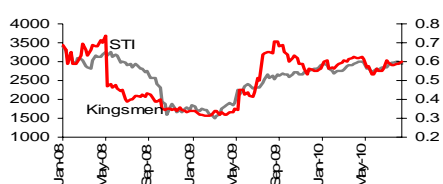


9 May 2011

Maintain

HOLD

Previous Rating: HOLD

Current Price: S\$0.56
Fair Value: S\$0.575


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 (%)	49.3%
Daily Vol 3-mth ('000)	130
52 Wk Range	0.496 - 0.634

(\$ m)	FY09	FY10	FY11F	FY12F
Revenue	242.0	235.2	238.9	256.7
Gross Profit	59.5	65.4	66.9	70.6
P/NAV (x)	2.0	1.9	1.7	1.5
EPS (cts)	7.9	7.9	6.4	7.7
PER (x)	7.1	7.1	8.7	7.3

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Kingsmen Creatives Ltd

Margin squeeze mars start to FY11

1Q11 results below expectations. Kingsmen Creatives (Kingsmen) reported its 1Q11 results with revenue declining 21.9% YoY and 35.1% QoQ to S\$36.5m, forming 15.0% of our FY11 estimates (14.1% of Bloomberg consensus). Net profit decreased by 39.7% YoY and 75.5% QoQ to S\$1.4m, and only met 9.1% of our full-year forecasts (9.0% of consensus). While first quarter tends to be traditionally weaker, this set of results still came in below our expectations. The YoY fall in revenue was mainly due to lower revenue contribution from its Exhibition & Museums division (-53.6% YoY to S\$12.7m) following the completion of works for the Shanghai World Expo 2010 and Universal Studios Singapore (USS). However this was partially mitigated by higher revenue from all its other divisions, especially the Interiors division which formed 56.4% of its 1Q11 revenue.

Operating margins a drag on bottomline. Cost pressures arising from higher staff salaries and other operating expenses also caused a drag on Kingsmen's operating performance. While gross margin increased by 3.6 percentage points (ppt) YoY (-6.7ppt QoQ) to 29.9%, EBIT margin fell 2.1ppt YoY (-8.0ppt QoQ) to 4.1%. This caused its net margin to experience a 1.1ppt decline YoY (-6.2ppt QoQ) to 3.8%. Looking ahead, we expect profit margins to remain relatively subdued given its heavy reliance on its people for the growth of its business.

Outlook. Kingsmen highlighted that it has been awarded several thematic projects such as Gardens by the Bay, various parcels of work for USS and Hong Kong Disneyland which totalled approximately S\$36m. The group is also in negotiations with various theme parks and attractions in the region. We believe that Kingsmen's recent track record in mega-scale projects such as USS and Shanghai World Expo 2010 would have enhanced its reputation in the thematic and scenic display field, which should provide an advantage during its current thematic project negotiations. Management also expects its Interiors business to remain buoyant, given the numerous upgrading and new projects in Singapore, as well as more fit-out jobs for luxury brands, especially in China. As at 5 May 2011, total contract wins amounted to S\$154m, of which S\$138m is expected to be recognised in FY11. This compares favourably with the S\$133m in contracts secured over the corresponding period last year.

Maintain HOLD. We revise our earnings estimates downwards by 20.0% and 16.3% for FY11 and FY12 respectively, to account for likely higher cost pressures. Our fair value estimate hence decreases from S\$0.72 to S\$0.575 (still based on 9x FY11F EPS). Maintain **HOLD**.

Kingsmen's Key Financial Data

Kingsmen Results	1Q10	1Q11	% Chg	4Q10	% Chg
Year Ended 31 Dec (\$\$ m)	(\$\$m)	(\$\$m)	(YoY)	(\$\$m)	(QoQ)
Revenue	46.7	36.5	-21.9%	56.2	-35.1%
Cost of sales	-34.4	-25.6	-25.7%	-35.6	-28.2%
Gross Profit	12.3	10.9	-11.0%	20.6	-47.0%
Other income	0.7	0.6	-3.9%	0.5	42.0%
Depreciation	-0.4	-0.3	-13.6%	-0.4	-18.6%
Staff salaries & related expenses	-7.3	-7.1	-2.1%	-10.8	-33.9%
Other expenses	-2.4	-2.6	9.7%	-3.0	-14.4%
EBIT	2.9	1.5	-48.2%	6.8	-77.9%
Net interest income / (expense)	0.0	0.1	566.7%	0.0	73.9%
Share of associates profit	0.0	0.0	-97.9%	0.2	-100.4%
Profit before tax	2.9	1.6	-44.8%	7.1	-77.7%
Tax	-0.6	-0.3	-56.5%	-1.1	-75.5%
Profit after tax	2.3	1.3	-41.7%	6.0	-78.1%
Minority interests	0.0	-0.1	125.9%	0.4	-115.6%
Net profit	2.3	1.4	-39.7%	5.6	-75.5%

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	37.0	44.9
Cost of sales	-182.5	-169.8	-172.0	-186.1	Trade receivables	75.7	68.9	71.7	77.0
Gross profit	59.5	65.4	66.9	70.6	Property, plant, equipment	9.8	11.9	11.5	11.2
Operating expenses	-41.0	-45.9	-51.0	-51.7	Total assets	138.2	145.6	150.1	164.2
EBIT	18.6	19.5	15.9	18.9	Debt	1.3	5.3	5.3	5.3
Finance costs	0.0	0.1	-0.3	-0.3	Current liabilities excluding debt	81.0	79.6	77.9	83.3
Associates	0.3	0.1	0.1	0.1	Total liabilities	83.3	86.2	84.5	89.9
Profit before tax	18.9	19.7	15.7	18.7	Shareholders equity	51.9	57.1	62.6	70.5
Profit after tax	15.7	16.2	12.9	15.3	Total equity	54.9	59.4	65.6	74.3
Net profit	14.9	15.1	12.2	14.6	Total equity and liabilities	138.2	145.6	150.1	164.2

CASH FLOW					KEY RATES & RATIOS				
Year Ended 31 Dec (\$m)	FY09	FY10	FY11F	FY12F		FY09	FY10	FY11F	FY12F
Op profit before working cap.	22.6	24.1	17.8	20.7	EPS (S cents)	7.9	7.9	6.4	7.7
Working cap, taxes and interest	-21.2	-3.8	-2.6	-4.7	NAV per share (S cents)	27.4	30.0	32.9	37.1
Net cash from operations	1.4	20.3	15.1	16.0	EBIT margin (%)	7.7	8.3	6.7	7.4
Purchase of PP&E	-1.4	-6.2	-1.5	-1.5	Net profit margin (%)	6.2	6.4	5.1	5.7
Investing cash flow	-0.3	-9.7	-1.4	-1.4	PER (x)	7.1	7.1	8.7	7.3
Financing cash flow	-8.5	-1.9	-6.7	-6.7	Price/NAV (x)	2.0	1.9	1.7	1.5
Net cash flow (Incl forex)	-7.5	7.7	7.1	7.9	EV/EBITDA (x)	4.1	3.9	4.2	3.2
Cash at beginning of year	27.9	20.3	28.0	35.1	Dividend yield (%)	6.3	7.1	6.3	6.3
Cash at end of year	20.3	28.0	35.1	43.0	ROE (%)	28.7	26.4	19.5	20.7
Cash and cash equivalents	22.8	29.9	37.0	44.9	Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company data, OIR estimates

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The analyst/analysts who wrote this report holds NIL shares in the above security.

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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



Carmen Lee
Head of Research

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