

CYCLICAL CONSUMERS/CONSUMER SERVICES – SINGAPORE

Kingsmen**The past suggests caution****Underperform**

Changed from Market Perform

Order book in February may be robust at SGD22m (more than double yoy) but in our view it is premature to price it in, given Kingsmen's weak earnings record and increased market risk aversion. Downgrade to UNDERPERFORM.

| | |
|-----------------------|-----------------|
| Share price | SGD0.140 |
| Target price | SGD0.110 |
| Previous target price | SGD0.175 |

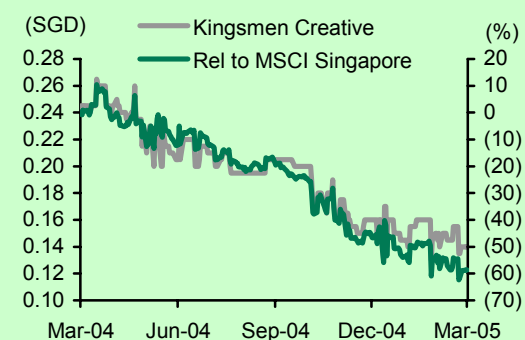
Expected Return (12 Months)

| | |
|------------------------|---------|
| Capital growth | (21.4%) |
| Dividend yield | 5.4% |
| Total return | (16.1%) |
| Required return | 7.1% |
| Expected excess return | (23.2%) |

| | |
|-----------------------|---------|
| Market capitalisation | USD9.0m |
| Average turnover | USD871 |
| 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 (SGD m) | 2005E | 2006E | 2007E |
|-------------------|--------|--------|-------|
| Prev net profit | 1.9 | 2.6 | — |
| Change (%) | (24.4) | (34.4) | — |
| Prev EPS (cents) | 1.9 | 2.6 | — |
| Change (%) | (24.4) | (35.0) | — |

Event: SGX-MAS Research Incentive Scheme

2004 results.

Key points

- **Order book strong, but too early to tell:** The company has disclosed in its earnings release, a significant order book of SGD22m as of 23 February 2005, a doubling of orders over the same period last year. However, given the group's low margins of just 2.2% and a weak profit record, we think it is too early to turn optimistic.
- **Revised down earnings estimates:** We have revised down our 2005 and 2006 net profit forecasts by SGD0.4m and SGD0.9m, respectively. The 2004 results suggest competition is still intense and therefore the chance of margins recovering to 2003 levels is less likely. The company indicated that there were some loss-making projects in 2004 that were completed, and should no longer be a burden. If we strip out these loss-making projects, 2004 net margin would have been 2.4% instead of 2.2%.
- **Valuation not compelling:** The stock is trading at 9.6x 2005 P/E. Even if we were to strip out net cash of SGD3m, it still trades at 7.5x P/E. In our view, given the business' low margins and a weak earnings record, it should trade at a discount. Using a PEG of 0.5x 2-year CAGR and adding back its SGD0.03 net cash/share, we have determined a target price of SGD0.11/share.

Earnings Forecasts

| Year-end Dec | 2003 | 2004 | 2005E | 2006E | 2007E |
|--------------------|------|------|-------|-------|-------|
| Net profit (SGD m) | 1.53 | 1.42 | 1.47 | 1.71 | 1.76 |
| EPS (cents) | 1.78 | 1.40 | 1.46 | 1.69 | 1.75 |
| EPS growth (%) | (57) | (21) | 4 | 16 | 3 |
| P/E (x) | 7.9 | 10.0 | 9.6 | 8.3 | 8.0 |
| Yield (%) | 5.4 | 5.4 | 5.4 | 5.4 | 5.4 |
| ROE (%) | 16.7 | 11.1 | 10.9 | 11.9 | 11.5 |

Sources: Kingsmen Creatives; Bloomberg; BNP Paribas Peregrine estimates



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

Further analysis

Result Summary

| Year-end 31 Dec | 2004 (SGD m) | 2003 (SGD m) | Change (yoy %) |
|---|-----------------|-----------------|-------------------|
| Turnover | 63.17 | 53.48 | 18 |
| Cost of sales | (46.79) | (38.60) | 21 |
| Gross profit | 16.47 | 14.88 | 11 |
| Other income | 0.80 | 1.01 | (19) |
| Profit from operating activities | 1.80 | 2.10 | (15) |
| Financial expenses | (0.10) | (0.08) | 8 |
| Financial income | 0.03 | 0.10 | (67) |
| Profit before share of results of associates | 1.74 | 2.13 | (18) |
| Share of results of associate before tax | 0.27 | — | |
| Pre-tax profit | 2.01 | 2.13 | (6) |
| Tax – Group companies | (0.37) | (0.55) | (33) |
| Associate | (0.06) | — | |
| After-tax profit | 1.58 | 1.58 | 0 |
| Minority interest | (0.17) | (0.05) | 225 |
| Net profit | 1.42 | 1.53 | (7) |

