

Kingsmen Creatives (KMEN SP)

Consumer Cyclical - Consumer Services

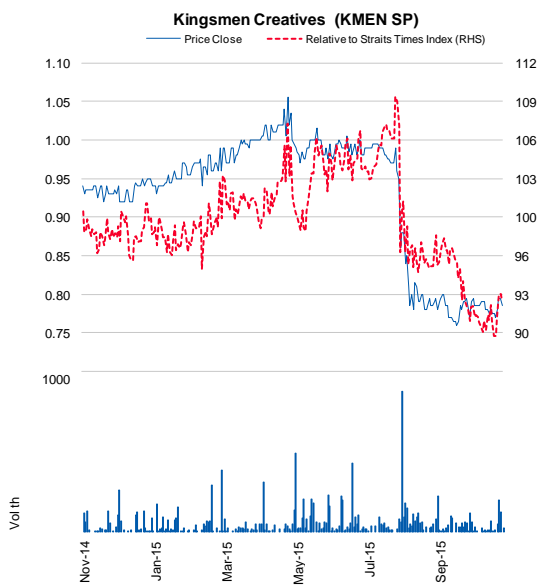
Market Cap: USD109m

Neutral (Maintained)

 Target Price: **SGD0.75**

 Price: **SGD0.79**

Humpty's Great Fall Gives Kingsmen a Hard Time

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (SGD/USD)	0.05m/0.04m
Cons. Upside (%)	-5.1
Upside (%)	-5.0
52-wk Price low/high (SGD)	0.76 - 1.06
Free float (%)	40
Share outstanding (m)	198
Shareholders (%)	
Benedict Soh	23.7
Simon Ong	23.7
Delta Lloyd	5.9

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(16.5)	(0.6)	(20.7)	(23.0)	(15.6)
Relative	(4.4)	0.7	(14.5)	(8.2)	(5.5)

Kingsmen recorded a disappointing 3Q15, with 3Q15 PATMI at SGD0.6m (-84% YoY). We maintain our NEUTRAL recommendation as we trim our TP to SGD0.75 (from SGD0.80, 5% downside), pegged to 10x FY16F P/E. As of 31 Oct, it has secured contracts amounting to SGD348m – with SGD305m expected to be recognised this year. With that, we expect FY15F earnings to be significantly lower than last year and decrease our FY15F-17F net profit by 7-10% to reflect the new challenges facing the retail interior industry.

- ◆ **Gross margin dragged down by new client mix.** Kingsmen Creatives' (Kingsmen) 3Q15 gross margin dropped to 23.4% from 24.7% in 3Q14, dragged down by a lack of high-margin retail interior projects from its luxury retail segment. Stronger contributions from its exhibition and museum (E&M) unit also pulled down the overall gross margin.
- ◆ **Growth of new clients hindered by lack of project managers.** The company continues to focus on pursuing projects from affordable luxury and fast fashion brands. The food and beverage (F&B) segment is also one of Kingsmen's targets, as F&B players are the most resilient in their expansion, taking up about 20% of shopping mall space in Singapore. However, we note that these projects are smaller and have lower margins. Thus, it would be unable to make up for the slack from the luxury segment due to its limited project managers.
- ◆ **Reasonably strong growth in E&M sector YTD.** E&M revenue fell 8% in 3Q15, against our expectation. However, we believe this could be due to the timing of revenue recognition of different projects. The company has since added 30 new staff in its Middle East office. We see this as signs of potential growth coming from that region.
- ◆ **Ready to take on new challenges.** While the decline in the luxury segment has dampened Kingsmen's performance this year, we believe the company is now in a better position to handle the slowdown as it seeks out a new client base. We maintain our NEUTRAL call with a TP SGD0.75, pegged to 10x FY16F P/E.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (SGDm)	296	336	318	350	383
Reported net profit (SGDm)	17.7	17.2	12.6	14.5	16.1
Recurring net profit (SGDm)	17.7	18.5	12.6	14.5	16.1
Recurring net profit growth (%)	4.9	4.3	(31.7)	14.5	11.1
Recurring EPS (SGD)	0.09	0.10	0.07	0.07	0.08
DPS (SGD)	0.04	0.04	0.03	0.03	0.04
Recurring P/E (x)	8.5	8.2	12.1	10.5	9.5
P/B (x)	1.77	1.58	1.47	1.37	1.27
P/CF (x)	6.2	6.2	na	11.3	9.6
Dividend Yield (%)	5.1	5.1	3.8	4.3	4.8
EV/EBITDA (x)	4.16	3.54	6.89	5.79	5.02
Return on average equity (%)	22.3	18.8	12.6	13.4	13.9
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

