

## Kingsmen Creatives (KMEN SP)

Consumer Cyclical - Consumer Services

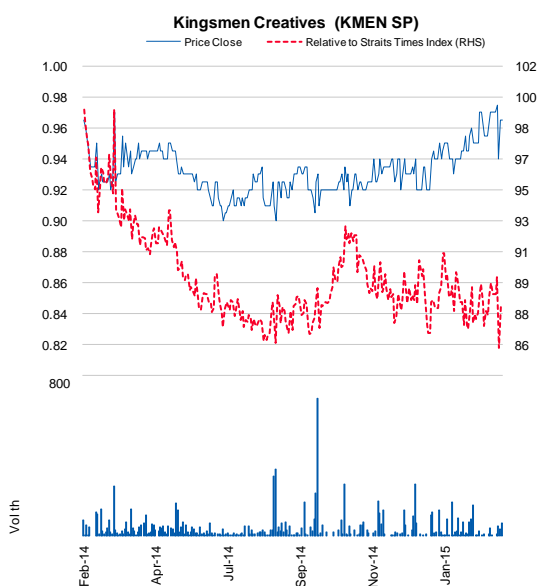
Market Cap: USD139m

**Buy** (Maintained)

 Target Price: **SGD1.06**

 Price: **SGD0.97**

### Exciting Theme Park Ride

 Macro ◆◆  
 Risks ◆◆  
 Growth ◆◆  
 Value ◆◆◆◆


Source: Bloomberg

Avg Turnover (SGD/USD)	0.03m/0.03m
Cons. Upside (%)	9.3
Upside (%)	9.5
52-wk Price low/high (SGD)	0.90 - 0.98
Free float (%)	40
Share outstanding (m)	194
<b>Shareholders (%)</b>	
Benedict Soh	23.7
Simon Ong	23.7
Delta Lloyd	12.0

#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	2.7	1.0	3.8	4.3	0.0
Relative	0.5	(0.2)	1.1	0.8	(11.4)

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**Kingsmen's FY14 was broadly in line with expectation. It achieved FY14 PATMI of SGD17.2m despite provisions for its China law-suit as well as the incorporation of its middle east vehicle as a subsidiary. Although we see signs of slowdown in the retail interior, we believe the company will have a more exciting FY15F with more projects coming from the thematic space. We maintain our BUY recommendation with TP SGD1.06 pegged to 10x FY15F P/E.**

- ◆ SGD17.2m, dragged down by a one-off higher than expected provision of SGD1.4m for its China law-suit. Incorporation of Middle East further contributed about 7ppt of the 13.4% increase in wages. We expect a bounced back in FY15F as the surge in theme park and museum projects in Middle East should improve margins from the region.
- ◆ **A change in segment contribution.** FY14 revenue grew 13.5% to SGD336.4m. This was led by a 31.7% growth in from superstar Exhibition & Museum segment offset by slower growth of 4.6% in the Interior segment. The rise in Exhibition & Museum revenue contribution however resulted in gross profit margin falling 30 bps in FY14. We expect this trend to continue into FY15F given the potential number of attraction projects in Asia and Middle East to be build.
- ◆ **Positive steps for long-term growth.** While theme parks yield lower margins, we think Kingsmen would be able to improve the gross margins in the long run as it takes on more significant projects such as Disney and Universal Studios to build its name and reputation. This would also help to mitigate slower growth in the Interior segment. To revive its Interior segment, Kingsmen is also looking at expanding its footprint into the United States as well as increase its manufacturing capabilities to export more fixtures.
- ◆ **BUY with TP SGD1.06.** We think FY15F would be an exciting year for Kingsmen with more theme parks and attractions project. Our EPS forecast remains unchanged and introduced FY17F estimates. Maintain BUY with TP SGD1.06 pegged to 10x FY15F P/E. We expect Kingsmen to maintain its healthy dividend of at least 4 cents per year.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (SGDm)	296	336	382	420	455
Reported net profit (SGDm)	17.7	17.2	20.5	22.0	24.0
Recurring net profit (SGDm)	17.7	18.5	20.5	22.0	24.0
Recurring net profit growth (%)	4.9	4.3	10.9	7.4	8.8
Recurring EPS (SGD)	0.09	0.10	0.11	0.11	0.12
DPS (SGD)	0.04	0.04	0.04	0.05	0.05
Recurring P/E (x)	10.5	10.1	9.1	8.5	7.8
P/B (x)	2.18	1.94	1.72	1.53	1.37
P/CF (x)	8	8	265	9	8
Dividend Yield (%)	4.1	4.1	4.4	4.7	5.1
EV/EBITDA (x)	5.66	5.08	5.56	4.77	4.00
Return on average equity (%)	22.3	18.8	19.9	19.0	18.5
Net debt to equity (%)		net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			0.0	0.0	0.0

