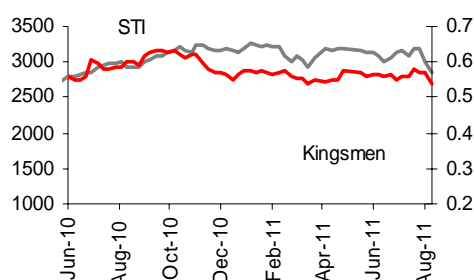


17 August 2011

Maintain

**HOLD**

Previous Rating: HOLD

**Current Price: S\$0.555**  
**Fair Value: S\$0.71**


Reuters Code	KMEN.SI
ISIN Code	5DQ
Bloomberg Code	KMEN.SP
Issued Capital (m)	194
Mkt Cap (S\$m / US\$m)	107 / 89
Major Shareholders	
Islanda	19.57%
O-Vest	19.57%
Free Float (%)	49.3%
Daily Vol 3-mth ('000)	983
52 Wk Range	0.500 - 0.634

(\$ m)	FY09	FY10	FY11F	FY12F
Revenue	242.0	235.2	238.9	256.7
Gross Profit	59.5	65.4	69.3	75.2
P/NAV (x)	2.0	1.8	1.6	1.4
EPS (cts)	7.9	7.9	7.6	8.1
PER (x)	7.1	7.0	7.3	6.8

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## Kingsmen Creatives Ltd

### Looking forward to a stronger second half

**2Q11 earnings exceeded our expectations.** Kingsmen Creatives (Kingsmen) reported 2Q11 revenue of S\$57.1m, representing a YoY drop of 11.6% but a 56.6% QoQ increase. The YoY decline was due largely to the absence of the Shanghai World Expo major project which was completed in 2Q10. Net profit registered a 2.8% YoY fall but surged 224.3% QoQ to S\$4.5m as 1Q is typically its weakest quarter. For 1H11, revenue slid 15.9% to S\$93.6m, forming 39.2% of our FY11 forecasts. This was within expectations as 2H is traditionally stronger, especially in the fourth quarter due to increased demand from its retail clientele in preparation for the year-end festive period. Net profit of S\$5.9m (-15.0%) constituted 48.1% of our full-year forecasts and this exceeded our expectations, largely due to improved gross profit margin (+1.9 ppt YoY to 29.5%). An interim dividend of 1.5 S cents has been declared, similar to a year ago, and in line with our expectations.

### Interiors division expected to remain as main contributor.

Kingsmen believes that the entry of new and existing global retail brands into Asia would help to underpin growth in its Interiors division. Management highlighted that they had not experienced any belt-tightening from its retail clients despite growing concerns of the global economic recovery. We opine that the tepid growth in the U.S. and Europe could instead incentivise these brands to increase their penetration into Asia to capture the rising consumerism tide. Hence Kingsmen continued to receive numerous enquiries from global retailers.

**Order book remains healthy.** Management delineated a series of potential projects which it is pursuing. We believe that its thematic business would continue its momentum into FY12, as the group is confident that it would be able to secure a few sizeable theme park projects in the region given its proven track record (such as USS). As at 10 Aug 2011, total contract wins amounted to ~S\$197m (versus S\$187m in Aug 2010), of which S\$178m is expected to be recognised in FY11.

**Higher earnings estimates, but maintain HOLD.** We see the need to bump up our earnings estimates by 18.9% for FY11 (6.7% for FY12), driven largely by higher gross profit margin assumptions. We also roll forward our valuation to 9x blended FY11/12F EPS and our fair value in turn increases from S\$0.575 to S\$0.71. While we continue to like Kingsmen for its attractive prospective dividend yield of 6.3%, strong management and healthy balance sheet, valuations appear fair, in our opinion, with the stock trading at 6.8x FY12F PER, comparable to its 3-year average forward PER of 6.9x. Maintain **HOLD**.

