

# Kingsmen Creatives

**FY04 Interim Results**

10/08/2004

**PRICE S\$ 0.195**
**Buy**
**Key Stock Statistics**

NRA EPS Est. 2004	3.0
P/E on NRA Est. 2004	6.5
NRA EPS Est. 2005	4.5
P/E on NRA Est. 2005	4.3
Dividend/Share	0.75
Dividend yield (%)	3.9
Shs. Outstg. (m)	101.09
Market capitalisation \$m	19.7
Avg. daily vol (m)	0.0393
Book Value/Share	0.12
Shareholders:	
Benedict Soh	25.3%
Simon Ong	25.3%

**Per share data**

Year:	2001	2002	2003	2004F	2005F
Book Value (S\$)	na	0.08	0.12	0.13	0.17
Cash Flow (cts)	na	3.6	2.0	3.5	5.1
Earnings (cts)	na	4.1	1.8	3.0	4.5
Dividend (cts)	na	na	0.75	0.75	1.0
Payout Ratio	na	na	38.7%	20.0%	17.7%
PER (x)	na	4.7	10.9	6.5	4.3
P/CF (x)	na	5.4	10.0	5.5	3.8
P/BV (x)	na	2.6	1.6	1.5	1.1
Dividend yield %	na	na	3.9%	3.9%	5.1%
ROE (%)	na	55.0%	12.5%	23.1%	25.9%

**P&L analysis (\$m)**

	2001	2002	2003	2004F	2005F
Revenue	45.26	60.84	53.48	71.01	82.27
Operating Profit	1.93	4.42	2.54	4.39	6.13
Depreciation	0.17	0.33	0.44	0.54	0.59
Interest Expense	0.08	0.06	0.08	0.10	0.12
Pretax Profit	1.99	4.25	2.13	4.24	6.22
Effective tax rate	26.9%	18.9%	25.7%	21.5%	20.8%
Net Profit	1.45	3.30	1.53	3.03	4.57

**Margins**

Gross	28.9%	26.6%	27.8%	26.0%	25.9%
Operating	4.3%	7.3%	4.7%	6.2%	7.4%
Pre tax	4.4%	7.0%	4.0%	6.0%	7.6%
Net	3.2%	5.4%	2.9%	4.3%	5.6%

**FY 2004 Interim Results - strong growth in Exhibition and Museums division:**

- Group's net profit doubled to \$0.42m on the back of a 42% growth in revenue.
- Strong growth was driven by the recovery in the Exhibition and Museums division that completed several high-profile projects and events.
- Overall gross profit margin declined because some of the major exhibition events completed during the 1H of FY04 contributed higher absolute gross profit but lower margin.
- Interiors division experienced a traditionally slower first half and new associate, Ascend Computer, made a small maiden contribution to the group.
- Looking ahead, the Exhibition and Museums division will continue to see increased work from museums and visitor centres in principal markets, Singapore and Malaysia. It will also benefit from the Singapore Tourism Board's plan to beef up exhibition infrastructure in Singapore by the end of next year and its efforts to draw convention organizers and world organizations to Singapore.
- The proposed acquisition of the three Kingsmen Affiliates - Indochina, Japan and Korea - will be included in final results retrospectively from Jan 04.
- We maintain our buy rating. The stock is trading at low forward PE of 4.3-6.5x.

## Review of FY04 Interim Results

Net profit nearly doubled from \$0.21m to \$0.42m during the first half of FY04 on the back of a 42% increase in revenue. The improvement in performance was mainly contributed by the recovery in the Exhibition and Museums (E&M) division.

Completed E&M projects include Asian Aerospace 2004, Communique Asia 2004, Tax Free Asia Pacific 2004 and the STB stand for the ITB Berlin 2004, which together accounted for a total of \$7.6m in revenue. The group has also completed Museum projects totaling \$2.9m for Science Centre Atrium, Fort Siloso and Merlion at Sentosa, and NTUC Awareness Centre.

Revenue from Interiors division, which is traditionally slow in the first half of the year, decreased. Some of the jobs that were completed during the period were for DFS Venture, Adidas Singapore, Esprit Retail, John Little, Gucci, Burberry, as well as various office fit out projects. These jobs contributed \$5.1m in revenue.

Gross profit margin in the current interim declined to 24.8% compared to 30.7% in the previous corresponding period. Projects completed during the current period were larger scale and therefore contributed higher absolute gross profit but lower gross profit margin as against those in the previous period.

