

# Kingsmen Creatives (KMEN SP)

Consumer Cyclical - Consumer Services

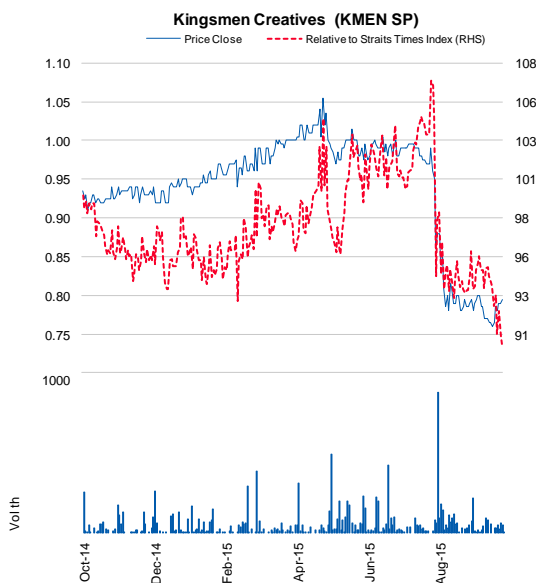
Market Cap: USD112m

**Neutral** (from Sell)

 Target Price: **SGD0.80**

 Price: **SGD0.80**

## Prelude To The Rollercoaster

 Macro   
 Risks   
 Growth   
 Value 


Source: Bloomberg

Avg Turnover (SGD/USD)	0.05m/0.03m
Cons. Upside (%)	0.0
Upside (%)	0.0
52-wk Price low/high (SGD)	0.76 - 1.06
Free float (%)	40
Share outstanding (m)	198
<b>Shareholders (%)</b>	
Benedict Soh	23.7
Simon Ong	23.7
Delta Lloyd Asset Management	12.0
<b>Share Performance (%)</b>	
	YTD    1m    3m    6m    12m
Absolute	(15.4)    1.3    (20.5)    (20.5)    (13.6)
Relative	(5.5)    (3.7)    (12.9)    (7.8)    (7.6)

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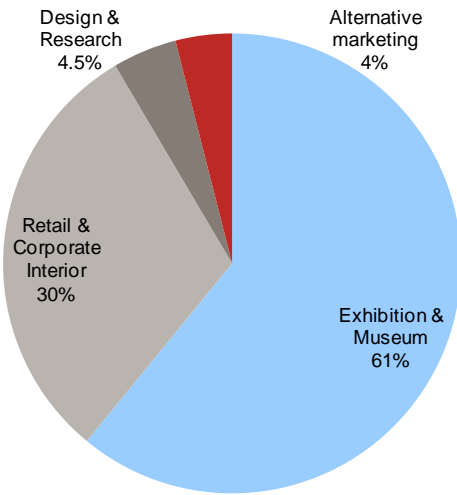
We upgrade Kingsmen to **NEUTRAL** with a TP of **SGD0.80** (from **SGD0.78**, 0% upside) as we believe the stock is now fairly valued. The current quarter is expected to remain challenging for the company, led by a slowdown in the expansion of high-end retailers and translation losses from CNY and MYR depreciation. However, we think that the worst is over, as the company embarks on new initiatives to improve its revenue stream.