Source: Company data, OSK-DMG

Figure 1: 4Q14 Results Summary

FYE Dec (SGDm)	4Q13	3Q14	4Q14	QoQ (%)	YoY (%)	FY13	FY14	YoY (%)	Comments
<b>Revenue</b>	<b>110.3</b>	<b>86.2</b>	<b>113.3</b>	<b>31.5</b>	<b>2.7</b>	<b>296.3</b>	<b>336.4</b>	<b>13.6</b>	YoY growth led by strong growth in exhibition & museum segment.
<b>EBITDA</b>	<b>8.9</b>	<b>5.2</b>	<b>7.5</b>	<b>44.0</b>	<b>(16.2)</b>	<b>19.1</b>	<b>17.6</b>	<b>(7.8)</b>	
<i>EBITDA Margin (%)</i>	8.1	6.0	6.6			6.4	5.2		
Depreciation & Amortisation	0.4	(0.5)	0.6	(205.8)	47.3	2.0	2.6	27.1	Higher depreciation due to increase in PPE
<b>EBIT</b>	<b>9.3</b>	<b>4.7</b>	<b>8.1</b>	<b>72.7</b>	<b>(13.5)</b>	<b>21.1</b>	<b>20.1</b>	<b>(4.4)</b>	
<i>EBIT Margin (%)</i>	8.4	5.4	7.1			7.1	6.0		Dragged down by higher staff costs especially in Middle East.
Net Interest	0.1	0.0	0.1	n.m	n.m	0.1	0.2	69.5	
JV and Associates	(0.7)	(0.7)	(0.2)	(75.4)	(75.1)	0.8	1.0	24.5	Weaker performance by Korean associate.
<b>Pretax profit</b>	<b>9.4</b>	<b>4.6</b>	<b>9.2</b>	<b>99.6</b>	<b>(1.8)</b>	<b>22.0</b>	<b>21.4</b>	<b>(3.0)</b>	
Tax	(1.2)	(1.0)	(1.3)	28.6	6.1	(3.6)	(3.6)	(0.8)	
<i>Effective tax rate (%)</i>						(16.5)	(16.8)		
Less: Minorities	0.0	(0.2)	(0.5)	n.m	n.m	(0.6)	(0.6)	(5.3)	
<b>PATMI</b>	<b>8.2</b>	<b>3.5</b>	<b>7.5</b>	<b>116.0</b>	<b>(9.3)</b>	<b>17.7</b>	<b>17.2</b>	<b>(3.3)</b>	
<b>Core PATMI</b>	<b>8.2</b>	<b>3.5</b>	<b>7.5</b>	<b>116.0</b>	<b>(9.3)</b>	<b>17.7</b>	<b>18.6</b>	<b>4.6</b>	One-off SGD1.4m of provision for China law suit.
<i>Net Margin (%)</i>	7.5	4.0	6.6			6.0	5.5		

