



Kingsmen Creatives Ltd

AmFraser

(Bloomberg: KMEN SP)

Not too late for a ride

BUY

(Maintain)

LAST CLOSE: S\$0.675

FAIR VALUE: S\$0.78

(Previous : \$0.78)

Wednesday, 02 May 2012

Rationale for report: Trading Idea

Financials

YE Dec (S\$m)	2011	2012F	2013F	2014F
Revenue	261.0	292.3	318.6	350.5
Gross Profit	66.7	75.1	82.6	90.3
Pre-Tax Profit	19.8	21.9	23.9	25.5
PATMI	16.3	17.4	18.9	20.2
EPS (S cents)	8.60	9.16	9.97	10.64
DPS (S cents)	4.00	4.12	4.49	4.79
PER (x)	7.85	7.37	6.77	6.35
Div Yield (%)	5.9	6.1	6.6	7.1

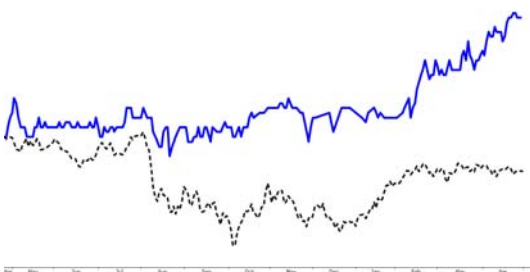
Key Operating Statistics

	2011	2012F	2013F	2014F
Gross Margin (%)	25.5	25.7	25.9	25.8
Net Margin (%)	6.3	6.0	5.9	5.8
ROE (%)	24.4	22.6	21.4	20.1
ROA (%)	11.5	10.8	10.5	10.2
Net Gearing (%)	Net cash	Net cash	Net cash	Net cash
EV/EBITDA (x)	4.27	3.01	2.44	1.92

Stock Data

Issued Shares (m)	194.2
Market Cap (S\$m)	131.10
Major Shareholders	Benedict Soh (19.98%) Simon Ong (19.98%)
Free Float	39.00%
52 week lo / hi	\$0.50 / \$0.685

