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Buy ↔ **SGD**
Target SGD0.79
Previous SGD0.83
Price SGD0.725

Commerical Services

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

Stock Statistics

Bloomberg Ticker KMEN SP
Market Cap SGD152m
USD124m
52 wk H/L price (SGD) 0.80 | 0.57
3m ADT SGD0.03m
YTD Returns 6%
Beta (x) 0.43

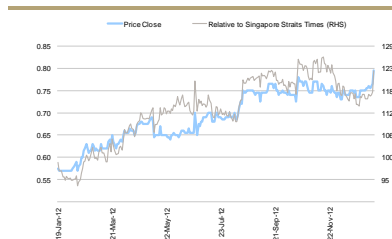
Major Shareholders (%)

O-Vest Pte Ltd 19.6
Islanda Pte Ltd 19.6

Share Performance (%)

Month	Absolute	Relative
1m	7.4	4.9
3m	7.4	2
6m	13.6	6.7
12m	38.3	22

6-month Share Price Performance



Source: Bloomberg

Company Update

Kingsmen Creatives

Discovers Fraud And Irregularities

Kingsmen has uncovered fraud and dishonesty at two of its subsidiaries that may have an overall financial impact estimated at SGD1.5m. Although not very significant (9% of FY11 PAT), this discovery serves to spotlight the strength of Kingsmen's internal controls. Management has taken swift steps to prevent a recurrence of such incidents. Assuming the financial impact is recorded in FY12, we will lower our earnings estimate to SGD16.1m (from SGD17.3m). However, given its healthy net cash balance, we think this would not affect its operations. Its outlook remains good, with a number of theme parks set to open in Asia over the next few years, fuelled by a growing Asian middle class population. **Maintain BUY, with a revised TP of SGD0.79 (from SGD0.83).**

Internal controls working, but is this enough? Kingsmen discovered that employees at its Beijing subsidiary had misappropriated funds between 2009 and 2011. It has recovered most of the amount concerned, save for RMB146,835 (SGD29,000). It has also discovered irregularities in a Singapore subsidiary, relating to payment to a project subcontractor. We are of the view that this discovery indicates that the company's internal controls are indeed working. However, it also inevitably gives rise to concerns whether similar irregularities may have occurred in other Kingsmen subsidiaries. Management has started to review and strengthen its internal controls in a bid to prevent such incidents from recurring.

Operations proceeding smoothly; outlook still bright. In the meantime, management highlighted that it's business as usual, with a full pipeline of projects coming up. Given that the company had a net cash balance of SGD43.7m as at 3Q12, this additional SGD1.5m charge is not likely to have much impact on its operations. Thematic and scenic construction activities are expected to keep Kingsmen busy, as more theme parks in the region are slated to open over the next few years. Management has also said it will continue to try and secure more new projects in this space.

Maintain BUY, TP S\$0.79. While we do not discount the possibility of Kingsmen uncovering similar incidents at its other subsidiaries, we continue to like its stable and attractive dividends. Management has acted swiftly to put things in check and strengthen its internal controls. That said, the SGD1.5m charge to its financials prompt us to lower our TP to SGD0.79, based on 6x FY13F earnings (ex-cash).

Forecasts and Valuations	Dec-09	Dec-10	Dec-11	Dec-12F	Dec-13F
Total turnover (SGDm)	242	234	261	283	297
Recurring net profit (SGDm)	14.9	15.1	16.3	16.1	18.4
Recurring net profit growth	5.1%	1.1%	8.4%	(1.2%)	14.2%
Core EPS (SGD)	0.08	0.08	0.09	0.08	0.10
Core EPS growth	5.1%	1.1%	9.8%	(1.2%)	14.2%
DPS (SGD)	0.04	0.04	0.04	0.04	0.04
Dividend Yield	4.5%	5.2%	5.2%	5.3%	5.3%
Core P/E (x)	10.4	10.2	9.3	9.4	8.3
Return on average equity	31.5%	27.7%	26.3%	23.6%	24.7%
P/B (x)	2.98	2.71	2.31	2.18	1.92
EV/EBITDA (x)	6.25	6.02	5.87	5.48	4.72
Net debt to equity	net cash	net cash	net cash	net cash	net cash
OSK vs consensus EPS				(5.4%)	(1.9%)

