

# BUY

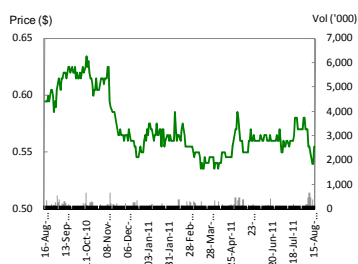
## 2Q11 Results

### Analyst

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**Price**            **\$0.555**  
**Target**           **\$0.800**  
**ST Index**        **2,832.73**

### Historical Chart



Performance	1m	3m	6m
Absolute (%)	-0.9	0.9	-3.5
Relative (%)	7.9	11.7	5.1

### Stock Information

Ticker code	KMEN.SI KMEN.SP
Market cap (US\$m)	89.7
52-week high (S\$)	0.634
52-week low (S\$)	0.535
Shares issued (m)	194.2
6m avg d.vol (US\$m)	0.1
Free float (%)	48.8
Major shareholders (%)	Benedict Soh (23.6) Simon Ong (23.6)

### Key Indicators

ROE (%)	10.2
Net cash (S\$m)	23.1
NAV (S\$)	0.30
Interest cover (x)	70.9

# Kingsmen Creatives

## Awaiting the next growth spurt

### Event

- Kingsmen Creatives reported a 15.9% YoY slide in 1H11 revenue to \$93.6m with net profit also slipping by 15% YoY to \$5.9m. While the figures showed a sequential pickup, 2Q11 was still a relatively slow quarter. Nevertheless, management is confident that 2H11 would be stronger and that the full-year performance could match last year's. An interim dividend of 1.5 cents per share was also declared, representing a payout ratio of about 50% on 1H11 earnings. We continue to like the stock on valuation grounds and maintain our BUY call with the target price at \$0.80.

### Our View

- The YoY slide in 1H11 performance was due to slower business in the Exhibitions & Museums division, which saw segmental revenue fall by 40% YoY. Large-scale projects were absent compared with a year ago when Kingsmen completed several projects related to World Expo 2010. Revenue for the other segments showed stable, albeit modest growth. Gross margin also trended higher with better efficiencies.
- Total awarded contracts as at 10 August 2011 stood at \$197m, of which \$173m is expected to be recognised in FY11. Management expressed confidence that this would underpin a strong 2H11 performance, what with more contracts likely to be secured towards the end of the year. To match last year's performance, we estimate that Kingsmen would need to deliver about \$9m in net profit for 2H11. This is achievable due to its seasonally stronger second-half.
- Kingsmen is in various stages of negotiations for several regional theme park projects planned for the next three years. These are in countries such as South Korea, Malaysia, China and the Middle East. Given that contract sizes for such projects are quite sizeable, clinching a contract would be a positive catalyst for the stock. However, we believe significant contributions, if any, would show up only in FY12.

### Action & Recommendation

We trim our FY11 revenue forecast by 6.8% but adjust for higher gross margins. Our net profit forecast remains largely intact. The stock currently trades at a compelling level of 6.9x FY11F PER with a dividend yield of 6.3%. Maintain BUY and target price of \$0.80.

Year End Dec 31	2009	2010	2011F	2012F	2013F
Sales (S\$m)	242.0	235.2	241.2	254.8	269.1
Pre-tax (S\$m)	18.9	19.7	19.7	22.2	23.6
Net profit (S\$m)	14.9	15.1	15.2	17.2	18.3
EPS (S cts)	7.9	7.9	8.0	9.1	9.6
EPS growth (%)	5.5	0.7	0.8	13.3	6.4
PER (x)	7.1	7.0	6.9	6.1	5.8
EV/EBITDA (x)	4.6	4.1	3.6	2.3	1.3
Yield (%)	6.3	7.2	6.3	6.3	6.3

