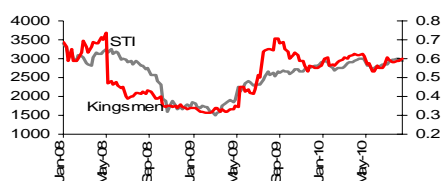


24 February 2011

Maintain

**HOLD**

Previous Rating: HOLD

**Current Price: S\$0.56**
**Fair Value: S\$0.72**


Reuters Code	KMEN.SI
ISIN Code	5DQ
Bloomberg Code	KMEN SP
Issued Capital (m)	194
Mkt Cap (S\$m / US\$m)	109 / 85
Major Shareholders	
Islanda	19.57%
O-Vest	19.57%
Free Float (%)	48.8%
Daily Vol 3-mth ('000)	75
52 Wk Range	0.500 - 0.640

(S\$ m)	FY09	FY10	FY11F	FY12F
Revenue	242.0	235.2	243.9	261.7
Gross Profit	59.5	65.4	63.4	69.3
P/NAV (x)	2.0	1.9	1.6	1.4
EPS (cts)	7.9	7.9	8.0	9.2
PER (x)	7.1	7.1	7.0	6.1

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## Kingsmen Creatives Ltd

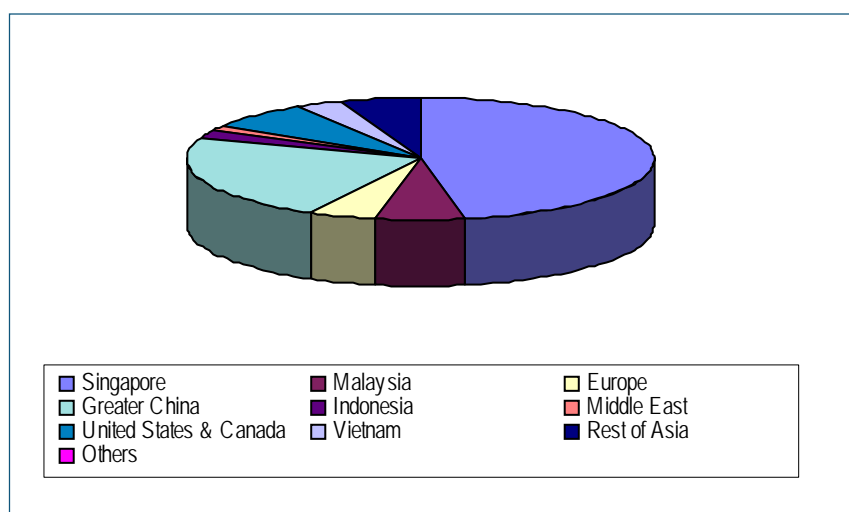
### Margin expansion boosts 4Q10 performance

**4Q10 surpasses expectations thanks to margin boost.** Kingsmen Creatives (Kingsmen) reported its FY10 results with revenue slipping 2.8% to S\$235.2m, due in part to the completion of Universal Studios Singapore (USS), which had been a significant revenue booster in FY09. Net profit, nevertheless, inched up by 1.1% to S\$15.1m on improved margins, slightly surpassing our S\$14.0m estimate. For its 4Q10, revenue slipped 37.8% YoY and 17.0% QoQ to S\$56.2m, gross profit climbed 5.1% YoY and 39.1% QoQ to S\$20.6m, and net profit declined by 5.1% YoY but jumped 122.7% QoQ to S\$5.6m. A final dividend of 2 S cents and special dividend of 0.5 S cents have been declared, taking total FY10 dividends to 4 S cents, or a yield of 7.1%.

**Profit margins expected to normalise.** Kingsmen's gross profit margin jumped significantly in 4Q10 to 36.6% (vs. 21.6% in 4Q09 and 21.8% in 3Q10), leading to a net profit margin of 10.0% (vs. 6.6% in 4Q09 and 3.7% in 3Q10), surpassing management's 6%-8% target. Improved profitability was attributed to the recognition of variation orders from the World Expo Shanghai project where costs had already been booked in previous quarters. We expect this one-off jump in net profit margin to normalise going forward and project a 6.2% net profit margin in FY11.

**Insignificant exposure to Middle East.** Addressing concerns stemming from ongoing political turmoil in the Middle East, Kingsmen reassured us that its exposure to the Middle East is insignificant. The Middle East constituted only 1.0% of its FY10 revenue (Exhibit 1), and accounts for approximately 2% of its outstanding orderbook. Kingsmen is exposed to the Middle East via its 30%-owned associate. According to management, asset exposure to the region is insignificant.

