

Kingsmen Creatives (KMEN SP)

Consumer Non-cyclical - Commercial Services

Market Cap: USD137m

Buy (Maintained)

 Target Price: **SGD1.08**

 Price: **SGD0.91**

Expect a Strong 2HFY13

 Macro ◆◆
 Risks ◆◆
 Growth ◆◆
 Value ◆◆


Source: Bloomberg

Avg Turnover (SGD/USD)	0.06m/0.05m
Cons. Upside (%)	-4.4
Upside (%)	19.5
52-wk Price low/high (SGD)	0.73 - 0.96
Free float (%)	33

Shareholders (%)	
O-Vest Pte Ltd	19.6
Islanda Pte Ltd	19.6

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KMEN's 2QFY13 PATAMI grew 4.3% y-o-y to SGD5.4m, on the back of a 12.7% increase in revenue. Its orderbook continues to grow as demand for its services remains strong, which would boost 2H13's performance. Its ability to secure more projects and grow its business is supported by a sturdy balance sheet. Maintain BUY for stable dividends with a TP of SGD1.08, based on 8x FY13 P/E (ex-cash).

- ◆ **Margins slightly lower.** Kingsmen Creatives (KMEN)'s 2QFY13 revenue rose 12.7% y-o-y to SGD79.9m, as its interiors division's business grew. The division's 33.8% y-o-y growth was partially offset by a 25.7% y-o-y decline in revenue from the exhibitions & museums division, as fewer major exhibitions are held during the odd years. It also recorded a 4.0% y-o-y dip in revenue from its high-margin research & design division. As a result, gross margins were slightly lower.
- ◆ **Potential new jobs back orderbook growth.** KMEN's orderbook stands at SGD294m, of which SGD232m is expected to be recognised in FY13. These projects include works for a few regional theme parks, the five-year F1 Singapore Grand Prix and interior fit-outs for a number of international brands. The regional meetings, incentives, conferencing and exhibition (MICE) industry's prospects remain healthy as each country seeks to attract new events and tourist numbers. Asia's thematic & scenic industry also continues to develop. International brands are still expanding in Asia, supported by a growing number of middle-income consumers. Such trends present many new opportunities for KMEN, which has strong capabilities in these areas. Management is currently working on garnering several contracts, which would contribute positively to its orderbook.
- ◆ **Strong balance sheet.** KMEN has a net cash balance of SGD54.4m (or SGD0.28 per share). This would support its bid for more projects, while sustaining its dividend payout policy. The company announced a dividend of SGD0.015 per share for 1H13. While revenue growth is likely to moderate going forward, given its tight manpower for project management (note that it has had to turn down some projects), we continue to like the stock for its stable dividends. Maintain BUY.

Forecasts and Valuations	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total turnover (SGDm)	234	261	290	313	334
Reported net profit (SGDm)	15.1	16.3	17.1	18.9	20.3
Recurring net profit (SGDm)	15.1	16.3	17.1	18.9	20.3
Recurring net profit growth (%)	1.1	8.4	4.9	10.4	7.4
Core EPS (SGD)	0.08	0.09	0.09	0.10	0.11
DPS (SGD)	0.04	0.04	0.04	0.04	0.04
Dividend Yield (%)	4.4	4.4	4.4	4.4	4.4
Core P/E (x)	11.7	10.6	10.1	9.2	8.5
Return on average equity (%)	27.7	26.7	24.6	24.8	24.4
P/B (x)	3.08	2.69	2.34	2.21	1.97
P/CF (x)	9.91	8.49	6.21	9.42	9.38
EV/EBITDA (x)	7.03	6.86	5.63	5.19	4.70
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (%)				0.6	(3.8)