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Figure 1: 3Q15 results review

FYE Dec (SGDm)	3Q14	2Q15	3Q15	QoQ (%)	YoY (%)	9M14	9M15	YoY (%)	Comments
Revenue	86.2	82.9	76.0	(8.3)	(11.8)	223.1	210.8	(5.5)	3Q15 revenue was down across all segments.
Gross profit	21.3	20.6	17.8	(13.4)	(16.6)	57.4	52.6	(8.4)	Gross margin fell as a result of less luxury retail interior projects.
<i>Gross margin (%)</i>	<i>24.7</i>	<i>24.8</i>	<i>23.4</i>			<i>25.7</i>	<i>24.9</i>		
EBIT	4.6	3.5	1.5	(56.5)	(67.0)	12.1	5.5	(54.0)	
<i>EBIT margin (%)</i>	<i>5.3</i>	<i>4.2</i>	<i>2.0</i>			<i>5.4</i>	<i>2.6</i>		
Net interest	0.0	(0.1)	(0.0)	n.m	n.m	0.1	(0.2)	(291.3)	
JV and associates	(0.1)	0.5	(0.3)	n.m	n.m	1.2	0.4	(65.9)	Lower profit from associates from Thailand
Pretax profit	4.6	3.9	1.1	(71.2)	(75.7)	12.1	5.8	(52.2)	
Tax	(1.0)	(0.8)	(0.7)	(11.6)	(29.4)	(2.3)	(1.7)	(26.5)	
<i>Effective tax rate (%)</i>	<i>(21.4)</i>	<i>(20.3)</i>	<i>(62.1)</i>			<i>(19.2)</i>	<i>(29.4)</i>		
Less: minorities	(0.2)	(0.0)	0.1	n.m	n.m	12.0	6.1	(49.0)	
PATMI	3.5	3.1	0.6	(81.5)	(83.6)	9.7	4.4	(54.4)	
Core PATMI	3.5	3.1	0.6	(81.5)	(83.6)	9.7	4.4	(54.4)	
<i>Net margin (%)</i>	<i>4.0</i>	<i>3.7</i>	<i>0.7</i>			<i>4.3</i>	<i>2.1</i>		

Source: Company data

Financial Exhibits

Profit & Loss (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover	296	336	318	350	383
Cost of sales	(220)	(252)	(239)	(262)	(286)
Gross profit	76	85	79	88	97
Gen & admin expenses	(60)	(70)	(70)	(76)	(84)
Other operating costs	5	5	5	5	5
Operating profit	21	20	14	17	19
Operating EBITDA	23	23	16	19	22
Depreciation of fixed assets	(2)	(3)	(2)	(2)	(3)
Operating EBIT	21	20	14	17	19
Net income from investments	1	1	1	2	2
Interest income	0	0	0	0	0
Interest expense	(0)	(0)	(1)	(1)	(1)
Pre-tax profit	22	21	14	18	20
Taxation	(4)	(4)	(2)	(3)	(3)
Minority interests	(1)	(1)	0	(1)	(1)
Profit after tax & minorities	18	17	13	14	16
Reported net profit	18	17	13	14	16
Recurring net profit	18	19	13	14	16

