


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

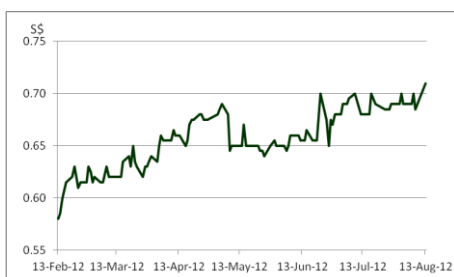
Bloomberg Ticker	KMEN SP
STI	3064.8
Issued Share Capital (m)	191.6
Market Capitalisation (S\$m)	136.1
52 week H L Price (S\$)	0.715 0.53
Average Volume ('000)	65.0
YTD Returns (%)	23.5
Net gearing (%)	Net cash
Altman Z-Score	3.4
ROCE/WACC	(0.1)
Beta (x)	0.5
Book Value/share (S¢)	36.1

Major Shareholders (%)

O-Vest Pte Ltd	19.6
Islanda Pte Ltd	19.6

Share Performance (%)

Month	Absolute	Relative
1m	4.4	2.1
3m	9.2	2.9
6m	22.4	19.4
12m	31.5	24.0

6-month Share Price Performance

2Q12 Results Review

Private Circulation Only

KINGSMEN CREATIVES

BUY	↔
Price	S\$0.71
Previous Target	S\$0.76
	↕ S\$0.83

An impressive 2Q; Strong balance sheet

Kingsmen once again did well, with its 2Q12 PATMI rising 15.3% YoY (149% QoQ), to S\$5.2m, on the back of revenue growth of 24.1% YoY (51% QoQ) to S\$70.9m. The results were in line with expectations. Revenue growth was largely due to an increased number of theme park and MICE contracts. Its orderbook has grown considerably, to S\$238m, from S\$197m a year ago, of which all is expected to be recorded in FY12. We remain positive on Kingsmen, given its pipeline of contracts, supported by (1) relatively-strong consumerism in Asia, (2) Singapore as one of the top MICE destinations in Asia and (3) healthy growth of Asia's amusement industry. We are keeping our estimates intact. Kingsmen is currently trading at 7.9x forward earnings, or 5.3x (stripping out net cash of S\$44.9m). Its peer average is 6.6x on ex-cash basis. Maintain BUY with TP of S\$0.83 (previously S\$0.76).

All business segments expected to remain healthy, despite the economic slowdown. All business segments recorded growth in 2Q12, led by its exhibitions and museums division. Management is optimistic of its prospects, as can be seen from the growth in its orderbook.

Strong net cash position. While management has always been constantly keeping in close contact with its clients to ensure timely collections, the improvement in end 2Q12's net cash position (23.4 S¢/share) was largely attributed to a significant amount of progress billings and net collections received during the quarter. Kingsmen's operations have always generated positive cash flows. We are estimating net cash of S\$38.0m as at end FY12.

Valuation is attractive. Kingsmen is currently trading at 7.9x forward earnings, or 5.3x stripping out net cash. Ascribing a P/E of 7x, and taking into account our net cash estimate, we raise our TP to S\$0.83. Maintain BUY, for a stock that has consistently distributed stable and attractive dividends.

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 (%)	4.9	5.6	5.6	5.6	5.6
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)	9.3	8.9	8.3	7.9	7.5
P/B (x)	2.5	2.3	2.0	1.8	1.6

Source: Company data and DMG Estimates

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Updates

MICE industry expected to continue growing. Singapore remains one of the top MICE destinations in the world. Despite the global economic slowdown, Singapore has lined up several MICE events over the next couple of years. We believe Kingsmen would be in a good position to secure contracts for these events.

Retail interiors segment still healthy With new malls sprouting up across the island, retailers refurbishing existing outlets and setting up new outlets in Singapore (e.g. H&M's upcoming outlet at ION Orchard), Kingsmen is poised to benefit from such activities too. On top of that, Kingsmen also has the potential to service these clients when they set up outlets across the region. 2H12 would also see a number of retail events/launches by Kingsmen's clients. Growth in its Interiors division is also expected to be helped by its fixtures and exports business. As EU and US retailers face an economic slowdown in their local industry, Kingsmen's fixtures exports allow these retailers a more cost effective solution to their interiors needs. Management indicated that this segment has seen good growth over the past year.

Robust growth expected in Asia's theme parks industry. A number of new theme parks are scheduled to open in Asia over the next few years as property developers and entertainment companies target Asia's rapidly growing middle class. Given Kingsmen's track record in the thematic and scenic construction segment, we think it would be able to ride on the amusement industry's growth in Asia. Kingsmen has started on the thematic works for a number of theme parks in the region, slated to open in 2013 – 2014. Having carried out works for Disney in Hong Kong, Kingsmen will be involved in Disney's Shanghai theme park, scheduled for 2016.

Figure 1: Quarterly financials

YE 31 Dec (S\$m)	2Q12	2Q11	YoY%	1Q12	QoQ%	Remarks
Revenue	70.9	57.1	24.1%	46.9	51.1%	In line with expectations.
Cost of sales	(51.4)	(40.3)	27.6%	(34.1)	50.5%	
Gross profit	19.5	16.9	15.7%	12.8	52.7%	
Other Operating Income	0.9	0.5	82.0%	1.1	-19.5%	
Depreciation	(0.4)	(0.4)	20.0%	(0.4)	11.1%	
Salaries and related costs	(10.6)	(8.7)	21.4%	(8.3)	27.3%	
Other operating expenses	(3.3)	(2.6)	23.8%	(3.1)	6.5%	
Operating profit	6.1	5.6	8.4%	2.1	192.1%	
Financial income, net	(0.0)	0.0	-145.5%	(0.0)	-82.8%	
Share of Associates	0.4	0.1	385.9%	0.2	102.5%	
Profit Before Taxes	6.5	5.7	13.7%	2.3	187.6%	
Income Tax Expense	(1.3)	(1.0)	22.4%	(0.3)	372.4%	
Minority Interest	(0.1)	(0.2)	-68.0%	0.1	-175.0%	
Net Income	5.2	4.5	15.3%	2.1	149.0%	In line with expectations.
Margins (%)						
Gross profit	27.5%	29.5%	-2.3ppt	27.2%	0.3ppt	
EBIT	8.6%	9.8%	-5.4ppt	4.4%	4.1ppt	
PBT	9.2%	10.0%	-5.2ppt	4.8%	4.3ppt	
PATMI	7.3%	7.8%	-3.4ppt	4.4%	2.9ppt	

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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