

29 February 2016

Consumer Cyclical | Consumer Services

Kingsmen Creatives

Buy (from Neutral)

Moving Along With The Times

While we think demand in the luxury high-end interior segment is likely to remain soft this year, Kingsmen has diversified its client base to F&B players, travel retail, affordable luxury and fashion brands. Exhibitions & museums segment has also grown significantly to be the main contributor of group revenue. We think Kingsmen has stepped out of 2015 as a stronger company. Upgrade to BUY but keep SGD0.75 TP (20% upside).

Moving towards an all-rounded solutions provider for retailers. Kingsmen Creatives (Kingsmen) revealed that while retailers are more cautious on expansion, they have not been scrimping on marketing expenditure. It plans to move into data analytics, packaging design, services packaging or similar types of solution-providing services to continue to capture retailers' marketing dollars. While we are positive on the strategy, we believe this is a long-term plan. In FY16, we expect to see mild growth in the interior segment led by expansion of high-fashion brands and interior fit-out works for food & beverage (F&B) players.

All eyes on MICE. We believe Kingsmen would pursue trade show projects more aggressively this year. In line with the growing meetings, incentives, conferences and exhibitions (MICE) industry, management cited over 200 potential qualified shows around the region that Kingsmen has key presence in. Trade shows have been one of Kingsmen's core areas of expertise. We believe a refocus on trade show projects would help to strengthen the group's margins.

FY15 results: in line

FYE Dec (SGDm)	FY15	FY14	YoY (%)	Comments
Revenue	327.9	336.4	-2.5	A result of slow demand in the interior segment but partially offset by strong growth in the thematic projects
Gross profit	83.7	84.8	-1.4	Margins in thematic works improved but interior segment margin dropped
Gross margin %	25.5	25.2		
EBIT	22.6	20.1	12.2	Boosted by one-off gains from listing and disposal of associates' shares
EBIT margin	6.9	6.0		
Net profit	19.1	17.2	11.2	
Exp item adj	-6.0	1.4		Gains from listing and disposal of associates' shares
Core profit	13.1	18.5	-29.3	
Net margin %	4.0	5.5		

Source: Company, RHB

Upgrade to BUY, SGD0.75 TP pegged to 10x FY16F P/E. While the orderbook secured by Feb 2016 stood at SGD113m (-17.5% YoY), we believe this is a function of the smaller and shorter interior contracts with the mid-tier and F&B players. We keep our forecasts and TP but upgrade Kingsmen to BUY (from Neutral) as we think the market has oversold on the stock. The key risk would be delays in projects due to economic conditions.

Forecasts and Valuations	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Total turnover (SGDm)	336	328	362	384	421
Reported net profit (SGDm)	17.2	19.1	14.5	16.1	17.8
Recurring net profit (SGDm)	18.5	13.1	14.5	16.1	17.8
Recurring net profit growth (%)	4.3	(29.3)	10.8	11.1	10.7
Recurring EPS (SGD)	0.09	0.07	0.07	0.08	0.09
DPS (SGD)	0.04	0.03	0.03	0.04	0.04
Recurring P/E (x)	6.58	9.30	8.36	7.47	6.75
P/B (x)	1.25	1.10	1.00	0.93	0.86
P/CF (x)	5.0	9.3	29.2	7.3	6.8
Dividend Yield (%)	6.5	5.6	4.9	5.6	6.5
EV/EBITDA (x)	2.16	2.60	3.71	3.55	3.06
Return on average equity (%)	18.8	18.3	12.5	12.9	13.3
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			0.0	0.0	0.0

Source: Company data, RHB

Target Price:	SGD0.75
Price:	SGD0.62
Market Cap:	USD87.0m
Bloomberg Ticker:	KMEN SP

Share Data

Avg Daily Turnover (SGD/USD)	0.07m/0.05m
52-wk Price low/high (SGD)	0.59 - 1.06
Free Float (%)	40
Shares outstanding (m)	197
Estimated Return	20%

