

Kingsmen Creatives

PRICE S\$0.125
Buy
Key Stock Statistics

NRA EPS Est. 2005	2.0
P/E on NRA Est. 2005	6.4
NRA EPS Est. 2006	2.4
P/E on NRA Est. 2006	5.25
Dividend/Share	0.70
Dividend yield (%)	5.6
Shs. Outstg. (m)	101.09
Market capitalisation \$m	12.64
Avg. daily vol (m)	0.0303
Book Value/Share	0.13
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	0.13	0.15	0.17
Cash Flow (cts)	3.6	2.0	1.9	2.7	3.1
Earnings (cts)	4.1	1.8	1.4	2.0	2.4
Dividend (cts)	na	0.75	0.70	0.70	0.70
Payout Ratio	na	38.7%	40.0%	28.6%	23.5%
PER (x)	3.0	7.0	8.9	6.4	5.3
P/CF (x)	3.5	6.4	6.5	4.7	4.0
P/BV (x)	1.7	1.0	1.0	0.8	0.7
Dividend yield %	na	6.0%	5.6%	5.6%	5.6%
ROE (%)	55.0%	12.5%	10.8%	13.1%	13.7%

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	3.00	3.66
Depreciation	0.33	0.44	0.54	0.70	0.77
Interest Expense	0.06	0.08	0.08	0.08	0.10
Pretax Profit	4.25	2.13	2.01	2.75	3.43
Effective tax rate	18.9%	25.7%	21.2%	21.5%	21.3%
Net Profit	3.30	1.53	1.41	1.98	2.41

Margins

	2002	2003	2004	2005F	2006F
Gross	26.6%	27.8%	26.0%	27.6%	27.8%
Operating	7.3%	4.7%	3.7%	4.3%	4.8%
Pre tax	7.0%	4.0%	3.2%	4.0%	4.5%

Kingsmen expects stronger performance in 2H05

- The interiors division will continue to be the main growth driver with stronger order flows in the 2H from major clients such as Nokia, BMW, Ford, DFS and POSB.
- Revenue in FY06 will be bumped up by the bi-annual Asian Aerospace project. Gross margin for the Asian Aerospace contract will be much higher than its previous contract in 2004 as it will focus on special designs and give up the low-margin portion of the project.
- The group's strategy of setting up offices overseas for international clients and exporting its expertise into the international market is to raise the entry barriers for competitors. Its overseas units in Malaysia, Vietnam, Indonesia, Korea and Japan are expected to grow steadily on improved business sentiment. Export will remain small but there is potential for growth, having received favourable responses from the market.
- The planned injection of the 50.5% stake in Greater China Affiliate comprising Hong Kong, Taiwan, Shanghai and Beijing from Kingsmen International into the group is likely to take place in the 2H06. The group has projected revenue of \$25m and net profit of \$0.9m for the Affiliate for FY05. This will have a positive impact on earnings for the group in FY06.
- We are maintaining our earnings forecast and buy rating. The stock is trading at attractive forward PERs of 5-6x and dividend yield of 5.6%. After discounting for its low liquidity and small capitalization, we believe the stock should trade at prospective PER of 7x and peg fair value at \$0.17.

Company Visit in Aug 05

Our recent company visit reaffirmed our view that the strong upturn in the Interiors division has contributed significantly to the first half of FY05 and this scenario will prevail into the 2H.

Performance in the last two years, FY03 and FY04, was adversely affected by SARS and the slow return of investors' confidence. The management is certain that this gloom is over and the growing confidence by its clients since the start of FY05 will propel its growth to a higher level.

Repeat businesses accounting for 50-55% of revenue are expected to grow to 55-60%, signaling increasing confidence in the group by its clients. Singapore will remain the stronghold of its operation for the next few years although its contribution will decline as regional affiliates strengthen and expand.

1H ended 30 Jun 05	Revenue (\$m)	GPM (%)
Exhibitions & Museums	10.9	33.0
Interiors	14.3	17.5
Research & Design	1.0	91.0
Integrated Marketing Communications	1.9	40.0
Total	28.1	27.0

Geographic breakdown of revenue	1H05
Singapore	56%
Malaysia	13%
Vietnam	8%
Asia	10%
Europe, US & Others	13%

Outlook & Valuation

Interiors Division will be growth driver for FY05

The Interiors division has been receiving more orders and is expected to be the growth driver for 2H05 and FY06. The group has doubled its office space for this division to handle the growing orders. Some of the big contributors are Nokia, BMW, Ford, DFS and POSB. Many of these contracts are multiple jobs involving design, manufacture and management of the projects.