12-Month KMEN SP vs. FSSTI

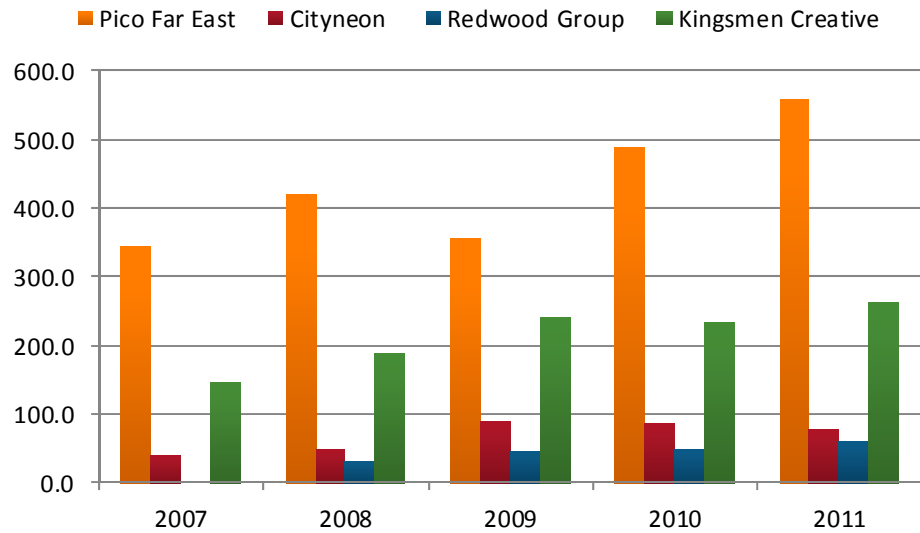


Source: Bloomberg

- Are businesses with low margins bad businesses?** Kingsmen's net margins have historically been over 6% - is that a cause for concern? The margins a business attains depends largely on the nature of the business and partly on company-specific factors. Wal-mart is arguably one of the most cost efficient supermarkets in the world, but boasts only net margins of 3.5%. However, among its peer group's margins of 0.6%-4.2%, 3.5% is fairly decent. Let's consider the nature of Kingsmen's business—it is relatively asset-light but needs high human capital. This means low capex and a higher free cash flow. On the flip side, this also means more operating expenses in the form of wages, making net margins lower. It thus makes better sense to compare margins of companies within the same industry.
- Kingsmen—sustainable margins is key.** Kingsmen has been able to maintain net margins of over 6.0% in the past 5 years including the year of the global financial crisis, through improving cost efficiencies and being selective on jobs they take on. We like such focused growth strategies that do not comprise on margins. This is partly why we expect similar margins in the future (5.8-6.0%). On the other hand, SGX-listed peer Cityneon had persistent declining margins over the past 5 years (FY11: 0.8%). We don't take sustainable margins for granted as it's not always achievable by every company. HK-listed peer Pico Far East Holdings achieved comparable margins of 6-7% in the past 5 years, making it a keen competitor to Kingsmen.
- An illiquid gem.** Kingmen's trading volume is admittedly thin at a daily average of 111,000 in the past 90 days, but for good reasons. Investors in the stock generally buy for the longer-term and don't sell down; there is little supply for the stock. Illiquidity is not a major concern if you are buying this for the longer term. Your portfolio could use this growing yet high-yielding stock (6.1%), which could compensate for illiquidity.
- EPS growth—from topline growth on maintained margins.** Though there is unlikely to be margin expansion, there is likely to be absolute EPS growth. This should be the focus as we value Kingsmen on a price-earnings basis. We expect an EPS CAGR of 7.75% (till FY14), suggesting a PEG ratio of 0.95 (an indication of undervaluation).
- Maintain BUY, FV of S\$0.78.** Stock has run up 13% in the past two months but there is still room to go. Our fair value of S\$0.78 based on 8.5x FY12 EPS of S\$0.0916 and a 6.1% dividend yield represents a total upside of 21.7%. Kingsmen's orderbook as at 24 Feb 2012 is S\$106mil, up 26% from 21 Feb 2011—suggesting a far better start to 2012. It currently trades at only 7.4x forward PER. **BUY.**

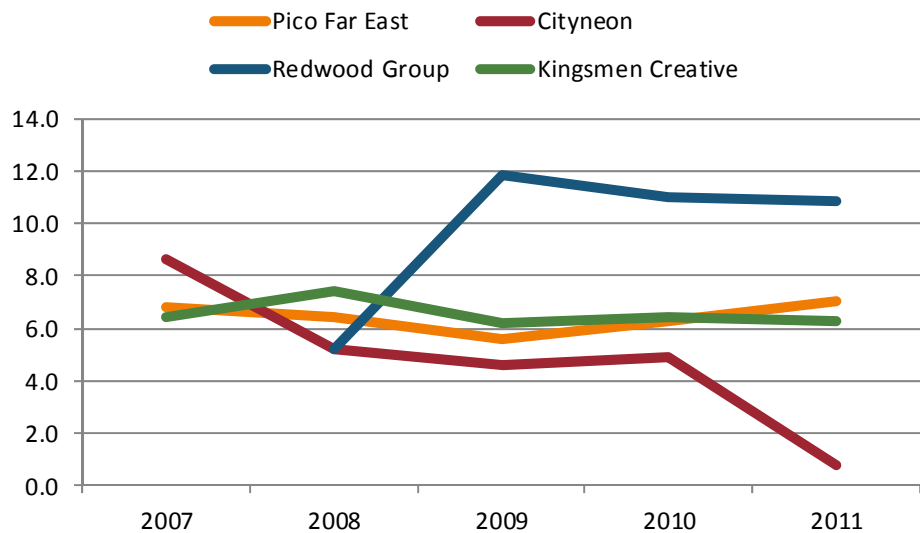
Sarah WONG
sarahwong@amfraser.com.sg
+65 6236 2850