**Maintain HOLD.** Kingsmen's balance sheet remains healthy with a net cash position. The group's operating cash inflow improved significantly from S\$1.4m in FY09 to S\$20.3m in FY10 thanks to lower receivables along with the completion of several projects. Outstanding orderbook currently stands at S\$84m, of which S\$70m should be recognised in FY11. Kingsmen has done well in FY10 by delivering mild profit growth despite the winding down of USS projects. Going forward, its orderbook should be sustained by regional theme park developments and MICE events. Nevertheless, we expect growth rate to taper off, as can be witnessed by single-digit growth rates in FY09-FY10 vs. double-digit earnings growth prior to FY09. We maintain our **HOLD** rating and raise our fair value estimate to S\$0.72 (previously S\$0.665) on revised projections.

**Exhibit 1: Geographical breakdown of revenue**

Source: Company, OIR

### Kingsmen's Key Financial Data

<b>Kingsmen Results</b> Year Ended 31 Dec (\$ m)	<b>4Q09</b> (\$m)	<b>4Q10</b> (\$m)	<b>% Chg</b> (YoY)	<b>3Q10</b> (\$m)	<b>% Chg</b> (QoQ)
Revenue	90.4	56.2	-37.8%	67.7	-17.0%
Cost of sales	-70.9	-35.6	-49.7%	-52.9	-32.6%
Gross Profit	19.6	20.6	5.1%	14.8	39.1%
Other income	0.7	0.5	-35.7%	0.5	-16.8%
Depreciation	-0.4	-0.4	-1.5%	-0.4	-2.5%
Staff salaries & related expenses	-10.1	-10.8	6.6%	-8.2	31.8%
Other expenses	-2.5	-3.0	20.2%	-3.2	-4.5%
EBIT	7.2	6.8	-5.8%	3.6	90.6%
Net interest income / (expense)	0.0	0.0	N.M.	0.0	109.1%
Share of associates profit	0.4	0.2	-38.2%	-0.2	N.M.
Profit before tax	7.6	7.1	-7.1%	3.4	110.1%
Tax	-1.2	-1.1	-12.5%	-0.7	52.7%
Profit after tax	6.4	6.0	-6.1%	2.7	125.4%
Minority interests	0.5	0.4	-18.6%	0.1	172.7%
Net profit	5.9	5.6	-5.1%	2.5	122.7%

## Kingsmen's Key Financial Data

**EARNINGS FORECAST**

Year Ended 31 Dec (\$m)	FY09	FY10	FY11F	FY12F
Revenue	242.0	235.2	243.9	261.7
Cost of sales	-182.5	-169.8	-180.5	-192.3
Gross profit	59.5	65.4	63.4	69.3
Operating expenses	-41.0	-45.9	-43.8	-47.0
EBIT	18.6	19.5	19.7	22.4
Finance costs	0.0	0.1	-0.3	-0.3
Associates	0.3	0.1	0.1	0.1
Profit before tax	18.9	19.7	19.5	22.2
Profit after tax	15.7	16.2	16.0	18.2
Net profit	14.9	15.1	15.2	17.4

**BALANCE SHEET**

As at 31 Dec (\$m)	FY09	FY10	FY11F	FY12F
Cash and cash equivalents	22.8	29.9	40.6	51.0
Trade receivables	75.7	68.9	73.2	78.5
Property, plant, equipment	9.8	11.9	11.5	11.2
Total assets	138.2	145.6	155.6	172.1
Debt	1.3	5.3	5.3	5.3
Current liabilities excluding debt	81.0	79.6	80.4	85.3
Total liabilities	83.3	86.2	86.9	91.9
Shareholders equity	51.9	57.1	65.6	76.4
Total equity	54.9	59.4	68.7	80.3
Total equity and liabilities	138.2	145.6	155.6	172.1

**CASH FLOW**

Year Ended 31 Dec (\$m)	FY09	FY10	FY11F	FY12F
Op profit before working cap.	22.6	24.1	21.5	24.2
Working cap, taxes and interest	-21.2	-3.8	-2.7	-5.8
Net cash from operations	1.4	20.3	18.8	18.4
Purchase of PP&E	-1.4	-6.2	-1.5	-1.5
Investing cash flow	-0.3	-9.7	-1.4	-1.4
Financing cash flow	-8.5	-1.9	-6.7	-6.7
Net cash flow (Incl forex)	-7.5	7.7	10.7	10.3
Cash at beginning of year	27.9	20.3	28.0	38.8
Cash at end of year	20.3	28.0	38.8	49.1
Cash and cash equivalents	22.8	29.9	40.6	51.0

**KEY RATES & RATIOS**

	FY09	FY10	FY11F	FY12F
EPS (S cents)	7.9	7.9	8.0	9.2
NAV per share (S cents)	27.4	30.0	34.5	40.2
EBIT margin (%)	7.7	8.3	8.1	8.6
Net profit margin (%)	6.2	6.4	6.2	6.7
PER (x)	7.1	7.1	7.0	6.1
Price/NAV (x)	2.0	1.9	1.6	1.4
EV/EBITDA (x)	4.1	3.9	3.3	2.5
Dividend yield (%)	6.3	7.1	6.3	6.3
ROE (%)	28.7	26.4	23.2	22.8
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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