

Analyse this...

Retail Research

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Kingsmen Creatives

 KMEN SP
UNRATED

 Price @26/11/08: S\$0.325
52-week range (SGD): 0.29– 0.52
Market cap – S\$63.1m

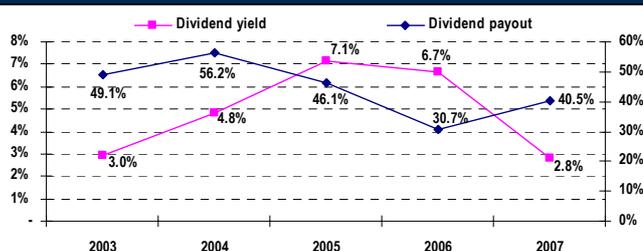
A well deserving 'King'

- We recently visited Kingsmen at its main office located at Changi South Lane. The entrance was cleanly decorated and flanked by a showroom of mock-up Chanel and Gucci shop frontages and white immaculate shelves that one usually sees at luxury outlets. On its roof garden were more mock-ups of life size figurines and structures that one typically sees at theme parks such as Disneyland. Basically this summarizes part of what Kingsmen does.
- Kingsmen's four business areas are 1) Research and design; 2) Exhibitions and museums; 3) Interiors and 4) Integrated marketing communications.
- Kingsmen has been in operation for more than 30 years and has built up a reputable list of customers such as Chanel, Gucci, Tiffany & Co. and BMW (amongst many others) over the years.
- In its 30 year history, which included a few recessions, Kingsmen never had a loss-making year which we see as a commendable feat.

Puts forth a compelling proposition

- **Good brand name.** Over the years, the Kingsmen brand has carved a reputable name for itself within the industry and is recognized for its quality service amongst clients.
- **Strong balance sheet.** As of 30 Jun 2008, the company was in a strong balance sheet position with positive net cash amounting to S\$23.9m. Free cash flow was also in the green at S\$6.4m, giving the company financial room to consider 'bargain buys' that might come its way.
- **Order book.** As of 30 Sep 2008, the group has been awarded projects amounting to approximately S\$211.3m (excludes recent project wins of S\$59.5m from Universal Studios), of which about S\$172.6m is expected to be recognized in FY2008. In FY2007, total group revenue was S\$146.1m.
- **Decent yields.** A true 'King' never forgets his people. In the same light, Kingsmen has had a good track record of paying decent dividends to shareholders for investing in its stock. Historical dividend payout typically ranges between 30.7% to 56.2%. Considering that net profit is likely to come in higher than FY2007's and assuming a net dividend payout ratio of 40% this year, gross dividend paid out would come in at about S\$4.8m. This translates to an attractive dividend yield of 7.6%.

Dividend trend



Source: Bloomberg

Company outlook

- **Shallower pockets in the U.S. and Europe are a plus.** Ironically, the weakened U.S. and European economies have led to increased enquiries and business for Kingsmen, as Singapore is seen to be a cheaper place to manufacture and outsource projects to (as compared to U.S. and Europe). The company is currently carrying one such project in Europe for Polo Ralph to design and do up 50 stores for about S\$5m. Going forward, we expect to see more of such projects coming in as U.S. and European companies adopt cost-cutting measures.
- **Good earnings visibility into FY2009.** Recently, Kingsmen secured two Universal Studios Singapore contracts amounting to a total of US\$59.5m to design and build the interior fit-out works for the food and beverage and retail/merchandise outlets within the theme park. The contracts are expected to be completed by October 2009 and constitute 28.3% of our FY2009 revenue forecast.

Recommendation

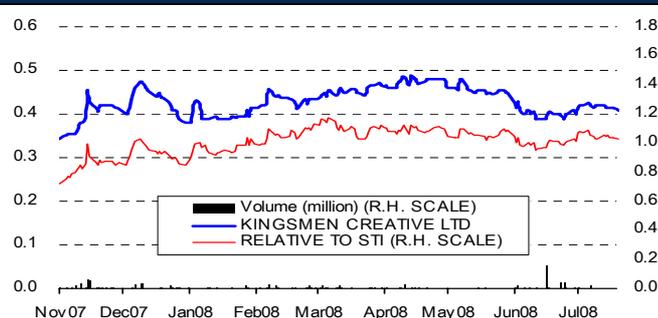
- The company's stock is currently trading at 5.3x FY08 PER which is a 15% premium to the historical low of 4.6x back in FY07. We believe this is reasonable in light of Kingsmen good earnings visibility, decent dividend payouts and strong balance sheet despite recessionary conditions. Going forward, we expect further growth in the group's top and bottom line into 2009.
- Just a few months back, there was a bidding war between Yellow Pages and Star Publications for Kingsmen's peer, Cityneon Holdings. The final offer stood at S\$0.61 for each offer share, which valued Cityneon at 12.6x FY07 PER, way higher than Kingsmen's FY07 PER of 6.6x. We view Kingsmen as a company with an added edge over Cityneon due to its greater geographical spread and higher value-added design capabilities. Should a M&A opportunity come its way, and value Kingsmen at a similar 12.6x FY07 PER, share price could potentially come in at S\$0.62, translating to 90.8% upside.
- We do not have a rating on the stock.

