



# Kingsmen Creatives Ltd

(KMEN SP)

## First of its kind – NERF family entertainment centres

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- New IP licensing business segment could be a mid-term growth catalyst.
- First NERF family entertainment centre in the world to open at Marina Square by end 2019. With a history of 49 years, guns by NERF were revealed to be one of Amazon’s best-selling toys over the holiday season last year.
- Current price at a 6 year historical low looks attractive from a risk to reward perspective. Dividend yield of 4.7% may be the cherry on the cake.

**Proven track record in the business of experiences.** KidZania, an indoor theme park educating kids through realistic role-play, had seen huge success since their opening in 2017. It is now one of the fastest growing kid’s hands-on entertainment brands in the world. The mastermind behind KidZania is Kingsmen Creatives (KMEN SP), a mainboard listed communication design and production group established in 1976. Other notable projects include Avengers S.T.A.T.I.O.N. in Korea, USS’s landmark castle and LEGOLAND, Malaysia.

**First of its kind.** KMEN secured a licensing agreement with Hasbro in 2018 to create, build and operate NERF brand entertainment centres across APAC. NERF is a champion in toy guns. Although the brand had been around since 1970, its popularity remains prevalent today. NERF was named the top selling toys brand in 2017 by NPD Group and a best seller by Amazon during festive season last year.

Figure 1: Nerf gun models, a best seller on Amazon.com



Source: NERF, KGI Research

The first NERF entertainment centre will open by end 2019 at Marina Square (Singapore), spanning a floor area of 18,000 sqft and featuring a futuristic themed battle arena. The new project could potentially command higher margins. KMEN would be in charge of marketing and operations, with a percentage based royalty fee paid to Hasbro based on ticket revenue.

**Other segments to remain stable.** We remain neutral on KMEN’s retail & corporate interiors segment (48% of FY 18 rev) on the grounds of flattish retail landscape, tightened competition and less competitive gross margins. We are

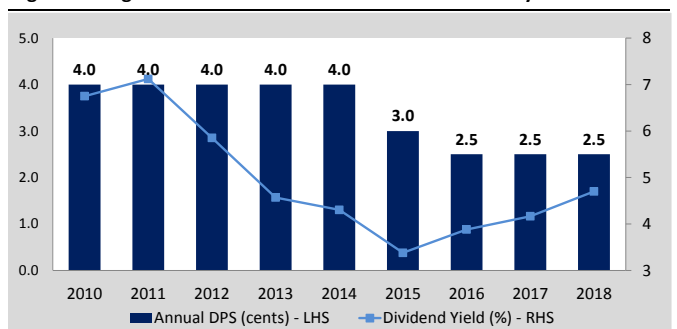
Not Rated		Performance (Absolute)	
Price as of 5 Mar 19 (SGD)	0.53	1 Month (%)	1.9
12M TP (\$)	-	3 Month (%)	6.9
Previous TP (\$)	-	12 Month (%)	-8.5
Upside (%)	-		
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	107		
Issued Shares (mn)	201		
Vol - 3M Daily avg (mn)	0		
Val - 3M Daily avg (\$mn)	0		
Free Float (%)	51.5%		
Major Shareholders		Previous Recommendations	
Islanda Pte Ltd	18.9%	-	-
Ovest Pte Ltd	18.9%		
Soh Siak Poh	4.2%		

however, more positive on the exhibitions & alternative marketing segment (51% of FY 18 rev) due to a growing emphasis on brand experience focused marketing.

The global exhibition market is forecasted to grow at a 6 year CAGR of 4.97% until 2023. Roadshows, pop up stores and exhibition launches are categorized under this segment. Such projects aim to curate superior brand experience, an intangible asset that could warrant a 16% price premium on products, according to Gartner’s CMO expenditure survey conducted last year.

**Valuation & Action:** KMEN currently trades near a 6 year historical low price at S\$0.53, translating to a historical P/E and P/B ratio of 13.0x and 0.87x. Share price peaked at \$1.02 in 2015, while the lacklustre share price performance in the past few years could be attributed to declining net profit margins. The management aims to bring net profit margin back up to 5% - 6% from a low of 2.3% in FY18. On a side note, KMEN’s current dividend yield of 4.7% is decent enough while waiting for a potential rerating from its IP licensing business.

Figure 2: Kingsmen Creatives’ historical DPS and dividend yield



Source: Bloomberg, KGI Research

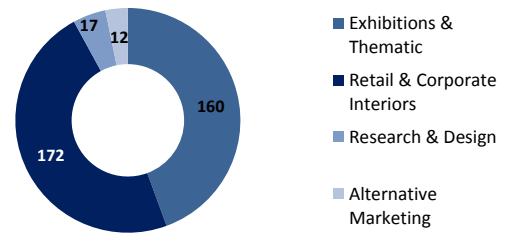
## Company Snapshot

**Figure 3: Company profile**

Established in 1976 and listed on the Mainboard of the Singapore Exchange since 2003, Kingsmen is a leading communication design and production group. With a staff force of over 1,800 creative professionals, Kingsmen Creatives provides services in the field of design consultancy, project management and construction. The group has a global strategic network of 21 offices and full service facilities, two manufacturing facilities and 10 regional workshops. More than 80% of total revenue is derived from South Asia and North Asia.

