

## Kingsmen Creatives (KMEN SP)

Consumer Non-cyclical - Commercial Services

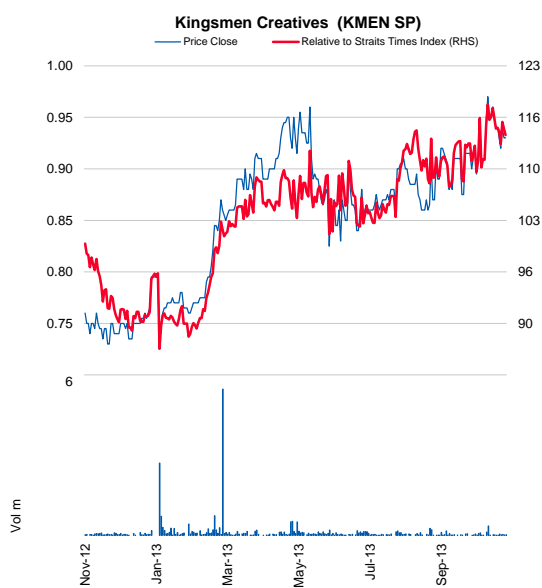
Market Cap: USD144m

**Buy** (Maintained)

 Target Price: **SGD1.08**

 Price: **SGD0.93**

### 4Q13 Expected To Be Rosy

 Macro ◆◆  
 Risks ◆◆  
 Growth ◆◆  
 Value ◆◆


Source: Bloomberg

Avg Turnover (SGD/USD)	0.04m/0.03m
Cons. Upside (%)	-6.5
Upside (%)	15.8
52-wk Price low/high (SGD)	0.73 - 0.97
Free float (%)	33
Shareholders (%)	
O-Vest Pte Ltd	19.6
Islanda Pte Ltd	19.6

**3Q13 PATAMI fell 8.2% y-o-y to SGD3.2m as on a 9.8% y-o-y drop in revenue, mainly due to fewer sizeable projects being completed as at end-3Q13. Nonetheless, KMEN's orderbook remains healthy and 4Q13 is expected to be strong, with the usual hive of activities at the Interiors division in the run-up to the festive season. Maintain BUY, with SGD1.08 TP, based on a 8x FY13F P/E (ex-cash).**

- ◆ **3Q13 gross margin improves even as revenue slips 9.8%.** The revenue decline was mainly due to the lower number of projects reaching a stage at which its exhibitions and museums division can reasonably record as revenue as at end-3Q13. KMEN records its revenue on a progressive basis. The y-o-y revenue drop from exhibitions and museums was somewhat offset by a 5% y-o-y growth from the interiors division, as luxury retailers continued to refurbish and open new stores. Despite the lower revenue, 3Q13 gross margins improved by 3.8 ppt as the company achieved better cost efficiency.
- ◆ **Outlook positive, thanks to healthy orderbook.** KMEN's orderbook has grown to SGD351m (vs 2Q13: SGD294m and 3Q12: SGD289m), of which SGD293m is expected to be recognized in FY13. This indicates that at least SGD107m in revenue is likely to be recorded in 4Q13, although historically, KMEN generates slightly more revenue in 4Q than what it expects (sometimes due to variation orders or finishing a project sooner than expected).
- ◆ **Lowering revenue assumptions down a tick.** KMEN had a net cash balance of SGD49.6m (SGD0.26/share) as at end-3Q13. While we are optimistic that the company would continue to secure projects and chalk up steady growth given its track record, we are keeping our view of growth likely to moderate as KMEN continues to face rising staff costs. Given the slightly weaker than expected 3Q13 revenue, we are tweaking our FY13F revenue slightly lower to SGD299m (from SGD313m). Taking into account improving gross margins, this leads us to our PATAMI estimate of SGD18.5m (from SGD18.9m). Maintain SGD1.08 TP and BUY rating.

