

INTERIOR DESIGN – SINGAPORE

Kingsmen**Looks like the fairest of them all****Market perform**

Initiating coverage

The most reasonably priced in a sector dominated by expensive peers, Kingsmen's rise should be acquisition-driven, as local growth appears limited. We initiate coverage with a Market perform and 12-month price target of S\$0.29.

Share price **S\$0.26**Target price **S\$0.29**

Previous target price —

Expected return (12 months)

Capital growth	11.5%
Dividend yield	2.9%
Total return	14.4%
Required return	8.6%
Expected excess return	5.8%

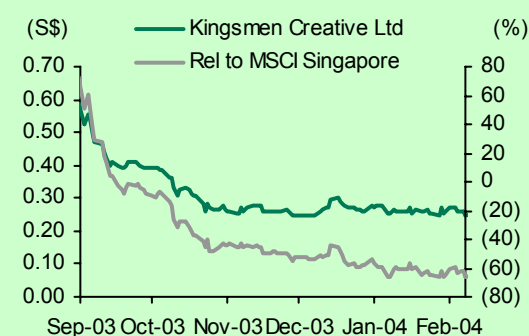
Market capitalisation	US\$15m
Average turnover	US\$10,000
Issued shares	100m
Bloomberg code	KMEN SP
Reuters code	KMEN.SI

Analyst**Adele Yeo**

BNP Paribas Peregrine Securities Pte Ltd

(65) 6438 9063

adele.yeo@asia.bnpparibas.com

Share price daily vs MSCI

Source: Bloomberg

Earnings adjustments

YE 31 Dec (S\$ m)	2004E	2005E	2006E
Prev net profit	—	—	—
Change (%)			
Prev EPS (S\$)	—	—	—
Change (%)			

Event

Initiating coverage (SGX-MAS incentive scheme).

Key points

- **Risks higher post-911, SARS, Iraq war:** The industry in which Kingsmen operates is vulnerable to external factors such as economic slowdowns, terrorist actions and outbreaks of war/epidemics. This may lead to cancellation/postponement of exhibitions or projects as its clients have shown, in adopting a more cautious approach to holding functions/events or embarking on new interior design projects.
- **Expect modest organic growth:** This comes from the main business segments as the local business appears to offer limited growth potential. We expect a decline in 2005's profit via organic growth alone because an event such as the 2004 Asian Aerospace (in which Kingsmen was the lead contractor) is a biennial affair. Being event/project-driven, this shortens the earnings visibility.
- **Growth excitement via M&A:** However, we see any significant excitement most probably coming inorganically via acquisitions of regional affiliates to grow the regional presence. We have not factored in significant developments on this front but will be watching this space with much interest.

Conclusion/Action

- **Lack of visibility limits upside:** Susceptibility to external forces is largely reflected in the share price. We see no near-term price catalyst. Expect share price performance to be within a narrow band for the time being but with potential growth via M&A. Thus, current ratings appear fair, translating into a target price of S\$0.29 on a 9x PE with a PEG of 1.0x (3-year CAGR 2004–07 of 9.8%).

Earnings forecasts

Year-end Dec	2002	2003	2004E	2005E	2006E
Net profit – reported (S\$ m)	3.3	1.5	3.2	2.9	3.6
EPS – reported (S\$)	0.041	0.018	0.032	0.029	0.036
EPS growth (%)	127	(57)	81	(12)	25
PE (x)	6.3	14.6	8.1	9.1	7.3
Dividend yield (%)	—	2.9	2.9	2.9	2.9
ROE (%)	55.0	16.7	24.3	20.0	24.0

Sources: Kingsmen Creative; BNP Paribas Peregrine estimates



(Please refer to the important notice on the back page)

Further analysis

Background

The one-stop design and production hub

□ **Positioned as 3-dimensional communication design and production group:** With subsidiaries in Singapore and Malaysia, the group specialises in the design and production of exhibits for exhibitions, museums, events, environmental graphics, tradeshows as well as for retail stores, eateries and corporate offices. It has built a strong network of 11 offices in Asia Pacific and the Middle East as well as global strategic alliances to service international clientele via business arrangements with Kingsmen affiliates.

