

Kingsmen Creative

Delivering record earnings

BUY

◆ Commemorating 30th anniversary with record earnings and dividends

Kingsmen reported record FY06 earnings. Net profit S\$4.9m (+125%) exceeded our forecasts on the back of 42% jump in sales, which crossed the S\$100m mark for the first time. Operating leverage enabled EBIT and net margin to rise by 170ppt and 160 ppt to 5.6% and 4.5%, respectively. The company declared tax-exempt dividends of 1.5 cents (final) and 0.5 cents (special), translating to an attractive 6% yield. As of Dec 06, net cash balance rose to 11 cts/share, comprising a third of its market capitalisation.

◆ Two-pronged growth

Both core divisions of Exhibitions & Museums and Interiors delivered robust topline growth of 54% and 35%, respectively. Exhibitions & Museums benefitted from major events such as the Asian Aerospace, Communique Asia, Farnborough Airshow and Automotive event launches in the region. Towards end 2006, Kingsmen also completed museum projects (National Museum of Singapore, I-Space Exhibition) worth a total of \$12m. Interiors was boosted by projects from Vivocity (+\$10m) and rollout programmes for key accounts such as P&G, Osim, DFS, FJ Benjamin, The Hour Glass amongst others. Kingsmen's new Johor plant also contributed to better production efficiency and drove export sales of retail display fixtures.

◆ Rolling good times ahead

On prospects, we expect the Exhibitions division to benefit from the MICE sector in Singapore and the region. The Singapore Tourist Board projects the industry in AsiaPac to expand from 40m visitors in 2002, to more than 100m by 2010. Kingsmen is particularly well-positioned to tap into this space by virtue of its brand reputation, regional reach and one-stop shop capabilities. The Interiors division should benefit from the retail rejuvenation and revamp in prime shopping districts across the island as well as upcoming works for the Integrated Resorts. As of Feb 2007, the company has clinched an orderbook of \$30m, which we expect to build further. With economies of scale and positive operating leverage, we believe the company has scope for further margin improvement.

◆ Propelling growth via affiliate acquisitions

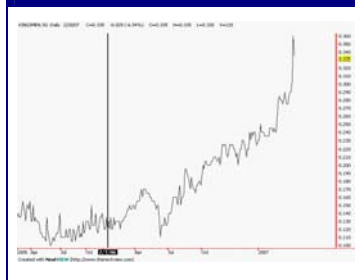
The plan to inject remaining regional affiliates should provide a boost over and beyond organic growth. Kingsmen intends to exercise its existing call options within the year to bring the Greater China, India and Middle East affiliates into the listed co. This will have the effect of expanding reach and increase the overall revenue base of the group.

▪ Undemanding valuation; buy maintained

On the back of the sterling FY06 results and positive outlook, we are raising our net profit forecasts to \$6m (FY07) and \$7.4m (FY08). We have not factored in any potential earnings-accretion from the injection of affiliates at this point. Kingsmen is emerging as a leading player in the communications design field, which we believe warrants a higher rating. Based on 8x FY07 P/E, our target price is raised to \$0.48. Buy maintained.

Price	\$0.335
Target	\$0.48
ST Index	3,086

Historical Chart



Stock Information

Ticker code	KMEN SP
Market Cap (\$m)	34
52-week high (\$)	0.37
52-week low (\$)	0.11
Shares issued (m)	101
6m avg. daily vol (\$m)	
Free float (%)	20
Major Shareholders	
	Benedict Soh (30%)
	Simon Ong (30%)