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Forecasts and Valuations	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total turnover (SGDm)	234	261	290	299	318
Reported net profit (SGDm)	15.1	16.3	17.1	18.5	19.8
Recurring net profit (SGDm)	15.1	16.3	17.1	18.5	19.8
Recurring net profit growth (%)	1.1	8.4	4.9	7.8	7.3
Core EPS (SGD)	0.08	0.09	0.09	0.10	0.10
DPS (SGD)	0.04	0.04	0.04	0.04	0.04
Dividend Yield (%)	4.3	4.2	4.3	4.3	4.3
Core P/E (x)	12.0	10.9	10.4	9.7	9.0
Return on average equity (%)	27.7	26.7	24.6	24.2	23.9
P/B (x)	3.17	2.76	2.41	2.28	2.04
P/CF (x)	10.2	8.7	6.4	11.1	9.9
EV/EBITDA (x)	7.26	7.09	5.85	5.53	5.05
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (%)				(1.7)	(6.1)

Source: Company data, OSK-DMG estimates

## 3Q13 Results Summary

Figure 1: Quarterly Results

YE 31 Dec (SGDm)	3Q13	3Q12	y-o-y %	2Q13	q-o-q %	Remarks
Revenue	63.6	70.4	-9.8%	79.9	-20.4%	Despite securing more thematic projects, the decline was due these projects being incomplete as at end 3Q13.
Cost of sales	(46.4)	(54.1)	-14.2%	(59.3)	-21.8%	
<b>Gross profit</b>	<b>17.2</b>	<b>16.4</b>	4.9%	<b>20.5</b>	-16.5%	
Other Operating Income	0.8	1.0	-17.0%	1.2	-27.6%	
Depreciation	(0.4)	(0.4)	8.2%	(0.4)	3.6%	
Salaries and related costs	(10.7)	(9.9)	8.2%	(11.7)	-8.8%	Staff cost was higher, mainly due to higher wages and increased headcount to tackle the increased number of projects secured.
Other operating expenses	(3.4)	(3.1)	7.3%	(2.8)	19.3%	
<b>Operating profit</b>	<b>3.5</b>	<b>4.0</b>	-11.1%	<b>6.8</b>	-47.8%	
Financial income, net	0.0	(0.0)	N.M.	0.1	-19.6%	
Share of Associates	0.1	0.4	-71.1%	0.3	-63.2%	Some associates suffered losses during the quarter.
<b>Profit Before Taxes</b>	<b>3.7</b>	<b>4.4</b>	-15.7%	<b>7.2</b>	-48.3%	
Income Tax Expense	(0.6)	(0.8)	-26.0%	(1.4)	-59.7%	
Minority Interest	0.1	(0.1)	-163.7%	(0.3)	-122.8%	
<b>Net Income</b>	<b>3.2</b>	<b>3.5</b>	-8.2%	<b>5.4</b>	-40.4%	
<b>Margins (%)</b>						
Gross profit	27.0%	23.2%	3.8 ppt	25.7%	-1.3 ppt	Y-o-Y improvement was due to better management of costs.
EBIT	5.6%	5.7%	-0.1 ppt	8.5%	2.9 ppt	
PBT	5.8%	6.2%	-0.4 ppt	9.0%	3.1 ppt	
PATAMI	5.0%	5.0%	0.1 ppt	6.7%	1.7 ppt	

Source: Company data

## Financial Exhibits

<b>Profit &amp; Loss (SGDm)</b>	<b>Dec-10</b>	<b>Dec-11</b>	<b>Dec-12</b>	<b>Dec-13F</b>	<b>Dec-14F</b>
Total turnover	234	261	290	299	318
Cost of sales	(170)	(194)	(218)	(221)	(235)
<b>Gross profit</b>	<b>64</b>	<b>67</b>	<b>73</b>	<b>78</b>	<b>83</b>
Gen & admin expenses	(2)	(2)	(2)	(1)	(1)
Selling expenses	(35)	(38)	(41)	(45)	(48)
Other operating costs	(12)	(12)	(14)	(14)	(15)
<b>Operating profit</b>	<b>15</b>	<b>15</b>	<b>16</b>	<b>17</b>	<b>19</b>
Operating EBITDA	19	19	20	21	22
Depreciation of fixed assets	(4)	(3)	(4)	(3)	(3)
Amortisation of intangible assets	(0)	(0)	(0)	(0)	(0)
<b>Operating EBIT</b>	<b>15</b>	<b>15</b>	<b>16</b>	<b>17</b>	<b>19</b>
Other recurring income	4	4	6	6	6
Interest income	0	0	0	0	0
Interest expense	(0)	(0)	(0)	(0)	(0)
<b>Pre-tax profit</b>	<b>20</b>	<b>20</b>	<b>22</b>	<b>23</b>	<b>25</b>
Taxation	(4)	(3)	(4)	(4)	(5)
Minority interests	(1)	(0)	(1)	(1)	(1)
<b>Profit after tax &amp; minorities</b>	<b>15</b>	<b>16</b>	<b>17</b>	<b>18</b>	<b>20</b>
<b>Reported net profit</b>	<b>15</b>	<b>16</b>	<b>17</b>	<b>18</b>	<b>20</b>
<b>Recurring net profit</b>	<b>15</b>	<b>16</b>	<b>17</b>	<b>18</b>	<b>20</b>

