

## Buy (unchanged)

Share price: SGD0.725  
 Target price: SGD0.96 (unchanged)

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### Stock Information

**Description:** Kingsmen Creatives specializes in the research and design of corporate interiors, exhibition & events, and thematic & museum.

|                                   |         |
|-----------------------------------|---------|
| Ticker:                           | KMEN SP |
| Shares Issued (m):                | 191.6   |
| Market Cap (USD m):               | 113.2   |
| 3-mth Avg Daily Turnover (USD m): | 0.05    |
| ST Index:                         | 3,211.2 |
| Free float (%):                   | 39      |

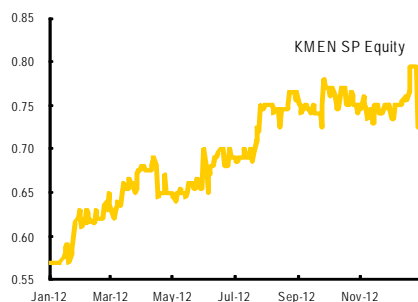
### Major Shareholders:

|              |    |
|--------------|----|
|              | %  |
| Benedict Soh | 20 |
| Simon Ong    | 20 |

### Key Indicators

|                      |      |
|----------------------|------|
| ROE – annualised (%) | 20.2 |
| Net cash (SGD m):    | 43.7 |
| NTA/shr (SGD):       | 36.0 |
| Interest cover (x):  | nm   |

### Historical Chart



### Performance:

52-week High/Low SGD0.805/SGD0.555

|              |       |       |       |      |      |
|--------------|-------|-------|-------|------|------|
|              | 1-mth | 3-mth | 6-mth | 1-yr | YTD  |
| Absolute (%) | -3.3  | -5.8  | 5.1   | 27.2 | -3.3 |
| Relative (%) | -4.8  | -10.6 | -1.3  | 12.9 | -4.7 |

# Kingsmen Creatives

## Reiterating Core Values

**Fraud found in subsidiaries.** Kingsmen has announced that two subsidiaries, Kingsmen Beijing Co. Ltd (KBJ), and Kingsmen Exhibits Pte. (KE) are believed to have committed fraud, and are currently under review. Amount of losses totals at SGD1.46m, and could impact FY12F earnings by 7%, depending on E&Y's audit assessment. We maintain our positive stance on Kingsmen and believe this is a one-off event. We suggest investors to BUY on weakness.

**Case details.** Between 2009 and 2011, the AC noted misappropriation of funds in KBJ, which included invoices being paid twice, unrecorded cash payments and missing cash. KBJ's losses amounted to RMB614k, of which RMB467k has since been recovered, and four employees have been dismissed. The total loss approximates at SGD29k. The second matter dates back to FY10, where a SGD2.76m discrepancy amount in a project had led to a settlement agreement to be drawn up between KE and a subcontractor. SGD1.30m was written off in FY10, and the rest was to be paid off in future projects. A personal guarantee was drawn up however, without the Management's knowledge. The group reassessed values of the works done in this project, and acknowledged that it was equal to the prepaid amount. Remaining prepaid amount of SGD691k, and SGD764k already charged on other projects will be written off on the balance sheet.

**Return to fundamentals.** Kingsmen's commitment to shareholders is shown in its dividend payout track record, consistent earnings growth and CEO, the majority shareholders, never cashing out. Since IPO to 2011, the group has experienced sales and net profit CAGR of 22% and 44%. Today, Kingsmen is supported with 70% of sales coming from recurrent customers. It boasts a healthy balance sheet with net cash of 43.7m, and generates consistently positive operating cash flow helmed with ROE of over 20% in the past 8 years.

**Pick a winner in small caps hemisphere.** We reiterate BUY with an unchanged TP of SGD0.96, pegged to blended valuation of 9.7x FY13F earnings. The group now holds a highly attractive dividend yield of 5.6% for FY12, and 6.2% for FY13.

