


DMG & Partners Research
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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

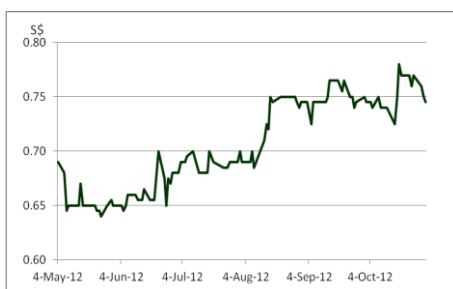
Bloomberg Ticker	KMEN SP
STI	3032.1
Issued Share Capital (m)	191.6
Market Capitalisation (S\$m)	142.8
52 week H L Price (S\$)	0.805 0.545
Average Volume ('000)	83.3
YTD Returns (%)	29.6
Net gearing (%)	Net cash
Altman Z-Score	3.4
ROCE/WACC	-0.1
Beta (x)	0.5
Book Value/share (S¢)	36.0

Major Shareholders (%)

O-Vest Pte Ltd	19.6
Islanda Pte Ltd	19.6

Share Performance (%)

Month	Absolute	Relative
1m	0.7	3.1
3m	8.0	8.6
6m	8.0	6.6
12m	28.4	22.0

6-month Share Price Performance

3Q12 Results Review

Private Circulation Only

KINGSMEN CREATIVES

BUY	↔
Price	S\$0.77
Previous Target	S\$0.83
Target	↔ S\$0.83

Weak 3Q, but 4Q expected to make up for it

3Q12 PATMI was 21.5% YoY (32.4% QoQ) lower, at S\$3.5m, as revenue fell 18.0% YoY (0.6% QoQ) to S\$70.4m, due to more projects that were on-going in 3Q12. Revenue from these projects would be recognised in 4Q12. Kingsmen continues to secure more contracts. In 3Q12, it secured an additional S\$36m worth, to be fulfilled in FY12. This indicates that 4Q is likely to be stronger, leading to earnings growth in FY12. We are keeping our estimates intact, and remain positive on Kingsmen, given its pipeline of projects in the theme parks arena. Kingsmen is currently trading at 8.0x forward earnings, or 5.4x ex-cash (peer average: 6x). Maintain BUY with TP of S\$0.83, based on 7x FY13F earnings (ex-cash).

4Q expected to be much busier. During 3Q11, there were more large projects carried out. Hence, 3Q11 was exceptionally strong. Moreover, during 3Q12, most of its projects were in the on-going stage, whereby revenue has not been billed. Revenue for these projects would be recognised in 4Q12. Coupled with the usual activities for the Interiors division in the run up to the festive season, 4Q12 is expected to be strong.

Theme parks to dominate next few years. Despite the global economic downturn, demand for the Interiors division is expected to remain healthy as there continues to be refurbishment works to be done. Its move to break into the thematic and scenic construction sector is proving to be a good one. Going forward, thematic and scenic construction activities are expected to fill up Kingsmen's orderbook, as more theme parks in the region are slated to be open over the next few years. A number of new theme parks are scheduled to open in Asia over the next few years, targeting Asia's rapidly growing middle class.

Maintain BUY. Kingsmen continues to be engaged with a number of exhibitions and events that will carry through to next year. Its close relationships with customers in the retail industry allow it to continue generating revenue despite the slowdown.

FYE 31 Dec (S\$m)	FY09	FY10	FY11	FY12F	FY13F
Turnover	242.0	235.2	261.0	282.9	296.6
Net profit	14.9	15.1	16.3	17.3	18.3
% chg YoY	5.1	1.1	8.4	5.9	6.2
Consensus				17.4	18.8
EPS (S¢)	7.9	8.0	8.6	8.9	9.4
DPS (S¢)	3.5	4.0	4.0	4.0	4.0
Div Yield (%)	4.5	5.2	5.2	5.2	5.2
ROE (%)	31.5	29.1	26.3	25.1	24.3
ROA (%)	12.0	10.6	10.4	10.1	10.1
P/E (x)	10.0	9.7	9.0	8.5	8.0
P/B (x)	2.7	2.5	2.1	2.0	1.8

