

INTERIOR DESIGN – SINGAPORE

Kingsmen

Crowded in the Lion City

Market perform

Unchanged

Intense competition in Singapore has driven group margins down while demand is not picking up sufficiently to sustain growth. We expect 2004–05 net profit to disappoint. Fair value for the stock is S\$0.175 based on 9x 2005 PE.

Share price **S\$0.160**Target price **S\$0.175**

Previous target price S\$0.22

Expected return (12 months)

Capital growth	6.1%
Dividend yield	4.5%
Total return	10.6%
Required return	7.9%
Expected excess return	2.8%

Market capitalisation	US\$10.0m
Average turnover	US\$1,000
Issued shares	101m
Bloomberg code	KMEN SP
Reuters code	KMEN.SI

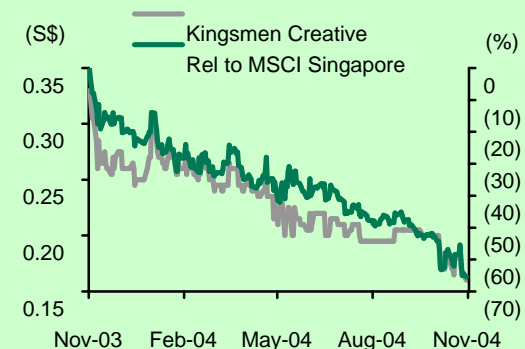
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Share price daily vs MSCI**Earnings adjustments**

YE 31 Dec (S\$ m)	2004E	2005E	2006E
Prev net profit	2.0	2.4	3.1
Change (%)	(14.4)	(18.0)	(15.5)
Prev EPS (cents)	2.0	2.4	3.1
Change (%)	(15.2)	(18.8)	(16.4)

Event: SGX-MAS Research Incentive Scheme

Company visit.

Key points

□ **Competition intensifies:** Kingsmen Creative's operating environment is saturated and highly price competitive. We see group margins declining faster than initially expected as the lack of demand for corporate interior designing contracts in Singapore forces the company to accept lower prices.

□ **Blue chip client expansion unclear:** Kingsmen specialises in the design and fabrication of exhibitions and retail outlets. Clients such as The Body Shop, Robinsons and Marks & Spencers may not invest heavily in new outlets should consumer demand ease on slower economic growth next year.

□ **To fall back on strong regional growth:** The group is still able to produce both top-line and net profit growth due to the consolidation of its Vietnam subsidiary. Kingsmen plans to acquire more of its profitable affiliates such as those in both Japan and Korea in 2005. This should increase its growth potential, which we will factor in on any acquisition announcement.

□ **Revising down 2004 net profit:** We revise down our 2004 net profit to \$1.7m (-14%) due to lower-than-expected demand at its interior division, which will drag group profits down.

Conclusion

□ **Conclusion:** Susceptibility to competition and decreasing margins in its main business segment are largely reflected in the share price. We have derived Kingsmen's fair value at S\$0.175 based on 9x 2005 PE. We see no near-term price catalyst and expect the share price to stay within these levels in the short-to-medium term.

Valuation statistics – 2005E

EPS (cts)	1.95
CAGR – 3 years (%)	13.3
PEG applied (x)	0.68
PE to be used (x)	9.0
Value per share (S\$)	0.175

Source: BNP Paribas Peregrine estimates

Earnings forecasts

Year-end Dec	2002	2003	2004E	2005E	2006E
Net profit (S\$ m)	3.3	1.5	1.7	2.0	2.6
EPS (cents)	4.1	1.8	1.7	1.95	2.6
EPS growth (%)	127	(57)	(5)	15	33
PE (x)	4.0	9.3	9.7	8.5	6.4
Yield (%)	0.0	4.5	4.5	4.5	4.5
ROE (%)	55.0	16.7	13.4	14.2	17.0

