

# BUY

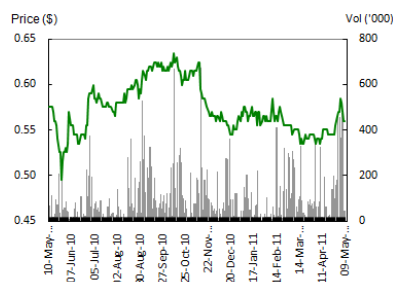
## 1Q11 Results

### Analyst

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**Price** \$0.56  
**Target** \$0.84  
**ST Index** 3,099.52

### Historical Chart



Performance	1m	3m	6m
Absolute (%)	3.7	-1.7	-10.3
Relative (%)	6.6	-0.1	-4.1

### Stock Information

Ticker code	KMEN.SI KMEN.SP
Market cap (US\$m)	87.7
52-week high (S\$)	0.634
52-week low (S\$)	0.496
Shares issued (m)	194.2
6m avg d.vol (US\$m)	0.05
Free float (%)	48.8
Major shareholders (%)	Benedict Soh (23.6) Simon Ong (23.6)

### Key Indicators

ROE (%)	26.4
Net cash (S\$m)	25.9
NAV (S\$)	0.31
Interest cover (x)	199.8

# Kingsmen Creatives

## Weak quarter not a dampener

### Event

- Kingsmen Creatives posted a set of weak 1Q11 numbers with net profit at only \$1.3m. Revenue fell by 21.9% YoY to \$36.5m while net profit slid by 39.7% YoY to \$1.4m. However, we do not think this will put a damper on full-year earnings because the first quarter has traditionally been a seasonally weak period. Besides, the comparison base in 1Q10 was considerably higher. We remain confident that Kingsmen can achieve our full-year earnings forecast. Maintain BUY.

### Our View

- Revenue for the Exhibitions & Museums division plummeted by 53.6% YoY. One reason was the high comparison base in 1Q10 during which a significant portion of work done was for the 2010 World Expo in Shanghai and the Universal Studios Singapore. The Interiors division, however, recorded a 19.1% YoY growth in revenue.
- Gross margin improved by 3.6ppt to 29.9% but overall net margin declined by 1.1ppt to 3.8%, mainly due to lower revenue to cover costs. Management stood by its outlook statement made during its FY10 results that it would continue to do well for FY11.
- Awarded contracts to-date stood at \$154m, as opposed to \$133m at the same time last year. We expect \$138m worth of contracts to be recognised in FY11. Kingsmen is still in talks to negotiate for several theme park projects while strong demand will continue to sustain its Interiors business. These should translate to further contract wins and spur growth in the remaining three quarters of the year.

### Action & Recommendation

We are keeping our estimates intact. The stock currently trades at FY11F PER of only 7x with an attractive dividend yield of 6.3%. Maintain BUY with target price unchanged at \$0.84.

Year End Dec 31	2009	2010	2011F	2012F	2013F
Sales (S\$m)	242.0	235.2	259.0	273.3	288.5
Pre-tax (S\$m)	18.9	19.7	19.8	21.5	22.8
Net profit (S\$m)	14.9	15.1	15.3	16.7	17.7
EPS (S cts)	7.9	7.9	8.0	8.8	9.3
EPS growth (%)	5.5	0.7	1.4	9.1	6.1
PER (x)	7.1	7.1	7.0	6.4	6.0
EV/EBITDA (x)	4.6	4.1	3.7	2.5	1.5
Yield (%)	6.3	7.1	6.3	6.3	6.3