Nokia has engaged the group for the materials and fixtures development for its retail network upgrading with a total contract value of \$20m over the 2-3 years' period, commencing last year. Nokia will commit about \$5m this year. The contract with BMW and Ford involves sprucing up 3 showrooms totaling about \$5m and to be substantially completed in the 2H05. Having completed the fit-out projects for new travel retail shops in Guam and Okinawa in the 1H, the group will proceed to another project for DFS in Hawaii.

The POSB project is similar to the roll-out management projects for UOB which the group managed in phases over 2002-4. Initial commitment by POSB involves 4 branches amounting to \$1.4m but potential further commitment could involve 30-40 branches over the next couple of years.

Exhibition & Museum will repeat good performance

The E&M division will continue to benefit from repeat projects such as the ITMA, a textile machinery show worth \$1-2m. The management expects the 2H to be stronger. Revenue in FY06 will be bumped up by the Asian Aerospace 2006 contract. It is valued at approximately \$5-6m and gross margin will be much higher than its previous contract in 2004 as it will focus on special design and give up the low-margin portion of the project.

Overseas units and export markets are small but hold great potential

Its overseas subsidiaries in Malaysia, Vietnam and Indonesia are expected to grow on improved business sentiment. The associates in Korea and Japan are expected to make higher contributions. The group has started testing the international market for its services by participating in Euroshop, the largest European shopfitting show held in Germany in Feb 05 and has received favourable responses from the participants. It has secured an initial order to develop a prototype for Wella as well as a trial order for custom-built fixtures from Sweden. Export market is likely to remain small for now. The strategy of setting up offices overseas for international clients and exporting its expertise into the international market is to raise the entry barriers for competitors.

Greater China Affiliate to be included in FY06

The planned injection of the 50.5% stake in Greater China Affiliate comprising Hong Kong, Taiwan, Shanghai and Beijing from Kingsmen International into the group is likely to take place in the 2H06 based on improved performance at the four offices. Kingsmen has about 7-8 years' presence in Greater China. The group has projected the Affiliate's revenue to be \$25m, a more than 50% growth from \$15.8m in the previous year, and net profit of \$0.9m for FY05. Growth is led by strong demand for setting up museums and visitor centers in the major cities of PRC as the country prepares for the Beijing Olympic 2008.

Valuation

We are maintaining our earnings forecast on expectation that the group will achieve 60% of its revenue in the 2H and profit margins will also improve on higher operating efficiency. The stock is trading at low PERs of 5-6x and attractive dividend yield of 5.6%. The group hopes to maintain a dividend payout of 30-50%, ensuring it will maintain last year's dividend rate of 0.70 cts at the minimum. We maintain our buy rating and fair value of \$0.17.

Earnings Forecast (\$m)

Year ended 31 Dec	2002	2003	2004	2005F	2006F
Turnover	60.8	53.5	63.3	69.1	75.5
Cost of sales	(44.6)	(38.6)	(46.8)	(50.0)	(54.5)
Gross profit	16.2	14.9	16.5	19.1	21.0
Other income	0.5	1.0	0.8	1.1	1.2
Operating expenses	(12.6)	(13.8)	(15.5)	(17.8)	(19.3)
Profit from operations	4.1	2.1	1.8	2.3	2.9
Financial expenses	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Financial income	0.2	0.1	0.0	0.0	0.0
Profit before associates	4.3	2.1	1.7	2.2	2.8
Share of results of associates	-	-	0.3	0.5	0.6
Pretax profit	4.3	2.1	2.0	2.8	3.4
Tax	(0.8)	(0.6)	(0.4)	(0.6)	(0.7)
Aftertax profit	3.5	1.6	1.6	2.2	2.7
Minority interests	(0.2)	(0.1)	(0.2)	(0.2)	(0.3)
Net profit	3.3	1.5	1.4	2.0	2.4
EPS (cts)	4.1	1.8	1.4	2.0	2.4

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

December	2003	2004	Jun-05
Property, plant & equipment	2.3	2.4	2.9
Goodwill on consolidation	-	1.7	1.7
Associates	-	1.7	1.9
Other investments	0.4	0.4	0.4
Current assets	30.4	27.0	25.0
Current liabilities	19.8	18.9	17.5
Non-current liabilities	0.4	0.4	0.5
Shareholders' equity	12.3	13.1	13.1
Net debt		Net cash	Net cash
Gearing		12.4%	3.5%
		Net cash	6.5%

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