



Kingsmen Creatives Ltd

AmFraser

(Bloomberg: KMEN SP)

Expect Stronger Quarters Ahead

BUY

(Maintain)

LAST CLOSE: S\$0.95

FAIR VALUE: S\$1.12

(Previous : \$0.87)

Thursday, 16 May 2013

Rationale for report: 1Q Results Update

Financials

YE Dec (S\$m)	2012	2013F	2014F	2015F
Revenue	290.3	319.3	351.3	386.4
Gross Profit	72.6	82.5	90.5	99.4
Pre-Tax Profit	21.8	24.7	26.9	28.1
PATMI	17.1	19.6	21.4	22.3
EPS (S cents)	8.93	10.24	11.16	11.61
DPS (S cents)	4.00	4.50	5.00	5.00
PER (x)	10.63	9.28	8.51	8.18
Div Yield (%)	4.2	4.7	5.3	5.3

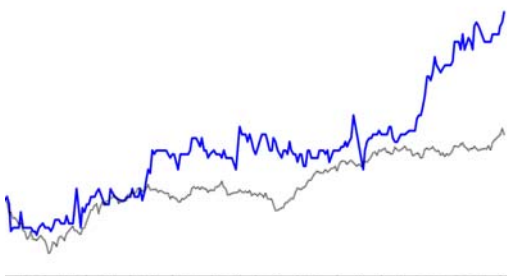
Key Operating Statistics

	2012	2013F	2014F	2015F
Gross Margin (%)	25.0	25.8	25.8	25.7
Net Margin (%)	5.9	6.1	6.1	5.8
ROE (%)	23.1	22.1	20.9	19.3
ROA (%)	10.6	11.3	10.7	10.0
Net Gearing (%)	Net cash	Net cash	Net cash	Net cash
EV/EBITDA (x)	5.92	4.70	3.93	3.41

Stock Data

Issued Shares (m)	191.60
Market Cap (S\$m)	182.02
Major Shareholders	Benedict Soh (19.98%) Simon Ong (19.98%)
Free Float	39.00%
52 week lo / hi	\$0.64 / \$0.96

12-Month KMEN SP vs. FSSTI



Source: Bloomberg

- 1Q PATMI broadly in-line with expectations.** Kingsmen delivered S\$2.23mil PATMI in 1Q, growing 7.3% yoy and forming ~11% of our full year estimates. This is in line with expectations, given that 1Q is a seasonally weak quarter. On the other hand, revenue dipped 9.3% while costs fell by a greater measure, thereby accounting for a growth in earnings. PATMI margins grew to 5.2% in the quarter from 4.4% a year ago.
- Key businesses posted marginally weaker results yoy.** The Exhibition and Museums division posted slightly weaker revenues of S\$20.6mil in the quarter, down 6.4% yoy. This was mainly due to a strong FY12, where we saw a greater number of major biennial events, such as the Singapore Airshow and Asia Pacific Maritime. Key projects recognized in the quarter include Art Stage 2013 in Singapore and IDEX 2013 in Abu Dhabi. The Interiors division also posted lower revenues of S\$18.5mil, down 9.3% yoy. This is due to work being pushed back to 2Q and 3Q, where we expect the Interiors division to emerge stronger.
- Surprise boost from high-margin Research and Design segment.** The Research and Design segment, which is currently a small revenue arm, posted a strong increase of 57.6% to S\$2.5mil in revenues in the quarter. The growth in this high-margin segment helped in lifting overall group margins in the quarter.
- Orderbook levels flat yoy but within expectations, but expect a stronger pick up in next few quarters.** Kingsmen's orderbook as at 14 May 2013 stands at S\$166mil, comparable to that of a year ago, where orderbook was S\$167mil on 9 May 2012. This is within expectations considering that 2012, as an even-year, is stronger thanks to more biennial exhibition and tradeshow activities. We believe the orderbook outlook remains strong for the rest of 2013, with potential contracts such as F1 and Shanghai Disney to be garnered.
- Maintain BUY, raise FV to S\$1.12 — a potential total return of 22.6%.** We believe Kingsmen should be accorded a higher PE multiple for its quality management and consistent earnings delivery. We currently value Kingsmen at 10x FY14F EPS of 11.16c, up from 8.5x FY13F EPS, taking a longer-term view on the company. With that, we derive a fair value of S\$1.12. We note that a 10x PE multiple is comparable to Pico Far East's historical 1-year PE of 10.4x, and at a discount to its forward PE of 11.6x. We continue to favour Kingsmen for its strong net cash position and a favourable forward yield of 4.7% despite the recent share price ascent. **BUY.**

