

INTERIOR DESIGN – SINGAPORE

Kingsmen**Market perform**

Unchanged

To depend on regional operations in 2005

The one-off S\$5.5m Asian aerospace contract that yielded low margins in 2004 will reduce comparative 2005 revenue but profit levels should be maintained. With weak local operations, regional operations will be the driver for profitability.

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

Previous target price S\$0.175

Expected return (12 months)

Capital growth	9.4%
Dividend yield	4.7%
Total return	14.1%
Required return	7.9%
Expected excess return	6.2%

Market capitalisation	US\$10.0m
Average turnover	US\$824
Issued shares	101m
Bloomberg code	KMEN SP
Reuters code	KMEN.SI

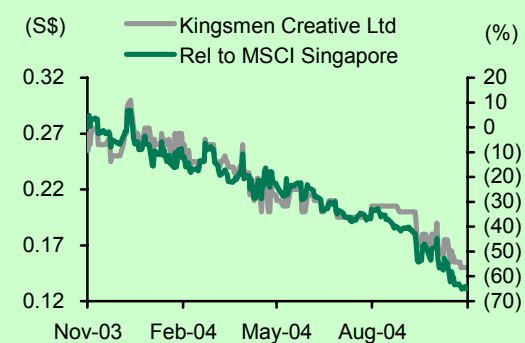
Analyst**Hudson Wong**

BNP Paribas Peregrine Securities Pte Ltd

Co. Reg. No. 199801966C

(65) 6438 9063

hudson.wong@asia.bnpparibas.com

Share price daily vs MSCI**Earnings adjustments**

YE 31 Dec (S\$ m)	2004E	2005E	2006E
Prev net profit	—	—	2.60
Change (%)			(15.3)
Prev EPS (cents)	—	—	2.60
Change (%)			(16.0)

Event: SGX-MAS Research Incentive Scheme

Update and 2005 outlook.

Key points

- **Lower 2005 revenue but higher net profit:** Regional interior design operator Kingsmen was the lead contractor for the 2004 Singapore aerospace show and recorded the contract revenue in 2004. This project yielded very low margins, lifting revenue but not profit. We do not anticipate any more of these huge unprofitable lumpy contracts and, although we expect revenue to drop, net profit should grow marginally as contributions from Vietnam and new regional offices start to kick in
- **Regional growth the key:** We expect the Singapore operations to come in weaker in 2005 due to the country's slower economic growth of 5.6% compared to forecast 2004 GDP growth of 8.3%. Growth, if any will, be dependent on regional operations in Vietnam, Greater China, Malaysia and Europe
- **Competition is already intense:** Although the rate of profit margin decline has stabilised, competition for new contracts remains intense. If domestic demand fails to outperform Singapore's slower economic growth in 2005, Kingsmen could face fierce price competition from its competitors, which would hurt both growth and profitability
- **Long-term growth looks neutral:** Although forecast earnings growth is positive (2005 EPS growth estimated at 15.4%), in the long run we expect flat operating margins due to rising competition in the regional interior design market. Uncertainty also remains over Kingsmen's ability to maintain its dominance in new growth areas such as Vietnam and Greater China given an increasing number of new players moving into those profitable spaces.
- **Conclusion:** The 2005 earnings will come in significantly lower should regional offices such as Vietnam and China suffer adverse shocks. At this juncture, we maintain our 12-month target price of S\$0.175 backed by 9.6x 2004 PE and ROE of 13.2%.

Earnings forecasts

Year-end Dec	2002	2003	2004E	2005E	2006E
Net profit (S\$ m)	3.30	1.53	1.69	1.95	2.20
EPS (cents)	4.13	1.78	1.67	1.93	2.18
EPS growth (%)	127	(57)	(6)	15	13
PE (x)	3.9	9.0	9.6	8.3	7.3
Yield (%)	—	4.7	4.7	4.7	4.7
ROE (%)	55.0	16.7	13.2	14.1	14.6

