


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

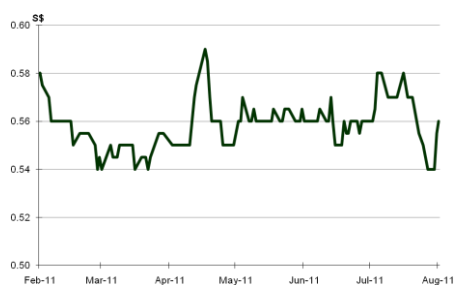
Bloomberg Ticker	KMEN SP
STI	2836.1
Issued Share Capital (m)	194.2
Market Capitalisation (S\$m)	108.7
52 week H L Price (S\$)	0.634 0.50
Average Volume ('000)	98.9
YTD Returns (%)	(1.7)
Net gearing (%)	Net cash
Altman Z-Score	3.9
ROCE/WACC	2.5
Beta (x)	0.7
Book Value/share (S¢)	30.4

Major Shareholders (%)

O-Vest Pte Ltd	19.6
Islanda Pte Ltd	19.6

Share Performance (%)

Month	Absolute	Relative
1m	0.0	8.0
3m	1.8	11.4
6m	(3.4)	4.6
12m	(6.7)	(3.7)

6-month Share Price Performance

2Q11 Results Review

Private Circulation Only

KINGSMEN CREATIVES

BUY	↔
Price	S\$0.56
Previous Target	S\$0.76

Expect a stronger 2H

Kingsmen achieved revenue of S\$57.1m (-11.6% YoY) and PATMI of S\$4.5m (-2.8% YoY) in 2Q11. The decline was largely attributed to the absence of major projects (in 2Q10, there were some billings from the Shanghai World Expo and Universal Studios). This has however, led to gross margins improving to 29.5% (2Q10: 27.6%), as margins from work done for the events/shows were generally lower. Outlook remains healthy despite the global economic uncertainty as (1) large retail players are still coming to Asia and (2) the theme parks planned for the Asian region are progressing on track. We reiterate our BUY call with a TP of S\$0.76, pegged to 9x FY11F earnings.

Orderbook remains healthy. Kingsmen's orderbooks as at Aug 11 stands at S\$197m, of which S\$178m will be recorded in FY11. This includes contracts for Gardens By the Bay, theme parks in the region and interior fit out works for global retail brands setting up shop in Asia. Given its capabilities in thematic and scenic construction, management is optimistic that they would be able to secure some contracts from the number of planned theme parks in the region (especially in China and Korea), which would contribute to growth in its Exhibitions and Museum division.

Maintains good dividend payout. Kingsmen declared dividends of 1.5 S¢ / share for 2Q11. Assuming management distributes 2.0 S¢ / share in 4Q11, this would translate into a dividend yield of 6.3%. We think Kingsmen would be able to maintain its dividend payout ratio of ~40%.

Valuation remains attractive. Kingsmen has a strong balance sheet with net cash position of S\$23.1m. At present levels, it is trading at 6.8x FY11 P/E, which is attractive compared to its peers which are trading at an average of 8.3x. Maintain BUY for a company with stable dividends.

FYE 31 Dec (S\$m)	FY08	FY09	FY10	FY11F	FY12F
Turnover	190.6	242.0	235.2	257.7	270.2
Net profit	14.2	14.9	15.1	15.9	16.4
% chg YoY	51.4%	5.1%	1.1%	5.4%	3.6%
Consensus				15.2	16.4
EPS (S¢)	7.5	7.9	8.0	8.4	8.7
DPS (S¢)	3.0	3.5	4.0	3.0	3.0
Div Yield (%)	5.4	6.3	7.1	6.3	6.3
ROE (%)	36.1	31.5	29.1	25.6	25.0
ROA (%)	13.6	12.0	10.6	10.6	10.5
P/E (x)	7.5	7.1	7.0	6.7	6.4
P/B (x)	2.4	1.9	1.8	1.7	1.6

Source: Company and DMG Estimates

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Figure 1: Quarterly financials

YE 31 Dec (S\$m)	2Q11	2Q10	YoY %	1Q11	QoQ %	Remarks
Revenue	57.1	64.6	-11.6%	36.5	56.6%	2Q10 included completion of works for the Shanghai World Expo and Universal Studios.
Cost of sales	(40.3)	(46.8)	-14.0%	(25.6)	57.4%	
Gross profit	16.9	17.8	-5.4%	10.9	54.7%	
Other Operating Income	0.5	1.1	-54.4%	0.6	-25.1%	
Depreciation	(0.4)	(0.4)	-21.5%	(0.3)	8.4%	
Salaries and related costs	(8.7)	(9.1)	-4.4%	(7.1)	22.6%	
Other operating expenses	(2.6)	(3.1)	-14.3%	(2.6)	2.1%	
Operating profit	5.6	6.2	-9.7%	1.5	272.7%	
Financial income, net	0.0	0.0	-57.7%	0.1	-86.3%	
Share of Associates	0.1	0.1	-22.7%	(0.0)	N.M.	
Profit Before Taxes	5.7	6.4	-10.1%	1.6	260.2%	
Income Tax Expense	(1.0)	(1.1)	-9.7%	(0.3)	290.2%	
Minority Interest	(0.2)	(0.6)	-67.0%	0.1	N.M.	
Net Income	4.5	4.6	-2.8%	1.4	224.3%	