Source: Company data, OSK-DMG estimates

2Q13 Results Summary

Figure 1: Quarterly Results

YE 31 Dec (SGDm)	2Q13	2Q12	y-o-y %	1Q13	q-o-q %	Remarks
Revenue	79.9	70.9	12.7%	42.6	87.6%	Revenue growth boosted by Interiors division, off set by decline in Exhibitions.
Cost of sales	(59.3)	(51.4)	15.5%	(29.5)	101.1%	
Gross profit	20.5	19.5	5.3%	13.1	57.1%	
Other Operating Income	1.2	0.9	32.3%	1.2	1.0%	
Depreciation	(0.4)	(0.4)	-0.2%	(0.4)	7.2%	
Salaries and related costs	(11.7)	(10.6)	10.1%	(8.8)	32.8%	Staff cost was higher, mainly due to provision for bonuses which is linked to profits achieved.
Other operating expenses	(2.8)	(3.3)	-13.9%	(3.0)	-4.8%	
Operating profit	6.8	6.1	11.4%	2.1	227.5%	
Financial income, net	0.1	(0.0)	-1220.0%	(0.0)	-230.2%	
Share of Associates	0.3	0.4	-21.1%	0.4	-26.7%	
Profit Before Taxes	7.2	6.5	10.3%	2.5	189.7%	
Income Tax Expense	(1.4)	(1.3)	13.0%	(0.5)	204.3%	
Minority Interest	(0.3)	(0.1)	450.8%	0.2	-254.9%	
Net Income	5.4	5.2	4.3%	2.2	141.9%	
Margins (%)						
Gross profit	25.7%	27.5%	3.2 ppt	30.7%	-5.0 ppt	Decline was due to lower Research and Design revenue (-4%).
EBIT	8.5%	8.6%	-3.7 ppt	4.9%	3.6 ppt	
PBT	9.0%	9.2%	-3.4 ppt	5.8%	3.2 ppt	
PATAMI	6.7%	7.3%	-2.1 ppt	5.2%	1.5 ppt	

Source: Company data

Financial Exhibits

Profit & Loss (SGDm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total turnover	234	261	290	313	334
Cost of sales	(170)	(194)	(218)	(235)	(250)
Gross profit	64	67	73	78	83
Gen & admin expenses	(2)	(2)	(2)	(1)	(1)
Selling expenses	(35)	(38)	(41)	(44)	(47)
Other operating costs	(12)	(12)	(14)	(15)	(16)
Operating profit	15	15	16	18	19
Operating EBITDA	19	19	20	21	22
Depreciation of fixed assets	(4)	(3)	(4)	(3)	(3)
Amortisation of intangible assets	(0)	(0)	(0)	(0)	(0)
Operating EBIT	15	15	16	18	19
Other recurring income	4	4	6	6	7
Interest income	0	0	0	0	0
Interest expense	(0)	(0)	(0)	(0)	(0)
Pre-tax profit	20	20	22	24	26
Taxation	(4)	(3)	(4)	(5)	(5)
Minority interests	(1)	(0)	(1)	(1)	(1)
Profit after tax & minorities	15	16	17	19	20
Reported net profit	15	16	17	19	20
Recurring net profit	15	16	17	19	20

Source: Company data, OSK-DMG estimates

Cash flow (SGDm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Operating profit	15	15	16	18	19
Depreciation & amortisation	4	4	4	3	3
Change in working capital	(3)	(1)	6	(0)	(4)
Other operating cash flow	5	5	6	5	5
Operating cash flow	21	23	32	26	23
Interest received	0	0	0	0	0
Interest paid	(0)	(0)	(0)	(0)	(0)
Tax paid	(3)	(3)	(4)	(7)	(5)
Cash flow from operations	18	20	28	18	18
Capex	(6)	(3)	(2)	(3)	(3)
Other new investments	(4)	-	-	-	-
Other investing cash flow	1	0	0	-	-
Cash flow from investing activities	(9)	(2)	(2)	(3)	(3)
Dividends paid	(7)	(8)	(8)	(8)	(8)
Proceeds from issue of shares	0	-	-	-	-
Increase in debt	8	(0)	(1)	(0)	(0)
Other financing cash flow	(0)	(0)	(0)	-	-
Cash flow from financing activities	2	(8)	(9)	(8)	(8)
Cash at beginning of period	23	30	33	53	56
Total cash generated	10	10	18	7	8
Forex effects	(1)	1	-	-	-
Implied cash at end of period	32	40	51	61	63

