


DMG & Partners Research
INDUSTRIES

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Industries

A regional communications design and production group. Builds displays for exhibitions and provides interior fit-out services.

Stock Profile/Statistics

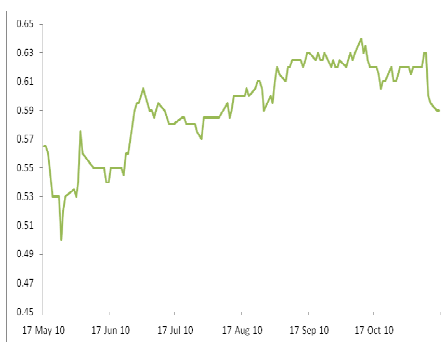
Bloomberg Ticker	KMEN SP
STI	3,213.5
Issued Share Capital (m)	194.2
Market Capitalisation (S\$m)	114.6
52 week H L Price (S\$)	0.64 0.50
Average Volume ('000)	157.7
YTD Returns (%)	5.4
Net gearing (%)	Net cash
Altman Z-Score	3.8
ROCE/WACC	4.7
Beta (x)	0.4
Book Value/share (S¢)	31.5

Major Shareholders (%)

O-Vest Pte Ltd	19.6
Islanda Pte Ltd	19.6

Share Performance (%)

Month	Absolute	Relative
1m	-4.8%	-5.2%
3m	-1.7%	-11.3%
6m	2.6%	-10.0%
12m	6.3%	-9.2%

6-month Share Price Performance

3Q10 Results Review

Private Circulation Only

KINGSMEN CREATIVES

BUY	↔
Price	S\$0.59
Previous	S\$0.82
Target	S\$0.76

Slight margin squeeze, expect strong 4Q

Kingsmen reported 3Q10 net earnings of S\$2.6m (-16.9% YoY, -44.4% QoQ) on the back of S\$67.7m in revenue (+7.6% YoY, +4.7% QoQ), which were below expectations. Net margin contraction from 4.9% in 3Q09 to 3.8% in 3Q10 was due to the stronger SGD, higher staff costs as well as cost overruns from its Exhibitions division. We remain bullish on the stock as we believe 4Q10 will come in strong. Last year, 4Q09 made up 40% of FY09 earnings and we expect the same this year. We have trimmed our FY10 earnings by 13.3% to S\$15.0m and FY11 earnings by 15.4% to S\$15.9m to take into account further translation losses arising from the strong SGD. We are rolling over our valuations to FY11 and based on 9x FY11F earnings, we derive a new TP of S\$0.76 (previously S\$0.82), which provides an upside of 28%. **Maintain BUY.**

3Q10 Revenue +7.6% to S\$67.7m. 3Q10 revenue was largely boosted by a 63.7% YoY revenue growth in its Interiors division to S\$37.0m which was driven by a flurry of interior fit out works for the retail outlets at the Marina Bay. This was however offset by a 25.9% YoY decline in revenue from its Exhibitions division. The decline was due to the high base achieved last year from a major contribution from the Universal Studios. The Research and Design division and Integrated Marketing Communications division registered stable YoY growth.

Stronger SGD led to margin contraction. 3Q10 gross margins were down 4.6ppt from 26.4% in 3Q09 to 21.8% in 3Q10. Margin contraction is attributable to: (1) translation losses arising from a stronger Sing dollar; (2) higher staff costs; (3) higher rentals and; (4) cost over-runs in its exhibitions divisions. Management expects gross margins to remain lower in 4Q10 due to the continued strength of the SGD. We have assumed 5.6% net margins for FY10, compared against our previous assumption of 6.2%.

Expect strong 4Q. 4Q is seasonally the strongest quarter for the Group and last year, 4Q09 earnings of S\$5.9m made up 40% of FY09 earnings. We expect a similarly strong 4Q10.

FYE 31 Dec (S\$m)	FY07	FY08	FY09	FY10F	FY11F
Turnover	145.9	190.6	242.0	270.6	279.5
Net profit	9.4	14.2	14.9	15.0	15.9
% chg YoY	89.7%	51.4%	5.1%	0.8%	6.0%
DMG/Consensus				-6.3%	-9.1%
EPS (S¢)	5.2	7.5	7.9	7.9	8.4
DPS (S¢)	2.0	3.0	3.5	3.0	3.0
Div Yield	3.4%	5.1%	5.9%	5.1%	5.1%
ROE (%)	34.5%	36.1%	31.5%	28.5%	27.5%
ROA (%)	11.9%	13.6%	12.0%	10.5%	10.2%
P/E (x)	11.2	7.9	7.5	7.4	7.0
P/B (x)	3.0	2.5	2.0	1.9	1.6