Source: Company data, RHB

Cash flow (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Operating profit	21	20	14	17	19
Depreciation & amortisation	2	3	2	2	3
Change in working capital	6	4	(17)	(2)	(2)
Other operating cash flow	(1)	1	(0)	-	-
Operating cash flow	28	28	(1)	17	20
Interest received	0	0	0	0	0
Interest paid	(0)	(0)	(1)	(1)	(1)
Tax paid	(4)	(3)	(2)	(3)	(3)
Cash flow from operations	24	25	(3)	13	16
Capex	(5)	(2)	(24)	(5)	(5)
Other new investments	(1)	2	0	-	-
Other investing cash flow	-	-	(0)	-	-
Cash flow from investing activities	(5)	(0)	(24)	(5)	(5)
Dividends paid	(8)	(8)	(6)	(7)	(7)
Proceeds from issue of shares	2	0	-	-	-
Increase in debt	0	4	1	-	-
Other financing cash flow	(0)	(0)	(0)	-	-
Cash flow from financing activities	(6)	(3)	(5)	(7)	(7)
Cash at beginning of period	53	64	83	51	53
Total cash generated	13	21	(32)	2	4
Implied cash at end of period	66	85	51	53	57

Source: Company data, RHB

Financial Exhibits

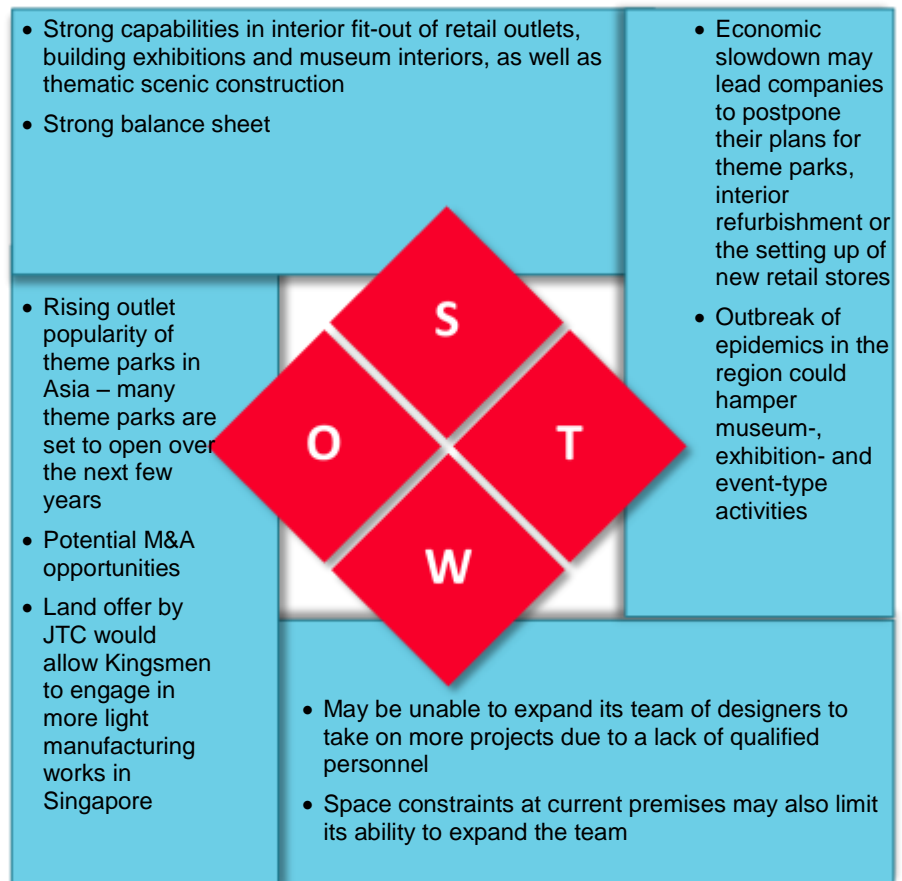
Balance Sheet (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	64	83	51	53	57
Inventories	2	2	2	2	3
Accounts receivable	115	108	122	134	147
Other current assets	1	1	1	1	1
Total current assets	182	195	177	191	208
Total investments	12	10	11	13	14
Tangible fixed assets	11	11	32	35	37
Intangible assets	5	8	8	8	8
Total non-current assets	28	29	51	56	60
Total assets	209	224	228	247	268
Short-term debt	3	5	6	6	6
Accounts payable	105	108	105	115	127
Other current liabilities	10	8	8	8	8
Total current liabilities	118	121	118	128	140
Total long-term debt	2	2	2	2	2
Other liabilities	1	1	1	1	1
Total non-current liabilities	2	2	2	2	2
Total liabilities	120	123	121	131	142
Share capital	23	24	24	24	24
Retained earnings reserve	66	75	82	90	99
Other reserves	(3)	(2)	(2)	(2)	(2)
Shareholders' equity	86	97	104	112	120
Minority interests	4	4	4	5	5
Total equity	89	101	108	116	125
Total liabilities & equity	209	224	228	247	268