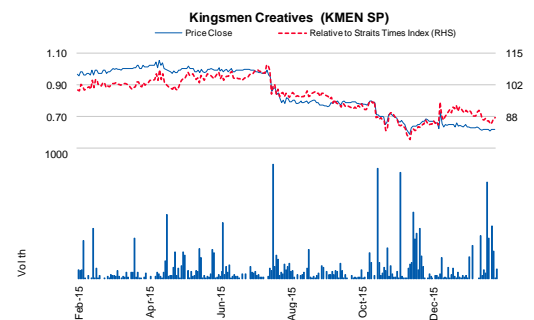
Shareholders (%)

Benedict Soh	23.7
Simon Ong	23.7
Delta Lloyd	5.9

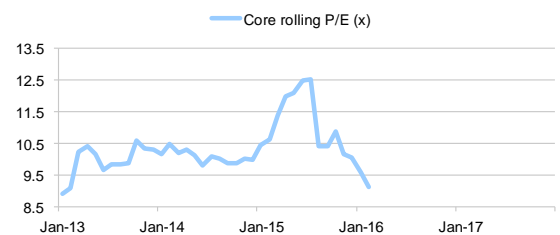
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(7.5)	(3.1)	(12.7)	(22.5)	(35.8)
Relative	2.2	(3.9)	(2.7)	(12.7)	(11.5)

Source: Bloomberg



Source: Bloomberg



Source: Bloomberg

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Financial Exhibits

Profit & Loss (SGDm)	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F	Cash flow (SGDm)	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Total turnover	336	328	362	384	421	Operating profit	20	23	17	19	20
Cost of sales	(252)	(244)	(271)	(286)	(314)	Depreciation & amortisation	3	2	3	3	4
Gross profit	85	84	91	97	106	Change in working capital	4	(5)	(12)	(1)	(1)
Gen & admin expenses	(70)	(72)	(79)	(83)	(92)	Other operating cash flow	1	(4)	(0)	(0)	(0)
Other operating costs	5	11	5	5	6	Operating cash flow	28	17	8	21	22
Operating profit	20	23	17	19	20	Interest received	0	0	0	0	0
EBITDA	23	25	20	22	24	Interest paid	(0)	(1)	(1)	(1)	(1)
Depreciation of fixed assets	(3)	(2)	(3)	(3)	(4)	Tax paid	(3)	(3)	(3)	(3)	(4)
Operating profit	20	23	17	19	20	Cash flow from operations	25	13	4	16	18
Net income from investments	1	(1)	2	2	3	Capex	(2)	(15)	(12)	(14)	(5)
Interest income	0	0	0	0	0	Other new investments	2	(9)	5	-	-
Interest expense	(0)	(1)	(1)	(1)	(1)	Cash flow from investing activities	(0)	(24)	(7)	(14)	(5)
Pre-tax profit	21	22	18	20	22	Dividends paid	(8)	(7)	(6)	(7)	(8)
Taxation	(4)	(3)	(3)	(3)	(4)	Proceeds from issue of shares	0	8	-	-	-
Minority interests	(1)	(0)	(1)	(1)	(1)	Increase in debt	4	7	-	-	-
Reported net profit	17	19	14	16	18	Other financing cash flow	(0)	(1)	-	-	-
Recurring net profit	19	13	14	16	18	Cash flow from financing activities	(3)	8	(6)	(7)	(8)
						Cash at beginning of period	64	83	73	64	59
						Total cash generated	21	(3)	(9)	(4)	5
						Implied cash at end of period	85	80	64	59	64

Source: Company data, RHB

Key Ratios	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Revenue growth (%)	13.6	(2.5)	10.4	6.0	9.6
Operating profit growth (%)	(4.4)	12.2	(23.6)	11.6	5.7
Recurring net profit growth (%)	4.3	(29.3)	10.8	11.1	10.7
Recurrent EPS growth (%)	4.3	(29.3)	11.2	11.9	10.7
Gross margin (%)	25.2	25.5	25.1	25.4	25.3
Operating EBITDA margin (%)	6.7	7.6	5.5	5.7	5.7
Operating margin (%)	6.0	6.9	4.8	5.0	4.8
Recurring net profit margin (%)	5.5	4.0	4.0	4.2	4.2
Return on average assets (%)	7.9	8.0	5.6	5.9	6.0
Return on average equity (%)	18.8	18.3	12.5	12.9	13.3
Net debt to equity (%)	(75.7)	(52.2)	(40.9)	(34.6)	(35.5)
Interest cover (x)	83.5	35.8	12.9	14.4	15.2
Capex/Free cash flow (%)	9.4	115.2	294.4	85.0	28.4
BVPS (SGD)	0.50	0.57	0.62	0.67	0.72
DPS (SGD)	0.04	0.03	0.03	0.04	0.04
Dividend payout ratio (%)	45.4	36.0	40.5	42.2	43.5
Free cash flow per share (SGD)	0.11	(0.01)	(0.04)	0.01	0.06