Source: Company

FINANCIAL SUMMARY

Year End 31 Dec (\$m)				
Income Statement				
	2009	2010	2011F	2012F
Revenue	242.0	235.2	257.7	270.2
Cost of sales	(182.5)	(169.8)	(187.3)	(196.5)
Other Operating Income	3.5	2.7	3.6	3.8
Depreciation	(1.8)	(1.6)	(2.2)	(2.5)
Salaries and related costs	(32.8)	(35.4)	(38.7)	(40.8)
Other operating expenses	(10.0)	(11.6)	(12.1)	(12.7)
Financial income, net	0.0	0.1	(0.3)	(0.3)
Share of Associates	0.3	0.1	0.1	0.1
Profit Before Taxes	18.9	19.7	20.7	21.4
Income Tax Expense	(3.2)	(3.5)	(3.7)	(3.9)
Minority Interest	(0.8)	(1.1)	(1.1)	(1.1)
Net Income	14.9	15.1	15.9	16.4
Balance Sheet				
	2009	2010	2011F	2012F
Fixed Assets	9.8	11.9	14.9	16.4
Intangibles	6.4	5.5	6.3	6.1
Interests in Associates	6.6	7.1	7.1	7.1
Others	0.8	0.6	0.5	0.5
Non-Current Assets	23.6	25.1	28.8	30.1
Inventories	0.1	0.1	0.2	0.2
Contracts Work-in Progress	10.1	14.0	11.6	12.2
Receivables	81.6	76.4	85.5	95.7
Cash and Cash Equivalents	22.8	29.9	28.9	33.9
Current Assets	114.6	120.4	126.2	141.9
Total Assets	138.2	145.6	155.0	172.0
Share Capital	23.3	23.3	23.3	23.3
Treasury Shares	(1.9)	(1.6)	(1.6)	(1.6)
Reserves	30.5	35.4	40.5	50.7
Shareholders Fund	51.9	57.1	62.2	72.4
Minority Interest	3.0	2.3	2.4	2.4
Shareholders Equity	54.9	59.4	64.6	74.9
Loan and Borrowings	0.3	2.0	1.8	1.6
Others	0.1	0.1	0.1	0.1
Deferred Tax Liabilities	0.9	1.2	0.9	0.9
Non-Current Liabilities	1.3	3.2	2.8	2.6
Payables	69.7	68.0	71.1	76.6
Interest-bearing Borrowings	1.0	3.3	3.2	3.0
Contracts Work-in Progress	2.6	2.8	5.2	5.4
Income Taxes Payable	5.3	5.3	3.7	3.9
Deferred income	3.3	3.6	4.5	5.6
Current Liabilities	82.0	82.9	87.6	94.5
Total Liabilities	83.3	86.2	90.4	97.1
Total Equity and Liabilities	138.2	145.6	155.0	172.0

Cash Flow				
	2009	2010	2011F	2012F
Profit Before Taxation	18.9	19.7	20.7	21.4
Non-cash items	3.7	4.4	3.0	3.2
Changes in Working Capital	(18.5)	(0.6)	(6.0)	(5.4)
Income Tax Paid	(2.7)	(3.3)	(5.3)	(3.7)
Interest Paid	(0.1)	(0.1)	(0.5)	(0.5)
Interest Received	0.1	0.2	0.1	0.2
Net cash from operations	1.4	20.3	12.1	15.1
Purchase of Fixed Assets	(1.4)	(6.2)	(5.0)	(4.0)
Proceeds from Sale of Assets	0.1	0.1	-	-
Others	1.0	(3.7)	-	-
Dividends Received	0.1	0.0	-	-
Net cash from investments	(0.3)	(9.7)	(5.0)	(4.0)
Dividends Paid	(6.0)	(7.0)	(5.8)	(5.8)
Proceeds from Issue of Shares	-	0.5	-	-
Proceeds from/(Repayment of) Loan	(0.5)	4.1	(0.4)	(0.3)
Others	(1.9)	0.5	-	-
Net cash from financing	(8.5)	(1.9)	(6.2)	(6.2)
Net increase / (decrease) in cash	(7.5)	8.6	0.9	5.0
Cash (beginning)	27.9	20.3	28.0	28.9
Cash (end)	20.3	28.0	28.9	33.9

Ratios

	2009	2010	2011F	2012F
Growth & Margin (%)				
Revenue Growth	27.0	(2.8)	9.6	4.9
EBIT Growth	(0.8)	5.0	7.5	3.0
EBIT Margin	7.7	8.3	8.1	8.1
Pretax Profit Growth	(0.2)	4.1	5.1	3.3
Pretax Profit Margin	7.8	8.4	8.0	8.0
Tax rate	(17.0)	(18.0)	(18.0)	(18.0)
Net Income Growth	5.1	1.1	5.4	3.6

Revenue Breakdown

	2009	2010	2011F	2012F
Exhibitions and Museums	133.9	105.2	115.7	121.5
Interiors	93.7	116.6	128.2	134.6
Research and Design	5.8	6.4	6.6	7.0
Integrated Marketing				
Communications	8.8	7.0	7.1	7.1
Total	242.0	235.2	257.7	270.2

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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