- ◆ **From Chanel to H&M and now restaurants.** We expect the retail interior segment to remain challenging in 3Q15, following the weakness in 1H15. To alleviate the situation, Kingsmen Creatives (Kingsmen) is reinventing itself to provide interior contracting work for restaurants and eateries on top of its usual mid- to high-end retail clients. Some of the F&B interior works the company has embarked on include Ippudo at Mandarin Gallery Singapore, The Handburger, Singapore and a Hard Rock Cafe in Thailand. While we like its tenacious attitude in seeking a new client base during difficult times, we note that these projects from restaurants and local brands will also yield lower margins, which would impact its bottomline.
- ◆ **At least, the fun part never ends.** We believe the exhibition and museum (E&M) segment will continue to soar with a strong pipeline of theme park projects lined up to FY19. We expect E&M revenue to grow 40% YoY in FY15F and 15% YoY in FY16F, led by more biennial tradeshows and exhibitions in the even-year.
- ◆ **Capex and other small acquisitions.** The company acquired a piece of leasehold land in August, for the construction of its new headquarters. Thus, we increase our total capex forecast to SGD23.5m for this year. We also noticed that Kingsmen has been buying out some of its minority interests to consolidate its earnings. We see this as a vote of confidence in the long run.
- ◆ **Upgrade to NEUTRAL with a TP of SGD0.80.** We trim our forecast by 5-7% for FY15F-17F and roll over our TP to SGD0.80 (from SGD0.78) based on 10x FY16F P/E. We believe the worst is over for Kingsmen as it pursues a new client base. Given that its share price has fallen 16% since mid-August, we upgrade our call to NEUTRAL as we believe the market has priced in the weaker earnings for this year.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (SGDm)	296	336	314	351	386
Reported net profit (SGDm)	17.7	17.2	14.0	15.6	17.8
Recurring net profit (SGDm)	17.7	18.5	14.0	15.6	17.8
Recurring net profit growth (%)	4.9	4.3	(24.2)	11.2	13.9
Recurring EPS (SGD)	0.09	0.10	0.07	0.08	0.09
DPS (SGD)	0.04	0.04	0.03	0.04	0.04
Recurring P/E (x)	8.6	8.3	11.0	9.9	8.7
P/B (x)	1.80	1.60	1.48	1.37	1.26
P/CF (x)	6.3	6.3	na	10.4	8.9
Dividend Yield (%)	5.0	5.0	4.1	4.6	5.2
EV/EBITDA (x)	4.24	3.62	6.37	5.44	4.64
Return on average equity (%)	22.3	18.8	13.9	14.3	15.1
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

