



# BUY

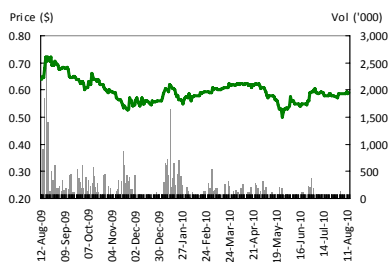
## 2QFY10 Results

### Analyst

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**Price**           **\$0.59**  
**Target**           **\$0.85**  
**ST Index**       **2,927.40**

### Historical Chart



Performance	1m	3m	6m
Absolute (%)	0.0	1.7	1.7
Relative (%)	0.1	-0.3	-4.1

### Stock Information

Ticker code	KMEN.SI KMEN.SP
Market cap (US\$m)	84.1
52-week high (S\$)	0.72
52-week low (S\$)	0.50
Shares issued (m)	194.2
6m avg d.vol (US\$m)	0.04
Free float (%)	49.8
Major shareholders (%)	Benedict Soh (25.1) Simon Ong (25.1)

### Key Indicators

ROE (%)	27.1
Net cash (S\$m)	26.8
NAV (S\$)	0.29
Interest cover (x)	265.7

# Kingsmen Creatives

## Next in line for a re-rating

### Event

- Kingsmen's 2Q10 net profit grew by 30% yoy to \$4.6m, fuelled by strong growth across all its business divisions. Its 1H10 net profit currently accounts for 42.6% of our full-year estimate. With its robust orderbook, earnings will likely accelerate in 2H10. Mega contract wins on theme park projects and MICE events are positive catalysts. The group affirms its interim dividend of 1.5 cents a share. Maintain BUY.

### Our View

- Orderbook surged by 50% to \$187m during the quarter. Of this, \$173m will be recognised this year, which already account for 68% of our full-year revenue forecast. New orders were mainly for interior fit-out for shops at the Marina Bay Sands, construction of media and broadcast facilities for the Commonwealth Games in India in October, and extension of the Hong Kong Disneyland. The strong orderbook momentum points to earnings upside in 2H10.
- Kingsmen expects to be also involved in the second and third phases of development of the USS theme park. Its experience and good execution of the first phase has opened the door to more theme park projects. The group recently won a contract to work on the extension of the Hong Kong Disneyland. With various theme park projects in its pipeline, including the Shanghai Disneyland, as well as Universal Studios in Dubai, Seoul and Shanghai, we believe Kingsmen stands to reap significant gains in this space.
- Profits have grown for the seventh consecutive year and we believe the group deserves a positive re-rating. Strong reputation for quality works led to its successful foray into lucrative markets like China. The interior income, which tends to be recurring, is strengthening as its blue-chip clientele resumes expansion on global economic recovery.

### Action & Recommendation

In our view, Kingsmen is due for a re-rating given its impressive earnings track record and new growth catalysts from mega theme park projects. The stock offers good dividend yield and long-term sustainable growth.

Year End Dec 31	2008	2009	2010F	2011F	2012F
Sales (S\$m)	190.6	242.0	256.1	270.2	285.1
Pre-tax (S\$m)	19.0	18.9	21.6	23.0	24.8
Net profit (S\$m)	14.2	14.9	16.2	17.3	18.8
EPS (cts)	7.5	7.9	8.6	9.1	9.9
EPS growth (%)	-5.2	5.5	8.7	6.9	8.7
PER (x)	7.9	7.5	6.9	6.4	5.9
EV/EBITDA (x)	4.6	4.9	4.8	4.4	4.1
Yield (%)	5.1	5.9	5.8	6.2	6.7