Source: Company and DMG Estimates

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Figure 1: 3Q10 Results

FYE Dec (\$m)	3Q10	3Q09	2Q10	YoY %	QoQ %	Remarks
Revenue	67.7	62.9	64.6	7.6%	4.7%	Boosted by a 63.7% YoY growth in the Interiors division but offset by 25.9% YoY decline in its Exhibitions and Museums division
Cost of Sales	(52.9)	(48.3)	(46.8)	9.5%	13.0%	
Gross Profit	14.8	14.6	17.8	1.2%	-17.1%	GP margins was down 4.6ppt from 26.4% in 3Q09 to 21.8% in 3Q10
Other operating income	0.6	0.6	1.1	-7.0%	-45.1%	
Depreciation of PPE	(0.4)	(0.4)	(0.4)	-7.9%	-8.7%	
Salaries and related expenses	(8.2)	(7.9)	(9.1)	3.3%	-10.5%	
Other operating expenses	(3.2)	(2.7)	(3.1)	18.7%	2.6%	
EBIT	3.6	4.2	6.2	-14.1%	-41.9%	
Financial expenses	(0.0)	(0.0)	(0.0)	-50.0%	-41.7%	
Financial income	0.0	0.0	0.1	157.1%	-28.0%	
Profit before share of associates	3.6	4.2	6.2	-13.2%	-41.8%	
Share of results of associates	(0.2)	(0.3)	0.1	-15.2%	-298.2%	Losses incurred by Kingsmen Middle East LLC & Kingsmen Nikko Ltd
PBT	3.4	3.9	6.4	-13.1%	-46.2%	
Taxation	(0.7)	(0.7)	(1.1)	-0.6%	-38.2%	
PAT	2.7	3.2	5.2	-15.9%	-48.0%	
Minority interests	(0.1)	(0.1)	(0.6)	7.5%	-76.0%	
PATMI	2.6	3.1	4.6	-16.9%	-44.4%	Below expectations

Source: Company

Figure 2: 3Q10 Revenue by Business Unit

Revenue by Segment	3Q10	3Q09	2Q10	YoY %	QoQ %	Remarks
Exhibitions and Museums	27.8	37.5	29.2	-25.9%	-4.8%	During 3Q10, Group delivered works for the Youth Olympic Games in August 2010 & the F1 Singapore Grand Prix in September 2010.
Interiors	37	22.6	32.3	63.7%	14.6%	Contributors YTD includes key customers and brand names such as Aldo, Bottega Veneta, Burberry, Chanel, The Hour Glass, etc
Research and Design	1.3	1.3	1.3	0.0%	0.0%	
Integrated Marketing Communications	1.5	1.5	1.8	0.0%	-16.7%	
Total Revenue	67.6	62.9	64.6	7.5%	4.6%	

Source: Company

Figure 3: 4Q10F

	1Q10	2Q10	3Q10	9M10	4Q10F	2010F
Revenue	46.7	64.6	67.7	179.0	91.6	270.6
Cost of Sales	(34.4)	(46.8)	(52.9)	(134.1)	(68.0)	(202.1)
Gross Profit	12.3	17.8	14.8	44.9	23.6	68.5
Other operating income	0.7	1.1	0.6	2.4	1.4	3.8
Depreciation of PPE	(0.4)	(0.4)	(0.4)	(1.2)	(0.6)	(1.8)
Salaries and related expenses	(7.3)	(9.1)	(8.2)	(24.6)	(13.8)	(38.4)
Other operating expenses	(2.4)	(3.1)	(3.2)	(8.6)	(4.4)	(13.0)
EBIT	2.9	6.2	3.6	12.8	6.2	19.0
Financial expenses	(0.0)	(0.0)	(0.0)	(0.1)	(0.1)	(0.1)
Financial income	0.0	0.1	0.0	0.1	0.0	0.1
Profit before share of associates	2.9	6.2	3.6	12.9	6.1	19.0
Share of results of associates	(0.0)	0.1	(0.2)	(0.2)	0.5	0.3
PBT	2.9	6.4	3.4	12.7	6.6	19.4
Taxation	(0.6)	(1.1)	(0.7)	(2.5)	(1.0)	(3.5)
PAT	2.3	5.2	2.7	10.3	5.6	15.9
Minority interests	0.0	(0.6)	(0.1)	(0.7)	(0.1)	(0.9)
PATMI	2.3	4.6	2.6	9.5	5.5	15.0