SEE APPENDIX I FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

Figure 1: Earnings summary

YE Dec (\$m)	1Q11	1Q10	% YoY	4Q11	% QoQ	Remarks
<b>Turnover</b>	<b>36.5</b>	<b>46.7</b>	<b>(21.9)</b>	<b>56.2</b>	<b>(35.1)</b>	
<i>Exhibitions &amp; Museums</i>	12.7	27.4	(53.6)	20.8	(38.9)	Lower due to the high base in 1Q10, which featured substantial projects for World Expo 2010 in Shanghai and Universal Studios Singapore.
<i>Interiors</i>	20.6	17.3	19.1	30.0	(31.3)	
<i>Others (R&amp;D &amp; Integrated Marketing Comm)</i>	3.2	2.0	60.8	5.5	(42.3)	
<i>Other income</i>	0.7	0.7	10.7	0.6	21.3	
Cost of sales	(25.6)	(34.4)	(25.7)	(129.2)	(80.2)	
<b>Gross profit</b>	<b>10.9</b>	<b>12.3</b>	<b>(11.0)</b>	<b>20.6</b>	<b>(47.0)</b>	
<b>Gross margin</b>	<b>29.9</b>	<b>26.3</b>	<b>3.6ppt</b>	<b>36.6</b>	<b>-6.7ppt</b>	
Operating expenses	(10.0)	(10.0)	0.2	(14.2)	(29.3)	
Interest expenses	(0.0)	(0.0)	16.7	(0.0)	(25.0)	
Associates income	(0.0)	(0.0)	(97.9)	0.2	(100.4)	
<b>PBT</b>	<b>1.6</b>	<b>2.9</b>	<b>(44.8)</b>	<b>7.1</b>	<b>(77.7)</b>	
<b>Pre-tax margin</b>	<b>4.3</b>	<b>6.2</b>	<b>-1.8ppt</b>	<b>12.6</b>	<b>-8.3ppt</b>	
Tax	(0.3)	(0.6)	(56.5)	(1.1)	(75.5)	
<b>Effective tax rate</b>	<b>16.7</b>	<b>21.2</b>	<b>-4.5ppt</b>	<b>15.2</b>	<b>1.5ppt</b>	
Minority	(0.1)	(0.0)	125.9	1.6	(103.9)	
<b>NPAT</b>	<b>1.4</b>	<b>2.3</b>	<b>(39.7)</b>	<b>5.5</b>	<b>(74.8)</b>	
<b>Net margin</b>	<b>3.8</b>	<b>4.9</b>	<b>1.1ppt</b>	<b>9.8</b>	<b>-6.0ppt</b>	Lower due to low revenue base to cover costs.

Source: Company data

Figure 2: Historical 1Q revenue vs full-year revenue

(\$m)	FY11	FY10	FY09
First-quarter revenue	36.5	46.7	35.7
Full-year revenue	259.0*	235.2	242.0
Awarded contract value as at 1Q announcement date	154	133	167

Source: Company data, \*Kim Eng estimates

Figure 3: Sum-of-the-parts valuation

YE Dec	\$m	Remarks
Estimated net profit from Exhibitions & Museums division	7.2	Assumes 5.5% net margin.
Market value of business on PER of 10x	71.9	Benchmarked against closest peer, Pico Far East.
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Estimated net profit from retail Interiors & Others	8.1	
Market value of business on PER of 8x	64.7	Premium ratings given on its market leadership and brand equity.
Total value of businesses	136.6	
Excess cash	25.9	
Implied market cap	162.5	
Issued shares (post-placement of 20m new shares in Apr-07 & 4m shares in Jun-08)	190.1	
<b>Fair Value Per Share (\$)</b>	<b>0.84</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>259.0</b>	<b>273.3</b>	<b>288.5</b>
Cost of goods sold	182.5	169.8	190.6	200.6	211.8
<b>Gross Profit</b>	<b>59.5</b>	<b>65.4</b>	<b>68.4</b>	<b>72.7</b>	<b>76.7</b>
Operating expenses	44.5	48.7	51.5	54.1	57.0
<b>Operating Profit</b>	<b>15.1</b>	<b>16.8</b>	<b>16.9</b>	<b>18.6</b>	<b>19.8</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	19.8	21.5	22.8
Income taxes	3.2	3.5	3.6	3.9	4.1
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>15.3</b>	<b>16.7</b>	<b>17.7</b>
EBITDA	18.8	20.4	19.0	20.9	22.4
<b>EPS (\$ cts)</b>	<b>7.9</b>	<b>7.9</b>	<b>8.0</b>	<b>8.8</b>	<b>9.3</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>163.5</b>	<b>184.7</b>	<b>207.9</b>
Current assets	114.6	120.4	139.0	161.0	185.3
Cash & ST investment	22.8	29.9	44.2	61.5	80.6
Inventories	10.2	14.1	9.5	10.0	10.6
Accounts receivable	75.7	68.9	77.7	82.0	86.6
Others	5.9	7.5	7.5	7.5	7.5
Other assets	23.6	25.1	24.5	23.7	22.6
LT investments	7.4	7.7	7.7	7.7	7.7
Net fixed assets	9.8	11.9	11.3	10.4	9.4
Others	6.4	5.6	5.6	5.6	5.6
<b>Total liabilities</b>	<b>83.3</b>	<b>86.2</b>	<b>94.9</b>	<b>106.2</b>	<b>118.7</b>
Current liabilities	82.0	82.9	89.7	98.9	109.5
Accounts payable	37.1	37.7	38.1	40.1	42.4
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>68.0</b>	<b>78.0</b>	<b>89.1</b>
Paid-in capital	23.3	23.3	23.3	23.3	23.3
Reserve	31.6	36.1	44.8	54.8	65.8
NTA	48.5	53.8	62.4	72.4	83.5