SEE APPENDIX I FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

Figure 1: Earnings summary

YE Dec (\$m)	2Q10	2Q09	% change	Remarks
<b>Turnover</b>	<b>64.6</b>	<b>53.0</b>	<b>21.9</b>	
<i>Exhibitions &amp; Museums</i>	29.2	27.0	8.1	Contributions from the seven pavilions at the Expo 2010 Shanghai, totaling over \$24m. Other contributors included exhibition projects undertaken for events such as Asia Pacific Maritime 2010, Food and Hotel Asia 2010, Singapore Airshow 2010, Tax-free Asia Pacific 2010 and other trade exhibitions, as well as from the Nissan/Infiniti at various auto-shows. The division continues to sustain good revenue contributions from key customers and brand names. In particular, the group had fitted out several boutiques for Tiffany and Burberry in Singapore, Hong Kong and China. At MBS, the group completed 13 shops worth \$6m and will have another 15 shops to be completed by year-end. Some of the shops completed in 1H include Bottega Veneta, Burberry, Chanel, Chaumet, Fendi, Polo Ralph Lauren, Swarovski, The Hour Glass, Tiffany & Co and Uemo Collezioni & Stefano Ricci.
<i>Interiors</i>	32.3	23.4	38.0	
<i>Others (Research and Design and Integrated Marketing Communication)</i>	3.1	2.6	20.1	
<i>Other income</i>	1.1	0.4	182.4	
Cost of sales	46.8	37.2	25.7	
Gross profit	17.8	15.8	13.1	
<b>Gross margin</b>	<b>27.6</b>	<b>29.7</b>	<b>-2.2</b>	
Operating expenses	-12.7	-11.5	10.5	
Interest expenses	0.0	0.0	-7.7	
<i>Associates income</i>	0.1	0.1	-7.6	
PBT	6.4	4.8	32.7	
<b>Pre-tax margin</b>	<b>9.8</b>	<b>9.0</b>	<b>0.8</b>	
Tax	-1.1	-1.0	20.4	
<b>Effective tax rate</b>	<b>18.0</b>	<b>19.9</b>	<b>-1.8</b>	
Minority	-0.6	0.3	nm	
NPAT	4.6	3.5	30.2	
<b>Net margin</b>	<b>7.1</b>	<b>6.7</b>	<b>0.5</b>	

Source: Company data

Figure 2: Sum-of-parts valuation

FYE Dec	\$m	Remarks
Estimated net profit from Exhibitions & Museums division	7.4	assumes 5.5% net margins
Market value of business on PER of 11x	74.4	Benchmark against closest peer : Pico Far East
-		
Estimated net profit from retail interiors & others	8.8	
Market value of business on PER of 8x	70.2	Premium ratings given on its market leadership and brand equity
Total value of businesses	144.5	
Excess cash	26.8	
Implied Mkt Cap	171.4	
Issued shares (post-placement of 20m new shares in Apr-07 and 4m shares in June-08)	194.2	
<b>Fair Value Per Share (\$)</b>	<b>0.85</b>	

Source: Kim Eng estimates

**Profit and Loss**

YE Dec (\$m)	2008	2009	2010F	2011F	2012F
<b>Sales</b>	<b>190.6</b>	<b>242.0</b>	<b>256.1</b>	<b>270.2</b>	<b>285.1</b>
Cost of goods sold	132.0	182.5	189.0	198.9	209.3
<b>Gross Profit</b>	<b>58.5</b>	<b>59.5</b>	<b>67.1</b>	<b>71.3</b>	<b>75.8</b>
Operating expenses	42.5	44.5	48.6	51.5	54.1
<b>Operating Profit</b>	<b>16.0</b>	<b>15.1</b>	<b>18.5</b>	<b>19.9</b>	<b>21.7</b>
Net interest	0.3	0.0	0.3	0.3	0.3
Interest income	0.1	0.1	0.2	0.2	0.2
Interest expense	-0.2	-0.1	-0.1	-0.1	-0.1
Net investment income/(loss).	3.2	3.5	2.5	2.5	2.5
Net other income.JV+Assoc	0.3	0.3	0.3	0.3	0.3
Net exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax income	19.0	18.9	21.6	23.0	24.8
Income taxes	3.5	3.2	3.9	4.1	4.5
Minority interest	1.3	0.8	1.5	1.5	1.5
<b>Net profit</b>	<b>14.2</b>	<b>14.9</b>	<b>16.2</b>	<b>17.3</b>	<b>18.8</b>
EBITDA	20.0	18.8	20.4	22.0	24.0
<b>EPS (\$ cts)</b>	<b>7.46</b>	<b>7.87</b>	<b>8.56</b>	<b>9.15</b>	<b>9.94</b>

Source: Company data, Kim Eng estimates

**Balance Sheet**

YE Dec (\$m)	2008	2009	2010F	2011F	2012F
<b>Total assets</b>	<b>108.8</b>	<b>138.2</b>	<b>163.1</b>	<b>191.0</b>	<b>222.3</b>
Current assets	81.7	114.6	139.5	167.4	199.1
Cash & ST investment	24.3	22.8	22.5	24.0	22.7
Inventories	6.8	10.2	12.7	14.6	16.8
Accounts receivable	36.7	75.7	98.4	123.0	153.7
Others	13.9	5.9	5.9	5.9	5.9
Other assets	27.1	23.6	23.7	23.5	23.2
LT investments	8.0	7.4	7.4	7.4	7.4
Net fixed assets	12.2	9.8	9.9	9.8	9.4
Others	6.9	6.4	6.4	6.4	6.4
<b>Total liabilities</b>	<b>63.4</b>	<b>83.3</b>	<b>98.5</b>	<b>116.0</b>	<b>136.0</b>
Current liabilities	61.8	82.0	95.2	110.7	128.7
Accounts payable	27.2	37.1	43.7	51.6	60.9
ST borrowings	0.8	1.0	1.0	1.0	1.0
Others	33.8	43.9	50.5	58.0	66.7
Long-term liabilities	1.6	1.3	3.3	5.3	7.3
Long-term debts	0.6	0.3	0.3	0.3	0.3
Others (Deferred tax)	3.7	1.0	3.0	5.0	7.0
<b>Shareholder's equity</b>	<b>42.7</b>	<b>54.9</b>	<b>64.6</b>	<b>75.0</b>	<b>86.3</b>
Paid-in capital	23.3	23.3	23.3	23.3	23.3
Reserve	19.4	31.6	41.3	51.7	63.0
NTA	35.8	48.5	58.2	68.6	79.9