Source: Company data, OSK-DMG estimates

Financial Exhibits

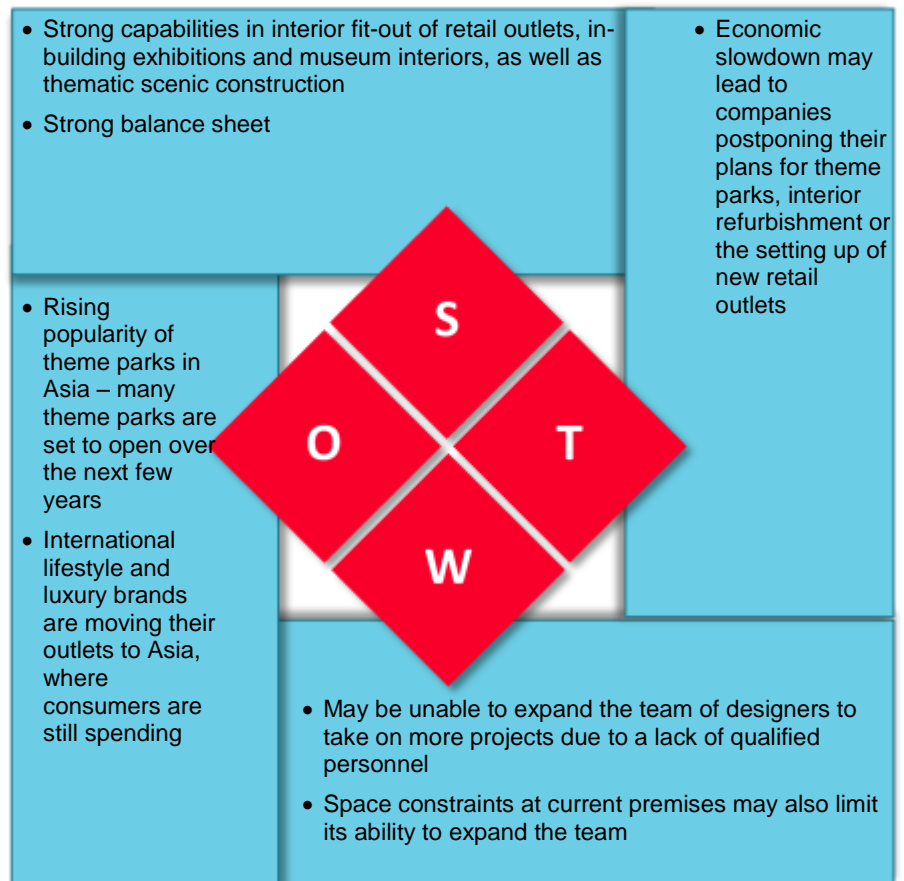
Balance Sheet (SGDm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total cash and equivalents	30	33	53	56	62
Inventories	14	11	18	16	17
Accounts receivable	70	88	74	83	93
Other current assets	7	8	12	11	12
Total current assets	120	141	156	166	183
Total investments	8	8	9	9	9
Tangible fixed assets	12	11	9	9	9
Intangible assets	6	5	5	5	4
Total other assets	0	0	0	0	0
Total non-current assets	25	25	23	23	22
Total assets	146	166	180	188	206
Short-term debt	3	3	3	3	2
Accounts payable	38	41	45	49	54
Other current liabilities	42	51	53	53	57
Total current liabilities	83	95	101	105	113
Total long-term debt	2	2	2	2	2
Other liabilities	1	1	0	0	0
Total non-current liabilities	3	3	2	2	2
Total liabilities	86	98	103	107	115
Share capital	23	23	23	23	23
Retained earnings reserve	35	43	52	56	66
Other reserves	(2)	(1)	(1)	(1)	(1)
Shareholders' equity	57	65	74	78	88
Minority interests	2	3	3	3	3
Other equity	-	(0)	0	(0)	-
Total equity	59	68	77	82	91
Total liabilities & equity	146	166	180	188	206