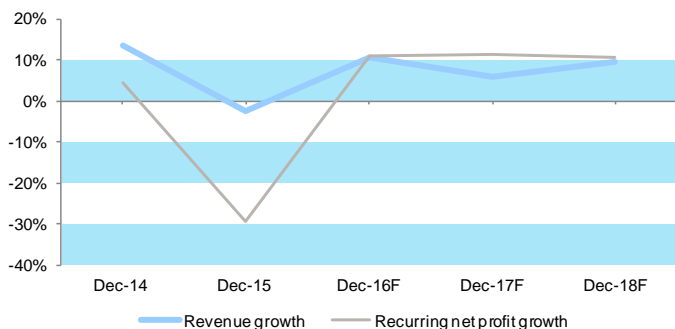
Source: Company data, RHB

Source: Company data, RHB

Balance Sheet (SGDm)	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Total cash and equivalents	83	73	64	59	64
Inventories	2	3	2	3	3
Accounts receivable	108	123	139	148	162
Other current assets	1	1	1	1	1
Total current assets	195	199	206	210	230
Total investments	10	21	18	20	23
Tangible fixed assets	11	24	33	45	46
Intangible assets	8	8	8	8	8
Total non-current assets	29	53	60	73	77
Total assets	224	252	266	283	307
Short-term debt	5	5	5	5	5
Accounts payable	108	114	119	126	140
Other current liabilities	8	10	10	10	10
Total current liabilities	121	129	133	141	154
Total long-term debt	2	8	8	8	8
Other liabilities	1	1	1	1	1
Total non-current liabilities	2	10	10	10	10
Total liabilities	123	139	143	151	164
Share capital	24	26	26	26	26
Retained earnings reserve	75	87	96	105	115
Other reserves	(2)	(2)	(2)	(2)	(2)
Shareholders' equity	97	111	120	129	139
Minority interests	4	2	3	3	4
Other equity	-	(0)	(0)	(0)	(0)
Total equity	101	113	123	132	143
Total liabilities & equity	224	252	266	283	307