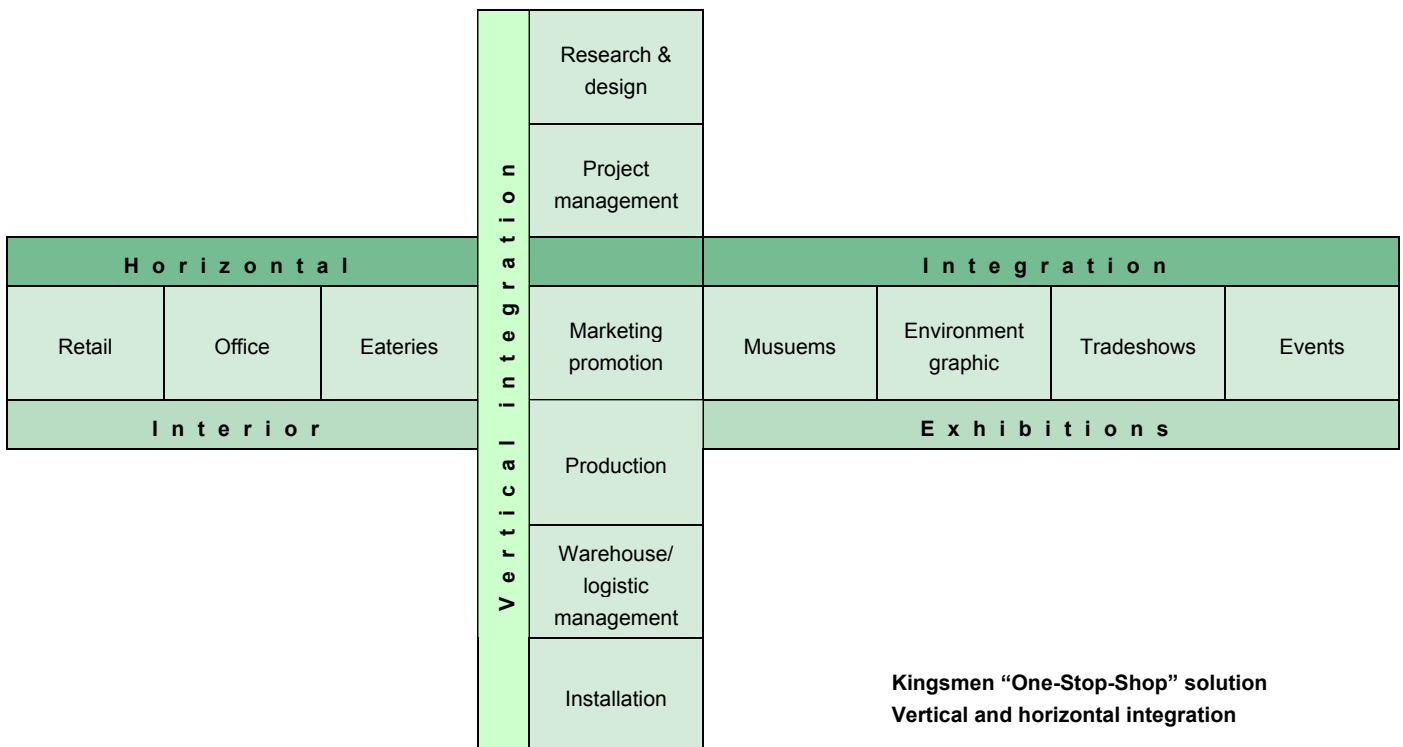
□ **Overseas presence:** Kingsmen is able to ride on the expanding operations of affiliates in Vietnam, Hong Kong, Beijing, Taiwan, Shanghai, Japan, South Korea, Middle East, India, and Indonesia (although not yet part of the group), and has the option to acquire them when they turn profitable.