Source: Kingsmen Creatives

Segmental Revenue

| YE 31 Dec (SGD m) | Exhibitions and musenums | Interiors | Research and design | IMC | Elimination | Consolidated |
|---|-----------------------------|-------------|---------------------------|------------|--------------|--------------|
| Sales to external customer | 29.1 | 28.6 | 2.0 | 3.5 | — | 63.2 |
| Inter-segment sales | 1.4 | 1.6 | 0.0 | 0.0 | (3.1) | — |
| Segment revenue | 30.6 | 30.2 | 2.0 | 3.5 | (3.1) | 63.2 |
| Segmental results | 1.1 | 0.7 | 0.0 | 0.5 | — | 2.3 |
| Unallocated expenses | | | | | | (0.6) |
| Profit from operating activities | | | | | | 1.8 |

Source: Kingsmen Creatives

Financial summary - Kingsmen Creatives

Michael Ong

| Rating | | | | | |
|----------------------------|---|---------|---------|---------|--------------|
| Share price (SGD) | | | | | 0.140 |
| Target price (SGD) | | | | | 0.110 |
| Capital growth (%) | | | | | (21.4) |
| Dividend yield (%) | | | | | 5.4 |
| Total return (%) | | | | | (16.1) |
| Required return (%) | | | | | 7.1 |
| Expected excess return (%) | | | | | (23.2) |
| Recommendation | | | | | Underperform |
| Market data | | | | | |
| Market cap (US\$m) | | | | | 9 |
| Average turnover (US\$) | | | | | 871 |
| Free float (%) | | | | | 20 |
| Bloomberg code | | | | | KMEN.SP |
| Reuters code | | | | | KMEN.SI |
| Year end | | | | | December |
| Financial summary | 2003A | 2004A | 2005E | 2006E | 2007E |
| (SGD m) | | | | | |
| Net profit - reported | 1.53 | 1.42 | 1.47 | 1.71 | 1.76 |
| Net profit - adjusted | 1.53 | 1.42 | 1.47 | 1.71 | 1.76 |
| EPS - diluted adjusted | 0.018 | 0.014 | 0.015 | 0.017 | 0.017 |
| EPS growth (%) | (56.83) | (21.30) | 3.86 | 16.01 | 3.29 |
| DPS | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 |
| EBITDA margin (%) | 4.75 | 3.64 | 3.49 | 3.93 | 4.01 |
| ROIC (%) | 26.99 | 16.70 | 16.14 | 17.35 | 15.01 |
| Net debt / equity (%) | (32.09) | (22.62) | (24.90) | (18.44) | (15.95) |
| Valuation | 2003A | 2004A | 2005E | 2006E | 2007E |
| PE - diluted adjusted (x) | 7.86 | 9.98 | 9.61 | 8.29 | 8.02 |
| Dividend yield (%) | 5.36 | 5.36 | 5.36 | 5.36 | 5.36 |
| P/CF (x) | 7.92 | 9.37 | 7.58 | 6.56 | 6.40 |
| P/FCF (x) | neg | 5.26 | 33.88 | neg | neg |
| Price/book(x) | 0.98 | 1.07 | 1.02 | 0.95 | 0.89 |
| EV/EBITDA (x) | 3.14 | 3.75 | 4.09 | 3.63 | 3.88 |
| EV/Capital employed | 0.91 | 1.04 | 0.98 | 0.90 | 0.84 |
| Key assumptions | 2003A | 2004A | 2005E | 2006E | 2007E |
| Risk free rate (%) | | | | | 2.92 |
| Equity risk premium (%) | | | | | 4.2 |
| WACC (%) | | | | | 7.33 |
| Sales by division | 2003A | 2004A | 2005E | 2006E | 2007E |
| (SGD m) | | | | | |
| Exhibition & museums | 21.43 | 29.06 | 30.80 | 32.65 | 34.28 |
| Interiors | 29.17 | 28.59 | 31.44 | 32.39 | 33.36 |
| Research & design | 2.01 | 2.01 | 2.01 | 2.07 | 2.13 |
| Integrated marketing comm | 0.87 | 3.51 | 3.69 | 3.87 | 4.07 |
| 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 | 2003A | 2004A | 2005E | 2006E | 2007E |
|---------------------------|---------|---------|---------|---------|---------|
| (SGD m) | | | | | |
| Revenue | 53.48 | 63.17 | 67.94 | 70.98 | 73.84 |
| EBITDA | 2.54 | 2.30 | 2.37 | 2.79 | 2.96 |
| Depreciation | (0.44) | (0.54) | (0.50) | (0.50) | (0.50) |
| Goodwill amortisation | - | - | - | - | - |
| EBIT | 2.10 | 1.76 | 1.87 | 2.29 | 2.46 |
| Net financing costs | 0.03 | (0.05) | (0.07) | (0.08) | 0.06 |
| Associates (pre tax) | - | 0.27 | 0.30 | 0.25 | - |
| Provisions | - | - | - | - | - |