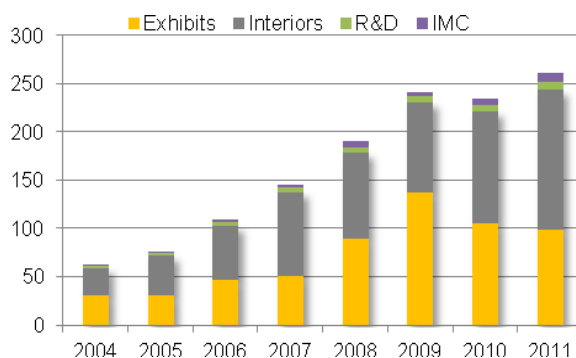
### Kingsmen Creatives– Summary Earnings Table

|                              | 2010  | 2011  | 2012E | 2013E | 2014E |
|------------------------------|-------|-------|-------|-------|-------|
| Revenue                      | 233.6 | 261.0 | 286.4 | 316.0 | 348.2 |
| EBITDA                       | 19.7  | 19.8  | 21.4  | 23.8  | 26.1  |
| Recurring Net Profit         | 15.1  | 16.3  | 17.2  | 19.0  | 20.9  |
| Recurring Basic EPS (cents)  | 7.9   | 8.5   | 9.0   | 10.0  | 10.9  |
| EPS growth (%)               | 1.1   | 8.4   | 5.6   | 10.4  | 9.6   |
| DPS (cents)                  | 4.0   | 4.0   | 4.1   | 4.5   | 4.9   |
| PER                          | 9.2   | 8.5   | 8.0   | 7.3   | 6.6   |
| EV/EBITDA (x)                | 5.5   | 5.6   | 5.3   | 4.7   | 4.4   |
| Div Yield (%)                | 5.5   | 5.5   | 5.6   | 6.2   | 6.8   |
| P/BV(x)                      | 2.3   | 2.0   | 1.8   | 1.6   | 1.4   |
| Net cash (S\$m)              | -41.4 | -38.0 | -44.2 | -48.5 | -52.5 |
| ROE (%)                      | 25.4  | 23.5  | 21.9  | 21.4  | 20.8  |
| ROA (%)                      | 10.3  | 9.9   | 9.4   | 9.3   | 9.2   |
| Consensus Net Profit (SGD m) |       |       | 17.9  | 19.4  | 21.6  |