Source: OSK-DMG compilation

## Financial Exhibits

<b>Profit &amp; Loss (SGDm)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
Total turnover	296	336	382	420	455
Cost of sales	(220)	(252)	(287)	(315)	(341)
<b>Gross profit</b>	<b>76</b>	<b>85</b>	<b>95</b>	<b>105</b>	<b>114</b>
Gen & admin expenses	(60)	(70)	(77)	(85)	(91)
Other operating costs	5	5	5	6	6
<b>Operating profit</b>	<b>21</b>	<b>20</b>	<b>24</b>	<b>26</b>	<b>28</b>
Operating EBITDA	23	23	26	28	30
Depreciation of fixed assets	(2)	(3)	(2)	(2)	(2)
<b>Operating EBIT</b>	<b>21</b>	<b>20</b>	<b>24</b>	<b>26</b>	<b>28</b>
Net income from investments	1	1	2	2	2
Interest income	0	0	1	0	0
Interest expense	(0)	(0)	(0)	(0)	(0)
<b>Pre-tax profit</b>	<b>22</b>	<b>21</b>	<b>25</b>	<b>27</b>	<b>30</b>
Taxation	(4)	(4)	(4)	(5)	(5)
Minority interests	(1)	(1)	(1)	(1)	(1)
<b>Profit after tax &amp; minorities</b>	<b>18</b>	<b>17</b>	<b>21</b>	<b>22</b>	<b>24</b>
<b>Reported net profit</b>	<b>18</b>	<b>17</b>	<b>21</b>	<b>22</b>	<b>24</b>
<b>Recurring net profit</b>	<b>18</b>	<b>19</b>	<b>21</b>	<b>22</b>	<b>24</b>

Source: Company data, OSK-DMG

<b>Cash flow (SGDm)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
<b>Operating profit</b>	<b>21</b>	<b>20</b>	<b>24</b>	<b>26</b>	<b>28</b>
<b>Depreciation &amp; amortisation</b>	<b>2</b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>2</b>
<b>Change in working capital</b>	<b>6</b>	<b>4</b>	<b>(21)</b>	<b>(2)</b>	<b>(2)</b>
Other operating cash flow	(1)	1	(0)	-	-
<b>Operating cash flow</b>	<b>28</b>	<b>28</b>	<b>5</b>	<b>26</b>	<b>29</b>
Interest received	0	0	1	0	0
Interest paid	(0)	(0)	(0)	(0)	(0)
Tax paid	(4)	(3)	(4)	(5)	(5)
<b>Cash flow from operations</b>	<b>24</b>	<b>25</b>	<b>1</b>	<b>21</b>	<b>24</b>
Capex	(5)	(2)	(20)	(2)	(1)
Other new investments	(1)	2	0	-	-
Other investing cash flow	-	-	(0)	-	-
<b>Cash flow from investing activities</b>	<b>(5)</b>	<b>(0)</b>	<b>(20)</b>	<b>(2)</b>	<b>(1)</b>
Dividends paid	(8)	(8)	(8)	(9)	(10)
Proceeds from issue of shares	2	0	-	-	-
Increase in debt	0	4	(0)	-	-
Other financing cash flow	(0)	(0)	(0)	-	-
<b>Cash flow from financing activities</b>	<b>(6)</b>	<b>(3)</b>	<b>(8)</b>	<b>(9)</b>	<b>(10)</b>
Cash at beginning of period	53	64	83	55	66
<b>Total cash generated</b>	<b>13</b>	<b>21</b>	<b>(28)</b>	<b>11</b>	<b>13</b>
<b>Implied cash at end of period</b>	<b>66</b>	<b>85</b>	<b>55</b>	<b>66</b>	<b>79</b>