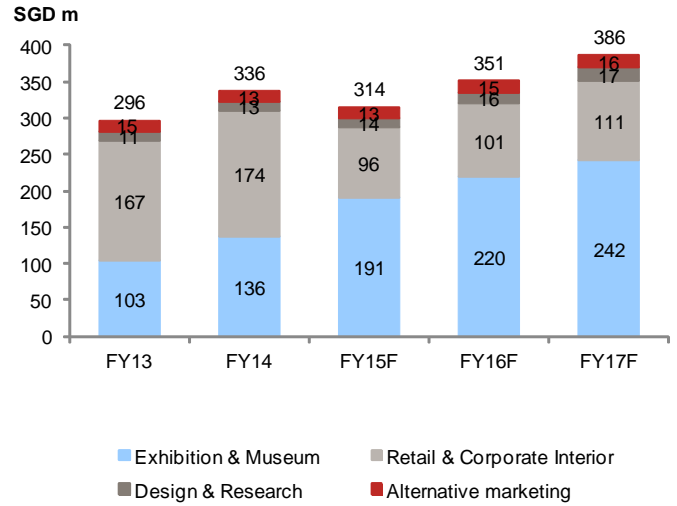
Source: Company data, RHB

Figure 1: Breakdown of revenue by segment



Source: RHB

Figure 2: Revenue growth to be driven by the E&M segment in the coming years



Source: Company, RHB

## Financial Exhibits

<b>Profit &amp; Loss (SGDm)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
Total turnover	296	336	314	351	386
Cost of sales	(220)	(252)	(235)	(262)	(287)
<b>Gross profit</b>	<b>76</b>	<b>85</b>	<b>80</b>	<b>89</b>	<b>99</b>
Gen & admin expenses	(60)	(70)	(69)	(76)	(83)
Other operating costs	5	5	5	5	5
<b>Operating profit</b>	<b>21</b>	<b>20</b>	<b>16</b>	<b>18</b>	<b>21</b>
Operating EBITDA	23	23	18	21	24
Depreciation of fixed assets	(2)	(3)	(2)	(2)	(3)
<b>Operating EBIT</b>	<b>21</b>	<b>20</b>	<b>16</b>	<b>18</b>	<b>21</b>
Net income from investments	1	1	2	2	2
Interest income	0	0	0	0	0
Interest expense	(0)	(0)	(1)	(1)	(1)
<b>Pre-tax profit</b>	<b>22</b>	<b>21</b>	<b>17</b>	<b>19</b>	<b>22</b>
Taxation	(4)	(4)	(3)	(3)	(4)
Minority interests	(1)	(1)	-	(1)	(1)
<b>Profit after tax &amp; minorities</b>	<b>18</b>	<b>17</b>	<b>14</b>	<b>16</b>	<b>18</b>
<b>Reported net profit</b>	<b>18</b>	<b>17</b>	<b>14</b>	<b>16</b>	<b>18</b>
<b>Recurring net profit</b>	<b>18</b>	<b>19</b>	<b>14</b>	<b>16</b>	<b>18</b>

Source: Company data, RHB

<b>Cash flow (SGDm)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
<b>Operating profit</b>	<b>21</b>	<b>20</b>	<b>16</b>	<b>18</b>	<b>21</b>
<b>Depreciation &amp; amortisation</b>	<b>2</b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>3</b>
<b>Change in working capital</b>	<b>6</b>	<b>4</b>	<b>(18)</b>	<b>(2)</b>	<b>(2)</b>
Other operating cash flow	(1)	1	(0)	-	-
<b>Operating cash flow</b>	<b>28</b>	<b>28</b>	<b>0</b>	<b>19</b>	<b>21</b>
Interest received	0	0	0	0	0
Interest paid	(0)	(0)	(1)	(1)	(1)
Tax paid	(4)	(3)	(3)	(3)	(4)
<b>Cash flow from operations</b>	<b>24</b>	<b>25</b>	<b>(3)</b>	<b>15</b>	<b>17</b>
Capex	(5)	(2)	(24)	(5)	(5)
Other new investments	(1)	2	0	-	-
Other investing cash flow	-	-	(0)	-	-
<b>Cash flow from investing activities</b>	<b>(5)</b>	<b>(0)</b>	<b>(24)</b>	<b>(5)</b>	<b>(5)</b>
Dividends paid	(8)	(8)	(6)	(7)	(8)
Proceeds from issue of shares	2	0	-	-	-
Increase in debt	0	4	1	-	-
Other financing cash flow	(0)	(0)	(0)	-	-
<b>Cash flow from financing activities</b>	<b>(6)</b>	<b>(3)</b>	<b>(5)</b>	<b>(7)</b>	<b>(8)</b>
Cash at beginning of period	53	64	83	51	54
<b>Total cash generated</b>	<b>13</b>	<b>21</b>	<b>(32)</b>	<b>3</b>	<b>4</b>
<b>Implied cash at end of period</b>	<b>66</b>	<b>85</b>	<b>51</b>	<b>54</b>	<b>58</b>