Source: Company data, Kim Eng estimates

**Cash Flow**

YE Dec (\$m)	2008	2009	2010F	2011F	2012F
<b>Operating cash flow</b>	<b>25.8</b>	<b>1.4</b>	<b>6.1</b>	<b>8.4</b>	<b>6.2</b>
Net profit	19.0	18.9	16.2	17.3	18.8
Depreciation & amortisation	4.0	3.7	1.9	2.1	2.3
Change in working capital	4.6	-18.5	-12.0	-11.1	-14.9
Others	-1.7	-2.7	0.0	0.0	0.0
<b>Investment cash flow</b>	<b>-11.2</b>	<b>-0.3</b>	<b>-2.0</b>	<b>-2.0</b>	<b>-2.0</b>
Net capex	-10.6	-1.3	-2.0	-2.0	-2.0
Change in LT investment	-0.4	1.1	0.0	0.0	0.0
Change in other assets	-0.2	-0.1	0.0	0.0	0.0
Cash flow after invt.	14.6	1.1	4.1	6.4	4.2
<b>Financing cash flow</b>	<b>-7.9</b>	<b>-8.5</b>	<b>-4.5</b>	<b>-4.9</b>	<b>-5.5</b>
Change in share capital	1.6	0.0	0.0	0.0	0.0
Net change in debt	-0.8	-2.5	0.0	0.0	0.0
Change in other LT liab.	-8.7	-6.0	-4.5	-4.9	-5.5
<b>Net cash flow</b>	<b>6.7</b>	<b>-7.3</b>	<b>-0.3</b>	<b>1.5</b>	<b>-1.3</b>

Source: Company data, Kim Eng estimates

**Key Ratios**

YE Dec	2008	2009	2010F	2011F	2012F
<b>Growth (% YoY)</b>					
Sales	30.4	27.0	5.8	5.5	5.5
OP	66.0	-6.0	22.9	7.3	9.2
EBITDA	76.4	-6.1	8.7	7.6	9.3
NP	51.4	5.1	8.8	6.9	8.7
EPS	-5.2	5.5	8.7	6.9	8.7
<b>Profitability (%)</b>					
Gross margin	30.7	24.6	26.2	26.4	26.6
Operating margin	8.4	6.2	7.2	7.4	7.6
EBITDA margin	10.5	7.8	8.0	8.1	8.4
Net Profit margin	7.4	6.2	6.3	6.4	6.6
ROA	13.6	12.1	10.8	9.8	9.1
ROE	36.1	30.5	27.1	24.8	23.4
<b>Stability</b>					
Gross debt/equity (%)	3.4	2.4	2.0	1.7	1.5
Net debt/equity (%)	-53.6	-39.2	-32.8	-30.2	-24.8
Int. coverage (X)	-95.4	-116.9	-159.5	-190.3	-230.9
Int. & ST debt coverage (X)	23.8	17.0	20.6	21.8	23.6
Cash flow int. coverage (X)	-153.7	-10.7	-53.0	-80.3	-66.3
Cash flow int. & ST debt (X)	38.4	1.6	6.8	9.2	6.8
Current ratio (X)	1.3	1.4	1.5	1.5	1.5
Quick ratio (X)	1.2	1.3	1.3	1.4	1.4
Net debt/(cash)(\$ m)	-22.9	-21.5	-21.2	-22.7	-21.4
<b>Per share data (cts)</b>					
EPS	7.5	7.9	8.6	9.1	9.9
CFPS	11.7	11.5	9.2	9.9	10.7
BVPS	22.0	28.3	33.3	38.6	44.4
SPS	98.1	124.6	131.9	139.2	146.8
EBITDA/share	10.3	9.7	10.5	11.3	12.4
DPS	3.0	3.5	3.4	3.7	4.0

Source: Company data, Kim Eng estimates

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**Recommendation definitions**

**Our recommendation is based on the following expected price performance within 12 months:**

+15% and above: BUY  
 -15% to +15%: HOLD  
 -15% or worse: SELL

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AND  
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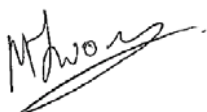
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