A one-stop shop business model

Four principal business activities

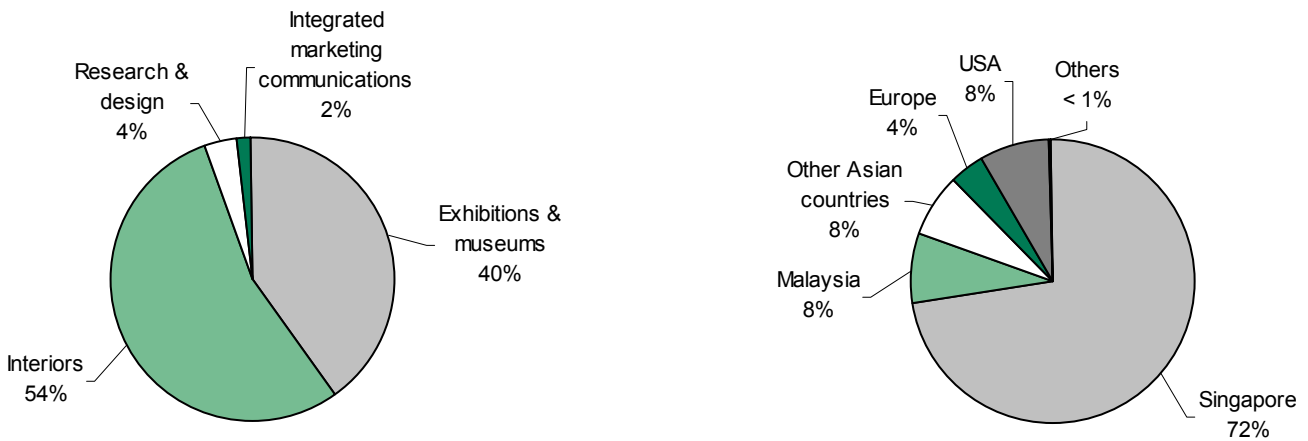
□ **Four business activities:** Exhibitions & museums, interiors, research & design, and integrated marketing communications through a comprehensive vertical and horizontal integration of their services.

Business solutions



Source: Kingsmen Creative IPO prospectus

Revenue breakdown (2003)



Source: Kingsmen Creative

Main contractor for recent Asian Aerospace show

□ **Exhibitions & museums a major revenue generator:** Catering to clients' diverse needs, the group provides a comprehensive range of services including design and construction of custom exhibits, systems-booth rental, show services, graphics, audio-visual/lightings, and logistics management. It offers temporary installations and displays for trade shows, promotional events and festivities, constructs interiors and displays for museums and visitor centres, as well as provides a wide range of value-added services from conceptualisation to production. Major events organised include Asian Aerospace Singapore (lead contractor), Dubai Airshow, Avalon Airshow Australia, Singapore Motorshow, ACI World Congress Singapore, Asian Banker Summit, and ABN @ Eurofinance Singapore, among many others.

Reputation for quality interior design and construction works carves niche in mid to up-market retail sector

□ **Reputed client base for interiors:** The interior segment has a longstanding base of mid- to up-market retail clients for which it designs and fits out stores, including well-known names as Robinson's, United Overseas Bank, DFS, Dickson Group, FJ Benjamin, Burberry Asia, and Shu Uemura. MNC clients enjoy overseas support from Kingsmen through its regional network and global connections.

Design capabilities are core strengths

□ **Research & design vital to business:** The team of about 30 designers in their well-equipped R&D design centre work alongside colleagues in the Exhibitions and Museums, and Interiors divisions to create three-dimensional communication design works to meet specific client needs. The designers possess experience and training in different areas, such as interior architecture, graphic, product, interactive, retail, exhibition and museum design.

