

Buy (unchanged)

Share price: SGD0.77
 Target price: SGD0.96 (from 0.85)

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Stock Information

Description: Kingsmen Creative specialises in the research and design of corporate interiors, exhibitions & events, and thematic & museum.

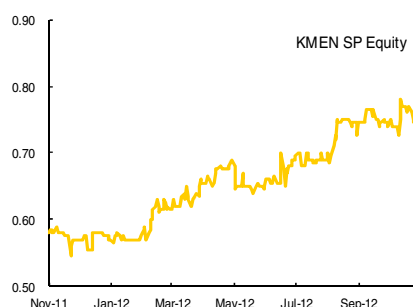
Ticker:	KMEN SP
Shares Issued (m):	191.6
Market Cap (USD m):	120.4
3-mth Avg Daily Turnover (USD m):	0.05
ST Index:	3,031.7
Free float (%):	39

Major Shareholders:	%
Benedict Soh	20
Simon Ong	20

Key Indicators

ROE – annualised (%)	20.2
Net cash (SGD m):	43.7
NAV/shr (SG ct):	36.0
Interest cover (x):	nm

Historical Chart



Performance:

52-week High/Low	SGD0.805/SGD0.545				
	1-mth	3-mth	6-mth	1-yr	YTD
Absolute (%)	4.1	11.6	11.6	32.8	33.9
Relative (%)	6.7	12.3	10.1	24.7	16.9

Kingsmen Creatives

Soft Landing, Expect Strong 4Q

In line with expectations. 3Q12 results were in line with expectations. Revenue was SGD70.4m (-18% YoY) coupled with softer earnings of SGD3.6m (-19% YoY). This makes up 62.8% of our 9M12 earnings estimates. We are expecting the bulk of the earnings to be recognised in the fourth quarter, as was the case with FY11's 4Q results that accounted for 36% of the FY11 results. We are positive about Kingsmen's strong orderbook of SGD289m, on the back of strong consumer optimism in Asia. We roll forward our valuations to FY13 estimates, based on a blended valuation of 9.7x FY13F earnings, and derive a new TP of SGD0.96 from SGD0.85. Maintain BUY.

Lower recognition from Interiors division. Earnings of the interiors division declined by 30.4% YoY to SGD31.9m in 3Q12, due to lower recognition of projects than in 3Q11. Non-core segments recorded a healthy YoY earnings growth rate of 25% to reach SGD5.8m. Gross margin increased by 2ppt to 21.5% in 3Q12, while net margin stayed at 5.1%, lower by 0.1ppt YoY.

Strong orderbook of SGD289m. Kingsmen has a solid orderbook of SGD289m (+25.2% QoQ): SGD274m will be recognised this year. Kingsmen successfully delivered works for the London Olympics and F1 Singapore in 3Q12.

Expect stronger results from E&M and Interiors. In the final quarter, we are expecting higher sales recognition from the interiors division, where fit-outs are needed before the festive season. Museum projects such as Gardens by the Bay, the GuangZhou HengDa Exhibitions Centre, and the Hong Kong Maritime Museum will also be delivered by the end of the year.

Roll over to FY13, raise TP to SGD0.96. We are maintaining our forecasts and rolling forward our target price to FY13F estimates. We will be monitoring contract wins for amusement parks as a strong earnings booster for the year going forward. Kingsmen declared an interim dividend of 1.50cts last quarter and we are expecting another 2.05cts to be paid out in the next quarter, thus implying an overall dividend payout ratio of 45% and a dividend yield of 5.3%.

Kingsmen Creatives– Summary Earnings Table

FYE Dec (SGD m)	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	9.8	9.0	8.5	7.7	7.0
EV/EBITDA (x)	5.9	6.0	5.6	5.1	4.7
Div Yield (%)	5.2	5.2	5.3	5.8	6.4
P/BV(x)	2.5	2.1	1.9	1.7	1.5
Net Gearing (%)	-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: Company data, Maybank KE

Figure 1: 3Q12 results

YE Dec (SGD m)	3Q12	3Q11	YoY(%)	2Q12	QoQ (%)
Sales	70.4	85.6	-17.7%	70.9	-0.6%
Cost of goods sold	-54.1	-67.4	-19.8%	-51.4	5.2%
Gross profit	16.4	18.2	-10.0%	19.5	-16.1%
Other income	1.1	1.2	-7.9%	0.9	19.9%
Depreciation of PPE	-0.4	-0.4	3.9%	-0.4	0.2%
Staff salaries and related expenses	-9.9	-10.5	-6.2%	-10.6	-7.0%
Other expense	-3.1	-3.5	-9.5%	-3.3	-5.1%
Interest expense	-0.1	-0.1	-9.9%	-0.1	-36.0%
Associates income	0.4	0.3	42.1%	0.4	3.7%
Profit before tax	4.4	5.2	-15.4%	6.5	-32.4%
Tax	-0.8	-1.0	-21.8%	-1.3	-40.2%
Owner	3.5	4.5	-21.5%	5.2	-32.8%
Minority	0.1	0.0	264.7%	0.1	24.0%
Net profit after tax	3.6	4.5	-19.3%	5.2	-30.4%
Segment					
Exhibition & Museums	32.7	35.7	-8.4%	30.5	7.2%
Interiors	31.9	30.4	4.9%	35	-8.9%
R&D + IMC	7.5	6.0	25.0%	5.4	38.9%
			<i>bps</i>		<i>bps</i>
Gross margin	23.2%	21.2%	-2	27.50%	-4.3
Net profit margin	5.1%	5.2%	-0.1	7.40%	-2.3

Source: Company, Maybank KE

PROFIT AND LOSS (SGD m)

FY Dec	2010	2011	2012E	2013E	2014E
Sales	233.6	261.0	286.4	316.0	348.2
Cost of goods sold	-169.8	-194.3	-213.7	-235.7	-260.1
Gross profit	63.9	66.7	72.8	80.3	88.1
Operating expenses	44.4	47.5	52.1	57.2	62.9
Operating profit	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
Net profit	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
Total assets	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
Total liabilities	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
Shareholder's equity	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
Operating cash flow	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
Investment cash flow	-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
Financing cash flow	-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
Net Cash Flow	8.6	3.1	8.1	8.9	9.8

KEY RATIOS

FY Dec	2010	2011	2012E	2013E	2014E
Growth (% YoY)					
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
Profitability (%)					
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
Stability					
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
Per share data (SGD)					
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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Stephanie Wong | CEO, Maybank Kim Eng Research

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Adex = Advertising Expenditure	FCF = Free Cashflow	PE = Price Earnings
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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