SEE APPENDIX I FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

Figure 1: Earnings summary

S\$m (YE Dec)	2Q11	2Q10	% YoY	1Q11	% QoQ	1H11	1H10	% YoY
<b>Turnover</b>	<b>57.1</b>	<b>64.6</b>	<b>(11.6)</b>	<b>36.5</b>	<b>56.6</b>	<b>93.6</b>	<b>111.3</b>	<b>(15.9)</b>
Exhibitions & Museums	21.4	29.2	(26.7)	12.7	68.5	34.1	56.6	(39.8)
Interiors	32.0	32.3	(0.9)	20.6	55.3	52.6	49.6	6.0
Others (R&D & IMC)	3.7	3.1	19.4	3.2	17.6	6.9	5.1	35.4
Other income	0.5	1.1	(54.4)	0.7	(35.2)	1.1	1.7	(35.3)
Cost of sales	40.3	46.8	(14.0)	(25.6)	(257.4)	(65.8)	(81.2)	(18.9)
<b>Gross profit</b>	<b>16.9</b>	<b>17.8</b>	<b>(5.4)</b>	<b>10.9</b>	<b>54.7</b>	<b>27.8</b>	<b>30.1</b>	<b>(7.7)</b>
Gross margin (%)	29.5	27.6	1.9	29.9	(0.4)	29.7	27.0	2.6
Operating expenses	(11.7)	(12.7)	(7.4)	(10.0)	16.9	(21.8)	(22.7)	(4.1)
Interest expenses	(0.0)	(0.0)	0.0	(0.0)	14.3	(0.0)	(0.0)	7.1
Associates income	0.1	0.1	(22.7)	(0.0)	(8,600.0)	0.1	0.1	35.5
<b>PBT</b>	<b>5.7</b>	<b>6.4</b>	<b>(10.1)</b>	<b>1.6</b>	<b>260.2</b>	<b>7.2</b>	<b>9.2</b>	<b>(21.6)</b>
Pre-tax margin (%)	10.0	9.8	0.2	4.3	5.7	7.7	8.3	(0.6)
Tax	(1.1)	(1.1)	0.0	(0.3)	332.1	(1.3)	(1.8)	(25.9)
Effective tax rate (%)	20.0	18.0	2.0	16.7	3.3	18.0	19.0	(1.0)
Minority	(0.2)	(0.6)	(67.0)	(0.1)	223.0	0.1	0.6	(76.1)
<b>NPAT</b>	<b>4.5</b>	<b>4.6</b>	<b>(2.8)</b>	<b>1.4</b>	<b>224.3</b>	<b>5.9</b>	<b>6.9</b>	<b>(15.0)</b>
Net margin (%)	7.8	7.1	0.7	3.8	4.1	6.3	6.2	0.1

Source: Company data

Figure 2: Historical revenue, profit and orderbook trends

S\$m	1H08	2H08	FY08	1H09	2H09	FY09	1H10	2H10	FY10	1H11	2H11F*	FY11F*
<b>Results</b>												
Revenue	77.7	112.8	190.6	88.7	153.3	242.0	111.3	123.9	235.2	93.6	147.6	241.2
Net profit	5.4	10.0	15.4	5.9	9.0	14.9	6.9	8.2	15.1	5.9	9.3	15.2
<b>Ratio of results</b>												
Revenue	41%	59%	100%	37%	63%	100%	47%	53%	100%	39%	61%	100%
Net profit	35%	65%	100%	40%	60%	100%	46%	54%	100%	39%	61%	100%
Orderbook as at August of FY	192			208			187			197		

\*Kim Eng estimates. Source: Company data

Figure 3: Sum-of-the-parts valuation

YE Dec	S\$m	Remarks
Estimated net profit from Exhibitions & Museums division	5.2	Assumes 5.5% net margin.
Market value of business on PER of 10x	52.1	Benchmarked against closest peer, Pico Far East.
Estimated net profit from retail Interiors & Others	10.0	Premium ratings given on its market leadership and brand equity.
Market value of business on PER of 8x	79.9	
Total value of businesses	131.9	
Excess cash	23.1	
Implied market cap	157.8	
Issued shares (post-placement of 20m new shares in Apr-07 & 4m shares in Jun-08)	191.0	
<b>Fair value per share (\$)</b>	<b>0.80</b>	