Source: Company data, OSK-DMG

## Financial Exhibits

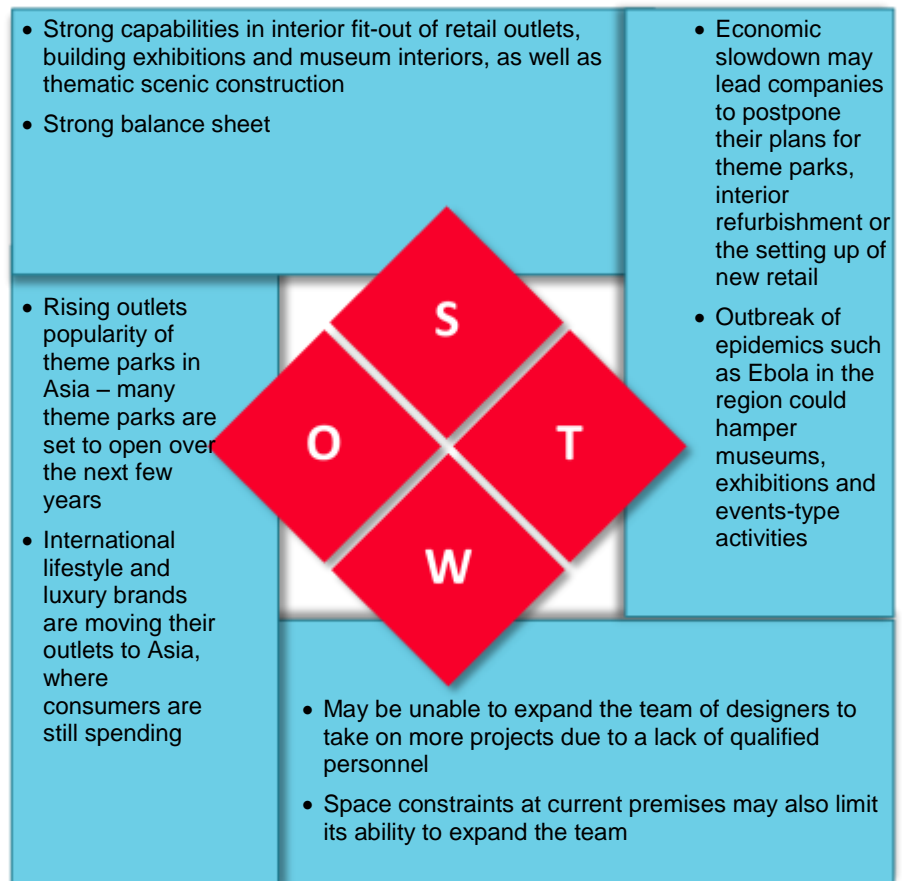
<b>Balance Sheet (SGDm)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
Total cash and equivalents	64	83	55	66	79
Inventories	2	2	2	2	3
Accounts receivable	115	108	147	162	175
Other current assets	1	1	1	1	1
<b>Total current assets</b>	<b>182</b>	<b>195</b>	<b>205</b>	<b>231</b>	<b>258</b>
Total investments	12	10	12	13	15
Tangible fixed assets	11	11	29	29	27
Intangible assets	5	8	8	8	8
Total non-current assets	28	29	49	50	50
<b>Total assets</b>	<b>209</b>	<b>224</b>	<b>254</b>	<b>281</b>	<b>309</b>
Short-term debt	3	5	5	5	5
Accounts payable	105	108	126	138	151
Other current liabilities	10	8	8	8	8
<b>Total current liabilities</b>	<b>118</b>	<b>121</b>	<b>138</b>	<b>151</b>	<b>163</b>
Total long-term debt	2	2	2	2	2
Other liabilities	1	1	1	1	1
<b>Total non-current liabilities</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>
<b>Total liabilities</b>	<b>120</b>	<b>123</b>	<b>140</b>	<b>153</b>	<b>166</b>
Share capital	23	24	24	24	24
Retained earnings reserve	66	75	87	100	115
Other reserves	(3)	(2)	(2)	(2)	(2)
<b>Shareholders' equity</b>	<b>86</b>	<b>97</b>	<b>109</b>	<b>122</b>	<b>137</b>
Minority interests	4	4	5	6	6
Other equity	-	-	(0)	-	0
<b>Total equity</b>	<b>89</b>	<b>101</b>	<b>114</b>	<b>128</b>	<b>143</b>
<b>Total liabilities &amp; equity</b>	<b>209</b>	<b>224</b>	<b>254</b>	<b>281</b>	<b>309</b>