Source: Company & DMG estimates

Financial Table

Income Statement					Cash Flow Statement				
	2008	2009	2010F	2011F		2008	2009	2010F	2011F
Revenue	190.6	242.0	270.6	279.5	Profit Before Taxation	19.0	18.9	19.4	20.5
Cost of sales	(132.0)	(182.5)	(202.1)	(208.2)	Non-cash items	5.2	3.7	1.7	2.1
Other Operating Income	2.7	3.5	3.8	3.9	Changes in Working Capital	3.8	(18.5)	(5.8)	(9.3)
Depreciation	(2.1)	(1.8)	(1.8)	(2.2)	Income Tax Paid	(2.2)	(2.7)	(5.3)	(3.5)
Salaries and related costs	(29.9)	(32.8)	(38.4)	(39.7)	Interest Paid	(0.2)	(0.1)	(0.1)	(0.1)
Other operating expenses	(10.5)	(10.0)	(13.0)	(13.1)	Interest Received	0.1	0.1	0.1	0.1
Financial income, net	-	0.0	(0.0)	0.0	Net cash from operations	25.7	1.4	10.0	9.8
Share of Associates	0.3	0.3	0.3	0.4	Purchase of Fixed Assets	(11.2)	(1.4)	(4.0)	(5.0)
Profit Before Taxes	19.0	18.9	19.4	20.5	Proceeds from Sale of Assets	0.7	0.1	-	-
Income Tax Expense	(3.5)	(3.2)	(3.5)	(3.7)	Others	(0.7)	1.0	-	-
Minority Interest	(1.3)	(0.8)	(0.9)	(0.9)	Dividends Received	0.1	0.1	-	-
Net Income	14.2	14.9	15.0	15.9	Net cash from investments	(11.1)	(0.3)	(4.0)	(5.0)
Balance Sheet					Dividends Paid	(6.9)	(6.0)	(5.7)	(5.7)
	2008	2009	2010F	2011F	Proceeds from Issue of Shares	1.6	-	-	-
Fixed Assets	12.2	9.8	12.1	14.9	Proceeds from/(Repayment of) Loan	(0.7)	(0.5)	(0.1)	(0.1)
Intangibles	6.8	6.4	6.6	6.3	Others	(1.9)	(1.9)	-	-
Interests in Associates	6.2	6.6	6.6	6.6	Net cash from financing	(7.9)	(8.5)	(5.8)	(5.8)
Others	1.9	0.8	0.8	0.8	Net increase / (decrease) in cash	6.7	(7.5)	0.3	(1.0)
Non-Current Assets	27.1	23.6	26.0	28.6	Cash (beginning)	21.1	27.9	20.3	20.6
Inventories	0.0	0.1	0.1	0.1	Cash (end)	27.9	20.3	20.6	19.6
Contracts Work-in Progress	7.6	10.1	12.2	12.6	Growth & Margins				
Receivables	46.3	81.6	86.2	97.2		2008	2009	2010F	2011F
Cash and Cash Equivalents	28.2	22.8	23.6	25.7	Revenue Growth	30.6	27.0	11.8	3.3
Current Assets	82.2	114.6	122.0	135.6	EBIT Growth	54.2	(0.8)	2.4	5.8
Total Assets	109.3	138.2	148.1	164.1	EBIT Margin	9.8	7.7	7.0	7.2
Share Capital	23.3	23.3	23.3	23.3	Pretax Profit Growth	51.3	(0.2)	2.3	5.9
Treasury Shares	(1.9)	(1.9)	(1.9)	(1.9)	Pretax Profit Margin	10.0	7.8	7.2	7.3
Reserves	21.3	30.5	32.0	41.1	Tax rate	18.6	(17.0)	(18.0)	(18.0)
Shareholders Fund	42.7	51.9	53.4	62.5	Net Income Growth	51.4	5.1	0.8	6.0
Minority Interest	2.7	3.0	3.1	3.1	Breakdown				
Shareholders Equity	45.4	54.9	56.5	65.6		2008	2009	2010F	2011F
Loan and Borrowings	0.6	0.3	0.2	0.2	Exhibitions and Museums	90.2	133.9	125.8	132.1
Others	0.1	0.1	-	-	Interiors	88.7	93.7	131.1	133.8
Deferred Tax Liabilities	0.9	0.9	0.9	0.9	Research and Design	5.9	5.8	5.5	5.5
Non-Current Liabilities	1.6	1.3	1.1	1.1	Integrated Marketing Communications	5.8	8.8	8.1	8.1
Payables	50.4	69.7	73.5	75.8	Total	190.6	242.0	270.6	279.5
Interest-bearing Borrowings	0.8	1.0	1.0	0.9					
Contracts Work-in Progress	2.9	2.6	5.4	5.6					
Income Taxes Payable	4.9	5.3	3.5	3.7					
Deferred income	3.2	3.3	3.8	4.8					
Current Liabilities	62.3	82.0	87.2	90.8					
Total Liabilities	63.8	83.3	88.3	91.9					
Total Equity & Liab	109.3	138.2	144.8	157.5					

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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|---------|---------|
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