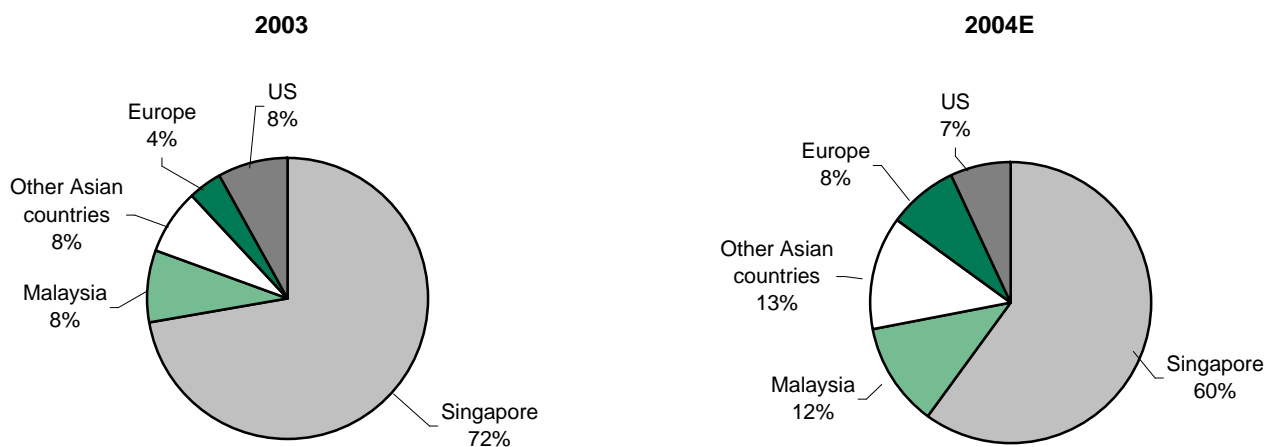
Sources: Kingsmen; Bloomberg; BNP Paribas Peregrine estimates



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

Further analysis

Geographical breakdown



Source: Kingsmen, BNP Paribas Peregrine estimates

Kingsmen still the cheapest based on PE

	P/ book (x)	PE		Net profit (S\$ m)	Market cap (S\$ m)	ROE (%)	Pre-tax margin (%)	Total debt /equity (%)	Turnover (S\$ m)	2004E yield (%)	P/ EBITDA (x)
		2003 (x)	2004E (x)								
Kingsmen	1.2	9.3	9.7	1.7	9.7	13.4	7.0	(23.0)	65.1	4.5	0.1
Design Studio	2.3	—	46.5	0.9	14.7	5.5	2.7	47.1	43.9	—	2.6
ISG Asia	0.8	42.1	(4.4)	(2.5)	6.5	(16.2)	3.7	(55.8)	62.7	0.0	(0.0)
Nobel Design	0.9	—	—	(1.1)	11.0	(9.2)	(7.5)	41.6	19.2	—	—
Futuristic	3.4	—	—	(2.9)	7.8	(90.9)	(9.0)	536.4	24.5	—	—
Pico Far East	0.7	—	24.4	12.9	68.3	3.0	3.0	24.8	211.1	3.6	5.3
Average (S\$)	1.6	43.8	—	1.9	65.7	(5.1)	(0.3)	49.8	199.9	1.1	4.5