Source: Company data, OSK-DMG

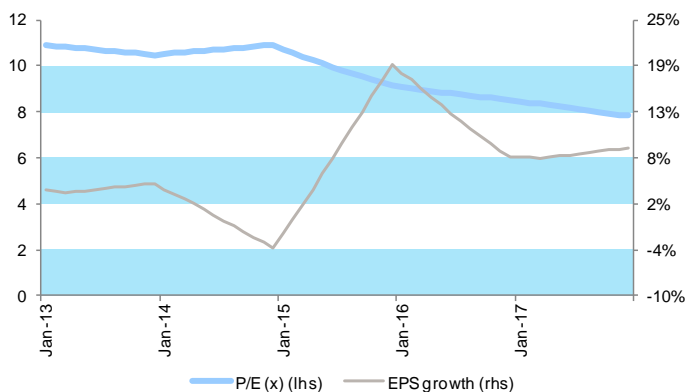
<b>Key Ratios (SGD)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
Revenue growth (%)	2.1	13.6	13.5	10.0	8.2
Operating profit growth (%)	3.9	(4.4)	17.6	8.7	8.8
Net profit growth (%)	4.9	(3.3)	19.6	7.4	8.8
EPS growth (%)	4.2	(4.0)	19.4	7.5	8.8
Bv per share growth (%)	14.8	12.4	13.0	12.1	11.8
Operating margin (%)	7.1	6.0	6.2	6.1	6.2
Net profit margin (%)	6.0	5.1	5.4	5.2	5.3
Return on average assets (%)	9.1	7.9	8.6	8.2	8.1
Return on average equity (%)	22.3	18.8	19.9	19.0	18.5
Net debt to equity (%)	(66.3)	(75.7)	(42.8)	(46.7)	(50.8)
DPS	0.04	0.04	0.04	0.05	0.05
Recurrent cash flow per share	0.13	0.13	0.00	0.11	0.12

Source: Company data, OSK-DMG

## SWOT Analysis

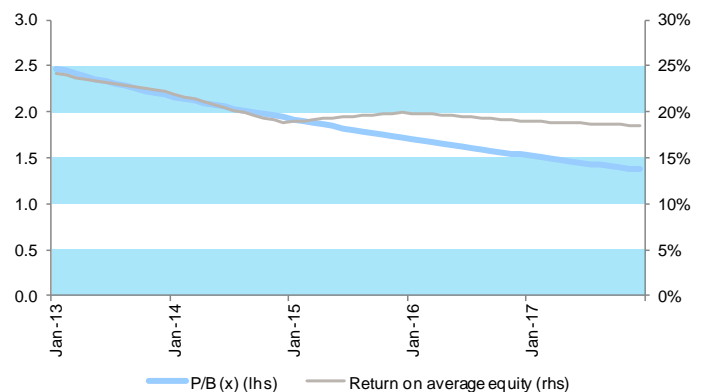


P/E (x) vs EPS growth



Source: Company data, OSK-DMG

P/BV (x) vs ROAE



Source: Company data, OSK-DMG

## Company Profile

Kingsmen Creatives, a regional communications design and production group, builds displays for exhibitions and provides interior fit-out services. Its interior division's clients are high-end brands such as Tiffany, Dior, Swarovski, Guess, Abercrombie & Fitch, Gucci, Robinsons and BMW. Its exhibitions & museum division is involved in thematic and scenic construction (theme parks). The company's projects include the construction of various attractions at Universal Studios Singapore and extension works at Hong Kong Disneyland.

## Recommendation Chart



Source: OSK-DMG, Bloomberg

Date	Recommendat	Target Price	Price
2014-11-14	Buy	1.05	0.94
2014-08-20	Buy	1.08	0.93
2014-03-04	Buy	1.10	0.94
2013-11-15	Buy	1.08	0.98
2013-08-16	Buy	1.08	0.91
2013-05-17	Buy	1.08	0.92
2013-03-05	Buy	0.93	0.81
2013-03-01	Buy	0.93	0.80
2013-03-01	Buy	0.93	0.80
2013-01-18	Buy	0.83	0.73

Source : OSK-DMG, Bloomberg

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**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months

**Take Profit:** Target price has been attained. Look to accumulate at lower levels

**Sell:** Share price may fall by more than 10% over the next 12 months

**Not Rated:** Stock is not within regular research coverage

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