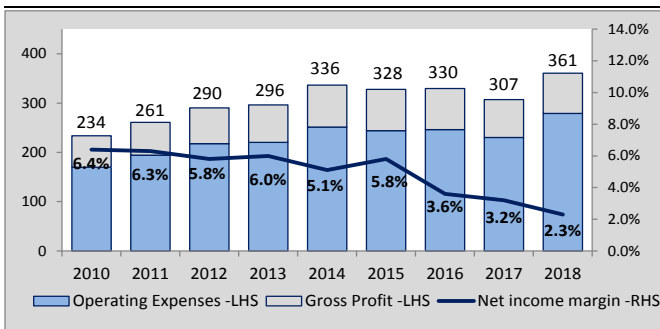
Source: Company

**Figure 4: FY17 Revenue breakdown by segment (in S\$, millions)**



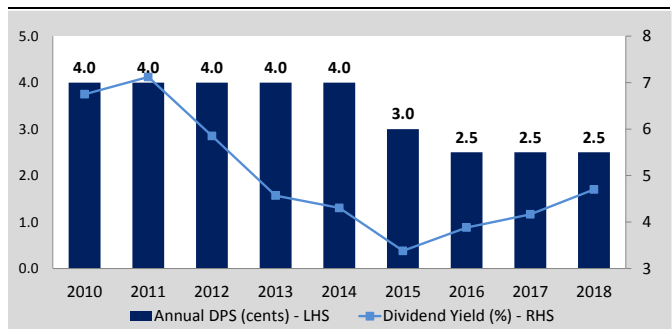
Source: Company

**Figure 5: Revenue breakdown (in S\$, millions) vs NPI margin (%)**



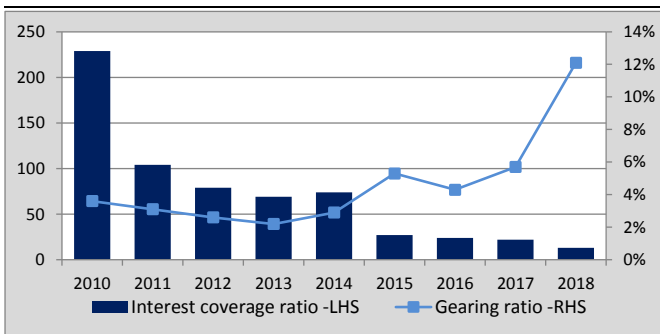
Source: Company Data, KGI Research

**Figure 6: DPS (SGD cents) and Dividend yield (%)**



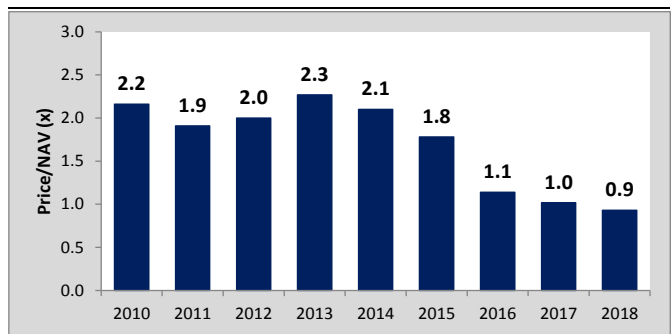
Source: Company Data, KGI Research

**Figure 7: Interest coverage (x) and gearing ratio (%)**



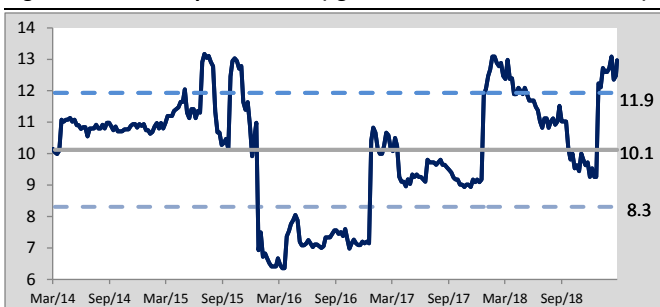
Source: Company Data, KGI Research

**Figure 8: Price/NAV (x)**



Source: Company Data, KGI Research

**Figure 9: Historical 5 year P/E ratio (against +ve 1 S.D./5Y ave/-ve 1 S.D.)**



Source: Company Data, KGI Research

**Figure 10: Historical 5 year P/B ratio (against +ve 1 S.D./5Y ave/-ve 1 S.D.)**



Source: Company Data, KGI Research

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<b>HOLD</b>	-10% to +10% total return over the next 12 months
<b>SELL</b>	<-10% total return over the next 12 months

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