Source: Company data and DMG Estimates

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Updates

Singapore's MICE industry still healthy. Despite the global economic slowdown, Singapore's MICE sector is expected to continue to grow next year. In fact, the economic downturn in Europe could be an opportunity for Europe-based organisers to hold their events in Singapore, to reach out to the Asia Pacific region. Having recently been awarded the Lifetime Achievement Award from the STB, we believe Kingsmen is in a good position to secure contracts for upcoming MICE events.

New rules on foreign labour not likely to have much impact. Kingsmen's foreign labour headcount is still well within the quota set by the government. Even with the latest tightening of the rules, Kingsmen does not expect to be significantly affected as most of the staff involved in its projects (e.g. project managers) are locals, and management believes it can easily restructure its operations to base its foreign manpower outside of Singapore.

Figure 1: Quarterly financials

YE 31 Dec (\$m)	3Q12	3Q11	YoY %	2Q12	QoQ %	Remarks
Revenue	70.4	86.3	-18.3%	70.9	-0.6%	Below expectations. Lower revenue was due to timing issue in recognition. Margins were lower as most larger projects had been completed in 2Q12.
Cost of sales	(54.1)	(67.4)	-19.8%	(51.4)	5.3%	
Gross profit	16.4	18.8	-13.2%	19.5	-16.2%	
Other Operating Income	1.0	0.7	36.0%	0.9	15.4%	
Depreciation	(0.4)	(0.4)	3.9%	(0.4)	-4.5%	
Salaries and related costs	(9.9)	(10.5)	-6.2%	(10.6)	-7.1%	
Other operating expenses	(3.1)	(3.5)	-9.5%	(3.3)	-4.2%	
Operating profit	4.0	5.2	-23.8%	6.1	-34.6%	
Financial income, net	(0.0)	(0.0)	-94.9%	(0.0)	-60.0%	
Share of Associates	0.4	0.3	42.1%	0.4	0.5%	
Profit Before Taxes	4.4	5.5	-19.7%	6.5	-32.3%	
Income Tax Expense	(0.8)	(1.0)	-21.8%	(1.3)	-38.5%	
Minority Interest	(0.1)	(0.0)	264.7%	(0.1)	96.8%	
Net Income	3.5	4.5	-21.5%	5.2	-32.4%	As a result, earnings were below expectations.
Margins (%)						
Gross profit	23.2%	21.8%	1.4ppt	27.5%	-4.3ppt	
EBIT	5.7%	6.1%	-0.4ppt	8.6%	-2.9ppt	
PBT	6.2%	6.4%	-0.1ppt	9.2%	-2.9ppt	
PATMI	5.0%	5.2%	-0.2ppt	7.3%	-2.3ppt	