Complements main businesses with value-added services to aid marketing and promotion

□ **One-stop shop:** Kingsmen provides integrated marketing communication services that aid marketing and promotion of clients' products and services such as traffic generation, visitor data collection, pre-show promotions and post-show analysis and reports, brand consultancy and event management. Such services complement its design and production of exhibits and interiors as they enable the group to provide value-added services by using the data and information collected to propose suitable three-dimensional communication design works to market and promote clients' products and services.

It also creates and manages brand promotion events that aim to engage and promote clients' products and services to target audiences. Kingsmen helps to set up clients' promotional goals of their marketing programmes and formulates suitable thematic or interactive events to achieve them. The extensive range of events completed include product launches, press events, public events and sponsorship events like the Singapore Street Festival, Singapore Food Festival, Philips Digitally Enhanced Cordless Telephone Launch and promotions of shopping malls like Sun Plaza, Wisma Atria and Novena Square in Singapore.

The industry and major players

Broadly reliant on the services and tourism industry

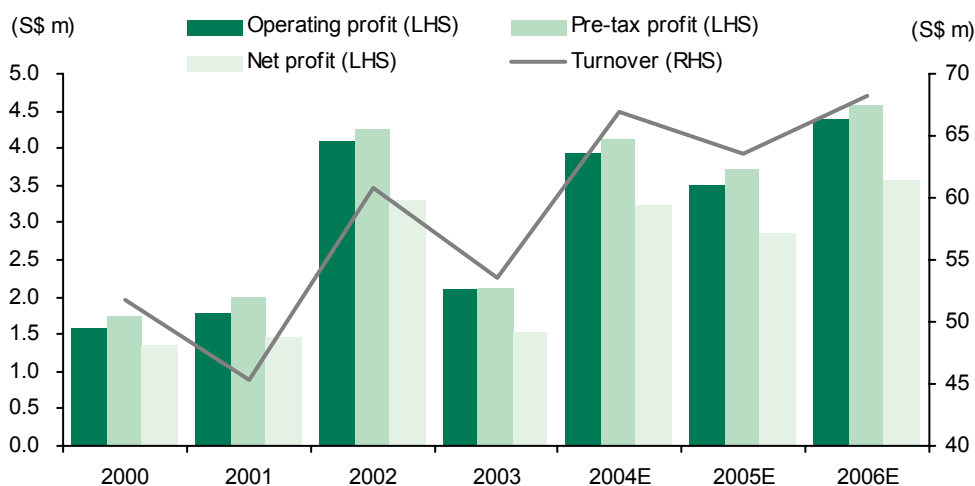
□ **Exhibitions & museums:** Singapore Tourism Board (STB) has a strategic tourism unit called the Meetings, Incentive travel, Conventions & Exhibitions or MICE, which aggressively seeks ways to stimulate interest in Singapore as a venue for such programmes. It presents the advantages of – and facilities for – staging meetings and special events in Singapore, promotes attendance in conventions and exhibitions scheduled here, coordinates with industry partners to ensure successful planning and staging of MICE.

And, Singapore Exhibition & Convention Bureau, the lead agency for the exhibition industry, values the exhibition industry's importance and has partnered industry players to launch an International Exhibition City (IEC) programme to develop Singapore into the premier location for international trade exhibitions. Kingsmen is an industry partner in the programme, in the designers and stand contractors category.

Difficult to identify local players because of their diversification

□ **Competition:** As Kingsmen operates in a highly saturated, competitive market, its main local competitors are small and many. Local listed rivals are mainly in interior fit-outs and design of offices, retail or residential properties such as ISG Asia, Design Studio, and Nobel Image. A Hong Kong-listed peer, Pico Far East Holdings, is a dominant player in the event & exhibitions segment in Asia.

Key profit movements



Source: BNP Paribas Peregrine estimates

Growth drivers and outlook

Potential catalyst for growth lies in the network

□ **Expanding network to tap opportunities from new markets:** Management seeks ways to expand the network of overseas subsidiaries and investment companies, using them as platforms to tap new markets. It intends to exercise options to acquire a stake in affiliates when they turn profitable.

