



Kingsmen Creatives Ltd

AmFraser

(Bloomberg: KMEN SP)

In a position of strength to forge growth

BUY

(Maintain)

LAST CLOSE: S\$0.795

FAIR VALUE: S\$0.87

(Previous : \$0.87)

Tuesday, 05 March 2013

Rationale for report: 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)	8.90	7.77	7.12	6.84
Div Yield (%)	5.0	5.7	6.3	6.3

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)	4.58	3.58	2.90	2.42

Stock Data

Issued Shares (m)	191.60
Market Cap (S\$m)	152.32
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

- S\$17.1mil PATMI within our expectations.** Kingsmen delivered S\$6.4mil worth of PATMI in 4QFY12, a seasonally strong quarter, bringing up full-year PATMI to S\$17.1mil which was within our expectations of S\$16.8mil. Kingsmen saw growth from all 4 business segments, particularly the two main pillars Exhibitions & Museums and Interiors, which grew 9.7% and 10.0% respectively in the topline.
- Key business Interiors grew 29.5% in segment profit and formed 68.5% of PBT.** The division generated strong profit growth, as Kingsmen's client-centric focus on brand retailers bears fruits. Kingsmen's store roll-out services are in high demand from key customers such as Abercrombie & Fitch, Dior, Fendi, H&M, Hollister and Uniqlo. The Interiors business now forms a huge majority of 68.5% of Kingsmen's profit before tax (PBT). We expect the business to continue to flourish, as retailers continue to expand their stores in Asia.
- Exhibitions and Museums division remains robust.** The division delivered 9.7% growth in revenues, but a 27.9% decline in segment profit to S\$4.6mil. The decline in profit was due to the giving of sponsorships worth S\$1.2mil, for the purpose of showcasing Kingsmen's works to clinch future projects. This investment has now yielded S\$4.0mil worth of jobs.
- Smaller segments exhibited stronger growth.** The Alternative Marketing and Research & Design divisions grew 31.0% and 19.0% YoY in revenues.
- Orderbook growth to pick up in 2Q and 3Q 2013.** As at 07 Feb 2013, Kingsmen has an orderbook of S\$81mil, compared with S\$106mil on 24 Feb 2012. The reason for a stronger orderbook in 2012 was due to projects F1, the Singapore Airshow and the USS-Sesame Street—worth S\$29mil. We expect orderbook to pick up in 2Q and 3Q of 2013, when tenders are awarded.
- Maintain BUY — FV of S\$0.87.** We remain positive on Kingsmen's growth prospects, expecting low double-digit growth in the top and bottomline in FY13-15F. Based on 8.5x FY13F EPS of 10.24c, we value Kingsmen at S\$0.87. We like Kingsmen for its strong net cash position, putting them in a good stead for handling jobs that require higher working capital needs. In addition, Kingsmen still offers an attractive forward yield of 5.7%. **BUY.**

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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	9.33	8.90	7.77	7.12	6.84
Price / Book	2.17	1.96	1.65	1.44	1.28
Price / Sales	0.58	0.52	0.48	0.43	0.39
Price / Free Cash Flow	0.07	0.03	0.05	0.04	0.04
EV / EBITDA	5.85	4.58	3.58	2.90	2.42

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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