Source: Company data, RHB

## Financial Exhibits

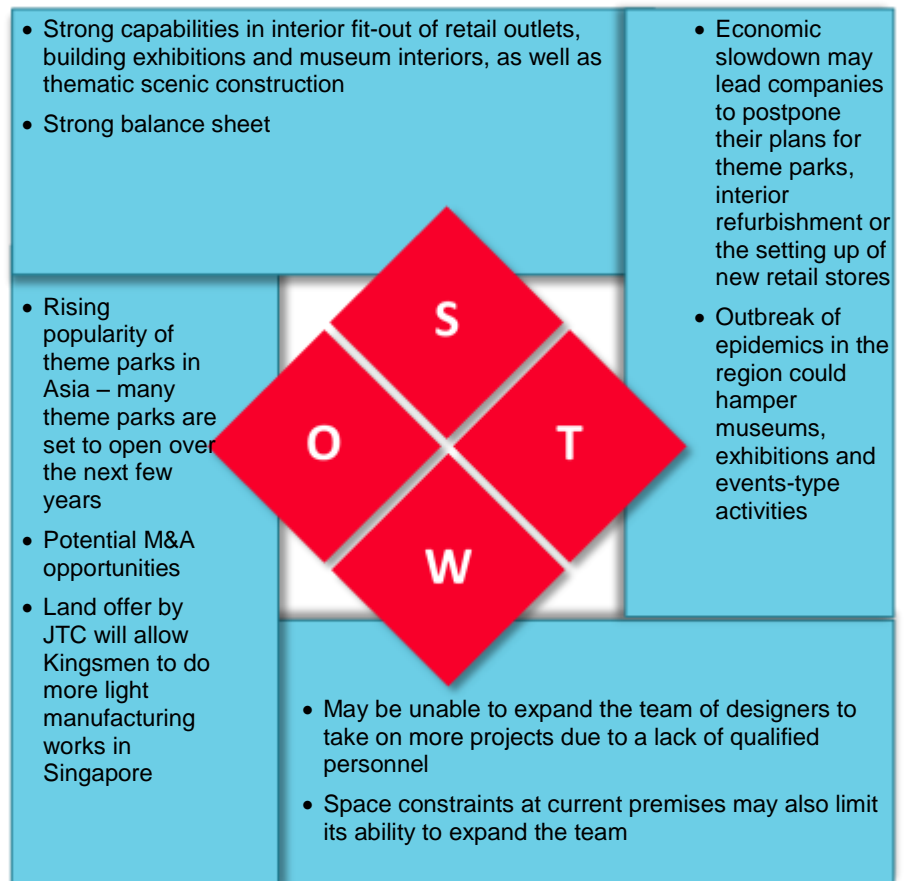
<b>Balance Sheet (SGDm)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
Total cash and equivalents	64	83	51	54	58
Inventories	2	2	2	2	3
Accounts receivable	115	108	121	135	148
Other current assets	1	1	1	1	1
<b>Total current assets</b>	<b>182</b>	<b>195</b>	<b>175</b>	<b>192</b>	<b>210</b>
Total investments	12	10	12	13	15
Tangible fixed assets	11	11	32	35	37
Intangible assets	5	8	8	8	8
Total non-current assets	28	29	52	56	60
<b>Total assets</b>	<b>209</b>	<b>224</b>	<b>227</b>	<b>248</b>	<b>270</b>
Short-term debt	3	5	6	6	6
Accounts payable	105	108	103	115	127
Other current liabilities	10	8	8	8	8
<b>Total current liabilities</b>	<b>118</b>	<b>121</b>	<b>116</b>	<b>128</b>	<b>140</b>
Total long-term debt	2	2	2	2	2
Other liabilities	1	1	1	1	1
<b>Total non-current liabilities</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>
<b>Total liabilities</b>	<b>120</b>	<b>123</b>	<b>119</b>	<b>131</b>	<b>143</b>
Share capital	23	24	24	24	24
Retained earnings reserve	66	75	83	91	101
Other reserves	(3)	(2)	(2)	(2)	(2)
<b>Shareholders' equity</b>	<b>86</b>	<b>97</b>	<b>104</b>	<b>113</b>	<b>123</b>
Minority interests	4	4	4	5	5
<b>Total equity</b>	<b>89</b>	<b>101</b>	<b>109</b>	<b>118</b>	<b>128</b>
<b>Total liabilities &amp; equity</b>	<b>209</b>	<b>224</b>	<b>227</b>	<b>248</b>	<b>270</b>