Source: Company data, OSK-DMG estimates

<b>Cash flow (SGDm)</b>	<b>Dec-10</b>	<b>Dec-11</b>	<b>Dec-12</b>	<b>Dec-13F</b>	<b>Dec-14F</b>
<b>Operating profit</b>	<b>15</b>	<b>15</b>	<b>16</b>	<b>17</b>	<b>19</b>
<b>Depreciation &amp; amortisation</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>3</b>	<b>3</b>
<b>Change in working capital</b>	<b>(3)</b>	<b>(1)</b>	<b>6</b>	<b>(2)</b>	<b>(4)</b>
Other operating cash flow	5	5	6	5	5
<b>Operating cash flow</b>	<b>21</b>	<b>23</b>	<b>32</b>	<b>23</b>	<b>22</b>
Interest received	0	0	0	0	0
Interest paid	(0)	(0)	(0)	(0)	(0)
Tax paid	(3)	(3)	(4)	(7)	(4)
<b>Cash flow from operations</b>	<b>18</b>	<b>20</b>	<b>28</b>	<b>16</b>	<b>18</b>
Capex	(6)	(3)	(2)	(3)	(3)
Other new investments	(4)	-	-	-	-
Other investing cash flow	1	0	0	-	-
<b>Cash flow from investing activities</b>	<b>(9)</b>	<b>(2)</b>	<b>(2)</b>	<b>(3)</b>	<b>(3)</b>
Dividends paid	(7)	(8)	(8)	(8)	(8)
Proceeds from issue of shares	0	-	-	-	-
Increase in debt	8	(0)	(1)	(0)	(0)
Other financing cash flow	(0)	(0)	(0)	-	-
<b>Cash flow from financing activities</b>	<b>2</b>	<b>(8)</b>	<b>(9)</b>	<b>(8)</b>	<b>(8)</b>
Cash at beginning of period	23	30	33	53	55
<b>Total cash generated</b>	<b>10</b>	<b>10</b>	<b>18</b>	<b>5</b>	<b>7</b>
Forex effects	(1)	1	-	-	-
<b>Implied cash at end of period</b>	<b>32</b>	<b>40</b>	<b>51</b>	<b>58</b>	<b>62</b>