**Kingsmen's Key Financial Data**

<b>Kingsmen's Results</b>	<b>2Q10</b>	<b>2Q11</b>	<b>% Chg</b>	<b>1Q11</b>	<b>% Chg</b>
<b>Year Ended 31 Dec (S\$ m)</b>	<b>(S\$ m)</b>	<b>(S\$ m)</b>	<b>(YoY)</b>	<b>(S\$ m)</b>	<b>(QoQ)</b>
Revenue	64.6	57.1	-11.6%	36.5	56.6%
Cost of sales	-46.8	-40.3	-14.0%	-25.6	57.4%
Gross Profit	17.8	16.9	-5.4%	10.9	54.7%
Other income	1.1	0.5	-54.4%	0.6	-25.1%
Depreciation	-0.4	-0.4	-21.5%	-0.3	8.4%
Staff salaries & related expenses	-9.1	-8.7	-4.4%	-7.1	22.6%
Other expenses	-3.1	-2.6	-14.3%	-2.6	2.1%
EBIT	6.2	5.6	-9.7%	1.5	272.7%
Net interest income / (expense)	0.0	0.0	-57.7%	0.1	-86.3%
Share of associates profit	0.1	0.1	-22.7%	0.0	N.M
Profit before tax	6.4	5.7	-10.1%	1.6	260.2%
Tax	-1.1	-1.0	-9.7%	-0.3	290.2%
Profit after tax	5.2	4.7	-10.2%	1.3	254.2%
Minority interests	0.6	0.2	-67.0%	-0.1	N.M
Net profit	4.6	4.5	-2.8%	1.4	224.3%

## Kingsmen's Key Financial Data

EARNINGS FORECAST					BALANCE SHEET				
Year Ended 31 Dec (\$m)	FY09	FY10	FY11F	FY12F	As at 31 Dec (\$m)	FY09	FY10	FY11F	FY12F
Revenue	242.0	235.2	238.9	256.7	Cash and cash equivalents	22.8	29.9	38.8	47.2
Cost of sales	-182.5	-169.8	-169.6	-181.5	Trade receivables	75.7	68.9	71.7	77.0
Gross profit	59.5	65.4	69.3	75.2	Property, plant, equipment	9.8	11.9	11.5	11.2
Net operating expenses	-41.0	-45.9	-51.0	-55.6	Total assets	138.2	145.6	151.9	166.5
EBIT	18.6	19.5	18.3	19.7	Debt	1.3	5.3	5.3	5.3
Net finance costs	0.0	0.1	0.1	0.2	Current liabilities excluding debt	81.0	79.6	77.5	82.4
Associates	0.3	0.1	0.1	0.1	Total liabilities	83.3	86.2	84.0	89.0
Profit before tax	18.9	19.7	18.5	19.9	Shareholders equity	51.9	57.1	64.9	73.7
Profit after tax	15.7	16.2	15.2	16.3	Total equity	54.9	59.4	67.9	77.6
PATMI	14.9	15.1	14.5	15.6	Total equity and liabilities	138.2	145.6	151.9	166.5
<b>CASH FLOW</b>					<b>KEY RATES &amp; RATIOS</b>				
Year Ended 31 Dec (\$m)	FY09	FY10	FY11F	FY12F		FY09	FY10	FY11F	FY12F
Op profit before working cap.	22.6	24.1	20.2	21.5	EPS (S cents)	7.9	7.9	7.6	8.1
Working cap, taxes and interest	-21.2	-3.8	-3.2	-5.0	NAV per share (S cents)	27.4	30.0	34.0	38.6
Net cash from operations	1.4	20.3	17.0	16.5	EBIT margin (%)	7.7	8.3	7.7	7.7
Purchase of PP&E	-1.4	-6.2	-1.5	-1.5	Net profit margin (%)	6.2	6.4	6.1	6.1
Investing cash flow	-0.3	-9.7	-1.4	-1.4	PER (x)	7.1	7.0	7.3	6.8
Financing cash flow	-8.5	-1.9	-6.7	-6.7	Price/NAV (x)	2.0	1.8	1.6	1.4
Net cash flow (Incl forex)	-7.5	7.7	8.9	8.4	EV/EBITDA (x)	4.1	3.8	3.6	3.0
Cash at beginning of year	27.9	20.3	28.0	36.9	Dividend yield (%)	6.3	7.2	6.3	6.3
Cash at end of year	20.3	28.0	36.9	45.3	ROE (%)	28.7	26.4	22.3	21.1
Cash and cash equivalents	22.8	29.9	38.8	47.2	Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company data, OIR estimates

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- For companies with less than S\$150m market capitalization, OIR's Buy = More than 30% upside from the current price; Hold = Trade within +/- 30% from the current price; Sell = More than 30% downside from the current price.

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For OCBC Investment Research Pte Ltd



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Head of Research

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