

Kingsmen Creatives

PRICE S\$ 0.14
Buy
Key Stock Statistics

NRA EPS Est. 2005	2.2
P/E on NRA Est. 2005	6.3
NRA EPS Est. 2006	2.7
P/E on NRA Est. 2006	5.2
Dividend/Share	0.70
Dividend yield (%)	5.0
Shs. Outstg. (m)	101.11
Market capitalisation \$m	14.15
Avg. daily vol (m)	0.0227
Book Value/Share	0.1
Shareholders:	
Benedict Soh	25.3%
Simon Ong	25.3%

Per share data

Year:	2002	2003	2004	2005F	2006F
Book Value (S\$)	0.08	0.12	0.1	0.15	0.18
Cash Flow (cts)	3.6	2.0	1.9	2.8	3.3
Earnings (cts)	4.1	1.8	1.4	2.2	2.7
Dividend (cts)	na	0.75	0.70	0.75	0.75
Payout Ratio	na	38.7%	40.0%	26.9%	22.4%
PER (x)	3.4	7.9	9.9	6.3	5.2
P/CF (x)	3.9	7.2	7.2	5.0	4.2
P/BV (x)	1.9	1.1	1.3	0.9	0.8
Dividend yield %	na	5.4%	5.0%	5.4%	5.4%
ROE (%)	55.0%	12.5%	10.8%	14.7%	15.0%

P&L analysis (\$m)

	2002	2003	2004	2005F	2006F
Revenue	60.84	53.48	63.26	69.10	75.45
Operating Profit	4.42	2.54	2.33	3.20	3.83
Depreciation	0.33	0.44	0.54	0.59	0.64
Interest Expense	0.06	0.08	0.08	0.04	0.06
Pretax Profit	4.25	2.13	2.01	3.10	3.82
Effective tax rate	18.9%	25.7%	21.2%	21.4%	21.2%
Net Profit	3.30	1.53	1.41	2.26	2.71

Margins

	2002	2003	2004	2005F	2006F
Gross	26.6%	27.8%	26.0%	27.0%	27.4%
Operating	7.3%	4.7%	3.7%	4.6%	5.1%
Pre tax	7.0%	4.0%	3.2%	4.5%	5.1%
Net	5.4%	2.9%	2.2%	3.3%	3.6%

Final Results - growth contributed by new acquisitions

- Revenue for FY 04 grew 18% to \$63.3m and was in line with our forecast.
- Increase in revenue came mainly from Exhibitions and Museums division and Integrated Marketing Communications division but revenue from Interiors division decreased slightly.
- The acquisition of Kingsmen Indochina, Kingsmen Korea and Kingsmen Nikko and Ascend Computer last year made significant contribution to the group.
- Although the group reported a slight decline in net profit for the full year, its results showed strong improvement in the 2H of FY04.
- The group has achieved confirmed sales order totaling \$22m for FY05 as at 23 Feb 05. This signals a strong start for FY05 and a continuation of the strong performance in the 2H04.
- We expect the growth in the next 2 years to come from the group's regional operations. Kingsmen Indochina will continue to benefit from the Vietnam market which is experiencing growth in the tourism industry as well as a boom in the retail sector and exhibition sector.
- Another area of potential growth is the acquisition of more companies from Kingsmen Affiliates. The Greater China affiliates, comprising Hong Kong, Taiwan and the PRC, is likely to be incorporated into the group in FY06.
- The stock is currently at very low forward PE multiples of 5-6x. We maintain a Buy rating.

Review of Final 2004 Results

Results Highlights (\$m)

Year ended 31 Dec	2004	2003	% chg	1H04	2H04
Revenue	63.3	53.5	+18.3	26.4	36.9
Cost of sales	(46.8)	(38.6)	+21.2	(19.8)	(27.0)
Gross profit	16.5	14.9	+10.7	6.6	9.9
Other income	0.8	1.0	-19.0	0.4	0.4
Operating expenses	(15.5)	(13.8)	+12.4	(6.5)	(9.0)
Profit from operations	1.8	2.1	-14.9	0.5	1.3
Financial expenses	(0.1)	(0.1)	+7.9	0.0	(0.1)
Financial income	0.0	0.1	-67.3	0.0	0.0
Profit before associates	1.7	2.1	-18.3	0.4	1.3
Share of results of associates	0.3	-	nm	0.1	0.2
Pretax profit	2.0	2.1	-5.7	0.5	1.5
Tax	(0.4)	(0.5)	-22.3	(0.1)	(0.3)
Aftertax profit	1.6	1.6	0.1	0.4	1.2
Minority interests	(0.2)	(0.1)	+225.5	0.0	(0.2)
Net profit	1.4	1.5	-7.5	0.4	1.0

Revenue for FY 04 grew 18% to \$63.3m and was in line with our forecast. The increase in revenue came mainly from the Exhibitions and Museums division and Integrated Marketing Communications division while revenue from the Interiors division decreased slightly. The newly acquired Kingsmen Indochina operating in Vietnam contributed \$6m out of the \$9.8m increase in turnover.