Retains clients by providing single point of contact

□ **Leveraging on in-house skill sets:** To create integrated solutions to exhibitions and events, management is exploring possibilities of converging skills in branding, public relations, sponsorship, and promotions with its main skills in communications design and production. This adds weight to the one-stop shop, to attract and retain clients with a single contact point for a better coordinated marketing programme.

STB aggressively promoting Singapore as premier location

□ **STB's aggressive marketing through MICE:** Given STB's strong support in the exhibitions industry, Singapore is home to many of the top trade exhibitions in Asia-Pacific, e.g, Asian Aerospace is the leading air show in the region and one of the world's top three. With continuing promotional activities to promote Singapore as a premier location for international trade exhibitions, Kingsmen is well-poised as a leading industry partner in exhibits contracting.

Valuation

Local competitors either outliers or loss-making

□ **Difficult to establish direct comparables:** Given the nature of this highly fragmented business structure, it is difficult to establish direct comparables. However the various business segments are populated mostly by smaller and unlisted players, with local listed peers either outliers or operating at a loss. Thus, the closest regional indicator to Kingsmen is Hong Kong-listed Pico, currently trading around 23.5x EPS. On its current price, Kingsmen is the cheapest in the sector.

Valuation comparison to regional peers

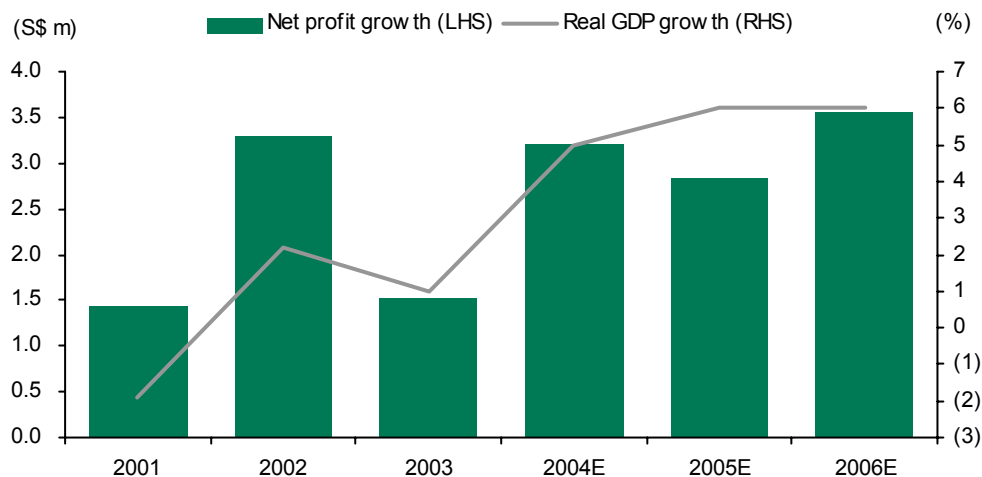
	Year-end	P/BV (x)	PE		Net profit (\$ m)	Market cap (\$ m)	ROE (%)	Pre-tax margin (%)	Total debt /equity (%)	Yield Turnover 2004E (\$ m)	Yield 2004E (%)	P/ EBITDA (x)
			2003 (x)	2004E (x)								
Kingsmen	Dec-03	1.8	14.6	8.1	1.5	26.0	16.7	7.0	9.9	53.4	2.9	4.7
Design Studio	Dec-03	1.1	70.0	na	0.9	22.1	16.4	6.4	67.0	43.9	—	2.6
ISG Asia	Dec-03	1.2	66.7	na	0.2	16.2	13.3	3.7	2.0	87.3	—	5.6
Nobel Design	Dec-03	1.1	—	na	(1.1)	14.3	(12.4)	(5.8)	49.9	19.2	—	—
Futuristic	Dec-03	2.1	—	na	(2.9)	9.5	(67.5)	(16.3)	145.1	24.5	—	—
Pico Far East	Oct-03	0.7	23.9	na	12.9	66.6	3.0	3.0	24.8	211.2	3.6	5.3
Average (\$\$)		1.6	43.8	—	1.9	25.8	(5.1)	(0.3)	49.8	73.3	1.1	4.5

