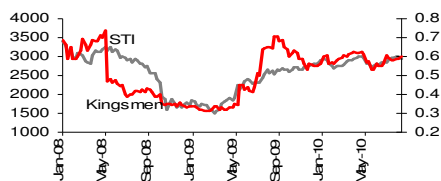


17 August 2010

Maintain

BUY

Previous Rating: BUY

Current Price: S\$0.60
Fair Value: S\$0.82


Reuters Code	KMEN.SI
ISIN Code	5DQ
Bloomberg Code	KMEN SP
Issued Capital (m)	194
Mkt Cap (S\$m / US\$m)	117 / 86
Major Shareholders	
Islanda	19.57%
O-Vest	19.57%
Free Float (%)	48.8%
Daily Vol 3-mth ('000)	65
52 Wk Range	0.500 - 0.740

(\$ m)	FY08	FY09	FY10F	FY11F
Revenue	190.6	242.0	245.6	282.8
Gross Profit	58.5	59.5	61.4	70.7
P/NAV (x)	2.7	2.2	1.9	1.6
EPS (cts)	7.5	7.9	8.6	9.6
PER (x)	8.0	7.6	7.0	6.2

Lee Wen Ching
 (65) 6531 9806
 e-mail: wenching@ocbc-research.com

Kingsmen Creatives Ltd

Sturdy 2Q10 results

Delivers steady growth in 2Q10. Kingsmen Creatives (Kingsmen) reported a robust set of 2Q10 results largely in line with expectations. Revenue grew 21.9% YoY and 38.5% QoQ to S\$64.6m, gross profit gained 13.1% YoY and 45.5% QoQ to S\$17.8m, while net profit improved by 30.2% YoY and doubled QoQ to S\$4.6m. The group's 1H10 revenue of S\$111.3m (up 25.5% YoY) and net profit of S\$6.9m (up 17.2% YoY) have met 45% and 42% of our FY10 estimates, respectively. We expect 2H10 performance to come in stronger as the group's 2H has historically outperformed its 1H thanks to increased demand for retail interior fit-outs prior to the year-end festive season. An interim dividend of 1.5 S cents has been declared.

Well positioned to capture demand for retail interior fit-outs. Growth in 2Q10 revenue was driven by the completion of several projects including the Expo 2010 Shanghai, Singapore Air Show and fit-outs for several shops at Marina Bay Sands. Revenue from the Exhibitions and Museums segment grew 8.5% YoY to S\$29.2m while that from the Interiors segment jumped 38.1% YoY to S\$32.3m. We expect strong demand for retail interior fit-outs stemming from Marina Bay Sands and the remaking of Orchard Road to buoy the Interiors segment's 2H10 performance. Beyond these projects, the group is targeting Asian markets for further growth opportunities and believes that it is well positioned to capture the growing luxury brand market in the region. Its outstanding order book stands at S\$74.7m, of which S\$61.7m will be recognised in FY10. Although this number appears low relative to our projections, we highlight that Kingsmen's revenue can easily exceed its current order book as its short lead time is as little as six weeks.

Favourable outlook; Maintain BUY. Kingsmen has secured contracts for (i) upgrading works for Hong Kong Disneyland, (ii) new works for Universal Studios Singapore, (iii) Commonwealth Games 2010, and (iv) Youth Olympic Games. The stream of upcoming theme parks including Malaysia's Legoland, Shanghai's Disneyland and Abu Dhabi's Ferrari theme park will provide further opportunities for the group. We have refined our projections marginally and forecast a 9.4% growth in FY10 earnings to S\$16.3m. We like Kingsmen for its consistent earnings growth, attractive 5.8% dividend yield, and undemanding valuations at 7.0x FY10F PER. ROE is healthy at 28.7%. We maintain our **BUY** rating on the stock and tweak our fair value estimate to S\$0.82 (from S\$0.84) on our revised projections.