Source: Company data, RHB

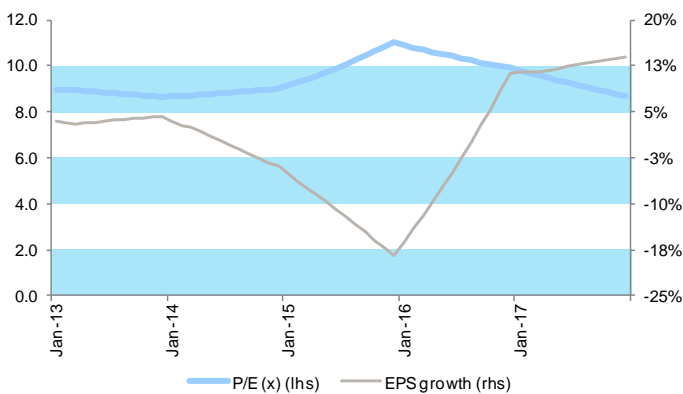
<b>Key Ratios (SGD)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
Revenue growth (%)	2.1	13.6	(6.6)	11.5	10.0
Operating profit growth (%)	3.9	(4.4)	(22.3)	16.9	13.3
Net profit growth (%)	4.9	(3.3)	(18.3)	11.2	13.9
EPS growth (%)	4.2	(4.0)	(18.4)	11.3	13.9
BVPS growth (%)	14.8	12.4	8.2	8.2	8.6
Operating margin (%)	7.1	6.0	5.0	5.2	5.4
Net profit margin (%)	6.0	5.1	4.5	4.4	4.6
Return on average assets (%)	9.1	7.9	6.2	6.6	6.8
Return on average equity (%)	22.3	18.8	13.9	14.3	15.1
Net debt to equity (%)	(66.3)	(75.7)	(40.0)	(39.2)	(39.5)
DPS	0.04	0.04	0.03	0.04	0.04
Recurrent cash flow per share	0.13	0.13	(0.02)	0.08	0.09

Source: Company data, RHB

## SWOT Analysis

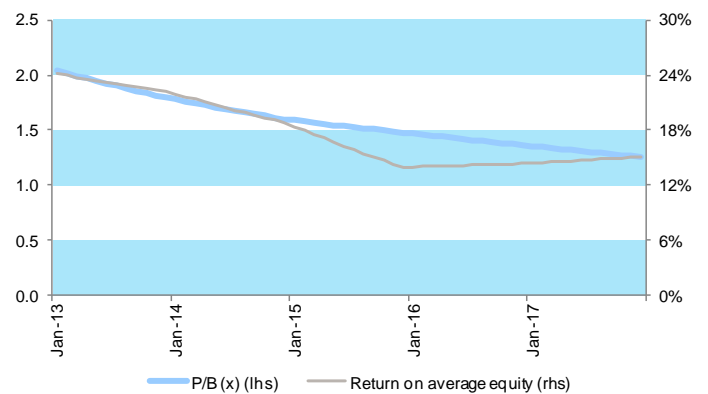


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE

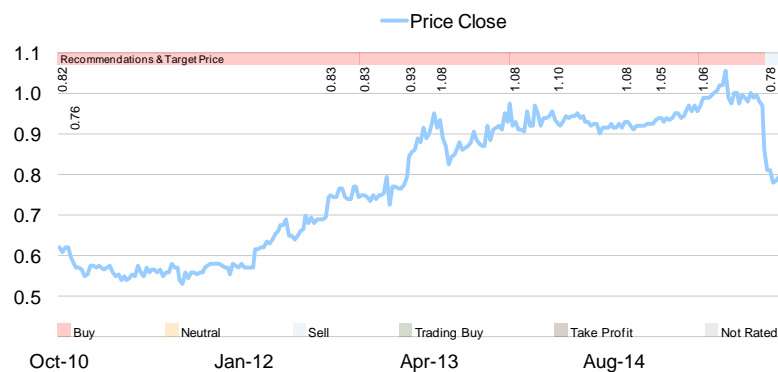


Source: Company data, RHB

## Company Profile

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

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2013-03-05	Buy	0.93	0.81
2013-03-01	Buy	0.93	0.80

Source: RHB, 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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