Source: Maybank KE

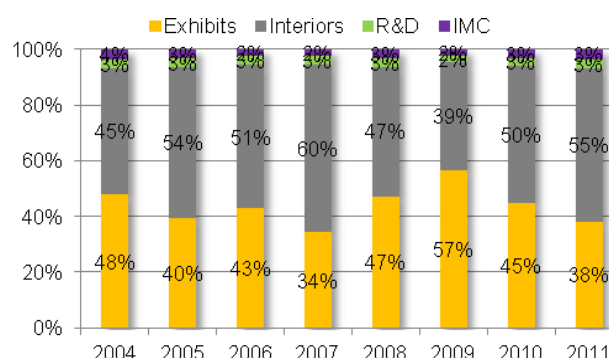
## Returning to fundamentals

**Figure 1: Sales revenue**



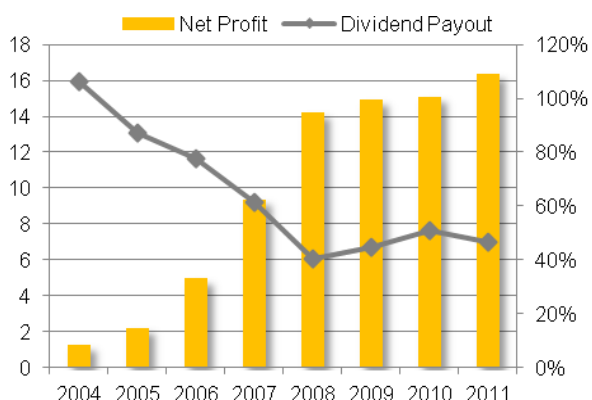
Source: Company data

**Figure 2: Sales breakdown**



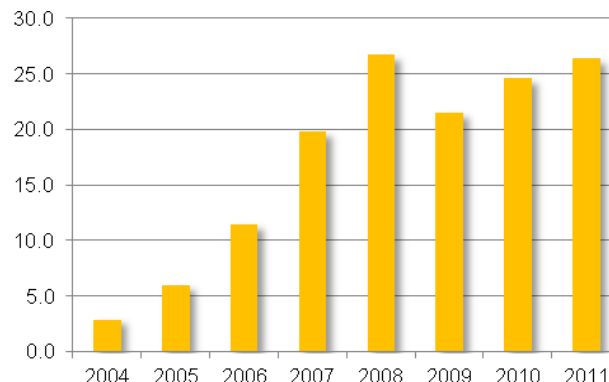
Source: Company data

**Figure 3: Net profit vs. Dividend payout**



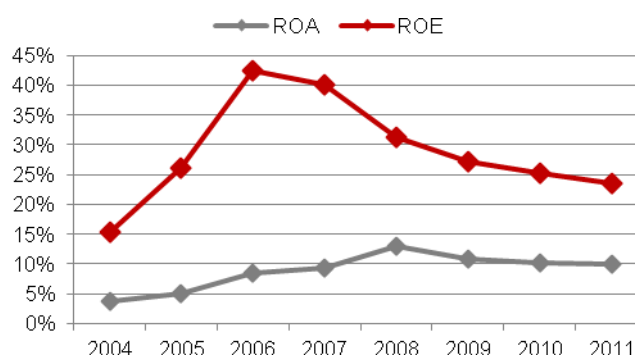
Source: Company data

**Figure 4: Net cash (\$m)**



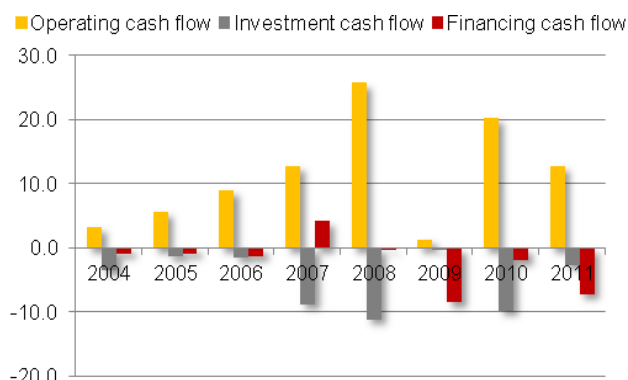
Source: Company data

**Figure 5: ROE & ROA**



Source: Company data

**Figure 6: Cash flow trend**



Source: Company data

## PROFIT AND LOSS (SGD m)

| FY Dec                       | 2010   | 2011   | 2012E  | 2013E  | 2014E  |
|------------------------------|--------|--------|--------|--------|--------|
| <b>Sales</b>                 | 233.6  | 261.0  | 286.4  | 316.0  | 348.2  |
| Cost of goods sold           | -169.8 | -194.3 | -213.7 | -235.7 | -260.1 |
| <b>Gross profit</b>          | 63.9   | 66.7   | 72.8   | 80.3   | 88.1   |
| Operating expenses           | 44.4   | 47.5   | 52.1   | 57.2   | 62.9   |
| <b>Operating profit</b>      | 19.5   | 19.2   | 20.7   | 23.0   | 25.2   |
| Net interest                 | 0.1    | 0.1    | 0.1    | 0.2    | 0.2    |
| Interest income              | 0.2    | 0.2    | 0.3    | 0.3    | 0.3    |
| Interest expense             | -0.1   | -0.2   | -0.1   | -0.2   | -0.2   |
| Net investment income/(loss) | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    |
| Net other non-op. JV+Assoc.  | 0.1    | 0.6    | 0.6    | 0.6    | 0.7    |
| Net extraordinary            | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    |
| Pretax profit                | 19.7   | 19.8   | 21.4   | 23.8   | 26.1   |
| Income taxes                 | 3.5    | 3.1    | 3.6    | 4.3    | 4.7    |
| Minority interests           | 1.103  | 0.43   | 0.5    | 0.5    | 0.5    |
| <b>Net profit</b>            | 15.1   | 16.3   | 17.2   | 19.0   | 20.9   |
| EBITDA                       | 21.1   | 20.7   | 22.1   | 24.5   | 26.6   |
| EPS (SGD)                    | 7.9    | 8.6    | 9.0    | 10.0   | 10.9   |