Financial summary

	Sales (S\$ m)	Net profit (S\$ m)	EPS (S cts)	EPS growth (%)	PER (x)	P/BV (x)
2006A	108.9	4.9	2.6	125.0	12.5	1.1
2007A	146.1	9.4	4.9	89.8	6.6	2.1
2008F	186.2	11.9	6.1	25.2	5.3	1.4
2009F	210.0	13.4	6.9	12.8	4.7	1.1

Source: Company, CIMB-GK Research

Share price performance



Source: Bloomberg, CIMB-GK Research

Technical recommendation



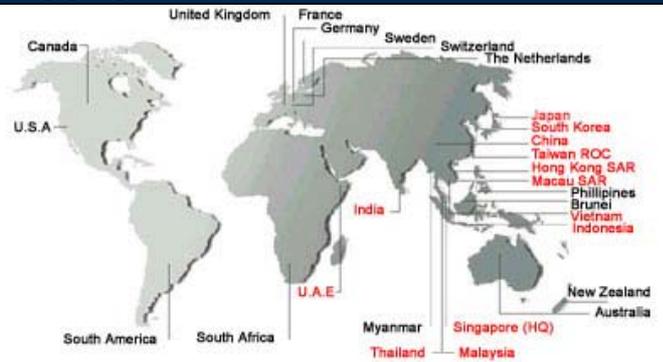
Source: Bloomberg

- **Technical BUY**
- The stock is stuck in its long term triangle. It is now trading near the bottom end of this triangle with support at S\$0.33 and S\$0.30. Stop loss at S\$0.295 or below.
- With MACD confirming its positive crossover and a sharp hook up on its RSI, we could see prices recover from here.
- Firstly, it needs to breach its 30-day SMA at S\$0.36. The following resistances are at S\$0.385 and S\$0.43.

Company profile

- **Background.** The company was established in 1976 before being incorporated in Singapore on 16 Dec 2002. The company subsequently got listed on SGX Sesdaq on 19 Sep 2003 before recently upgrading to SGX Mainboard on 25 Jul 2008.
- **Business offerings.** Kingsmen is basically a one-stop design, production and logistics centre that supports a comprehensive range of services such as design, fabrication, assembly and full project management.
- **International coverage.** Kingsmen has a large regional network that allows it to service clients outside the Asian region. Currently it has 16 affiliate offices in the Asia-Pacific and Middle East regions. In addition, the company maintains a global connection with other professionals in countries such as Canada, U.S., Mexico, U.K. and France amongst others.

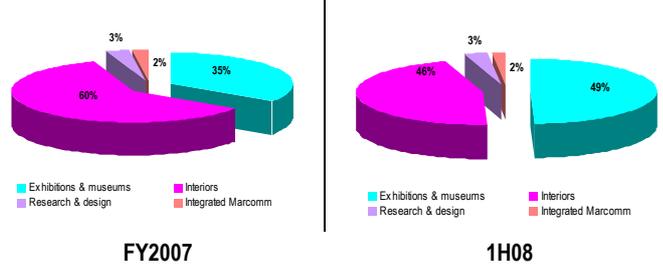
A big geographical footprint



Global Connections

Source: Company

Revenue breakdown by segments



Source: Company

Customers that make up its S\$211.3m order book

Exhibitions & Museums

- Bank Negara Malaysia Museum @ Art Gallery
- BMW Asia
- Cityscape Asia 2008
- Delphi
- GlobalTronics 1008
- ITB Berlin 2008
- Singapore Airshow 2008
- Farnborough Airshow
- Singapore Grand Prix
- TFAP 2008

Retail Interiors

- ALDO
- APPL
- Burberry
- Chanel
- DBS
- FJ Benjamin
- Marks & Spencer
- Nokia
- Nuance Watson, T3
- Robinsons
- Tag Heuer
- The Hour Glass
- Tiffany & Co.

Source: Company

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