

Kingsmen Creatives

PRICE S\$0.13
Buy
Key Stock Statistics

NRA EPS Est. 2005	2.0
P/E on NRA Est. 2005	6.6
NRA EPS Est. 2006	2.4
P/E on NRA Est. 2006	5.46
Dividend/Share	0.70
Dividend yield (%)	5.4
Shs. Outstg. (m)	101.09
Market capitalisation \$m	13.14
Avg. daily vol (m)	0.0303
Book Value/Share	0.13
Shareholders:	
Benedict Soh	25.3%
Simon Ong	25.3%

Per share data

Year:	2002	2003	2004	2005F	2006F
Book Value (S\$)	0.08	0.12	0.13	0.15	0.17
Cash Flow (cts)	3.6	2.0	1.9	2.7	3.1
Earnings (cts)	4.1	1.8	1.4	2.0	2.4
Dividend (cts)	na	0.75	0.70	0.75	0.90
Payout Ratio	na	38.7%	40.0%	30.6%	30.3%
PER (x)	3.2	7.3	9.2	6.6	5.5
P/CF (x)	3.6	6.7	6.7	4.9	4.1
P/BV (x)	1.7	1.1	1.0	0.9	0.8
Dividend yield %	na	5.8%	5.4%	5.8%	6.9%
ROE (%)	55.0%	12.5%	10.8%	13.1%	13.7%

P&L analysis (\$m)

	2002	2003	2004	2005F	2006F
Revenue	60.84	53.48	63.26	69.10	75.45
Operating Profit	4.42	2.54	2.33	3.00	3.66
Depreciation	0.33	0.44	0.54	0.70	0.77
Interest Expense	0.06	0.08	0.08	0.08	0.10
Pretax Profit	4.25	2.13	2.01	2.75	3.43
Effective tax rate	18.9%	25.7%	21.2%	21.5%	21.3%
Net Profit	3.30	1.53	1.41	1.98	2.41

Margins

Gross	26.6%	27.8%	26.0%	27.6%	27.8%
Operating	7.3%	4.7%	3.7%	4.3%	4.8%
Pre tax	7.0%	4.0%	3.2%	4.0%	4.5%

Achieved strong orders by Sep 2005

- The group has achieved total contracts of \$60m at the end of 3Q05, of which 38% are related to Exhibition & Museum and 54% are retail interior projects.
- As these confirmed orders are expected to be recognized by the end of FY05 and the group is likely to secure more orders in the 4Q, we are confident that our projected revenue of \$69.1m for FY05 is achievable.
- It also announced the incorporation of Kingsmen Ooh-media, which is in the business of outdoor advertising and marketing promotions. It would hold 70% of the new subsidiary and initial investment cost will be funded through internal sources. With this subsidiary, the group is vertically integrated to deliver a "one-stop-shop" solution to its clients.
- We expect strong growth of 43% in net profit in FY05 as the group recovers from margin squeeze in the interiors division in the preceding year. We project a further 20% growth in net earnings in FY06, not including the impact of Greater China Affiliate, which is likely to be injected in the 2H06.
- Its dividend policy of maintaining a payout ratio of 30-50% will ensure a floor rate of 0.75 cts for the current year and an attractive yield of 5.8% at current share price. Maintain buy and target price of \$0.17.

Confirmed contracts of \$60m by Sep 05

The group has achieved confirmed contracts or sales of \$59.6m as at end-Sep 2005. This included the \$28.1m sales reported in the 1H of FY05.

In the Exhibition & Museums (E&M) division, major projects that will contribute in the 2H include the International Textile Machinery Exhibition, Sibos 2005 Exhibition, Lima Airshow in Langkawi, Korea Airshow, Yamaha event launches in Vietnam, Changi Chapel Museum restoration works, Genome Exhibition Gallery at the Singapore Science Centre, and a signage project for the National Library Board.

Interiors projects include works for clients such as DFS, Nokia, POSB, Robinsons Group, Esprit Retail, FJ Benjamin, Ceevee Luxury, P&G, Nuance, Burberry, Performance Motor, Regent Motor, as well as Suzuki in Vietnam.

Of the confirmed group revenue, 38% are related to E&M while 54% are retail interior projects.

Incorporates advertising and media subsidiary

The group announced the incorporation of Kingsmen Ooh-media in which it would own 70% while 3 individual investors would subscribe for the remaining 30%. The new subsidiary shall engage in the business of outdoor advertising and marketing promotions. This is not expected to have an impact on earnings in the current year but it will have synergistic benefit to its existing operation as the advertising and media function is outsourced to third parties. The paid-up capital cost of \$100,000 of Kingsmen Ooh-media was funded through internal resources and would not have an impact on earnings and assets of the group. The group has \$1.9m in cash and deposits and net cash of \$1.0m as at Jun 30, 2005.

Outlook

Strong orders especially for interiors and design jobs in the 3Q reflect a revival of confidence by the retail industry in Singapore as retailers reposition themselves for the anticipated increase in spending by consumers. As these confirmed orders are expected to be recognized by the end of FY05 and the group is likely to secure more orders in the 4Q, we are confident that our projected revenue of \$69.1m for FY05 can be attained.

The group is a major beneficiary of government efforts to attract high-spending tourists and convention visitors to Singapore for the planned development of the two Integrated Resorts. It has a good long-standing relationship with clients, including DFS, Robinson Group, Reed Exhibitions, the Dickson Group, The Hour Glass, FJ Benjamin and Burberry Asia.

We also expect the group's operation to expand further in FY06 by the injection of the Greater China Affiliate comprising Hong Kong, Taiwan, Shanghai and Beijing.

Its dividend policy of maintaining a payout ratio of 30-50% will ensure a floor rate of 0.75 cts for the current year and an attractive yield of 5.8% at current share price. Maintain buy.

Earnings Forecast (\$m)

Year ended 31 Dec	2002	2003	2004	2005F	2006F
Turnover	60.8	53.5	63.3	69.1	75.5
Cost of sales	(44.6)	(38.6)	(46.8)	(50.0)	(54.5)
Gross profit	16.2	14.9	16.5	19.1	21.0
Other income	0.5	1.0	0.8	1.1	1.2
Operating expenses	(12.6)	(13.8)	(15.5)	(17.8)	(19.3)
Profit from operations	4.1	2.1	1.8	2.3	2.9
Financial expenses	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Financial income	0.2	0.1	0.0	0.0	0.0
Profit before associates	4.3	2.1	1.7	2.2	2.8
Share of results of associates	-	-	0.3	0.5	0.6
Pretax profit	4.3	2.1	2.0	2.8	3.4
Tax	(0.8)	(0.6)	(0.4)	(0.6)	(0.7)
Aftertax profit	3.5	1.6	1.6	2.2	2.7
Minority interests	(0.2)	(0.1)	(0.2)	(0.2)	(0.3)
Net profit	3.3	1.5	1.4	2.0	2.4
EPS (cts)	4.1	1.8	1.4	2.0	2.4

Balance Sheet & Other Fin. Data (\$m)

December	2003	2004	Jun-05
Property, plant & equipment	2.3	2.4	2.9
Goodwill on consolidation	-	1.7	1.7
Associates	-	1.7	1.9
Other investments	0.4	0.4	0.4
Current assets	30.4	27.0	25.0
Current liabilities	19.8	18.9	17.5
Non-current liabilities	0.4	0.4	0.5
Shareholders' equity	12.3	13.1	13.1
Net debt	Net cash	Net cash	Net cash
Gearing	12.4%	3.5%	6.5%

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