| Non recurring items | - | - | - | - | - |
| Profit before tax | 2.13 | 1.98 | 2.10 | 2.46 | 2.53 |
| Tax | (0.55) | (0.40) | (0.42) | (0.49) | (0.51) |
| Profit after tax | 1.58 | 1.58 | 1.68 | 1.97 | 2.02 |
| Associates & minorities | (0.05) | (0.17) | (0.21) | (0.26) | (0.26) |
| Preferred dividends | - | - | - | - | - |
| Other | - | - | - | - | - |
| Net profit - reported | 1.53 | 1.42 | 1.47 | 1.71 | 1.76 |
| Non recurring items (net) | - | - | - | - | - |
| Net profit - adjusted | 1.53 | 1.42 | 1.47 | 1.71 | 1.76 |
| EPS - reported | 0.018 | 0.014 | 0.015 | 0.017 | 0.017 |
| EPS - adjusted | 0.018 | 0.014 | 0.015 | 0.017 | 0.017 |
| EPS - diluted adjusted | 0.018 | 0.014 | 0.015 | 0.017 | 0.017 |
| DPS | 0.008 | 0.008 | 0.008 | 0.008 | 0.008 |
| Growth | | | | | |
| Revenue (%) | (12.10) | 18.12 | 7.56 | 4.47 | 4.03 |
| EBITDA (%) | (42.55) | (9.46) | 3.06 | 17.70 | 6.32 |
| EBIT (%) | (48.73) | (16.21) | 6.27 | 22.44 | 7.70 |
| EPS - diluted adj (%) | (56.83) | (21.30) | 3.86 | 16.01 | 3.29 |
| Operating performance | | | | | |
| EBITDA margin (%) | 4.75 | 3.64 | 3.49 | 3.93 | 4.01 |
| EBIT margin (%) | 3.92 | 2.78 | 2.75 | 3.22 | 3.34 |
| Net margin (%) | 2.86 | 2.24 | 2.17 | 2.40 | 2.39 |
| Interest cover (x) | na | 36.63 | 26.69 | 28.59 | na |
| ROE (%) | 16.73 | 11.13 | 10.86 | 11.87 | 11.48 |
| ROIC (%) | 26.99 | 16.70 | 16.14 | 17.35 | 15.01 |
| ROIC/WACC (x) | 3.68 | 2.28 | 2.20 | 2.37 | 2.05 |
| Dividend payout (%) | 42.09 | 53.48 | 51.49 | 44.38 | 42.97 |
| Balance sheet | 2003A | 2004A | 2005E | 2006E | 2007E |
| (SGD m) | | | | | |
| Debtors and stock | 24.93 | 23.61 | 24.41 | 25.19 | 26.31 |
| Creditors | (18.63) | (18.86) | (22.20) | (24.43) | (21.94) |
| Other liabilities | (0.10) | (0.11) | (0.12) | (0.14) | (0.15) |
| Fixed assets | 2.25 | 5.68 | 7.84 | 10.38 | 8.00 |
| Investments | 0.38 | 0.38 | 1.00 | 1.60 | 1.60 |
| Intangibles | - | - | - | - | - |
| Capital employed | 8.83 | 10.70 | 10.94 | 12.61 | 13.83 |
| Net debt | (3.94) | (2.98) | (3.46) | (2.74) | (2.53) |
| Total equity | 12.27 | 13.19 | 13.90 | 14.85 | 15.86 |
| Minority interests | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |
| Net debt / equity (%) | (32.09) | (22.62) | (24.90) | (18.44) | (15.95) |
| Book value per share | 0.14 | 0.13 | 0.14 | 0.15 | 0.16 |
| Cash flow | 2003A | 2004A | 2005E | 2006E | 2007E |
| (SGD m) | | | | | |
| Net income | 1.53 | 1.42 | 1.47 | 1.71 | 1.76 |
| Depreciation | 0.44 | 0.54 | 0.50 | 0.50 | 0.50 |
| Other non cash items | (0.45) | (0.45) | (0.10) | (0.05) | (0.05) |
| Recurrent cashflow | 1.52 | 1.51 | 1.87 | 2.15 | 2.21 |
| Chg in working capital | (5.10) | 1.78 | (0.95) | (2.48) | (2.02) |
| Capex - maintenance | (0.61) | (0.60) | (0.50) | (0.50) | (0.50) |
| Free cash flow | (4.19) | 2.69 | 0.42 | (0.82) | (0.31) |
| Capex - new investment | - | - | - | - | - |
| Net acq./disposals | 3.61 | (2.93) | - | - | - |
| Dividends paid | - | - | - | - | - |
| Non recurring cash flows | 0.03 | - | - | - | - |
| Net cash flow | (0.56) | (0.24) | 0.42 | (0.82) | (0.31) |
| Equity finance | 6.00 | - | - | - | - |
| Debt finance | (1.34) | (0.50) | 0.07 | 0.08 | 0.09 |
| Movement in cash | 4.11 | (0.75) | 0.49 | (0.74) | (0.22) |
| Cash flow per share | 0.02 | 0.01 | 0.02 | 0.02 | 0.02 |
| Free cash flow per share | (0.05) | 0.03 | 0.00 | (0.01) | (0.00) |

Sources: Kingsmen Creatives; Bloomberg; BNP Paribas Peregrine estimates

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