Source: Kim Eng estimates

**Profit and loss**

YE Dec (\$m)	2009	2010	2011F	2012F	2013F
<b>Sales</b>	<b>242.0</b>	<b>235.2</b>	<b>241.2</b>	<b>254.8</b>	<b>269.1</b>
Cost of goods sold	182.5	169.8	174.9	183.4	193.8
<b>Gross Profit</b>	<b>59.5</b>	<b>65.4</b>	<b>66.3</b>	<b>71.3</b>	<b>75.4</b>
Operating expenses	44.5	48.7	49.5	52.1	54.8
<b>Operating Profit</b>	<b>15.1</b>	<b>16.8</b>	<b>16.8</b>	<b>19.3</b>	<b>20.6</b>
Net interest	0.0	0.1	0.1	0.2	0.2
Interest income	0.1	0.2	0.2	0.2	0.3
Interest expense	0.1	0.1	0.1	0.1	0.1
Net investment income/(loss).	3.5	2.7	2.5	2.5	2.5
Net other income.JV+Assoc	0.3	0.1	0.3	0.3	0.3
Net exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax income	18.9	19.7	19.7	22.2	23.6
Income taxes	3.2	3.5	3.6	4.0	4.2
Minority interest	0.8	1.1	1.0	1.0	1.0
<b>Net profit</b>	<b>14.9</b>	<b>15.1</b>	<b>15.2</b>	<b>17.2</b>	<b>18.3</b>
EBITDA	18.8	20.4	18.6	21.2	22.7
<b>EPS (\$ cts)</b>	<b>7.87</b>	<b>7.92</b>	<b>7.99</b>	<b>9.05</b>	<b>9.63</b>

Source: Company data, Kim Eng estimates

**Balance sheet**

YE Dec (\$m)	2009	2010	2011F	2012F	2013F
<b>Total assets</b>	<b>138.2</b>	<b>145.6</b>	<b>160.3</b>	<b>181.6</b>	<b>204.9</b>
Current assets	114.6	120.4	135.4	157.2	181.2
Cash & ST investment	22.8	29.9	46.8	64.1	83.3
Inventories	10.2	14.1	8.7	9.2	9.7
Accounts receivable	75.7	68.9	72.4	76.4	80.7
Others	5.9	7.5	7.5	7.5	7.5
Other assets	23.6	25.1	24.8	24.4	23.7
LT investments	7.4	7.7	7.7	7.7	7.7
Net fixed assets	9.8	11.9	11.6	11.1	10.5
Others	6.4	5.6	5.6	5.6	5.6
<b>Total liabilities</b>	<b>83.3</b>	<b>86.2</b>	<b>91.8</b>	<b>102.7</b>	<b>115.1</b>
Current liabilities	82.0	82.9	86.5	95.5	105.9
Accounts payable	37.1	37.7	35.0	36.7	38.8
ST borrowings	1.0	3.3	3.3	3.3	3.3
Others	43.9	41.9	48.2	55.5	63.8
Long-term liabilities	1.3	3.2	5.2	7.2	9.2
Long-term debts	0.3	2.0	2.0	2.0	2.0
Others (Deferred tax)	1.0	1.3	3.3	5.3	7.3
<b>Shareholder's equity</b>	<b>54.9</b>	<b>59.4</b>	<b>67.9</b>	<b>78.5</b>	<b>90.2</b>
Paid-in capital	23.3	23.3	23.3	23.3	23.3
Reserve	31.6	36.1	44.7	55.2	66.9
NTA	48.5	53.8	62.4	72.9	84.6