Sources: Bloomberg, BNP Paribas Peregrine estimates

Financial summary - Kingsmen Creatives

Hudson Wong

Rating					
Share price (SGD)	0.160				
Target price (SGD)	0.175				
Capital growth (%)	9.4				
Dividend yield (%)	4.7				
Total return (%)	14.1				
Required return (%)	7.9				
Expected excess return (%)	6.2				
Recommendation	Market Perform				
Market data					
Market cap (US\$m)	10				
Average turnover (US\$m)	0.0				
Free float (%)	19.6				
Bloomberg code	KMEN.SP				
Reuters code	KMEN.SI				
Year end	December				
Financial summary	2002A	2003A	2004E	2005E	2006E
(SGD m)					
Net profit - reported	3.3	1.5	1.7	2.0	2.6
Net profit - adjusted	3.3	1.5	1.7	2.0	2.6
EPS - diluted adjusted	0.0	0.0	0.0	0.0	0.0
EPS growth (%)	127.3	(56.8)	(4.9)	14.9	33.1
DPS	-	0.0	0.0	0.0	0.0
EBITDA margin (%)	7.3	4.7	4.0	4.5	5.7
ROIC (%)	214.6	27.0	18.9	20.9	35.2
Net debt / equity (%)	(55.9)	(32.1)	(23.0)	(39.3)	(63.6)
Valuation	2002A	2003A	2004E	2005E	2006E
PE - diluted adjusted (x)	3.9	9.0	9.4	8.2	6.2
Dividend yield (%)	0.0	4.7	4.7	4.7	4.7
P/CF (x)	3.1	9.1	7.3	5.9	4.3
P/FCF (x)	10.6	neg	12.9	3.2	2.0
Price/book(x)	2.1	1.1	1.2	1.1	1.0
EV/EBITDA (x)	2.5	3.8	4.1	3.5	1.8
EV/Capital employed	3.1	1.1	1.2	1.1	0.9
Key assumptions	2002A	2003A	2004E	2005E	2006E
Risk free rate (%)	3.2				
Equity risk premium (%)	4.65				
WACC (%)	7.67				
Sales by division	2002A	2003A	2004E	2005E	2006E
(SGD m)					
Exhibition & museums	25	21	33	35	38
Interiors	33	29	27	29	31
Research & design	2	2	3	3	3
Integrated marketing comm	1	1	2	2	2
Company description					
Kingsmen Creatives 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	60.8	53.5	65.1	69.0	73.8
EBITDA	4.4	2.5	2.6	3.1	4.2
Depreciation	(0.3)	(0.4)	(0.5)	(0.7)	(1.0)
Goodwill amortisation	-	-	-	-	-
EBIT	4.1	2.1	2.1	2.4	3.2
Net financing costs	0.2	0.0	(0.1)	(0.1)	(0.1)
Associates (pre tax)	-	-	0.2	0.2	0.3
Provisions	-	-	-	-	-
Non recurring items	-	-	-	-	-
Profit before tax	4.2	2.1	2.2	2.5	3.4
Tax	(0.8)	(0.5)	(0.4)	(0.5)	(0.7)
Profit after tax	3.4	1.6	1.8	2.0	2.7
Associates & minorities	(0.1)	(0.1)	(0.0)	(0.1)	(0.1)
Preferred dividends	-	-	-	-	-
Other	-	-	-	-	-
Net profit - reported	3.3	1.5	1.7	2.0	2.6
Non recurring items (net)	-	-	-	-	-
Net profit - adjusted	3.3	1.5	1.7	2.0	2.6
EPS - reported	0.0	0.0	0.0	0.0	0.0
EPS - adjusted	0.0	0.0	0.0	0.0	0.0
EPS - diluted adjusted	0.0	0.0	0.0	0.0	0.0
DPS	-	0.0	0.0	0.0	0.0
Growth					
Revenue (%)	34.4	(12.1)	21.7	6.0	7.0
EBITDA (%)	129.3	(42.6)	2.2	19.7	36.2
EBIT (%)	132.2	(48.7)	0.6	11.9	34.7
EPS - diluted adj (%)	127.3	(56.8)	(4.9)	14.9	33.1
Operating performance					
EBITDA margin (%)	7.3	4.7	4.0	4.5	5.7
EBIT margin (%)	6.7	3.9	3.2	3.4	4.3
Net margin (%)	5.4	2.9	2.6	2.9	3.5
Interest cover (x)	na	na	21.1	33.8	39.8
ROE (%)	55.0	16.7	13.4	14.2	17.0
ROIC (%)	214.6	27.0	18.9	20.9	35.2
ROIC/WACC (x)	28.0	3.5	2.5	2.7	4.6
Dividend payout (%)	-	42.1	44.2	38.5	28.9
Balance sheet	2002A	2003A	2004E	2005E	2006E
(SGD m)					
Debtors and stock	24.3	24.9	23.9	24.8	26.1
Creditors	(23.7)	(18.6)	(17.1)	(21.4)	(28.1)
Other liabilities	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Fixed assets	2.1	2.3	3.2	5.0	7.0
Investments	0.5	0.4	0.8	1.0	1.6
Intangibles	-	-	-	-	-
Capital employed	3.1	8.8	10.7	9.3	6.4
Net debt	(3.4)	(3.9)	(3.0)	(5.7)	(10.4)
Total equity	6.0	12.3	13.2	14.4	16.3
Minority interests	0.4	0.5	0.5	0.5	0.5
Net debt / equity (%)	(55.9)	(32.1)	(23.0)	(39.3)	(63.6)
Book value per share	0.1	0.1	0.1	0.1	0.2
Cash flow	2002A	2003A	2004E	2005E	2006E
(SGD m)					
Net income	3.3	1.5	1.7	2.0	2.6
Depreciation	0.3	0.4	0.5	0.7	1.0
Other non cash items	0.5	(0.5)	0.0	0.0	0.1
Recurrent cashflow	4.1	1.5	2.2	2.7	3.7
Chg in working capital	(1.2)	(5.1)	(0.5)	3.4	5.4
Capex - maintenance	(1.7)	(0.6)	(0.5)	(1.0)	(1.0)
Free cash flow	1.2	(4.2)	1.3	5.1	8.2
Capex - new investment	-	-	-	-	-
Net acq./disposals	-	3.6	(3.0)	(2.0)	(2.0)
Dividends paid	-	-	-	-	-
Non recurring cash flows	0.0	0.0	-	-	-
Net cash flow	1.2	(0.6)	(1.7)	3.1	6.2
Equity finance	-	6.0	-	-	-
Debt finance	(0.1)	(1.3)	(0.1)	(0.1)	(0.0)
Movement in cash	1.1	4.1	(1.8)	3.0	6.1
Cash flow per share	0.1	0.0	0.0	0.0	0.0
Free cash flow per share	0.0	(0.0)	0.0	0.1	0.1

Sources: Kingsmen, Bloomberg, BNP Paribas Peregrine estimates

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