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>20.0</b>	<b>23.4</b>	<b>25.7</b>
Net profit	18.9	19.7	15.3	16.7	17.7
Depreciation & amortisation	3.7	3.6	2.1	2.3	2.6
Change in working capital	-18.5	-0.6	2.6	4.4	5.4
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	18.5	21.9	24.2
<b>Financing cash flow</b>	<b>-8.5</b>	<b>-1.9</b>	<b>-4.1</b>	<b>-4.7</b>	<b>-5.1</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	-4.7	-5.1
<b>Net cash flow</b>	<b>-7.3</b>	<b>8.6</b>	<b>14.3</b>	<b>17.3</b>	<b>19.1</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	10.1	5.5	5.6
OP	-6.0	11.3	0.8	9.8	6.5
EBITDA	-6.1	8.4	-6.7	9.8	6.9
NP	5.1	1.1	1.4	9.1	6.1
EPS	5.5	0.7	1.4	9.1	6.1
<b>Profitability (%)</b>					
Gross margin	24.6	27.8	26.4	26.6	26.6
Operating margin	6.2	7.1	6.5	6.8	6.9
EBITDA margin	7.8	8.7	7.3	7.6	7.7
Net Profit margin	6.2	6.4	5.9	6.1	6.1
ROA	12.1	10.6	9.9	9.6	9.0
ROE	30.5	26.4	24.0	22.8	21.2
<b>Stability</b>					
Gross debt/equity (%)	2.4	8.9	7.8	6.8	5.9
Net debt/equity (%)	-39.2	-41.4	-57.3	-72.0	-84.6
Int. coverage (X)	116.9	199.8	223.7	273.0	323.2
Int. & ST debt coverage (X)	13.2	4.9	5.0	5.5	5.8
Cash flow int. coverage (X)	10.7	241.9	263.9	344.2	419.4
Cash flow int. & ST debt (X)	1.2	5.9	5.9	6.9	7.6
Current ratio (X)	1.4	1.5	1.5	1.6	1.7
Quick ratio (X)	1.3	1.3	1.4	1.5	1.6
Net debt/(cash) (\$m)	-21.5	-24.6	-39.0	-56.2	-75.3
<b>Per share data (\$ cts)</b>					
EPS	7.9	7.9	8.0	8.8	9.3
CFPS	11.5	12.0	8.8	9.6	10.3
BVPS	28.3	30.6	35.0	40.2	45.9
SPS	124.6	121.1	133.4	140.8	148.6
EBITDA/share	9.7	10.5	9.8	10.8	11.5
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

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AND  
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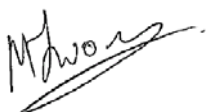
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