The group's 40% associate, Ascend Computer Rental Pte Ltd, made a maiden contribution of \$0.1m. The revenue and earnings from Kingsmen Indochina and the group's effective share of profits from Kingsmen Nikko and Korea has not been included in the results.

## Results Highlights (\$m)

Half year ended 30 Jun	Actual Proforma		% chg
	2004	2003	
Turnover	26.4	18.6	42.0
Cost of sales	(19.8)	(12.9)	54.0
Gross profit	6.6	5.7	14.9
Other income	0.4	0.5	-10.9
Operating expenses	(6.5)	(6.0)	9.6
Selling & marketing expenses	(0.1)	(0.2)	-45.1
Depreciation	(0.2)	(0.2)	13.5
Rental of premises	(0.6)	(0.5)	3.3
Directors' remuneration & fees	(1.1)	(0.8)	29.0
Staff costs	(3.3)	(3.1)	5.8
General & admin expenses	(1.1)	(0.9)	20.7
Others	(0.1)	(0.3)	
Financial expenses	-	-	
Financial income	-	-	
Share of results of associates	0.1	-	
Pretax profit	0.5	0.2	185.8
Tax	(0.1)	-	
Aftertax profit	0.4	0.2	158.9
Minority interest	-	-	
Net profit	0.4	0.2	96.7

## Prospects

The E&M division is expected to benefit from continual trend of increasing museums and visitor centres in Singapore and Malaysia.

Generally interior fit-outs for the retail sector take place during the 2H of the year. Currently it has secured an airport lounge project and an airport restaurant project and various contracts from the Coffee Club, Esprit Retail, Marks & Spencer and Pertama Merchandising totaling \$5.5m for the 2H.

Confirmed contracts achieved as at the end of Jul 04 totaled \$41.6m (including the \$26.4m sales for the 1H of FY04).

# Kingsmen Creatives

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Group earnings will also be enhanced by its proposed acquisition of the three Kingsmen Affiliates which is expected to be completed by end August and will be included retrospectively from Jan 04. The group will be able to leverage on a strategic regional presence and tap the potential of the Exhibitions and Interiors industry in Japan, Korea and Vietnam. Other Kingsmen Affiliates in the pipeline include Hong Kong, Beijing, Taiwan, Shanghai, Middle East, India and Indonesia.

As a major player in the E&M area in Singapore and the region, Kingsmen Creatives will in the long run benefit from Singapore's aim to be the world's Number One convention city. Singapore plans to beef up its exhibition infrastructure by expanding total exhibition space from 60,000 sq m to 100,000 sq m by the end of next year. Singapore Tourism Board (STB) is making major efforts to attract international convention organizers with its \$15m "Make It Singapore" campaign and to coax more world organizations to move their headquarters to Singapore, which can then be their conventions venue.

We are maintaining the revenue estimates for FYs 04 and 05 but adjusting the net profit slightly down to account for lower gross profit margins.

Despite the revisions, earnings figures in the next 2 years are still strong. We are maintaining our buy rating.

## Earnings Forecast (\$m)

Year ended 31 Dec	2001	2002	2003	2004F	2005F
Turnover	45.3	60.8	53.5	71.0	82.3
Cost of sales	(32.2)	(44.6)	(38.6)	(52.6)	(61.0)
Gross profit	13.1	16.2	14.9	18.4	21.3
Other income	1.1	0.5	1.0	0.9	1.0
Operating expenses	(12.4)	(12.6)	(13.8)	(15.5)	(16.8)
Financial expenses	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Financial income	0.3	0.2	0.1	0.1	0.1
Share of results of associates	-	-	-	0.4	0.7
Pretax profit	2.0	4.2	2.1	4.2	6.2
Tax	(0.5)	(0.8)	(0.5)	(0.9)	(1.3)
Aftertax profit	1.5	3.5	1.6	3.3	4.9
Minority interest	-	(0.2)	(0.1)	(0.3)	(0.4)
Net profit	1.5	3.3	1.5	3.0	4.5
EPS (cts) -wt	na	4.13	1.78	2.99	4.52
EPS (cts) - adj. *				2.99	4.52
EPS (cts) - fully-diluted #				2.92	4.40

\* adjusted for proposed issue of 1.09m new shares at \$0.21 in consideration for 10% interest in Kingsmen Indochina.

# assumed the 3.3m share options (0.2m with subscription price of \$0.25 and 3.1m at \$0.21) granted under the Share Option Scheme are exercised.

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