motors.
- The planned acquisition of Kingsmen Greater China will take place in FY06.
- Kingsmen is one of Singex's partners that will manage a new exhibition and convention centre in Tianjin, China for 15 years under a contract worth \$120m. Singex is a unit of Temasek. The deal is at the MOU stage and details are not available.
- We still view the stock favourably because of its sound business operation and low PER of 5.7x on FY05 earnings. Dividend yield of 5% is also attractive.
- However, on account of the FY04 results that are likely to disappoint and the delay in the planned acquisition of Greater China affiliate, the stock price could experience short-term weakness.

Recent Developments

Following a recent visit to the company, we highlight some major developments:-

Group turnover in FY04 is likely to be higher because of recovery in the two main contributors, ie, Exhibition and Museums and Interiors divisions. Spending confidence returned during the 2H after an unusually long delay from the effects of SARS and Bird Flu affecting the regional economies.

Interiors experienced a particularly slow start in the 1H but a strong pick-up in the latter half. Although volume was higher, profit margin continued to decline because projects were compressed within a much shorter duration.

Newly acquired, Ascend Computer Rental, has not performed to expectation while the contribution of the 3 newly acquired Kingsmen Affiliates in Indochina, Japan and Korea, were within expectations.

Overall, turnover and earnings are unlikely to meet our earlier forecast and we are lowering it.

Prospects

The group has strong support from its regular customers who account for more than half of the group's turnover. The group is also building its new customer base that now includes Harvey Norman, Osim and Esprit.

The group started FY05 on a strong note with \$20m worth of contracts to date. This is partly due to huge influx of orders towards the end of FY04. It also signaled that the group would perform better in FY05.

The fast-growing Greater China affiliates, comprising Hong Kong, Taiwan and the PRC, are not likely to be incorporated into the group until FY06.

In the long term, we are positive about the group's business model. Its strength in the Exhibition and Museums and Interiors divisions lies in its extensive regional network providing high-end clients with total solutions in design, production and logistics. Its membership in the IE Singapore's International Partners program will also enable the group to benefit from the Government's effort to enhance Singapore's position in the global meetings, incentives, conventions and exhibitions industry.

Having successfully managed the autoshows program in Asia Pacific for Ford Motors for the last 5 years, the group recently secured exhibition and interior jobs from Performance Motors and Borneo Motors and potentially could do a similar program for these clients. In its efforts to establish a global brand, Kingsmen is participating in Euroshop, the largest shopfitting show in Europe in February.

Singex, a Temasek unit, recently announced that it would form a 51-49 joint venture with Tianjin TEDA Group that will manage a new exhibition and convention centre in Tianjin, China. The joint venture will manage the centre for 15 years under a contract worth \$120m. As one of Singex's 4 partners, Kingsmen, will provide its stand contracting services. Currently at the MOU stage, the financial impact of this deal is difficult to ascertain at the moment.

We still view the stock favourably because of its sound business operation and low PER of 5.7x on FY05 earnings. Dividend yield of 5% is also attractive. However, on account of the FY04 results that are likely to disappoint and the delay in the planned acquisition of Greater China affiliate, the stock price could experience short-term weakness.

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01/02/2005

Earnings Forecast (\$m)

Year ended 31 Dec	2001	2002	2003	2004F	2005F
Turnover	45.3	60.8	53.5	63.4	70.5
Cost of sales	(32.2)	(44.6)	(38.6)	(47.9)	(52.7)
Gross profit	13.1	16.2	14.9	15.5	17.8
Other income	1.1	0.5	1.0	0.9	1.0
Operating expenses	(12.4)	(12.6)	(13.8)	(14.2)	(15.6)
Financial expenses	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Financial income	0.3	0.2	0.1	0.1	0.1
Share of results of associates	-	-	-	0.3	0.5
Pretax profit	2.0	4.2	2.1	2.6	3.7
Tax	(0.5)	(0.8)	(0.5)	(0.6)	(0.8)
Aftertax profit	1.5	3.5	1.6	2.0	2.9
Minority interest	-	(0.2)	(0.1)	(0.2)	(0.3)
Net profit	1.5	3.3	1.5	1.8	2.7
EPS (cts)	na	4.1	1.8	1.8	2.6

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