Source: Company data, OSK Research estimates

FINANCIALS

Profit & Loss (SGDm)	Dec-09	Dec-10	Dec-11	Dec-12F	Dec-13F
Total turnover	242	234	261	283	297
Cost of sales	(182)	(170)	(194)	(206)	(216)
Gross profit	60	64	67	77	81
Gen & admin expenses	(2)	(2)	(2)	(3)	(3)
Selling expenses	(33)	(35)	(38)	(44)	(46)
Other operating costs	(10)	(12)	(12)	(15)	(14)
Operating profit	15	15	15	15	18
Operating EBITDA	19	19	19	19	21
Depreciation of fixed assets	(4)	(4)	(3)	(3)	(3)
Amortisation of intangible assets	(0)	(0)	(0)	(0)	(0)
Operating EBIT	15	15	15	15	18
Other recurring income	4	4	4	5	5
Interest income	0	0	0	0	0
Interest expense	(0)	(0)	(0)	(0)	(0)
Pre-tax profit	19	20	20	20	23
Taxation	(3)	(4)	(3)	(4)	(4)
Minority interests	(1)	(1)	(0)	(0)	(0)
Profit after tax & minorities	15	15	16	16	18
Net income to ord equity	15	15	16	16	18
Recurring net profit	15	15	16	16	18
Balance Sheet (SGDm)	Dec-09	Dec-10	Dec-11	Dec-12F	Dec-13F
Total cash and equivalents	23	30	33	41	45
Inventories	10	14	11	12	13
Accounts receivable	76	70	90	87	98
Total current assets	115	120	141	149	165
Other current assets	6	7	7	8	8
Total investments	7	8	8	8	8
Tangible fixed assets	10	12	11	11	11
Intangible assets	6	6	5	5	5
Total other assets	0	0	1	-	-
Total non-current assets	24	25	26	24	24
Total assets	138	146	167	173	189
Short-term debt	1	3	3	3	3
Accounts payable	37	38	41	45	49
Other current liabilities	44	42	51	50	52
Total current liabilities	82	83	95	98	104
Total long-term debt	0	2	2	2	2
Other liabilities	1	1	1	1	1
Total non-current liabilities	1	3	3	3	3
Total liabilities	83	86	98	100	107
Share capital	23	23	23	23	23
Retained earnings reserve	30	35	45	48	57
Other reserves	(2)	(2)	(1)	(1)	(1)
Shareholders' equity	52	57	67	70	79
Minority interests	3	2	3	3	3
Other equity	-	-	(0)	0	0
Total equity	55	59	69	73	82
Total liabilities & shareholders' equity	138	146	167	173	189

Cashflow (SGDm)	Dec-09	Dec-10	Dec-11	Dec-12F	Dec-13F
Operating profit	15	15	15	15	18
Depreciation & amortisation	4	4	4	4	4
Change in working capital	(8)	(3)	0	4	(6)
Other operating cashflow	4	5	4	4	5
Operating cashflow	15	21	24	28	20
Interest received	0	0	0	0	0
Interest paid	(0)	(0)	(0)	(0)	(0)
Tax paid	(3)	(3)	(3)	(6)	(4)
Cashflow from operations	12	18	21	22	16
Capex	(1)	(6)	(3)	(3)	(3)
Other new investments	(0)	(4)	-	-	-
Other investing cashflow	(1)	1	0	-	-
Cashflow from investing activities	(2)	(9)	(2)	(3)	(3)
Dividends paid to ordinary shareholders	(6)	(7)	(8)	(8)	(8)
Proceeds from issue of shares	-	0	0	-	-
Increase in debt	(1)	8	(0)	(0)	(0)
Other financing cashflow	(0)	(0)	(0)	(0)	0
Cashflow from financing activities	(7)	2	(7)	(8)	(8)
Cash at beginning of period	28	23	30	33	41
Total cash generated	3	10	11	11	5
Forex effects		(1)	1	-	-
Implied cash at end of period	31	32	41	44	47

Source : OSK, Bloomberg

RECOMMENDATION CHART



Source : OSK, Bloomberg

Date	Recommendation	Target Price	Price
2012-11-06	Buy	0.83	0.77
2012-08-14	Buy	0.83	0.73
2012-05-14	Buy	0.76	0.65
2012-03-05	Buy	0.76	0.62
2011-11-10	Buy	0.76	0.58
2011-10-14	Buy	0.76	0.57
2011-09-30	Buy	0.76	0.56
2011-02-24	Buy	0.76	0.56
2010-11-16	Buy	0.76	0.59
2010-08-17	Buy	0.82	0.60

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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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