Source: Company data, OSK-DMG estimates

## Financial Exhibits

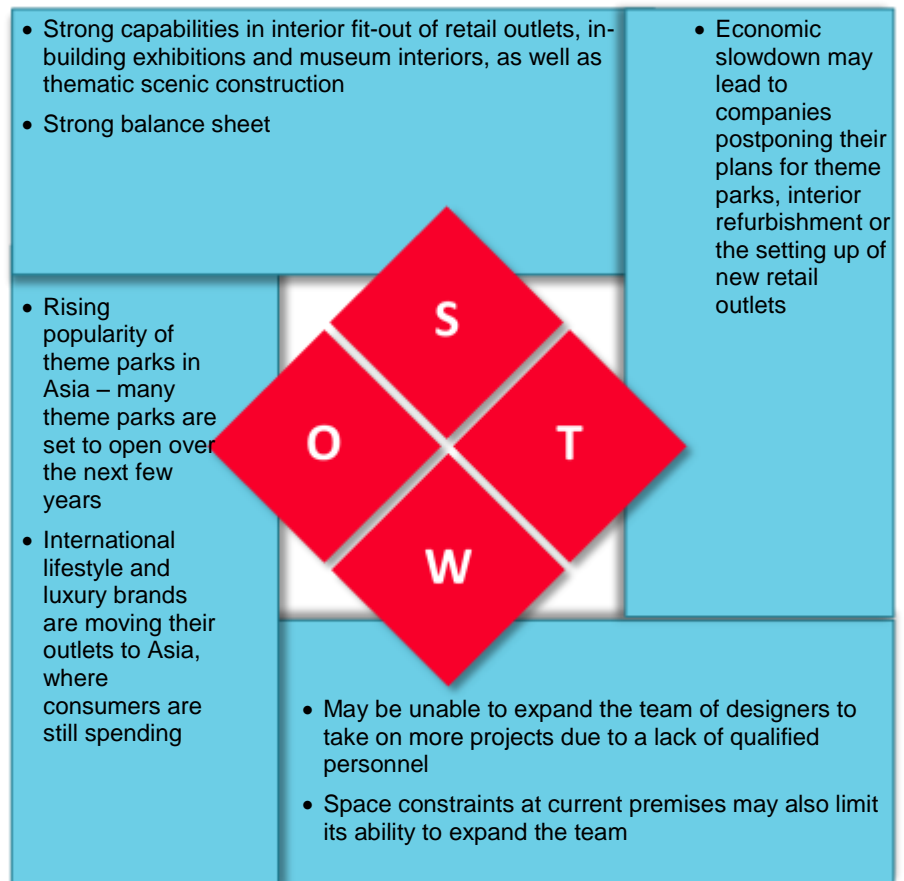
Balance Sheet (SGDm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total cash and equivalents	30	33	53	55	60
Inventories	14	11	18	15	16
Accounts receivable	70	88	74	83	93
Other current assets	7	8	12	10	11
<b>Total current assets</b>	<b>120</b>	<b>141</b>	<b>156</b>	<b>163</b>	<b>180</b>
Total investments	8	8	9	9	9
Tangible fixed assets	12	11	9	9	9
Intangible assets	6	5	5	5	4
Total other assets	0	0	0	0	0
Total non-current assets	25	25	23	23	22
<b>Total assets</b>	<b>146</b>	<b>166</b>	<b>180</b>	<b>186</b>	<b>203</b>
Short-term debt	3	3	3	3	2
Accounts payable	38	41	45	49	54
Other current liabilities	42	51	53	51	54
<b>Total current liabilities</b>	<b>83</b>	<b>95</b>	<b>101</b>	<b>103</b>	<b>111</b>
Total long-term debt	2	2	2	2	2
Other liabilities	1	1	0	0	0
<b>Total non-current liabilities</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>2</b>
<b>Total liabilities</b>	<b>86</b>	<b>98</b>	<b>103</b>	<b>105</b>	<b>112</b>
Share capital	23	23	23	23	23
Retained earnings reserve	35	43	52	56	65
Other reserves	(2)	(1)	(1)	(1)	(1)
<b>Shareholders' equity</b>	<b>57</b>	<b>65</b>	<b>74</b>	<b>78</b>	<b>87</b>
Minority interests	2	3	3	3	3
Other equity	-	(0)	0	(0)	-
<b>Total equity</b>	<b>59</b>	<b>68</b>	<b>77</b>	<b>81</b>	<b>91</b>
<b>Total liabilities &amp; equity</b>	<b>146</b>	<b>166</b>	<b>180</b>	<b>186</b>	<b>203</b>

Source: Company data, OSK-DMG estimates

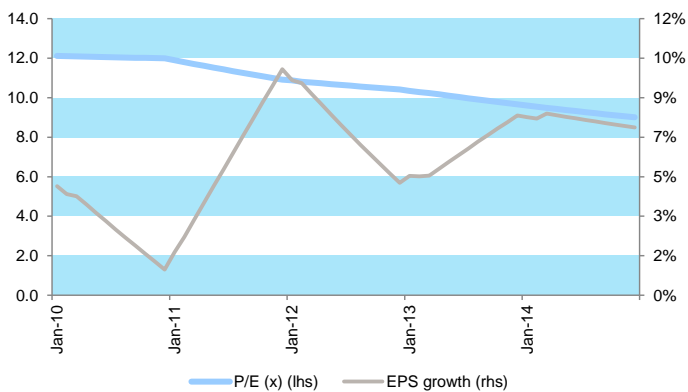
Key Ratios (SGD)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Revenue growth (%)	(3.5)	11.7	11.2	2.9	6.5
Operating profit growth (%)	1.0	0.6	5.0	7.5	7.2
Net profit growth (%)	1.1	8.4	4.9	7.8	7.3
EPS growth (%)	1.1	9.8	4.9	7.8	7.3
Bv per share growth (%)	10.0	14.7	14.7	5.8	11.7
Operating margin (%)	6.5	5.9	5.5	5.8	5.8
Net profit margin (%)	6.4	6.3	5.9	6.2	6.2
Return on average assets (%)	10.6	10.5	9.9	10.1	10.2
Return on average equity (%)	27.7	26.7	24.6	24.2	23.9
Net debt to equity (%)	(41.4)	(41.2)	(62.9)	(62.3)	(61.9)
DPS	0.04	0.04	0.04	0.04	0.04
Recurrent cash flow per share	0.09	0.11	0.15	0.08	0.09

