



Kingsmen Creatives Ltd

AmFraser

(Bloomberg: KMEN SP)

A softer quarter from lumpy recognition

BUY

(Maintain)

LAST CLOSE: S\$0.77

FAIR VALUE: S\$0.87

(Previous : \$0.86)

Tuesday, 06 November 2012

Rationale for report: Results Update

Financials

YE Dec (S\$m)	2011	2012F	2013F	2014F
Revenue	261.0	291.0	336.1	376.4
Gross Profit	66.7	74.8	87.0	96.8
Pre-Tax Profit	19.8	21.2	24.7	27.1
PATMI	16.3	16.8	19.6	21.5
EPS (S cents)	8.52	8.79	10.20	11.22
DPS (S cents)	4.00	3.95	4.59	5.05
PER (x)	9.04	8.76	7.55	6.86
Div Yield (%)	5.2	5.1	6.0	6.6

Key Operating Statistics

	2011	2012F	2013F	2014F
Gross Margin (%)	25.5	25.7	25.9	25.7
Net Margin (%)	6.3	5.8	5.8	5.7
ROE (%)	24.4	22.1	22.0	21.1
ROA (%)	11.5	10.4	10.9	10.5
Net Gearing (%)	Net cash	Net cash	Net cash	Net cash
EV/EBITDA (x)	5.63	4.33	3.45	2.77

Stock Data

Issued Shares (m)	191.60
Market Cap (S\$m)	147.60
Major Shareholders	Benedict Soh (19.98%) Simon Ong (19.98%)
Free Float	39.00%
52 week lo / hi	\$0.50 / \$0.805

12-Month KMEN SP vs. FSSTI



Source: Bloomberg

- **A soft quarter on lower recognition of projects.** 3Q PATMI declined 21.5% YoY, largely due to a weaker Interiors division. The Interiors division's revenue fell 30.4% YoY to S\$31.9mil, as 1) most of the larger projects were completed and recognized in 2QFY12, and; 2) 3QFY11 was exceptionally strong on store fixtures roll-out programmes and several flagship stores projects.
- **Slight decline from the Exhibitions & Museums division.** The division contributed S\$32.7mil in revenues in the quarter, down 8.4% YoY. In 3Q, Kingsmen delivered works on the London Olympics, F1 Singapore Grand Prix, Gardens by the Bay and Sotheby's Visitor Centre in Hong Kong. Ongoing projects are GuangZhou HengDa Exhibitions Centre, Hong Kong Maritime Museum, Universal Studios Singapore and Hong Kong Disneyland, amongst others.
- **Smaller segments exhibited stronger growth.** The Alternative Marketing and Research & Design divisions registered 53.3% and 23.6% growth YoY in the quarter.
- **4Q will be stronger, supported by orderbook of S\$289mil.** We expect 4Q to be strong on seasonal demand and recognition of completed projects, and a base of S\$274mil worth of orderbook is expected to be recognized in FY2012.
- **Maintain BUY — FV of S\$0.87.** We remain positive on Kingsmen's prospects, noting that it continues to have pipeline visibility in the form of store roll-outs and themepark contracts over the next few years. The soft 3Q is more an issue of lumpy recognition, rather than a lack of demand for Kingsmen's services. Taking into consideration a spillover of project recognition into 1QFY13, we lowered our estimates for 4QFY12. We are now expecting a full year EPS of 8.80c, down 12.8% from previous estimates. Rolling over our estimates to FY13F, we now value Kingsmen at S\$0.87, which is based on 8.5x FY13F EPS of 10.2c. Despite a strong share price movement over the past months, Kingsmen still offers an attractive forward yield of 6.0%, offering a support for the current share price. **BUY.**