Sources: Bloomberg; BNP Paribas Peregrine

Net profit appears to be tracking Singapore's GDP growth

□ **Tracking GDP growth:** According to our estimates, Kingsmen's last three years' net profit had tracked the GDP growth rate. But, 2005 should see earnings decline due to the lack of visibility into potential organic growth. However, the more profitable affiliates such as those in Japan, Korean and Vietnam are likely be profitable, hence, with its eagerness to expand, action is likely sooner rather than later. This could potentially increase growth, which we will re-look on such acquisition.

GDP growth



Source: BNP Paribas Peregrine estimates

Fair value at 9x 2004 earnings

□ **Forward PE ascribed at 9x 2004 earnings:** Using the PE, we have prudently estimate Kingsmen's 3-year CAGR over 2004–07 at 9.8%, and a PEG of 1.0x, arriving at a conservative 9x PE. Applying this to 2004's EPS, we estimate its fair value at S\$0.29, hence, our price target of S\$0.29.

Valuation summary

Method: PEG/PE valuation method	2004E
EPS (cts)	3.2
CAGR – 3 years (%)	9.8
PEG applied (x)	1.0
PE to be used	9.0
Value per share (\$\$)	0.29

Source: BNP Paribas Peregrine estimates

Financial summary - Kingsmen Creative

Adele Yeo

Rating					
Share price (SGD)	0.26				
Target price (SGD)	0.29				
Capital growth (%)	11.5				
Dividend yield (%)	2.9				
Total return (%)	14.4				
Required return (%)	8.6				
Expected excess return (%)	5.8				
Recommendation	Market Perform				
Market data					
Market cap (US\$m)	15				
Average turnover (US\$m)	0.0				
Free float (%)	20.0				
Bloomberg code	KMEN.SP				
Reuters code	KMEN.SI				
Year end	December				
Financial summary	2002A	2003A	2004E	2005E	2006E
(SGD m)					
Net profit - reported	3	2	3	3	4
Net profit - adjusted	3	2	3	3	4
EPS - diluted adjusted	0.04	0.02	0.03	0.03	0.04
EPS growth (%)	127.3	(56.8)	80.9	(11.6)	25.0
DPS	0.00	0.01	0.01	0.01	0.01
EBITDA margin (%)	7.3	4.7	6.8	6.9	8.1
ROIC (%)	214.6	27.0	44.6	52.8	58.1
Net debt / equity (%)	(55.9)	(32.1)	(66.6)	(66.4)	(59.4)
Valuation	2002A	2003A	2004E	2005E	2006E
PE - diluted adjusted (x)	6.3	14.6	8.1	9.1	7.3
Dividend yield (%)	0.0	2.9	2.9	2.9	2.9
P/CF (x)	6.9	neg	6.6	6.8	5.4
P/FCF (x)	223.7	neg	2.9	5.8	5.2
Price/book(x)	3.5	1.8	1.8	1.8	1.7
EV/EBITDA (x)	4.3	7.1	3.8	3.8	3.0
EV/Capital employed	5.6	2.1	3.1	3.1	2.5
Key assumptions	2002A	2003A	2004E	2005E	2006E
Risk free rate (%)					3.27
Equity risk premium (%)					5.36
WACC (%)					7.09
Sales by division	2002A	2003A	2004E	2005E	2006E
(SGD m)					
Exhibition & museums	25	21	30	29	31
Interiors	33	29	34	32	33
Research & design	2	2	2	2	2
Integrated marketing commr	1	1	1	1	1
Company description	Kingsmen Creative Ltd specialize in the design and production of exhibits for exhibitions, museums, visitor centres, events, promotional functions and festivities. The Company also designs and produces interiors for retail stores, eateries, corporate offices, showrooms, and other commercial interiors.				