Significant exhibition projects/events which were completed in FY04 include Asian Aerospace, Communique Asia, Tax Free Asia Pacific, SIBOS, Tempus, Globaltronics, Label Expo, Asean Travel Fair, The STB stand ITB Berlin 2004 and the National Day parade. Museum projects totaling \$5.1m were completed for Science Centre, Sentosa, URA Gallery, Malay Heritage Centre and NTUC Aware Centre.

Interiors division experienced a slow start in the 1H of FY04 due to an unusually long delay from the effects of SARS and Bird Flu affecting the regional economies. Spending confidence returned during the 2H that accounted for 70% of the interiors revenue for the year.

Gross profit margin was slightly lowered from 27.8% to 26%. Some of the major exhibition events such as Asian Aerospace which were completed in the 1H contributed higher absolute gross profit but lower gross profit margin. This was in contrast to the smaller but higher margin jobs which were completed in FY03, a year when several major events were cancelled because of the onset of SARS and the threat of terrorism.

The hike in operating expenses was due to the inclusion of results of Kingsmen Indochina and higher staff costs. As a result, operating profit declined 15% to \$1.8m.

Associates, namely Ascend Computer, Kingsmen Korea and Kingsmen Nikko, acquired in FY 04, contributed \$0.3m during the year. With contribution from associates, net profit was slightly lower compared to the previous year.

Nonetheless, the results showed strong improvement in the revenue and earnings in the 2H of FY04. The acquisition of Ascend Computer and the three Kingsmen Affiliates took effect retrospectively from Jan 04 and was not a contributing factor for the stronger group performance in the 2H04.

Prospects

Earnings Forecast (\$m)

Year ended 31 Dec	2002	2003	2004	2005F	2006F
Revenue	60.8	53.5	63.3	69.1	75.5
Cost of sales	(44.6)	(38.6)	(46.8)	(50.5)	(54.8)
Gross profit	16.2	14.9	16.5	18.6	20.7
Other income	0.5	1.0	0.8	0.9	0.9
Operating expenses	(12.6)	(13.8)	(15.5)	(16.9)	(18.4)
Profit from operations	4.1	2.1	1.8	2.6	3.2
Financial expenses	(0.1)	(0.1)	(0.1)	0.0	(0.1)
Financial income	0.2	0.1	0.0	0.0	0.1
Profit before associates	4.3	2.1	1.7	2.6	3.2
Share of results of associates	-	-	0.3	0.5	0.6
Pretax profit	4.3	2.1	2.0	3.1	3.8
Tax	(0.8)	(0.6)	(0.4)	(0.7)	(0.8)
Aftertax profit	3.5	1.6	1.6	2.4	3.0
Minority interests	(0.2)	(0.1)	(0.2)	(0.2)	(0.3)
Net profit	3.3	1.5	1.4	2.3	2.7
EPS (cts)	4.1	1.8	1.4	2.2	2.7

The group has achieved confirmed sales order totaling \$22m for FY05 as at 23 Feb 05. This signals a strong start for FY05 and a continuation of the strong performance in the 2H04.

It expects the business environment in Singapore to remain competitive, particularly for the Interiors division. Singapore accounted for 63% of group revenue in FY04. It will focus on its strength which is offering "roll-out programmes" to cater to the regional needs of its clients.

We expect the growth in the next 2 years to come from the group's regional operations. Asia and Malaysia accounted for 24.2% of group revenue in FY04. We estimated that Kingsmen Indochina made about 42% increase in revenue in FY04. The Vietnam market which is experiencing growth in the tourism industry as well as a boom in the retail sector and exhibition sector, will continue to provide further growth for the group.

The group also expects significant growth in Indonesia and Malaysia and is seeking export opportunities to Europe.

Another area of potential growth is the acquisition of more companies from the Kingsmen Affiliates. The Greater China affiliates, comprising Hong Kong, Taiwan and the PRC, is likely to be incorporated into the group in FY06.

Balance Sheet & Other Fin. Data (\$m)

December	2003	2004
Property, plant & equipment	2.3	2.4
Goodwill on consolidation	-	1.7
Associates	-	1.7
Other investments	0.4	0.4
Current assets	30.4	27.0
Current liabilities	19.8	18.9
Non-current liabilities	0.4	0.4
Shareholders' equity	12.3	13.1
Minority interests	0.5	0.7
Net debt	Net cash	Net cash
Gearing	12.40%	3.50%

The group has maintained a net cash position and gearing has improved to 3.5% as at 31 Dec 04. While net assets grew from \$12.3m to \$13.1m, NAV per share declined from \$0.12 to \$0.10 because of an increase in share capital resulting from the issue of 1.1m new shares for the acquisition of Kingsmen Indochina.

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