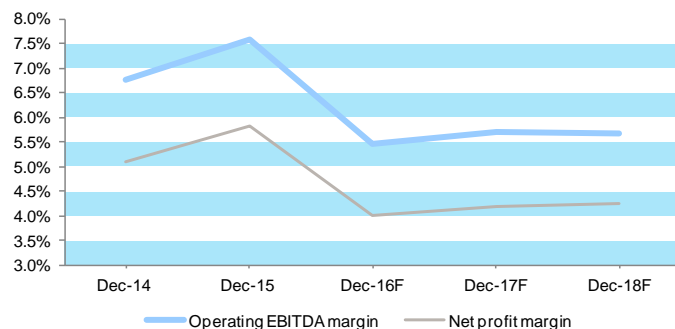
Source: Company data, RHB

Revenue growth vs Recurring net profit growth



Source: Company data, RHB

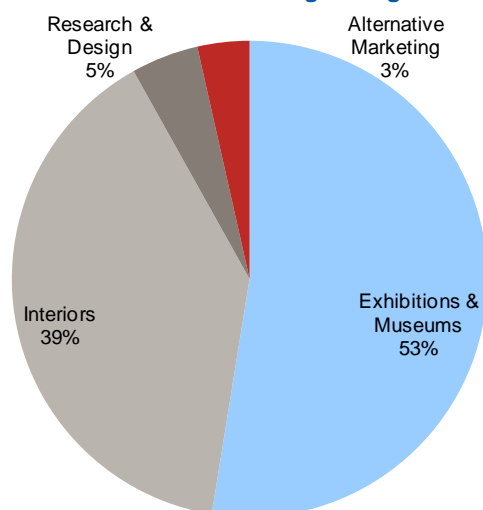
EBITDA margin vs Net profit margin



Source: Company data, RHB

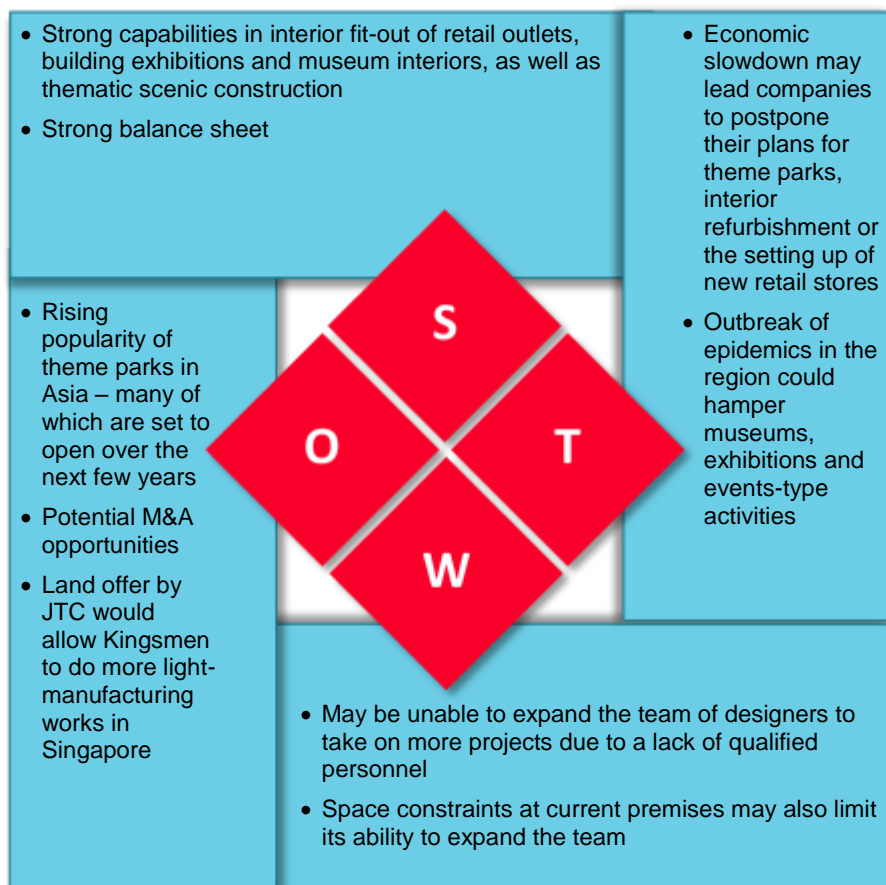
The exhibitions and museums segment is now the largest revenue generator

As mentioned in previous reports, we expect the theme park industry to soar in the next few years. We believe most projects would be built and billed in FY16-17. On top of that, this year is an even year – which means more biennial events again. As such, we continue to forecast double-digit growth in the exhibitions and museums segment. In addition, management also cited that Kingsmen's expertise and efficiency in building thematic works for amusement parks have improved. In this respect, we think that the company can maintain its gross margin at above 25% even with fewer projects in the luxury high-end interior works.

Figure 1: Exhibitions & museums is now the largest segment

Source: Company

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-11-13	Neutral	0.75	0.71
2015-10-14	Neutral	0.80	0.77
2015-08-14	Sell	0.78	0.86
2015-02-27	Buy	1.06	0.96
2014-11-14	Buy	1.05	0.94
2014-08-20	Buy	1.08	0.93
2014-03-04	Buy	1.10	0.94
2013-11-15	Buy	1.08	0.98
2013-08-16	Buy	1.08	0.91
2013-05-17	Buy	1.08	0.92

Source: RHB, Bloomberg

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Buy: Share price may exceed 10% over the next 12 months

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Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

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