Kingsmen's Key Financial Data

Kingsmen Results Year Ended 31 Dec (S\$ m)	2Q09 (S\$m)	2Q10 (S\$m)	% Chg (YoY)	1Q10 (S\$m)	% Chg (QoQ)
Revenue	53.0	64.6	21.9%	46.7	38.5%
Cost of sales	-37.2	-46.8	25.7%	-34.4	36.0%
Gross Profit	15.8	17.8	13.1%	12.3	45.5%
Other income	0.4	1.1	182.4%	0.7	58.0%
Depreciation	-0.4	-0.4	7.5%	-0.4	19.3%
Staff salaries & related expenses	-8.4	-9.1	8.3%	-7.3	25.6%
Other expenses	-2.6	-3.1	18.0%	-2.4	30.7%
EBIT	4.7	6.2	33.1%	2.9	113.7%
Net interest income / (expense)	0.0	0.0	N.M.	0.0	116.7%
Share of associates profit	0.1	0.1	-7.6%	0.0	N.M.
Profit before tax	4.8	6.4	32.7%	2.9	121.1%
Tax	-1.0	-1.1	20.4%	-0.6	88.0%
Profit after tax	3.8	5.2	35.8%	2.3	130.0%
Minority interests	0.3	0.6	103.8%	0.0	N.M.
Net profit	3.5	4.6	30.2%	2.3	101.3%

Kingsmen's Key Financial Data**EARNINGS FORECAST**

Year Ended 31 Dec (\$m)	FY08	FY09	FY10F	FY11F
Revenue	190.6	242.0	245.6	282.8
Cost of sales	-132.0	-182.5	-184.2	-212.1
Gross profit	58.5	59.5	61.4	70.7
Operating expenses	-39.8	-41.0	-41.1	-47.8
EBIT	18.7	18.6	20.3	22.9
Finance costs	0.0	0.0	0.1	0.2
Associates	0.3	0.3	0.3	0.3
Profit before tax	19.0	18.9	20.8	23.4
Profit after tax	15.4	15.7	17.0	19.2
Net profit	14.2	14.9	16.3	18.3

BALANCE SHEET

As at 31 Dec (\$m)	FY08	FY09	FY10F	FY11F
Cash and cash equivalents	28.2	22.8	30.8	41.9
Trade receivables	41.0	75.7	73.7	84.8
Property, plant, equipment	12.2	9.8	14.1	12.9
Total assets	109.3	138.2	148.7	172.2
Debt	1.4	1.3	1.3	1.3
Current liabilities excluding debt	61.4	81.0	81.1	92.1
Total liabilities	63.8	83.3	83.4	94.4
Shareholders equity	42.7	51.9	61.5	73.2
Total equity	45.4	54.9	65.3	77.8
Total equity and liabilities	109.3	138.2	148.7	172.2

CASH FLOW

Year Ended 31 Dec (\$m)	FY08	FY09	FY10F	FY11F
Op profit before working cap.	24.2	22.6	22.1	25.0
Working cap, taxes and interest	1.5	-21.2	-1.8	-6.7
Net cash from operations	25.8	1.4	20.3	18.4
Purchase of PP&E	-11.2	-1.4	-6.0	-1.0
Investing cash flow	-11.1	-0.3	-5.7	-0.7
Financing cash flow	-7.9	-8.5	-6.7	-6.7
Net cash flow (Incl forex)	6.7	-7.5	8.0	11.0
Cash at beginning of year	21.1	27.9	20.3	28.3
Cash at end of year	27.9	20.3	28.3	39.4
Cash and cash equivalents	28.2	22.8	30.8	41.9

KEY RATES & RATIOS

	FY08	FY09	FY10F	FY11F
EPS (S cents)	7.5	7.9	8.6	9.6
NAV per share (S cents)	22.5	27.4	32.4	38.5
EBIT margin (%)	9.8	7.7	8.3	8.1
Net profit margin (%)	7.4	6.2	6.6	6.5
PER (x)	8.0	7.6	7.0	6.2
Price/NAV (x)	2.7	2.2	1.9	1.6
EV/EBITDA (x)	4.1	4.5	3.8	2.9
Dividend yield (%)	5.0	5.8	5.8	5.8
ROE (%)	33.2	28.7	26.5	25.0
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company data, OIR estimates

SHAREHOLDING DECLARATION:

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

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- However, OIR's fundamental views and ratings (Buy, Hold, Sell) are medium-term calls within a 12-month investment horizon. OIR's Buy = More than 10% upside from the current price; Hold = Trade within +/- 10% from the current price; Sell = More than 10% downside from the current price.

- 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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