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YE 31 Dec

INCOME STATEMENTS S\$mil	2010	2011	2012F	2013F	2014F
Revenue	235.2	261.0	291.0	336.1	376.4
Cost of Sales	-169.8	-194.3	-216.2	-249.1	-279.6
Gross Profit	65.4	66.7	74.8	87.0	96.8
Staff salaries & related expenses	-35.4	-37.9	-42.2	-49.1	-55.0
Other expenses	-11.6	-12.0	-12.1	-14.1	-15.5
Other income	2.7	3.9	2.7	2.7	2.7
Depreciation	-1.6	-1.5	-2.1	-2.0	-2.1
Profit from Operations	19.5	19.2	21.1	24.5	27.0
Interest income	0.2	0.2	0.2	0.2	0.2
Interest expense	-0.1	-0.2	-0.2	-0.2	-0.2
Profit before Tax	19.7	19.8	21.2	24.7	27.1
Income Tax	-3.5	-3.1	-3.8	-4.4	-4.9
Non-controlling interests	1.1	0.4	0.6	0.7	0.8
PATMI	15.1	16.3	16.8	19.6	21.5
EBITDA	21.2	20.7	23.2	26.5	29.1
Free Cash Flow	14.3	10.8	24.3	17.1	20.2
Earnings per Share (S cents)	7.93	8.52	8.79	10.20	11.22
Dividends per Share (S cents)	4.00	4.00	3.95	4.59	5.05
Book Value per Share (S cents)	31.28	36.59	41.58	48.10	55.05
BALANCE SHEETS S\$'000	2010	2011	2012F	2013F	2014F
Cash and Cash Equivalents	29.9	33.2	49.2	58.0	68.7
Trade and Other Rec	75.3	95.3	93.2	107.6	120.6
Inventory	0.14	0.06	0.18	0.20	0.23
Property, Plant, Equipment	11.9	11.2	9.6	10.1	10.5
Other Current Assets	15.1	12.8	18.6	21.3	23.5
Other Long-term Assets	13.2	14.5	14.3	14.3	14.3
Total Assets	145.6	167.1	185.1	211.6	237.8
Trade Payables	37.7	40.8	48.0	55.3	62.0
Borrowings: Non-Current	1.9	2.1	2.0	1.9	1.8
Other Current Liabilities	45.3	53.8	55.2	62.1	68.5
Other Long-term Liabilities	1.3	0.9	0.9	0.9	0.9
Total Common Equity	57.1	66.9	76.4	88.7	101.9
Total Liabilities and Equity	145.6	167.1	185.1	211.6	237.8

CASHFLOW STATEMENTS \$'000	2010	2011	2012F	2013F	2014F
Profit before Tax	19.7	19.8	21.2	24.7	27.1
Depreciation	3.6	3.4	4.1	2.0	2.1
Change in Working Capital	-0.6	-6.4	5.0	-2.8	-1.9
Income Tax Paid	-3.3	-3.1	-3.8	-4.4	-4.9
Net Cash from Operations	20.3	13.6	26.7	19.4	22.5
(Purchase)/Disposal of PPE	-6.2	-2.8	-2.5	-2.5	-2.5
Other Cash from Investing	-3.6	0.0	0.0	0.0	0.0
(Repayment of debt/finance lease)	-1.8	0.0	-0.3	-0.3	-0.3
(Dividends Paid)	-7.0	0.0	-7.9	-7.8	-9.1
Other Cash from Financing	6.8	0.0	0.0	0.0	0.0
Beginning Cash	20.3	28.0	24.3	40.3	49.1
Foreign Exchange Effect	-0.92	0.51	0.00	0.00	0.00
End Cash	28.0	31.6	40.3	49.1	59.8

*Ending cash differs from balance sheet cash due to fixed deposits, overdrafts, restricted balances and other items

KEY RATIOS	2010	2011	2012F	2013F	2014F
Profitability					
Gross Margin (%)	27.8	25.5	25.7	25.9	25.7
EBITDA Margin (%)	9.0	7.9	8.0	7.9	7.7
Net Margin (%)	6.4	6.3	5.8	5.8	5.7
ROE (%)	26.4	24.4	22.1	22.0	21.1
ROA (%)	11.7	11.5	10.4	10.9	10.5
Growth (Y-o-Y)					
Revenue (%)	-2.8	11.0	11.5	15.5	12.0
EBITDA (%)	4.0	-2.1	12.1	14.3	9.7
Pre-Tax Income (%)	4.3	0.4	7.3	16.1	10.1
Net Income (%)	3.0	3.5	4.0	16.1	10.1
Financial Structure					
Debt/Equity	0.09	0.07	0.06	0.05	0.04
Net Gearing (%)	-41.5	-40.3	-56.0	-58.4	-61.5
Operational Efficiency					
Days Sales in Receivables	106.9	124.0	107.0	107.0	107.0
Days in Inventory	0.30	0.12	0.30	0.30	0.30
Days in Payables	80.98	76.56	81.00	81.00	81.00
Cash Conversion Cycle	26.2	47.5	26.3	26.3	26.3
Asset Turnover (x)	1.62	1.56	1.57	1.59	1.58
Market Valuation					
Price / Earnings	9.71	9.04	8.76	7.55	6.86
Price / Book	2.46	2.10	1.85	1.60	1.40
Price / Sales	0.62	0.57	0.51	0.44	0.39
Price / Free Cash Flow	0.05	0.07	0.03	0.04	0.04
EV / EBITDA	5.66	5.63	4.33	3.45	2.77

AmFraser Research recommendations are based on a Total Return rating system, defined as follows:

BUY: >15% total return over the next 12 months

HOLD: -15% to +15% total return over the next 12 months

SELL: <-15% total return over the next 12 months

Total Return includes share price appreciation (depreciation) + dividends

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