Source: Company data, Kim Eng estimates

**Cash flow**

YE Dec (\$m)	2009	2010	2011F	2012F	2013F
<b>Operating cash flow</b>	<b>1.4</b>	<b>20.3</b>	<b>22.5</b>	<b>23.6</b>	<b>26.0</b>
Net profit	18.9	19.7	15.2	17.2	18.3
Depreciation & amortisation	3.7	3.6	1.8	2.0	2.2
Change in working capital	-18.5	-0.6	5.5	4.4	5.6
Others	-2.7	-2.4	0.0	0.0	0.0
<b>Investment cash flow</b>	<b>-0.3</b>	<b>-9.7</b>	<b>-1.5</b>	<b>-1.5</b>	<b>-1.5</b>
Net capex	-1.3	-6.1	-1.5	-1.5	-1.5
Change in LT investment	1.1	-3.8	0.0	0.0	0.0
Change in other assets	-0.1	0.1	0.0	0.0	0.0
Cash flow after invt.	1.1	10.6	21.0	22.1	24.5
<b>Financing cash flow</b>	<b>-8.5</b>	<b>-1.9</b>	<b>-4.1</b>	<b>-4.9</b>	<b>-5.3</b>
Change in share capital	0.0	0.0	0.0	0.0	0.0
Net change in debt	-2.5	4.6	0.0	0.0	0.0
Change in other LT liab.	-6.0	-6.5	-4.1	-4.9	-5.3
<b>Net cash flow</b>	<b>-7.3</b>	<b>8.6</b>	<b>16.9</b>	<b>17.2</b>	<b>19.2</b>

Source: Company data, Kim Eng estimates

**Key ratios**

YE Dec	2009	2010	2011F	2012F	2013F
<b>Growth (% YoY)</b>					
Sales	27.0	-2.8	2.6	5.6	5.6
OP	-6.0	11.3	0.2	14.5	6.8
EBITDA	-6.1	8.4	-8.8	14.1	7.1
NP	5.1	1.1	0.8	13.3	6.4
EPS	5.5	0.7	0.8	13.3	6.4
<b>Profitability (%)</b>					
Gross margin	24.6	27.8	27.5	28.0	28.0
Operating margin	6.2	7.1	7.0	7.6	7.6
EBITDA margin	7.8	8.7	7.7	8.3	8.4
Net Profit margin	6.2	6.4	6.3	6.8	6.8
ROA	12.1	10.6	9.9	10.1	9.5
ROE	30.5	26.4	23.9	23.5	21.7
<b>Stability</b>					
Gross debt/equity (%)	2.4	8.9	7.8	6.7	5.9
Net debt/equity (%)	-39.2	-41.4	-61.2	-74.9	-86.5
Int. coverage (X)	116.9	199.8	222.4	282.9	335.8
Int. & ST debt coverage (X)	13.2	4.9	4.9	5.7	6.1
Cash flow int. coverage (X)	10.7	241.9	297.7	347.3	425.3
Cash flow int. & ST debt (X)	1.2	5.9	6.6	6.9	7.7
Current ratio (X)	1.4	1.5	1.6	1.6	1.7
Quick ratio (X)	1.3	1.3	1.5	1.6	1.6
Net debt/(cash) (\$m)	-21.5	-24.6	-41.5	-58.8	-78.0
<b>Per share data (\$ cts)</b>					
EPS	7.9	7.9	8.0	9.1	9.6
CFPS	11.5	12.0	8.6	9.7	10.4
BVPS	28.3	30.6	35.0	40.4	46.4
SPS	124.6	121.1	124.2	131.2	138.6
EBITDA/share	9.7	10.5	9.6	10.9	11.7
DPS	3.5	4.0	3.5	3.5	3.5

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

**APPENDIX I: TERMS FOR PROVISION OF REPORT, DISCLOSURES  
AND  
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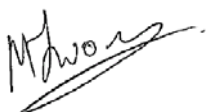
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