Sources: Kingsmen Creatives; Bloomberg; BNP Paribas Peregrine estimates



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

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\$)	824				
Free float (%)	20				
Bloomberg code	KMEN.SP				
Reuters code	KMEN.SI				
Year end	December				
Financial summary	2002A	2003A	2004E	2005E	2006E
(SGD m)					
Net profit - reported	3.30	1.53	1.69	1.95	2.20
Net profit - adjusted	3.30	1.53	1.69	1.95	2.20
EPS - diluted adjusted	0.041	0.018	0.017	0.019	0.022
EPS growth (%)	127.25	(56.83)	(6.30)	15.37	13.32
DPS	-	0.01	0.01	0.01	0.01
EBITDA margin (%)	7.26	4.75	3.93	4.46	5.02
ROIC (%)	214.56	26.99	18.65	20.76	30.75
Net debt / equity (%)	(55.87)	(32.09)	(23.02)	(39.30)	(65.12)
Valuation	2002A	2003A	2004E	2005E	2006E
PE - diluted adjusted (x)	3.88	8.98	9.58	8.31	7.33
Dividend yield (%)	0.00	4.69	4.69	4.69	4.69
P/CF (x)	3.10	9.05	7.34	5.92	4.89
P/FCF (x)	10.59	neg	12.89	3.18	1.99
Price/book(x)	2.13	1.12	1.22	1.12	1.02
EV/EBITDA (x)	2.52	3.79	4.18	3.57	2.07
EV/Capital employed	3.05	1.11	1.23	1.14	0.97
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	24.81	21.43	33.33	35.32	37.80
Interiors	32.72	29.17	26.98	28.60	30.60
Research & design	2.09	2.01	2.61	2.76	2.96
Integrated marketing comm	1.22	0.87	2.18	2.31	2.47
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	60.84	53.48	65.09	69.00	73.83
EBITDA	4.42	2.54	2.56	3.07	3.71
Depreciation	(0.33)	(0.44)	(0.48)	(0.74)	(1.04)
Goodwill amortisation	-	-	-	-	-
EBIT	4.09	2.10	2.08	2.34	2.67
Net financing costs	0.16	0.03	(0.10)	(0.07)	(0.08)
Associates (pre tax)	-	-	0.18	0.23	0.25
Provisions	-	-	-	-	-
Non recurring items	-	-	-	-	-
Profit before tax	4.25	2.13	2.16	2.50	2.84
Tax	(0.80)	(0.55)	(0.43)	(0.50)	(0.57)
Profit after tax	3.45	1.58	1.73	2.00	2.27
Associates & minorities	(0.15)	(0.05)	(0.04)	(0.05)	(0.06)
Preferred dividends	-	-	-	-	-
Other	-	-	-	-	-
Net profit - reported	3.30	1.53	1.69	1.95	2.20
Non recurring items (net)	-	-	-	-	-
Net profit - adjusted	3.30	1.53	1.69	1.95	2.20
EPS - reported	0.041	0.018	0.017	0.019	0.022
EPS - adjusted	0.041	0.018	0.017	0.019	0.022
EPS - diluted adjusted	0.041	0.018	0.017	0.019	0.022
DPS	-	0.008	0.008	0.008	0.008
Growth					
Revenue (%)	34.43	(12.10)	21.72	6.00	7.00
EBITDA (%)	129.27	(42.55)	0.89	20.09	20.58
EBIT (%)	132.24	(48.73)	(0.91)	12.35	14.13
EPS - diluted adj (%)	127.25	(56.83)	(6.30)	15.37	13.32
Operating performance					
EBITDA margin (%)	7.26	4.75	3.93	4.46	5.02
EBIT margin (%)	6.73	3.92	3.19	3.39	3.61
Net margin (%)	5.43	2.86	2.59	2.82	2.99
Interest cover (x)	na	na	20.79	33.37	33.32
ROE (%)	55.03	16.73	13.24	14.10	14.59
ROIC (%)	214.56	26.99	18.65	20.76	30.75
ROIC/WACC (x)	27.97	3.52	2.43	2.71	4.01
Dividend payout (%)	-	42.09	44.92	38.94	34.36
Balance sheet	2002A	2003A	2004E	2005E	2006E
(SGD m)					
Debtors and stock	24.31	24.93	23.90	24.79	26.13
Creditors	(23.75)	(18.63)	(17.15)	(21.39)	(28.56)
Other liabilities	(0.05)	(0.10)	(0.11)	(0.12)	(0.14)
Fixed assets	2.10	2.25	3.22	4.95	6.99
Investments	0.48	0.38	0.80	1.00	1.60
Intangibles	-	-	-	-	-
Capital employed	3.10	8.83	10.66	9.23	6.02
Net debt	(3.35)	(3.94)	(3.04)	(5.65)	(10.31)
Total equity	6.00	12.27	13.20	14.39	15.84
Minority interests	0.45	0.50	0.50	0.50	0.50
Net debt / equity (%)	(55.87)	(32.09)	(23.02)	(39.30)	(65.12)
Book value per share	0.08	0.14	0.13	0.14	0.16
Cash flow	2002A	2003A	2004E	2005E	2006E
(SGD m)					
Net income	3.30	1.53	1.69	1.95	2.20
Depreciation	0.33	0.44	0.48	0.74	1.04
Other non cash items	0.50	(0.45)	0.03	0.04	0.06
Recurrent cashflow	4.13	1.52	2.20	2.73	3.30
Chg in working capital	(1.18)	(5.10)	(0.45)	3.35	5.83
Capex - maintenance	(1.74)	(0.61)	(0.50)	(1.00)	(1.00)
Free cash flow	1.21	(4.19)	1.25	5.07	8.13
Capex - new investment	-	-	-	-	-
Net acq./disposals	-	3.61	(3.00)	(2.00)	(2.00)
Dividends paid	-	-	-	-	-
Non recurring cash flows	0.00	0.03	-	-	-
Net cash flow	1.21	(0.56)	(1.75)	3.07	6.13
Equity finance	-	6.00	-	-	-
Debt finance	(0.09)	(1.34)	(0.06)	(0.05)	(0.05)
Movement in cash	1.12	4.11	(1.81)	3.02	6.09
Cash flow per share	0.05	0.02	0.02	0.03	0.03
Free cash flow per share	0.02	(0.05)	0.01	0.05	0.08

Sources: Kingsmen Creatives; Bloomberg; 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