Profit and Loss	2002A	2003A	2004E	2005E	2006E
(SGD m)					
Revenue	61	53	67	64	68
EBITDA	4	3	5	4	6
Depreciation	(0)	(0)	(1)	(1)	(1)
Goodwill amortisation	-	-	-	-	-
EBIT	4	2	4	4	4
Net financing costs	0	0	0	0	0
Associates (pre tax)	-	-	-	-	-
Provisions	-	-	-	-	-
Non recurring items	-	-	-	-	-
Profit before tax	4	2	4	4	5
Tax	(1)	(1)	(1)	(1)	(1)
Profit after tax	3	2	3	3	4
Associates & minorities	(0)	(0)	(0)	(0)	(0)
Preferred dividends	-	-	-	-	-
Other	-	-	-	-	-
Net profit - reported	3	2	3	3	4
Non recurring items (net)	-	-	-	-	-
Net profit - adjusted	3	2	3	3	4
EPS - reported	0.04	0.02	0.03	0.03	0.04
EPS - adjusted	0.04	0.02	0.03	0.03	0.04
EPS - diluted adjusted	0.04	0.02	0.03	0.03	0.04
DPS	0.00	0.01	0.01	0.01	0.01
Growth					
Revenue (%)	34.4	(12.1)	25.1	(5.0)	7.2
EBITDA (%)	129.3	(42.6)	79.1	(3.9)	26.3
EBIT (%)	132.2	(48.7)	87.1	(10.7)	24.9
EPS - diluted adj (%)	127.3	(56.8)	80.9	(11.6)	25.0
Operating performance					
EBITDA margin (%)	7.3	4.7	6.8	6.9	8.1
EBIT margin (%)	6.7	3.9	5.9	5.5	6.4
Net margin (%)	5.4	2.9	4.8	4.5	5.2
Interest cover (x)	na	na	na	na	na
ROE (%)	55.0	16.7	24.3	20.0	24.0
ROIC (%)	214.6	27.0	44.6	52.8	58.1
ROIC/WACC (x)	30.3	3.8	6.3	7.5	8.2
Dividend payout (%)	0.0	42.1	23.3	26.3	21.1
Balance sheet	2002A	2003A	2004E	2005E	2006E
(SGD m)					
Debtors and stock	24	25	24	23	24
Creditors	(24)	(19)	(23)	(24)	(27)
Other liabilities	(0)	(0)	(0)	(0)	(0)
Fixed assets	2	2	5	7	9
Investments	0	0	1	0	1
Intangibles	-	-	-	-	-
Capital employed	3	9	5	5	7
Net debt	(3)	(4)	(10)	(9)	(9)
Total equity	6	12	14	14	15
Minority interests	0	0	0	0	0
Net debt / equity (%)	(55.9)	(32.1)	(66.6)	(66.4)	(59.4)
Book value per share	0.08	0.14	0.14	0.14	0.15
Cash flow	2002A	2003A	2004E	2005E	2006E
(SGD m)					
Net income	3	2	3	3	4
Depreciation	0	0	1	1	1
Other non cash items	(1)	(3)	0	0	0
Recurent cashflow	3	(1)	4	4	5
Chg in working capital	(1)	(5)	6	2	1
Capex - maintenance	(2)	(1)	(1)	(1)	(1)
Free cash flow	0	(7)	9	5	5
Capex - new investment	-	-	-	-	-
Net acq./disposals	-	4	(3)	(2)	(2)
Dividends paid	-	-	-	-	-
Non recurring cash flows	0	0	-	-	-
Net cash flow	0	(3)	6	3	3
Equity finance	-	6	-	-	-
Debt finance	(0)	(1)	(0)	(2)	(3)
Movement in cash	-	2	6	0	(0)
Cash flow per share	0.04	(0.01)	0.04	0.04	0.05
Free cash flow per share	0.00	(0.08)	0.09	0.05	0.05