Sarah WONG
 sarahwong@amfraser.com.sg
 +65 6236 2850

YE 31 Dec

INCOME STATEMENTS S\$mil	2011	2012F	2013F	2014F	2015F
Revenue	261.0	290.3	319.3	351.3	386.4
Cost of Sales	-194.3	-217.7	-236.9	-260.8	-287.0
Gross Profit	66.7	72.6	82.5	90.5	99.4
Staff salaries & related expenses	-37.9	-41.2	-45.2	-49.9	-54.9
Other expenses	-12.0	-13.7	-13.4	-14.4	-17.1
Other income	3.9	4.4	2.7	2.7	2.7
Depreciation	-1.5	-1.6	-2.0	-2.1	-2.2
Profit from Operations	19.2	20.5	24.5	26.8	27.9
Interest income	0.2	0.2	0.2	0.2	0.2
Interest expense	-0.2	-0.3	-0.2	-0.2	-0.2
Profit before Tax	19.8	21.8	24.7	26.9	28.1
Income Tax	-3.1	-4.2	-4.4	-4.8	-5.1
Non-controlling interests	0.4	0.5	0.6	0.7	0.8
PATMI	16.3	17.1	19.6	21.4	22.3
EBITDA	20.7	22.1	26.6	28.9	30.1
Free Cash Flow	10.8	28.1	14.5	20.4	21.2
Earnings per Share (S cents)	8.52	8.93	10.24	11.16	11.61
Dividends per Share (S cents)	4.00	4.00	4.50	5.00	5.00
Book Value per Share (S cents)	36.59	40.57	48.18	55.14	62.09
BALANCE SHEETS S\$'000	2011	2012F	2013F	2014F	2015F
Cash and Cash Equivalents	33.2	53.1	59.2	70.2	81.2
Trade and Other Rec	95.3	83.6	102.3	112.5	123.8
Inventory	0.06	0.02	0.19	0.21	0.24
Property, Plant, Equipment	11.2	9.2	10.1	10.5	10.8
Other Current Assets	12.8	19.7	20.3	22.0	23.9
Other Long-term Assets	14.5	14.0	14.3	14.3	14.3
Total Assets	167.1	179.7	206.4	229.7	254.1
Trade Payables	40.8	44.6	52.6	57.9	63.7
Borrowings: Non-Current	2.1	1.9	1.9	1.8	1.7
Other Current Liabilities	53.8	56.0	59.5	64.5	69.9
Other Long-term Liabilities	0.9	0.1	0.9	0.9	0.9
Total Common Equity	66.9	74.1	88.9	102.1	115.3
Total Liabilities and Equity	167.1	179.6	206.4	229.7	254.1

CASHFLOW STATEMENTS \$'000	2011	2012F	2013F	2014F	2015F
Profit before Tax	19.8	21.8	24.7	26.9	28.1
Depreciation	3.4	3.5	2.0	2.1	2.2
Change in Working Capital	-6.4	8.2	-2.6	-1.5	-1.7
Income Tax Paid	-3.1	-3.8	-4.4	-4.8	-5.1
Net Cash from Operations	13.6	30.4	16.8	22.7	23.5
(Purchase)/Disposal of PPE	-2.8	-2.1	-2.5	-2.5	-2.5
Other Cash from Investing	0.0	0.0	0.0	0.0	0.0
(Repayment of debt/finance lease)	0.0	0.0	-0.3	-0.3	-0.3
(Dividends Paid)	0.0	0.0	-7.9	-8.9	-9.8
Other Cash from Financing	0.0	0.0	0.0	0.0	0.0
Beginning Cash	28.0	31.6	36.4	42.5	53.5
Foreign Exchange Effect	0.51	-0.79	0.00	0.00	0.00
End Cash	31.6	51.6	42.5	53.5	64.5

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

KEY RATIOS	2011	2012F	2013F	2014F	2015F
Profitability					
Gross Margin (%)	25.5	25.0	25.8	25.8	25.7
EBITDA Margin (%)	7.9	7.6	8.3	8.2	7.8
Net Margin (%)	6.3	5.9	6.1	6.1	5.8
ROE (%)	24.4	23.1	22.1	20.9	19.3
ROA (%)	11.5	10.6	11.3	10.7	10.0
Growth (Y-o-Y)					
Revenue (%)	11.0	11.2	10.0	10.0	10.0
EBITDA (%)	-2.1	6.7	20.2	8.8	4.3
Pre-Tax Income (%)	0.4	10.1	13.3	9.0	4.3
Net Income (%)	3.5	5.2	14.9	9.0	4.3
Financial Structure					
Debt/Equity	0.07	0.06	0.05	0.04	0.04
Net Gearing (%)	-40.3	-62.9	-59.6	-62.9	-65.3
Operational Efficiency					
Days Sales in Receivables	124.0	107.0	107.0	107.0	107.0
Days in Inventory	0.12	0.30	0.30	0.30	0.30
Days in Payables	76.56	81.00	81.00	81.00	81.00
Cash Conversion Cycle	47.5	26.3	26.3	26.3	26.3
Asset Turnover (x)	1.56	1.62	1.55	1.53	1.52
Market Valuation					
Price / Earnings	11.15	10.63	9.28	8.51	8.18
Price / Book	2.60	2.34	1.97	1.72	1.53
Price / Sales	0.70	0.63	0.57	0.52	0.47
Price / Free Cash Flow	0.09	0.03	0.07	0.05	0.04
EV / EBITDA	7.29	5.92	4.70	3.93	3.41

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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