Revenues (In S\$mil): Kingsmen vs Peers



Source: Bloomberg

Net profit margins (%): Kingsmen vs Peers



Source: Bloomberg

YE 31 Dec

INCOME STATEMENTS S\$mil	2010	2011	2012F	2013F	2014F
Revenue	235.2	261.0	292.3	318.6	350.5
Cost of Sales	-169.8	-194.3	-217.2	-236.0	-260.2
Gross Profit	65.4	66.7	75.1	82.6	90.3
Staff salaries & related expenses	-35.4	-37.9	-41.8	-46.2	-51.2
Other expenses	-11.6	-12.0	-12.1	-13.4	-14.4
Other income	2.7	3.9	2.7	2.7	2.7
Depreciation	-1.6	-1.5	-2.1	-2.0	-2.1
Profit from Operations	19.5	19.2	21.8	23.7	25.3
Interest income	0.2	0.2	0.2	0.2	0.2
Interest expense	-0.1	-0.2	-0.2	-0.2	-0.2
Profit before Tax	19.7	19.8	21.9	23.9	25.5
Income Tax	-3.5	-3.1	-3.9	-4.3	-4.6
Non-controlling interests	1.1	0.4	0.6	0.6	0.7
PATMI	15.1	16.3	17.4	18.9	20.2
EBITDA	21.2	20.7	23.9	25.7	27.4
Free Cash Flow	14.3	10.8	24.8	17.5	19.3
Earnings per Share (S cents)	7.93	8.60	9.16	9.97	10.64
Dividends per Share (S cents)	4.00	4.00	4.12	4.49	4.79
Book Value per Share (S cents)	31.28	36.59	41.88	47.88	54.22
BALANCE SHEETS S\$'000	2010	2011	2012F	2013F	2014F
Cash and Cash Equivalents	29.9	33.2	49.7	58.5	68.5
Trade and Other Rec	75.3	95.3	93.6	102.0	112.2
Inventory	0.14	0.06	0.18	0.19	0.21
Property, Plant, Equipment	11.9	11.2	9.6	10.1	10.5
Other Current Assets	15.1	12.8	18.6	20.2	21.9
Other Long-term Assets	13.2	14.5	14.3	14.3	14.3
Total Assets	145.6	167.1	186.1	205.4	227.7
Trade Payables	37.7	40.8	48.2	52.4	57.7
Borrowings: Non-Current	1.9	2.1	2.0	1.9	1.8
Other Current Liabilities	45.3	53.8	55.4	59.3	64.3
Other Long-term Liabilities	1.3	0.9	0.9	0.9	0.9
Total Common Equity	57.1	66.9	76.9	88.3	100.4
Total Liabilities and Equity	145.6	167.1	186.1	205.4	227.7

CASHFLOW STATEMENTS \$'000	2010	2011	2012F	2013F	2014F
Profit before Tax	19.7	19.8	21.9	23.9	25.5
Depreciation	3.6	3.4	4.1	2.0	2.1
Change in Working Capital	-0.6	-6.4	4.9	-1.8	-1.4
Income Tax Paid	-3.3	-3.1	-3.9	-4.3	-4.6
Net Cash from Operations	20.3	13.6	27.1	19.8	21.6
(Purchase)/Disposal of PPE	-6.2	-2.8	-2.5	-2.5	-2.5
Other Cash from Investing	-3.6	0.0	0.0	0.0	0.0
(Repayment of debt/finance lease)	-1.8	0.0	-0.3	-0.3	-0.3
(Dividends Paid)	-7.0	0.0	-7.9	-8.2	-8.9
Other Cash from Financing	6.8	0.0	0.0	0.0	0.0
Beginning Cash	20.3	28.0	24.3	40.8	49.6
Foreign Exchange Effect	-0.92	0.51	0.00	0.00	0.00
End Cash	28.0	31.6	40.8	49.6	59.6

*Ending cash differs from balance sheet cash due to fixed deposits, overdrafts, restricted balances and other items

KEY RATIOS	2010	2011	2012F	2013F	2014F
Profitability					
Gross Margin (%)	27.8	25.5	25.7	25.9	25.8
EBITDA Margin (%)	9.0	7.9	8.2	8.1	7.8
Net Margin (%)	6.4	6.3	6.0	5.9	5.8
ROE (%)	26.4	24.4	22.6	21.4	20.1
ROA (%)	11.7	11.5	10.8	10.5	10.2
Growth (Y-o-Y)					
Revenue (%)	-2.8	11.0	12.0	9.0	10.0
EBITDA (%)	4.0	-2.1	15.3	7.7	6.7
Pre-Tax Income (%)	4.3	0.4	10.7	8.8	6.8
Net Income (%)	3.0	3.5	7.3	8.8	6.8
Financial Structure					
Debt/Equity	0.09	0.07	0.06	0.05	0.04
Net Gearing (%)	-41.5	-40.3	-56.2	-59.3	-62.3
Operational Efficiency					
Days Sales in Receivables	106.9	124.0	107.0	107.0	107.0
Days in Inventory	0.30	0.12	0.30	0.30	0.30
Days in Payables	80.98	76.56	81.00	81.00	81.00
Cash Conversion Cycle	26.2	47.5	26.3	26.3	26.3
Asset Turnover (x)	1.62	1.56	1.57	1.55	1.54
Market Valuation					
Price / Earnings	8.51	7.85	7.37	6.77	6.35
Price / Book	2.16	1.84	1.61	1.41	1.24
Price / Sales	0.54	0.49	0.44	0.40	0.37
Price / Free Cash Flow	0.05	0.06	0.03	0.04	0.03
EV / EBITDA	4.32	4.27	3.01	2.44	1.92

AmFraser Research recommendations are based on a Total Return rating system, defined as follows:

BUY: >15% total return over the next 12 months

HOLD: -15% to +15% total return over the next 12 months

SELL: <-15% total return over the next 12 months

Total Return includes share price appreciation (depreciation) + dividends

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Lau Wei Chong

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