Source: Company data, OSK-DMG estimates

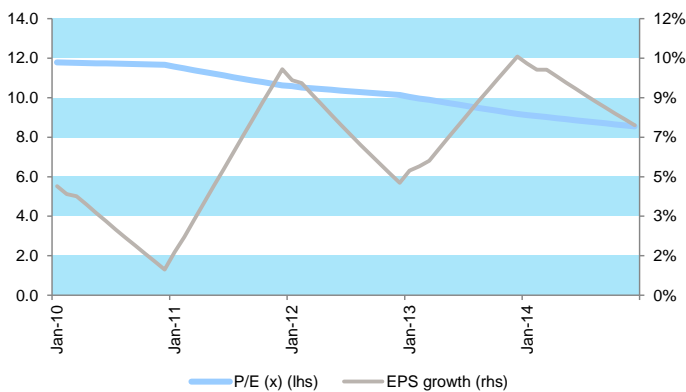
Key Ratios (SGD)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Revenue growth (%)	(3.5)	11.7	11.2	7.9	6.6
Operating profit growth (%)	1.0	0.6	5.0	9.5	7.3
Net profit growth (%)	1.1	8.4	4.9	10.4	7.4
EPS growth (%)	1.1	9.8	4.9	10.4	7.4
Bv per share growth (%)	10.0	14.7	14.7	6.0	12.3
Operating margin (%)	6.5	5.9	5.5	5.6	5.7
Net profit margin (%)	6.4	6.3	5.9	6.0	6.1
Return on average assets (%)	10.6	10.5	9.9	10.3	10.3
Return on average equity (%)	27.7	26.7	24.6	24.8	24.4
Net debt to equity (%)	(41.4)	(41.2)	(62.9)	(63.4)	(63.1)
DPS	0.04	0.04	0.04	0.04	0.04
Recurrent cash flow per share	0.09	0.11	0.15	0.10	0.10

Source: Company data, OSK-DMG estimates

SWOT Analysis

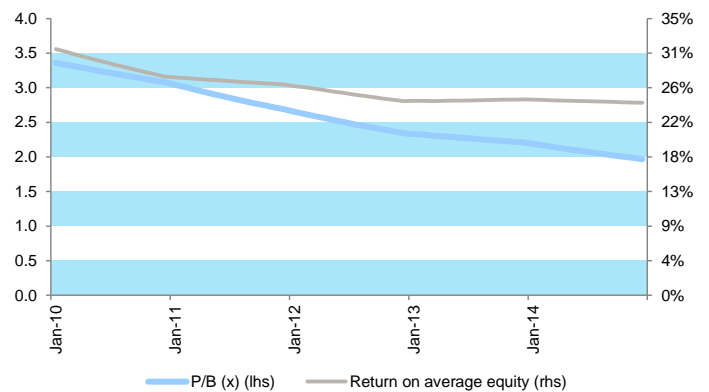


P/E (x) vs EPS growth



Source: Company data, OSK-DMG estimates

P/BV (x) vs ROAE



Source: Company data, OSK-DMG estimates

Company Profile

Kingsmen Creatives, a regional communications design and production group, builds displays for exhibitions and provides interior fit-out services. Its interiors division's clients are high-end brands such as *Tiffany*, *Dior*, *Swarovski*, *Guess*, *Abercrombie & Fitch*, *Gucci*, *Robinsons* and *BMW*. Its exhibitions & museum division is involved in thematic and scenic construction (ie theme parks). The company counts the construction of some attractions at Universal Studios Singapore and extension works at Hong Kong Disneyland as some of its projects.

Recommendation Chart



Source: OSK-DMG estimates, Bloomberg

Date	Recommendation	Target Price	Price
2013-05-17	Buy	1.08	0.92
2013-03-05	Buy	0.93	0.81
2013-03-01	Buy	0.93	0.80
2013-03-01	Buy	0.93	0.80
2013-01-18	Buy	0.83	0.73
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

Source : OSK-DMG estimates, Bloomberg

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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