Sources: Kingsmen Creative; BNP Paribas Peregrine estimates

This report was produced by BNP Paribas Peregrine Securities Pte Ltd (“BNP Paribas Peregrine”) pursuant to its participation in the SGX-MAS Research Incentive Scheme (“Scheme”) jointly established by Singapore Exchange Limited and The Monetary Authority of Singapore. BNP Paribas Peregrine will be paid an annual sum of S\$60,000 under the Scheme.

This report was produced by a member company of the BNP Paribas Group (“Group”). This report is for the use of intended recipients only and may not be reproduced (in whole or in part) or delivered or transmitted to any other person without our prior written consent. By accepting this report, the recipient agrees to be bound by the terms and limitations set out herein.

The information contained in this report has been obtained from public sources believed to be reliable and the opinions contained herein are expressions of belief based on such information. No representation or warranty, express or implied, is made that such information or opinions is accurate, complete or verified and it should not be relied upon as such. This report does not constitute a prospectus or other offering document or an offer or solicitation to buy or sell any securities or other investments. Information and opinions contained in this report are published for reference of the recipients and are not to be relied upon as authoritative or without the recipient’s own independent verification or taken in substitution for the exercise of judgement by the recipient. All opinions contained herein constitute the views of the analyst(s) named in this report, they are subject to change without notice and are not intended to provide the sole basis of any evaluation of the subject securities and companies mentioned in this report. Any reference to past performance should not be taken as an indication of future performance. No member company of the Group accepts any liability whatsoever for any direct or consequential loss arising from any use of the materials contained in this report.

Member companies of the Group may make a market in, or may as principal or agent buy or sell in the open market or otherwise, the securities mentioned in this report or other derivative instruments based thereon. Member companies of the Group and/or their respective directors, officers and employees may have financial interests, including a long or short position, in the securities mentioned in this report and/or options, futures or other derivative instruments based thereon. A member company of the Group may from time to time perform or provide investment banking, underwriting or other banking or financial services and/or advice (including acting as sponsor, financial adviser, underwriter or lender) to the companies or in relation to the securities mentioned in this report.

The analyst(s) named in this report certifies that (i) all views expressed in this report accurately reflect the personal views of the analyst(s) with regard to any and all of the subject securities and companies mentioned in this report and (ii) no part of the compensation of the analyst(s) was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed herein.

This report is prepared for professional investors and is being distributed in Hong Kong by BNP Paribas Peregrine Securities Limited to persons whose business involves the acquisition, disposal or holding of securities, whether as principal or agent. BNP Paribas Peregrine Securities Limited, a subsidiary of BNP Paribas, is regulated by the Securities and Futures Commission for the conduct of dealing in securities and advising on securities. This report is being distributed in the United Kingdom by BNP Paribas London Branch to persons who are not private customers as defined under U.K. securities regulations. BNP Paribas London Branch, a branch of BNP Paribas, is regulated by the Financial Services Authority for the conduct of its designated investment business in the U.K. This report is being distributed in the United States by BNP Paribas Securities Corporation to U.S. Persons as defined under U.S. securities regulations or by a member of the Group that is not registered as a U.S. broker-dealer to major U.S. institutional investors. BNP Paribas Securities Corporation, a subsidiary of BNP Paribas, is a broker-dealer registered with the Securities and Exchange Commission. BNP Paribas Securities Corporation accepts responsibility for the contents of this report only where the report has been distributed by it to U.S. recipients.

Distribution or publication of this report in any other places to persons which are not permitted under the applicable laws or regulations of such places is strictly prohibited.

© 2004 BNP Paribas Peregrine