Source: Company

FINANCIAL SUMMARY

Year End 31 Dec (\$m)				
Income Statement				
	2010	2011	2012F	2013F
Revenue	233.6	261.0	282.9	296.6
Cost of sales	(169.8)	(194.3)	(205.7)	(215.6)
Other Operating Income	4.3	3.9	4.2	4.4
Depreciation	(1.6)	(1.5)	(3.3)	(3.2)
Salaries and related costs	(35.4)	(37.9)	(43.8)	(46.0)
Other operating expenses	(11.6)	(12.0)	(13.3)	(13.9)
Financial income, net	0.1	0.1	0.0	0.1
Share of Associates	0.1	0.6	0.6	0.6
Profit Before Taxes	19.7	19.8	21.6	22.9
Income Tax Expense	(3.5)	(3.1)	(3.9)	(4.1)
Minority Interest	(1.1)	(0.4)	(0.4)	(0.4)
Net Income	15.1	16.3	17.3	18.3
Balance Sheet				
	2010	2011	2012F	2013F
Fixed Assets	11.9	11.2	10.9	10.6
Intangibles	5.5	5.3	5.0	4.7
Interests in Associates	7.1	7.7	7.7	7.7
Others	0.6	1.5	0.5	0.5
Non-Current Assets	25.1	25.7	24.2	23.7
Inventories	0.1	0.1	0.1	0.1
Contracts Work-in Progress	14.0	11.3	12.2	13.0
Receivables	76.4	96.7	95.3	106.6
Cash and Cash Equivalents	29.9	33.2	42.8	46.6
Current Assets	120.4	141.4	150.4	166.3
Total Assets	145.6	167.1	174.5	190.0
Share Capital	23.3	23.3	23.3	23.3
Treasury Shares	(1.6)	(1.2)	(1.2)	(1.2)
Reserves	35.4	44.8	49.1	58.4
Shareholders Fund	57.1	66.9	71.2	80.4
Minority Interest	2.3	2.6	2.6	2.7
Shareholders Equity	59.4	69.5	73.8	83.1
Loan and Borrowings	2.0	2.1	1.9	1.7
Others	0.1	0.1	0.1	0.1
Deferred Tax Liabilities	1.2	0.8	0.8	0.8
Non-Current Liabilities	3.2	3.0	2.8	2.6
Payables	68.0	78.0	81.6	86.4
Interest-bearing Borrowings	3.3	3.1	2.9	2.8
Contracts Work-in Progress	2.8	2.4	3.1	3.0
Income Taxes Payable	5.3	6.0	3.9	4.1
Deferred income	3.6	5.1	6.3	7.9
Current Liabilities	82.9	94.6	97.9	104.2
Total Liabilities	86.2	97.6	100.7	106.8
Total Equity and Liabilities	145.6	167.1	174.5	189.9

Cash Flow				
	2010	2011	2012F	2013F
Profit Before Taxation	19.7	19.8	21.7	23.0
Non-cash items	4.4	3.2	2.9	2.8
Changes in Working Capital	(0.6)	(7.5)	3.5	(7.3)
Income Tax Paid	(3.3)	(2.7)	(6.0)	(3.9)
Interest Paid	(0.1)	(0.2)	(0.2)	(0.1)
Interest Received	0.2	0.2	0.3	0.3
Net cash from operations	20.3	12.9	22.3	14.8
Purchase of Fixed Assets	(6.2)	(2.8)	(3.0)	(3.0)
Proceeds from Sale of Assets	0.1	0.1	-	-
Others	(3.7)	-	-	-
Dividends Received	0.0	0.1	-	-
Net cash from investments	(9.7)	(2.6)	(3.0)	(3.0)
Dividends Paid	(7.0)	(7.8)	(7.7)	(7.7)
Proceeds from Issue of Shares	0.5	0.5	-	-
Proceeds from/(Repayment of) Loan	4.1	(0.0)	(0.4)	(0.3)
Others	0.5	0.2	-	-
Net cash from financing	(1.9)	(7.2)	(8.0)	(8.0)
Net increase / (decrease) in cash	8.6	3.1	11.3	3.8
Cash (beginning)	20.3	28.0	31.6	42.8
Cash (end)	28.0	31.6	42.8	46.6

Ratios				
	2010	2011	2012F	2013F
Growth & Margin (%)				
Revenue Growth	(3.5)	11.7	8.4	4.8
EBIT Growth	5.0	(1.7)	9.3	5.9
EBIT Margin	8.4	7.4	7.4	7.5
Pretax Profit Growth	4.1	0.5	9.5	6.0
Pretax Profit Margin	8.4	7.6	7.7	7.8
Tax rate	(18.0)	(15.4)	(18.0)	(18.0)
Net Income Growth	1.1	8.4	6.3	6.2

Revenue Breakdown				
	2010	2011	2012F	2013F
Exhibitions and Museums	104.8	99.4	109.3	114.8
Interiors	115.4	144.1	155.6	163.4
Research and Design	6.4	8.6	9.0	9.5
Integrated Marketing Communications	7.0	8.9	8.9	8.9
Total	233.6	261.0	282.9	296.6

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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