Source: Company data, RHB

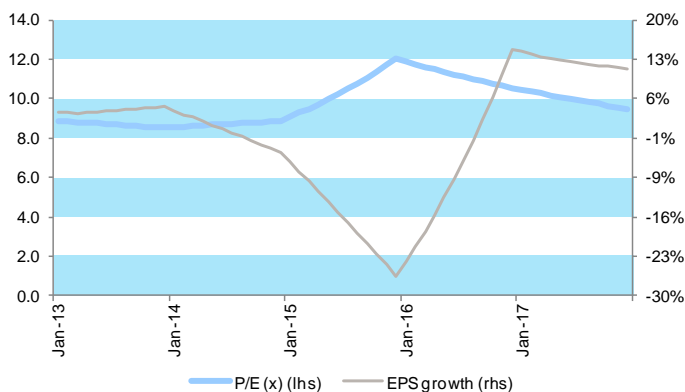
Key Ratios (SGD)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	2.1	13.6	(5.5)	10.0	9.7
Operating profit growth (%)	3.9	(4.4)	(30.9)	20.6	11.5
Net profit growth (%)	4.9	(3.3)	(26.3)	14.5	11.1
EPS growth (%)	4.2	(4.0)	(26.4)	14.6	11.1
BVPS growth (%)	14.8	12.4	7.4	7.6	7.9
Operating margin (%)	7.1	6.0	4.4	4.8	4.9
Net profit margin (%)	6.0	5.1	4.0	4.1	4.2
Return on average assets (%)	9.1	7.9	5.6	6.1	6.2
Return on average equity (%)	22.3	18.8	12.6	13.4	13.9
Net debt to equity (%)	(66.3)	(75.7)	(40.7)	(39.4)	(39.4)
DPS	0.04	0.04	0.03	0.03	0.04
Recurrent cash flow per share	0.13	0.13	(0.02)	0.07	0.08

Source: Company data, RHB

SWOT Analysis

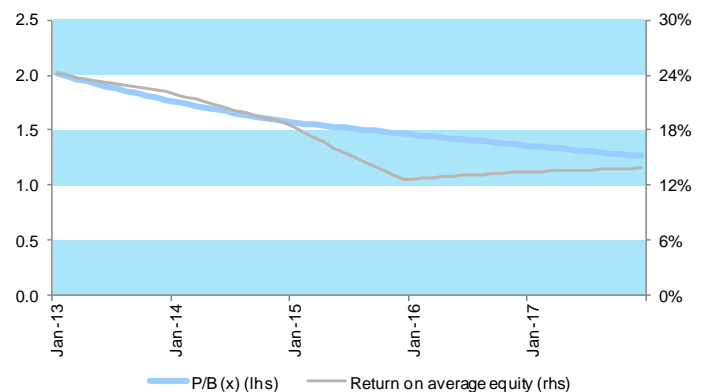


P/E (x) vs EPS growth



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
2015-10-14	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
2013-03-05	Buy	0.93	0.81

Source : RHB, Bloomberg

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

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