

DMG & Partners Research  
INDUSTRIES

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## Stock Profile/Statistics

Bloomberg Ticker	KMEN SP
STI	2933.51
Issued Share Capital (m)	194.18
Market Capitalisation (S\$m)	116.51
52 week H   L Price (S\$)	0.74   0.50
Average Volume ('000)	65.41
YTD Returns (%)	7.14
Net gearing (%)	Net cash
Altman Z-Score	4.13
ROCE/WACC	3.97
Beta (x)	0.45
Book Value/share (S¢)	29.16

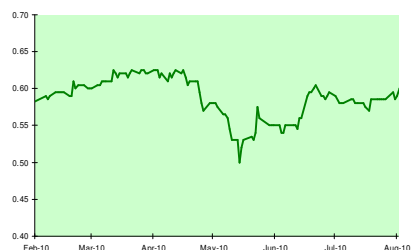
## Major Shareholders (%)

Benedict Soh	23.55
Simon Ong	23.55

## Share Performance (%)

Month	Absolute	Relative
1m	3.4	4.3
3m	4.3	1.6
6m	3.4	-2.9
12m	-7.0	-18.5

## 6-month Share Price Performance



## 2Q10 Results Review

Private Circulation Only

## KINGSMEN CREATIVES

BUY	Maintain
Price	S\$0.60
Target	S\$0.82

## A better 2H following strong 2Q

Net profit for 2Q10 grew 30.2% YoY (+101.3% QoQ) to S\$4.6m, on the back of a 21.9% YoY (+38.5% QoQ) growth in revenue to S\$64.6m. With 2H traditionally stronger than 1H, we can expect a better 2H10. It expects to complete fit out works for more boutiques (15 boutiques in 2H vs 13 in 1H) at the MBS Shoppes<sup>®</sup> by end 2010. Major events such as the Commonwealth Games 2010 in India and upgrading works for Hong Kong Disneyland will underpin the performance in 2H10. We have raised our revenue estimates by 5% to S\$17.3m for FY10, taking into consideration the pipeline of projects in 2H10. Hence, our earnings are also raised by 5%. Based on 9x PE, our TP is raised to S\$0.82 (from S\$0.77). Maintain BUY.

**Lower gross margins due to USS Phase 1.** Gross profit margin was slightly lower (2Q10: 27.6% vs 2Q09: 29.7%), as Kingsmen had booked in some work done for USS Phase 1 during the quarter. These relate to some minor additional works done, which were of lower margins than that recorded in 2Q09. However, better operating efficiencies helped improve EBIT margins (9.6% in 2Q10 vs 8.8% in 2Q09). Margins from subsequent phases of USS development is likely to be better, given that they are of smaller parcels compared with Phase 1. Although not awarded yet, Kingsmen is hopeful of securing a contract to work on USS Phase 2.

**Will be kept busy in the near term.** One of the more exciting projects in the pipeline is part of the extension works for Hong Kong Disneyland. Management highlighted that this contract is the first to be given out by Disneyland, which is testament to Kingsmen's capabilities in thematic and scenic construction. This would help Kingsmen in its pitch to handle the upcoming theme parks that are slated to open in the region. The on-going fit out works at MBS Shoppes<sup>®</sup> and the renewal of the Orchard Road shopping belt would keep Kingsmen busy in the near term.

FYE 31 Dec (S\$m)	FY07	FY08	FY09	FY10F	FY11F
Turnover	145.9	190.6	242.0	277.4	291.2
Net profit	9.4	14.2	14.9	17.3	18.8
% chg YoY	89.7%	51.4%	5.1%	16.0%	9.1%
EPS (S¢)	5.2	7.5	7.9	9.1	10.0
DPS (S¢)	2.0	3.0	3.5	3.0	3.0
Div Yield	3.3%	5.0%	5.8%	5.0%	5.0%
ROE	34.5%	36.1%	31.5%	32.1%	30.6%
ROA	11.9%	13.6%	12.0%	12.1%	12.0%
P/E (x)	11.4	8.0	7.6	6.6	6.0
P/B (x)	3.0	2.6	2.1	1.9	1.6