Key Indicators

ROE (%)	29
Net Gearing (%)	Cash
NTA (\$)	0.18
Interest cover (x)	na

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Year End Dec 31	2004	2005	2006	2007E	2008E
Sales (S\$m)	63	77	109	131	150
Pre-tax (S\$m)	1.8	2.9	6.1	7.8	9.6
Net profit (S\$m)	1.3	2.2	4.9	6.0	7.4
EPS (cts)	1.2	2.2	4.8	5.9	7.3
EPS growth (%)	-17.5%	73.8%	125.2%	21.9%	23.0%
PER (x)	29.1	16.7	7.4	6.1	5.0
Gross margins (%)	26%	27%	26%	26%	26%
Yield (%)	1.9%	2.8%	5.6%	5.6%	0.0%

FY06 results review

FYE Dec	2005A	KE Est.06	2006A	% chg (06 vs 05)	% chg (vs KE 06)
Sales	76.7	95.9	108.9	42%	14%
Gross profit	20.5	25.9	27.8	35%	7%
Other income	0.9	1.0	1.5	64%	46%
EBITDA	3.7	5.8	7.3	64%	26%
Depreciation	(0.8)	(1.0)	(1.1)	43%	14%
Staff & related expense	(12.1)	(15.1)	(15.0)	24%	-1%
Other op expenses	(5.8)	(6.4)	(7.3)	26%	14%
Associates	0.2	0.3	0.3	39%	-15%
Financial expense	(0.1)	(0.1)	(0.1)	25%	-19%
Finance Income	0.0	0.1	0.1	675%	-7%
Pretax profit	2.9	4.7	6.1	112%	29%
Taxation	(0.5)	(0.9)	(1.4)	175%	51%
Net Profit before MI	2.4	3.8	4.7	98%	24%
Minority Interest	(0.2)	(0.3)	0.3	-247%	-192%
Net profit	2.2	3.5	4.9	125%	41%
Margins:					
Gross	26.8%	27.0%	25.5%		
EBITDA	4.9%	6.1%	6.7%		
Pretax	3.8%	4.9%	5.6%		
Net	2.9%	3.7%	4.5%		

Source: kelve, company

Segmental Highlights

FYE Dec	2003	2004	2005	2006	% chg
Exhibitions & Museums	21.4	30.3	30.4	46.8	54%
Interiors	29.2	28.7	41.6	56.0	35%
Research and Design	2.0	2.0	2.5	3.5	40%
Integrated Communications	0.9	2.3	2.3	2.7	15%
Sales	53.5	63.3	76.7	108.9	42%
Exhibitions & Museums	1.3	1.4	1.6	1.8	13%
Interiors	1.3	0.7	1.4	3.7	160%
Research and Design	0.1	0.0	0.1	0.7	549%
Integrated Communications	0.0	0.2	0.1	0.1	-18%
Corporate expenses	(0.6)	(0.7)	(0.5)	(0.5)	6%
Operating Profit	2.1	1.6	2.8	5.8	112%

Source: kelve, company

Earnings Forecast

FYE Dec	2004	2005	2006	2007E	2008E
Sales	63.3	76.7	108.9	130.7	150.3
COGS	(46.8)	(56.2)	(81.2)	(97.3)	(111.7)
Gross profit	16.5	20.5	27.8	33.5	38.6
Other income	0.8	0.9	1.5	1.5	1.5
Depreciation	(0.5)	(0.8)	(1.1)	(1.4)	(1.6)
Staff & related expense	(10.2)	(12.1)	(15.0)	(17.6)	(19.5)
Other op expenses	(4.9)	(5.8)	(7.3)	(8.5)	(9.8)
Associates	0.2	0.2	0.3	0.3	0.3
Financial expense	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Finance Income	0.0	0.0	0.1	0.2	0.2
Pretax profit	1.8	2.9	6.1	7.8	9.6
Taxation	(0.4)	(0.5)	(1.4)	(1.8)	(2.2)
Net Profit before MI	1.4	2.4	4.7	6.0	7.4
Minority Interest	(0.2)	(0.2)	0.3	0.0	0.0
Net profit	1.3	2.2	4.9	6.0	7.4

Source: kelive, company

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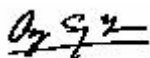
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