

INTERIOR DESIGN – SINGAPORE

Kingsmen

Disappointing half year

Market perform

Unchanged

Disappointing 1H04 results due to higher-than-expected cost of sales. Expect 2004's net profit to be lower than our original estimate, and growth to be modest. Low earnings visibility. Still Market perform with target price down to S\$0.22.

Share price **S\$0.195**Target price **S\$0.220**

Previous target price S\$0.29

Expected return (12 months)

Capital growth 12.8%

Dividend yield 3.8%

Total return 16.7%

Required return 8.7%

Expected excess return 8.0%

Market capitalisation US\$11.3m

Average turnover US\$2,000

Issued shares 100m

Bloomberg code KMEN SP

Reuters code KEMN.SI

Analyst

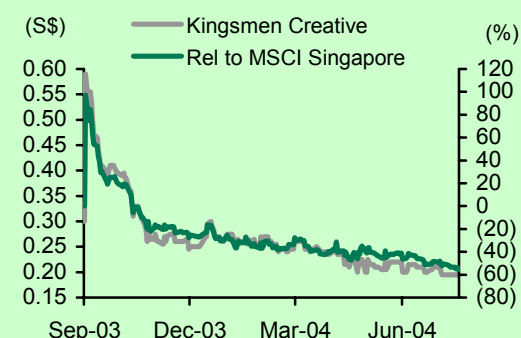
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Share price daily vs MSCI



Earnings adjustments

YE 31 Dec (S\$ m)	2004E	2005E	2006E
Prev net profit	3.2	2.9	3.6
Change (%)	(37.4)	(14.8)	(12.5)
Prev EPS (cents)	3.2	2.9	3.6
Change (%)	(37.4)	(14.8)	(12.5)

Event: SGX-MAS Research Incentive Scheme

1H04 results announcements.

Key points

- **S\$0.42m net profit lower than expected:** While revenue came in roughly in line with expectation, the higher-than-expected cost of sales lowered the group's margins. Cost of sales as a percentage of revenue rose to 75.1% (from 69.3% in 1H03), faster than expected.
- **Revised down 2004–06 net profit:** The higher cost of sales and other operating costs in 1H04 prompted us to review the group's margins for 2H04 and 2005. While we project cost of sales-revenue improving, there is a risk of costs remaining high.
- **Expect modest organic growth:** Growth in 2006 could be stronger than 2005's due largely to a major event – the biennial Asian Aerospace, which Kingsmen can go for. Being event/project-driven, Kingsmen's earnings visibility is shortened.
- **Growth via M&A:** Any stronger growth will have to come inorganically via acquisition of regional affiliates as the group aims to grow its regional presence. It proposes to acquire the affiliates in Indochina, Korea, and Japan, which are due to be completed in August. We expect contributions to start at the earliest from 4Q04 and 2005.

Conclusion

- **Lack of visibility limits upside:** The current share price fairly values the stock at around 11x PE. The key risks are: 1) intense competition; 2) low earnings visibility – as it is event-driven; and 3) its business is very much affected by external forces – economic growth, etc. We see no near-term price catalyst. Maintain Market perform.

Earnings forecasts

Year-end Dec	2002	2003	2004E	2005E	2006E
Net profit (S\$ m)	3.3	1.5	2.0	2.4	3.1
EPS (cents)	4.1	1.8	2.0	2.4	3.1
EPS growth (%)	127	(57)	13	20	28
PE (x)	4.7	10.9	9.7	8.0	6.3
Yield (%)	—	3.8	3.8	3.8	3.8
ROE (%)	55.0	16.7	15.6	16.9	19.0

Sources: Kingsmen Creatives; BNP Paribas Peregrine estimates



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

Further analysis

1H04 result summary and earnings estimates

Year-end 31 Dec	1H03	1H04	Change	2004E	2005E	2006E
	(S\$ m)	(S\$ m)	(y-y %)	(S\$ m)	(S\$ m)	(S\$ m)
Revenue	18.6	26.4	42.0	65.4	65.7	70.4
Cost of goods sold	(12.9)	(19.8)	54.0	(48.6)	(48.0)	(51.2)
Other operating expenses	(5.5)	(6.1)	11.3	(14.3)	(14.8)	(15.3)
Operating profit	0.2	0.4	105.5	2.5	3.0	3.8
Net interest cost	(0.0)	(0.0)	(54.3)	(0.1)	(0.1)	(0.1)
Associates & JVs	—	0.1	—	0.2	0.2	0.3
Pre-tax profit	0.2	0.5	185.8	2.6	3.1	4.0
Income tax	(0.0)	(0.1)	405.0	(0.5)	(0.6)	(0.8)
Minority interest	0.0	(0.0)	—	(0.1)	(0.1)	(0.1)
Net profit	0.2	0.4	96.7	2.0	2.4	3.1

Sources: Kingsmen Creatives; BNP Paribas Peregrine estimates

Valuation summary

Method: PEG/PE valuation method	2003	2004E	2005E	2006E
EPS (cents)	1.8	2.0	2.4	3.1
CAGR – 3 yrs (%)		20.5		
PE to be used (x)		11.0		
Value/share (S\$)		0.22		

