

Kingsmen Creatives

PRICE S\$0.125
Buy
Key Stock Statistics

NRA EPS Est. 2005	2.0
P/E on NRA Est. 2005	6.4
NRA EPS Est. 2006	2.4
P/E on NRA Est. 2006	5.25
Dividend/Share	0.70
Dividend yield (%)	5.6
Shs. Outstg. (m)	101.09
Market capitalisation \$m	12.64
Avg. daily vol (m)	0.0277
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 (\$)	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	0.70	0.70
Payout Ratio	na	38.7%	40.0%	28.6%	23.5%
PER (x)	3.0	7.0	8.9	6.4	5.3
P/CF (x)	3.5	6.4	6.5	4.7	4.0
P/BV (x)	1.7	1.0	1.0	0.8	0.7
Dividend yield %	na	6.0%	5.6%	5.6%	5.6%
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%

Interim Results - Interiors division recovers

- The group achieved a 70% gain in net profit on a modest 6.5% increase in revenue for the 1H05.
- The improvement in earnings was attributable to stronger regional export by the Interiors division, new subsidiaries in Vietnam as well as higher contribution from associates.
- Revenue for the Exhibition and Museums division decreased due mainly to a major exhibition event, Asian Aerospace, which took place in the 1H04.
- The management has identified growth in its regional export business and will continue to focus on exports in the Asia-Pacific region, United States and Europe.
- It has achieved confirmed contract orders totaling \$47m as at 31 Jul. Our earnings forecasts are based on expectation of stronger performance in the 2H.
- Further injection of companies from Kingsmen Affiliates particularly the Greater China affiliates, comprising Hong Kong, Taiwan and the PRC, expected to take place in FY06, will provide a broader earnings base.
- We are maintaining our Buy rating considering its low forward PERs of 5-6x and attractive dividend yield of 5.6%. After discounting for its low liquidity and small capitalization, we believe the stock should trade at prospective PER of 7x or fair value of \$0.17.

Review of Interim 2005 Results

Results Highlights (\$m)

Half year ended 30 Jun	2005	2004	% chg
Turnover	28.1	26.4	+6.5
Cost of sales	(20.4)	(19.8)	+2.7
Gross profit	7.7	6.6	+18.0
Other income	0.5	0.4	+22.5
Operating expenses	(7.5)	(6.5)	+15.3
Profit from operations	0.7	0.4	+61.4
Financial expenses	0.0	0.0	+3.6
Financial income	0.0	0.0	-50.0
Profit before associates	0.7	0.4	+62.0
Share of results of associates	0.2	0.1	+114.3
Pretax profit	0.9	0.5	+71.1
Tax	(0.1)	(0.1)	+6.9
Aftertax profit	0.8	0.4	+81.0
Minority interests	(0.1)	0.0	+1020.0
Net profit	0.7	0.4	+69.8

Group revenue for the first half of FY05 increased by 6.5% to \$28.1m and the increase is mainly contributed by growth in its Interiors division as well as new acquisitions from Kingsmen Affiliates in Vietnam.

The group faced tough competition in the retail and office fit-out industry in the previous interim period due to long delays from the effects of SARS and Bird Flu affecting the regional economies. Spending confidence returned during the 2H04 and the group continued to achieve higher turnover in the 1H05. Major jobs include overseas fit-out projects for new travel retail shops in Guam and Okinawa, as well as several motor showrooms in Singapore.

Revenue for the Exhibition and Museums division decreased due mainly to a major exhibition event, Asian Aerospace, which took place in the 1H04. Major projects completed during the 1H05 include the completion of a Museum, retail and F&B project in Sentosa, as well as the set-up for several automobile event launches.

The Singapore market accounted for 56% of total revenue, followed by 13% from Malaysia, 18% from the rest of Asia and 10% from the United States.

GPM improved by 2.7% points from 24.8% to 27.5% as previous interim included some major exhibition events, which contributed to lower margins.

The hike in operating expenses was due to the inclusion of subsidiaries in Vietnam as well as higher expenses incurred in Singapore and Malaysia. Higher contribution from associates reflects improved performance of Ascend Computer Rental, Kingsmen Korea and Kingsmen Nikko, which were acquired in FY04.

Prospects

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

Outlook and Valuation

The operating environment in Singapore is expected to remain competitive, particularly for the Interiors division. Contribution from Singapore has been declining from 63% of total revenue in FY04 to 56% currently. Instead, the management has identified growth in its regional export business and will continue to focus on exports in the Asia-Pacific region, United States and Europe. Due to the crossover between its Exhibition and Interiors businesses, it will also continue to offer "roll-out programmes" to cater to the regional needs of its client. It has set up a subsidiary in Indonesia for designing and producing Exhibits and Interiors after experiencing encouraging growth there and is also confident of growth in the Vietnam market.

The group has achieved confirmed contract orders totaling \$47m as at 31 Jul 05 (including the \$28.1m sales reported in the 1H of FY 05). Our earnings forecasts are based on expectation of stronger performance in the 2H as historically, the group's latter half accounts for approximately 60% of revenue and earnings for the full year.

Further injection of companies from Kingsmen Affiliates particularly the Greater China affiliates, comprising Hong Kong, Taiwan and the PRC, scheduled to take place in FY06, will provide a broader earnings base.

We are maintaining our Buy rating in view its low forward PERs of 5-6x and attractive dividend yield of 5.6%. After discounting for its low liquidity and small capitalization, we believe the stock should trade at prospective PER of 7x and pitch fair value at \$0.17.

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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