

Kingsmen Creatives (NOT RATED)

Investor lunch takeaways: design designate

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- At a group lunch we hosted for Kingsmen, management shared with investors the company's business model, its growth strategy, competitive landscape, and outlook for the retail, convention, and thematic entertainment industries.
- Kingsmen has carved a niche in the retail and exhibition space, by offering design consultancy, project management, production and marketing communications services, largely on turnkey basis. Recent contract wins to support the Formula One Singapore Grand Prix and Universal Studios in Sentosa have boosted its order book as well as its regional/global profile.
- Management is optimistic about growth prospects and sees 10-15% YoY top line as achievable going forward, driven by participation in further theme park projects, other large scale convention events across the region, and trickle-down gains from retail roll-outs.
- At S\$0.61, the stock is trading at 8x P/E, based on consensus estimates. We note that Hong Kong-listed Pico Far East, at twice Kingsmen's revenues and operating profits, is trading at 12x.

Figure 1: Basic information on Kingsmen

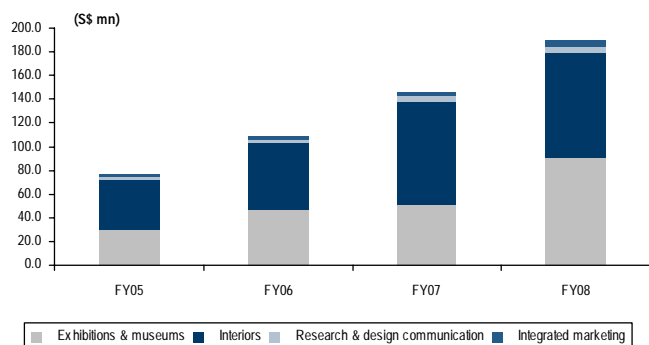
| Share price | Sh o/s (mn) | Mkt cap (US\$m) | FY08 P/E | FY08 P/B |
|-------------|-------------|-----------------|----------|----------|
| S\$0.61 | 194 | 84.0 | 8x | 2.7x |

Source: Bloomberg, Company data

One-stop shop

Kingsmen offers one-stop shop solutions to the retail, office, and exhibition industries. Its services range from design consultancy, project management, production to marketing communications. With a 33-year track record, Kingsmen counts well-known global mid-to-high-end brands like BMW, Burberry, and Esprit, among others, as key customers. According to management, more than 70% of Kingsmen's sales are generated from repeat customers. Kingsmen operates across 16 offices staffing 1,100 in the Asia Pacific and Middle East, from the core of its design/production hub in Singapore (about 300 headcount), and supported by 200,000 sq ft of manufacturing facilities in Johor, Malaysia. Kingsmen has call options to acquire the equity stakes of its affiliates across the region when they turn profitable, a strategy which allows for accelerated access into new markets, while reducing its risk threshold.

Figure 2: Revenue breakdown



Source: Company data

Order book

Kingsmen has secured a S\$25 mn five-year contract to support the Formula One Singapore Grand Prix, and won S\$74 mn in orders for Universal Studios (US) at Singapore's other integrated resort on Sentosa. Kingsmen had been awarded about S\$208 mn worth of contracts as at 12 August 2009, of which S\$188 mn would be recognised in FY09. Going forward, management aims to leverage on its experience in thematic activities to gain further traction on the next phase of the US rollout, as well as to bid for other theme park projects that are in the Asia and Middle East pipeline. Kingsmen is counting on other large scale events, like the Youth Olympic Games held in Singapore, and the World Expo 2010 in Shanghai, as well as other meetings, incentive travel, conventions and exhibitions (MICE) activities to drive sales growth. These should likely also generate a host of opportunities and demand for its interior works over the longer term, as more retail projects are being rolled out.

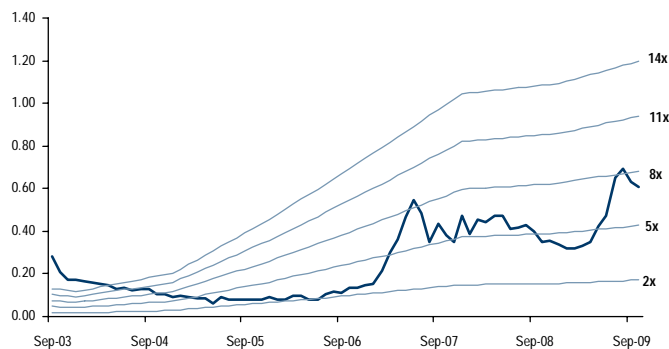
Competition

Kingsmen operates in a highly saturated, competitive market. Its local-listed rivals include Cityneon, Xpress Holdings and Nobel Design, which are mainly in interior fit-outs and design of offices, retail or residential properties. Regionally, Kingsmen competes with Hong Kong-listed Pico Far East in the events, exhibition, and trade shows space. However, the latter is about twice of Kingsmen's size, both in terms of revenues and operating profits.

8x FY09E P/E on consensus estimates

Kingsmen had a S\$20.5 mn net cash balance sheet at end of June 2009. Management introduced an interim dividend of S\$0.15/share in 2008, (total dividend payment was S\$0.30/share), and announced a similar interim dividend this year. In the absence of significant capex (historically 1-6% of sales), management is guiding for dividend payout of 40-50%, which implies 4-5% dividend yield. Management is optimistic about the company's long-term growth prospects and expects 10-15% YoY top-line growth over the next three to five years. At S\$0.61, the stock is trading at 8x, based on consensus estimates, compared with Pico Far East's 12x FY09E P/E multiple.

Figure 3: P/E band chart



Source: Company data, Bloomberg

Companies Mentioned *(Price as of 05 Oct 09)*

CityNeon Holdings Ltd (CITN SP, S\$0.515)
 Xpress Holdings Ltd (XPH SP, S\$0.08)
 Nobel Design Holdings Ltd (NBL SP, S\$0.085)
 Pico Far East Holdings Ltd (0752.HK, HK\$1.23)
 Kingsmen Creatives Ltd (KMEN SP, S\$0.61)

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