Source: Company data, OSK-DMG estimates

## SWOT Analysis

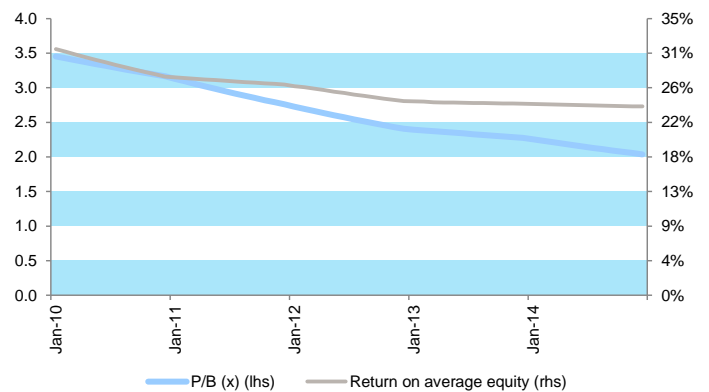


P/E (x) vs EPS growth



Source: Company data, OSK-DMG estimates

P/BV (x) vs ROAE

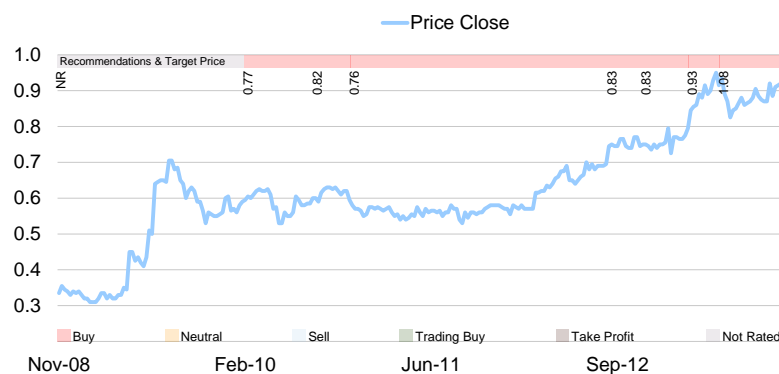


Source: Company data, OSK-DMG estimates

## Company Profile

Kingsmen, a regional communications design and production group, builds displays for exhibitions and provides interior fit-out services. Its interiors division's clients are high-end brands such as Tiffany, Dior, Swarovski, Guess, Abercrombie & Fitch, Gucci, Robinsons and BMW while its exhibitions & museum division is involved in thematic and scenic construction (theme parks). Among Kingsmen's projects are the construction of some attractions at Universal Studios Singapore and extension works at Hong Kong Disneyland.

## Recommendation Chart



Source: OSK-DMG estimates, Bloomberg

Date	Recommendation	Target Price	Price
2013-08-16	Buy	1.08	0.91
2013-05-17	Buy	1.08	0.92
2013-03-05	Buy	0.93	0.81
2013-03-01	Buy	0.93	0.80
2013-03-01	Buy	0.93	0.80
2013-01-18	Buy	0.83	0.73
2012-11-06	Buy	0.83	0.77
2012-08-14	Buy	0.83	0.73
2012-05-14	Buy	0.76	0.65
2012-03-05	Buy	0.76	0.62

Source : OSK-DMG estimates, Bloomberg

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- Buy:** Share price may exceed 10% over the next 12 months  
**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain  
**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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