## BALANCE SHEET (SGD m)

| FY Dec                      | 2010  | 2011  | 2012E | 2013E | 2014E |
|-----------------------------|-------|-------|-------|-------|-------|
| <b>Total assets</b>         | 146.9 | 165.5 | 184.3 | 205.0 | 227.6 |
| Current assets              | 120.4 | 139.8 | 158.6 | 178.9 | 201.6 |
| Cash & ST investment        | 29.9  | 31.6  | 40.9  | 49.2  | 58.8  |
| Inventories                 | 14.1  | 11.4  | 13.0  | 14.3  | 15.8  |
| Accounts receivable         | 75.3  | 95.3  | 103.2 | 113.9 | 125.5 |
| Others                      | 1.1   | 1.4   | 1.5   | 1.5   | 1.5   |
| Other assets                | 26.5  | 25.7  | 25.8  | 26.0  | 26.0  |
| LT investments              | 7.7   | 8.3   | 8.3   | 8.3   | 8.3   |
| Net fixed assets            | 11.9  | 11.2  | 11.2  | 11.2  | 11.2  |
| Others                      | 6.9   | 6.2   | 6.3   | 6.6   | 6.6   |
| <b>Total liabilities</b>    | 86.2  | 97.6  | 105.6 | 115.9 | 127.2 |
| Current liabilities         | 82.9  | 94.6  | 101.4 | 111.5 | 122.7 |
| Accounts payable            | 68.0  | 78.0  | 84.6  | 93.3  | 102.9 |
| ST borrowings               | 3.3   | 3.1   | 3.1   | 3.1   | 3.1   |
| Others                      | 11.6  | 13.5  | 13.7  | 15.2  | 16.7  |
| Long-term liabilities       | 3.2   | 3.0   | 4.3   | 4.4   | 4.5   |
| Long-term debts             | 2.0   | 2.1   | 3.0   | 3.0   | 3.0   |
| Others                      | 1.3   | 0.9   | 1.3   | 1.4   | 1.5   |
| <b>Shareholder's equity</b> | 59.4  | 69.5  | 78.7  | 89.1  | 100.4 |
| Paid-in capital             | 23.3  | 23.3  | 23.3  | 23.3  | 23.3  |
| Reserve                     | 36.1  | 46.2  | 55.4  | 65.8  | 77.2  |
| NTA                         | 48.8  | 56.7  | 67.5  | 77.9  | 89.2  |

## CASH FLOW (SGD m)

| FY Dec                      | 2010 | 2011 | 2012E | 2013E | 2014E |
|-----------------------------|------|------|-------|-------|-------|
| <b>Operating cash flow</b>  | 20.3 | 12.9 | 18.8  | 21.1  | 22.8  |
| Pretax income               | 19.7 | 19.8 | 21.4  | 23.8  | 26.1  |
| Depreciation & amortisation | 1.6  | 1.5  | 1.5   | 1.5   | 1.5   |
| Change in working capital   | -0.6 | -7.5 | -2.3  | -1.7  | -1.8  |
| Others                      | -0.4 | -1.0 | -1.8  | -2.5  | -2.9  |
| <b>Investment cash flow</b> | -9.7 | -2.6 | -3.0  | -3.0  | -3.0  |
| Net capex                   | -6.2 | -2.8 | -3.0  | -3.0  | -3.0  |
| Change in LT investments    | -0.3 | -0.6 | 0.0   | 0.0   | 0.0   |
| Change in other assets      | -3.3 | 0.8  | 0.0   | 0.0   | 0.0   |
| Cash flow after invt.       | 10.6 | 10.3 | 15.8  | 18.1  | 19.8  |
| <b>Financing cash flow</b>  | -1.9 | -7.2 | -7.6  | -9.2  | -10.0 |
| Change in share capital     | 0.0  | 0.0  | 0.0   | 0.0   | 0.0   |
| Net change in debt          | 4.1  | 0.0  | 0.9   | 0.0   | 0.0   |
| Dividend                    | -7.0 | -7.8 | -8.0  | -8.8  | -9.6  |
| Change in other LT liab     | 0.9  | 0.7  | -0.5  | -0.4  | -0.4  |
| <b>Net Cash Flow</b>        | 8.6  | 3.1  | 8.1   | 8.9   | 9.8   |