Source: Company and DMG Estimates

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## FINANCIAL SUMMARY

Year End 31 Dec (\$m)				
<b>Income Statement</b>				
	<b>2008</b>	<b>2009</b>	<b>2010F</b>	<b>2011F</b>
Revenue	190.6	242.0	277.4	291.2
Cost of sales	(132.0)	(182.5)	(202.5)	(208.2)
Other Operating Income	2.7	3.5	4.2	4.4
Depreciation	(2.1)	(1.8)	(1.8)	(2.2)
Salaries and related costs	(29.9)	(32.8)	(40.2)	(45.1)
Other operating expenses	(10.5)	(10.0)	(15.3)	(16.3)
Financial income, net	(0.0)	0.0	(0.0)	0.0
Share of Associates	0.3	0.3	0.3	0.4
<b>Profit Before Taxes</b>	<b>19.0</b>	<b>18.9</b>	<b>22.1</b>	<b>24.1</b>
Income Tax Expense	(3.5)	(3.2)	(4.0)	(4.3)
Minority Interest	(1.3)	(0.8)	(0.9)	(0.9)
<b>Net Income</b>	<b>14.2</b>	<b>14.9</b>	<b>17.3</b>	<b>18.8</b>
<b>Balance Sheet</b>				
	<b>2008</b>	<b>2009</b>	<b>2010F</b>	<b>2011F</b>
Fixed Assets	12.2	9.8	12.1	14.9
Intangibles	6.8	6.4	6.6	6.3
Interests in Associates	6.2	6.6	6.6	6.6
Others	1.9	0.8	0.8	0.8
<b>Non-Current Assets</b>	<b>27.1</b>	<b>23.6</b>	<b>26.0</b>	<b>28.6</b>
Inventories	0.0	0.1	0.1	0.1
Contracts Work-in Progress	7.6	10.1	12.5	13.1
Receivables	46.3	81.6	86.4	97.5
Cash and Cash Equivalents	28.2	22.8	23.6	25.7
<b>Current Assets</b>	<b>82.2</b>	<b>114.6</b>	<b>122.5</b>	<b>136.4</b>
<b>Total Assets</b>	<b>109.3</b>	<b>138.2</b>	<b>148.5</b>	<b>165.0</b>
Share Capital	23.3	23.3	23.3	23.3
Treasury Shares	(1.9)	(1.9)	(1.9)	(1.9)
Reserves	21.3	30.5	34.2	46.3
<b>Shareholders Fund</b>	<b>42.7</b>	<b>51.9</b>	<b>55.7</b>	<b>67.7</b>
Minority Interest	2.7	3.0	3.1	3.1
<b>Shareholders Equity</b>	<b>45.4</b>	<b>54.9</b>	<b>58.7</b>	<b>70.8</b>
Loan and Borrowings	0.6	0.3	0.2	0.2
Others	0.1	0.1	-	-
Deferred Tax Liabilities	0.9	0.9	0.9	0.9
<b>Non-Current Liabilities</b>	<b>1.6</b>	<b>1.3</b>	<b>1.1</b>	<b>1.1</b>
Payables	50.4	69.7	74.3	77.1
Interest-bearing Borrowings	0.8	1.0	1.0	0.9
Contracts Work-in Progress	2.9	2.6	5.5	5.8
Income Taxes Payable	4.9	5.3	4.0	4.3
Deferred income	3.2	3.3	3.8	4.8
<b>Current Liabilities</b>	<b>62.3</b>	<b>82.0</b>	<b>88.7</b>	<b>93.0</b>
<b>Total Liabilities</b>	<b>63.8</b>	<b>83.3</b>	<b>89.8</b>	<b>94.1</b>
<b>Total Equity and Liabilities</b>	<b>109.3</b>	<b>138.2</b>	<b>148.5</b>	<b>164.9</b>
<b>Cash Flow</b>				
	<b>2008</b>	<b>2009</b>	<b>2010F</b>	<b>2011F</b>
<b>Profit Before Taxation</b>	<b>19.0</b>	<b>18.9</b>	<b>22.1</b>	<b>24.1</b>
Non-cash items	5.2	3.7	1.7	2.1
Changes in Working Capital	3.8	(18.5)	(5.5)	(9.3)
Income Tax Paid	(2.2)	(2.7)	(5.3)	(4.0)
Interest Paid	(0.2)	(0.1)	(0.1)	(0.1)
Interest Received	0.1	0.1	0.1	0.1
<b>Net cash from operations</b>	<b>25.7</b>	<b>1.4</b>	<b>13.0</b>	<b>12.9</b>
Purchase of Fixed Assets	(11.2)	(1.4)	(4.0)	(5.0)
Proceeds from Sale of Assets	0.7	0.1	-	-
Others	(0.7)	1.0	-	-
Dividends Received	0.1	0.1	-	-
<b>Net cash from investments</b>	<b>(11.1)</b>	<b>(0.3)</b>	<b>(4.0)</b>	<b>(5.0)</b>
Dividends Paid	(6.9)	(6.0)	(5.7)	(5.7)
Proceeds from Issue of Shares	1.6	-	-	-
Proceeds from/(Repayment of) Loan	(0.7)	(0.5)	(0.1)	(0.1)
Others	(1.9)	(1.9)	-	-
<b>Net cash from financing</b>	<b>(7.9)</b>	<b>(8.5)</b>	<b>(5.8)</b>	<b>(5.8)</b>
Net increase / (decrease) in cash	6.7	(7.5)	3.2	2.1
Cash (beginning)	21.1	27.9	20.3	23.6
<b>Cash (end)</b>	<b>27.9</b>	<b>20.3</b>	<b>23.6</b>	<b>25.7</b>
<b>Ratios</b>				
	<b>2008</b>	<b>2009</b>	<b>2010F</b>	<b>2011F</b>
<b>Growth &amp; Margin (%)</b>				
Revenue Growth	30.6	27.0	14.6	5.0
EBIT Growth	54.2	(0.8)	17.2	8.9
EBIT Margin	9.8	7.7	7.8	8.1
Pretax Profit Growth	51.3	(0.2)	16.9	8.9
Pretax Profit Margin	10.0	7.8	8.0	8.3
Tax rate	18.6	(17.0)	(18.0)	(18.0)
Net Income Growth	51.4	5.1	16.0	9.1
<b>Revenue Breakdown</b>				
	<b>2008</b>	<b>2009</b>	<b>2010F</b>	<b>2011F</b>
Exhibitions and Museums	90.2	133.9	147.2	154.6
Interiors	88.7	93.7	114.7	120.5
Research and Design	5.9	5.8	6.2	6.5
Integrated Marketing				
Communications	5.8	8.8	9.2	9.7
<b>Total</b>	<b>190.6</b>	<b>242.0</b>	<b>277.4</b>	<b>291.2</b>

Source: Company and DMG estimates

**DMG & Partners Research Guide to Investment Ratings**

**Buy:** Share price may exceed 10% over the next 12 months

**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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| a) Nil  |         |
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