Source: BNP Paribas Peregrine estimates

Financial summary - Kingsmen Creatives

Vincent Yek

Rating					
Share price (SGD)	0.195				
Target price (SGD)	0.22				
Capital growth (%)	12.8				
Dividend yield (%)	3.8				
Total return (%)	16.7				
Required return (%)	8.7				
Expected excess return (%)	8.0				
Recommendation	Market Perform				
Market data					
Market cap (US\$m)	11.3				
Average turnover (US\$m)	0.002				
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	2	2	3
Net profit - adjusted	3	2	2	2	3
EPS - diluted adjusted	0.04	0.02	0.02	0.02	0.03
EPS growth (%)	127.3	(56.8)	13.2	20.4	28.3
DPS	0.00	0.01	0.01	0.01	0.01
EBITDA margin (%)	7.3	4.7	4.9	6.1	7.6
ROIC (%)	214.6	27.0	23.9	25.1	28.9
Net debt / equity (%)	(55.9)	(32.1)	(43.1)	(41.2)	(59.6)
Valuation	2002A	2003A	2004E	2005E	2006E
PE - diluted adjusted (x)	4.7	10.9	9.7	8.0	6.3
Dividend yield (%)	0.0	3.8	3.8	3.8	3.8
P/CF (x)	5.2	neg	6.3	7.5	8.0
P/FCF (x)	167.7	neg	4.1	7.6	3.1
Price/book(x)	2.6	1.4	1.4	1.3	1.1
EV/EBITDA (x)	3.2	4.9	3.9	3.2	2.0
EV/Capital employed	4.0	1.4	1.5	1.2	0.8
Key assumptions	2002A	2003A	2004E	2005E	2006E
Risk free rate (%)					3.54
Equity risk premium (%)					5.14
WACC (%)					7.23
Sales by division	2002A	2003A	2004E	2005E	2006E
(SGD m)					
Exhibition & museums	25	21	30	29	31
Interiors	33	29	32	34	35
Research & design	2	2	2	2	3
Integrated marketing commr	1	1	1	1	1
Company description	Kingsmen Creatives specialises 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	65	66	70
EBITDA	4	3	3	4	5
Depreciation	(0)	(0)	(1)	(1)	(1)
Goodwill amortisation	-	-	-	-	-
EBIT	4	2	3	3	4
Net financing costs	0	0	(0)	(0)	(0)
Associates (pre tax)	-	-	0	0	0
Provisions	-	-	-	-	-
Non recurring items	-	-	-	-	-
Profit before tax	4	2	3	3	4
Tax	(1)	(1)	(1)	(1)	(1)
Profit after tax	3	2	2	3	3
Associates & minorities	(0)	(0)	(0)	(0)	(0)
Preferred dividends	-	-	-	-	-
Other	-	-	-	-	-
Net profit - reported	3	2	2	2	3
Non recurring items (net)	-	-	-	-	-
Net profit - adjusted	3	2	2	2	3
EPS - reported	0.04	0.02	0.02	0.02	0.03
EPS - adjusted	0.04	0.02	0.02	0.02	0.03
EPS - diluted adjusted	0.04	0.02	0.02	0.02	0.03
DPS	0.00	0.01	0.01	0.01	0.01
Growth					
Revenue (%)	34.4	(12.1)	22.4	0.4	7.2
EBITDA (%)	129.3	(42.6)	25.2	26.1	32.8
EBIT (%)	132.2	(48.7)	20.2	18.0	29.4
EPS - diluted adj (%)	127.3	(56.8)	13.2	20.4	28.3
Operating performance					
EBITDA margin (%)	7.3	4.7	4.9	6.1	7.6
EBIT margin (%)	6.7	3.9	3.9	4.5	5.5
Net margin (%)	5.4	2.9	3.1	3.7	4.4
Interest cover (x)	na	na	na	na	na
ROE (%)	55.0	16.7	15.6	16.9	19.0
ROIC (%)	214.6	27.0	23.9	25.1	28.9
ROIC/WACC (x)	29.7	3.7	3.3	3.5	4.0
Dividend payout (%)	0.0	42.1	37.2	30.9	24.1
Balance sheet	2002A	2003A	2004E	2005E	2006E
(SGD m)					
Debtors and stock	24	25	24	24	25
Creditors	(24)	(19)	(20)	(20)	(25)
Other liabilities	(0)	(0)	(0)	(0)	(0)
Fixed assets	2	2	4	7	10
Investments	0	0	1	1	2
Intangibles	-	-	-	-	-
Capital employed	3	9	9	11	12
Net debt	(3)	(4)	(6)	(6)	(10)
Total equity	6	12	14	15	18
Minority interests	0	0	0	0	0
Net debt / equity (%)	(55.9)	(32.1)	(43.1)	(41.2)	(59.6)
Book value per share	0.08	0.14	0.14	0.15	0.18
Cash flow	2002A	2003A	2004E	2005E	2006E
(SGD m)					
Net income	3	2	2	2	3
Depreciation	0	0	1	1	1
Other adjustments	(1)	(3)	0	(1)	(2)
Recurrent cashflow	3	(1)	3	3	2
Chg in working capital	(1)	(5)	3	1	5
Capex - maintenance	(2)	(1)	(2)	(2)	(2)
Free cash flow	0	(7)	5	3	6
Capex - new investment	-	-	-	-	-
Net acq./disposals	-	4	(3)	(2)	(2)
Dividends paid	-	-	-	-	-
Non recurring cash flows	0	0	-	-	-
Net cash flow	0	(3)	2	1	4
Equity finance	-	6	-	-	-
Debt finance	(0)	(1)	(0)	(0)	(0)
Movement in cash	-	2	2	1	4
Cash flow per share	0.04	(0.01)	0.03	0.03	0.02
Free cash flow per share	0.00	(0.08)	0.05	0.03	0.06

Sources: Kingsmen Creatives; Bloomberg; BNP Paribas Peregrine estimates

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