## KEY RATIOS

| FY Dec                       | 2010  | 2011  | 2012E | 2013E | 2014E |
|------------------------------|-------|-------|-------|-------|-------|
| <b>Growth (% YoY)</b>        |       |       |       |       |       |
| Sales                        | -3.5  | 11.7  | 9.8   | 10.3  | 10.2  |
| Operating profit             | 5.0   | -1.7  | 7.7   | 11.5  | 9.3   |
| EBITDA                       | -5.3  | -2.1  | 6.8   | 10.7  | 8.8   |
| Net profit                   | 1.1   | 8.4   | 5.6   | 10.4  | 9.6   |
| EPS                          | 1.1   | 8.4   | 5.6   | 10.4  | 9.6   |
| <b>Profitability (%)</b>     |       |       |       |       |       |
| Gross margin                 | 27.3  | 25.5  | 25.4  | 25.4  | 25.3  |
| Operating margin             | 8.4   | 7.4   | 7.2   | 7.3   | 7.2   |
| EBITDA margin                | 9.0   | 7.9   | 7.7   | 7.8   | 7.7   |
| Net margin                   | 6.4   | 6.3   | 6.0   | 6.0   | 6.0   |
| ROA                          | 10.3  | 9.9   | 9.4   | 9.3   | 9.2   |
| ROE                          | 25.4  | 23.5  | 21.9  | 21.4  | 20.8  |
| <b>Stability</b>             |       |       |       |       |       |
| Gross debt/equity (%)        | 8.9   | 7.5   | 7.7   | 6.8   | 6.0   |
| Net debt/equity (%)          | -41.4 | -38.0 | -44.2 | -48.5 | -52.5 |
| Int. coverage (X)            | 232.4 | 110.9 | 144.3 | 145.8 | 144.6 |
| Int. & ST debt coverage (X)  | 6.0   | 6.6   | 7.1   | 7.9   | 8.7   |
| Cash flow int. coverage (X)  | 241.9 | 74.3  | 131.1 | 133.5 | 130.8 |
| Cash flow int. & ST debt (X) | 6.3   | 4.4   | 6.4   | 7.3   | 7.9   |
| Current ratio (X)            | 1.5   | 1.5   | 1.6   | 1.6   | 1.6   |
| Quick ratio (X)              | 1.3   | 1.4   | 1.4   | 1.5   | 1.5   |
| Net cash/(debt) (SGD m)      | -24.6 | -26.4 | -34.8 | -43.2 | -52.8 |
| <b>Per share data (SGD)</b>  |       |       |       |       |       |
| EPS                          | 7.9   | 8.5   | 9.0   | 10.0  | 10.9  |
| CFPS                         | 10.6  | 6.7   | 9.8   | 11.0  | 11.9  |
| BVPS                         | 31.1  | 36.4  | 41.2  | 46.6  | 52.6  |
| SPS                          | 122.3 | 136.7 | 150.0 | 165.5 | 182.3 |
| EBITDA/share                 | 11.1  | 10.8  | 11.6  | 12.8  | 13.9  |
| DPS                          | 4.0   | 4.0   | 4.1   | 4.5   | 4.9   |

Source: Company, Maybank KE

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Ong Seng Yeow | Executive Director, Maybank Kim Eng Research

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|--|--------------------------|---|
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| BV = Book Value                              | FV = Fair Value          | PEG = PE Ratio To Growth                |
| CAGR = Compounded Annual Growth Rate         | FY = Financial Year      | PER = PE Ratio                          |
| Capex = Capital Expenditure                  | FYE = Financial Year End | QoQ = Quarter-On-Quarter                |
| CY = Calendar Year                           | MoM = Month-On-Month     | ROA = Return On Asset                   |
| DCF = Discounted Cashflow                    | NAV = Net Asset Value    | ROE = Return On Equity                  |
| DPS = Dividend Per Share                     | NTA = Net Tangible Asset | ROSF = Return On Shareholders' Funds    |
| EBIT = Earnings Before Interest And Tax      | P = Price                | WACC = Weighted Average Cost Of Capital |
| EBITDA = EBIT, Depreciation And Amortisation | P.A. = Per Annum         | YoY = Year-On-Year                      |
| EPS = Earnings Per Share                     | PAT = Profit After Tax   | YTD = Year-To-Date                      |
| EV = Enterprise Value                        | PBT = Profit Before Tax  |   |

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