

21 October 2019

Consumer Cyclical | Consumer Services

Kingsmen Creatives (KMEN SP)

Not Rated

Shoot For The Future

Target Price (Return) N/A
 Price: SGD0.49
 Market Cap: USD97.8m
 Avg Daily Turnover (SGD/USD) 21,000/14,000

- Kingsmen Creatives is a communication design and production group** which provides a “one-stop-shop” solution for retail and corporate interiors as well as exhibitions, events, theme parks and museums. Similar to the strategy employed by Cityneon, Kingsmen is also moving into the content and IP development business which could create new income streams and inject fresh breath of life into the stock. So far, Kingsmen inked agreements to develop NERF experience centres, multi-Hasbro brands entertainment centres and Animal Planet travelling experiences.
- Shoot for the future.** Kingsmen acquired the licensing agreement from Hasbro to develop NERF family entertainment centres (FECs) across Asia Pacific and the US. Based on the agreement, the group would develop a minimum of seven NERF FECs in Asia Pacific, eight in the US and two in Canada. Earlier this month, Kingsmen launched its first NERF experience centre at Marina Square, Singapore which was developed, built, owned and operated by Kingsmen. The group would seek local partners to own/operate future such NERF FECs outside of Singapore.
- More to come.** We note that the group signed Vision High as its exclusive partner to open NERF FECs within mainland China, Hong Kong and Macau, with the first NERF FEC set up to open in Chongqing by end 2020. The first US location is also set to open in late 2020-early 2021. We believe the overseas NERF FECs would contribute more meaningfully to the group’s bottom-line as capex and execution risks would lie with local partners while Kingsmen earns the development and building fees as well as a recurring royalty income as a percentage of the revenues.
- Other IPs in the pipeline.** In April this year, Kingsmen announced plans to develop the Animal Planet travelling experiences with Discovery, with the first installation set to open in Singapore in Nov 2019. The travelling set allows a higher scalability as it could be leased to another operator at a different location, after an exhibition ends. Kingsmen also further deepened its ties with Hasbro, through another licensing agreement, to bring multiple Hasbro brands into a stand-alone indoor entertainment facility concept.
- The next “Cityneon”.** We note that the share price and EPS for Cityneon (now delisted) grew almost eight-folds over 2015-2018, after it moved from its traditional creative and design business to an IP rights business. As Kingsmen expands into this new IP business, we expect the group to also benefit from a new stream of income that carries higher margins. Key risks include the ability to generate recurring visitors to its permanent sets and take up rates for its travelling sets.

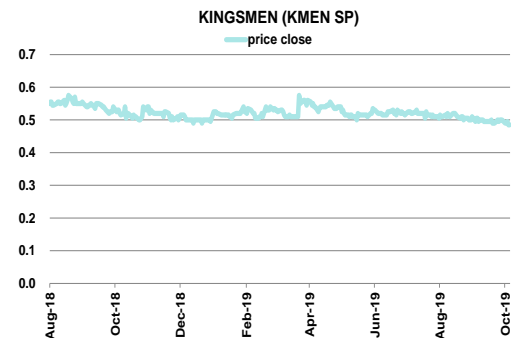
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(3.0)	(4.0)	(6.7)	(10.2)	(6.7)
Relative	(4.5)	(2.3)	0.6	(3.2)	(8.2)
52-wk Price low/high (SGD)	0.49 – 0.58				



Source: Bloomberg

Historical data and Valuation	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18
Total turnover (SGDm)	336.4	327.9	329.7	307.3	360.9
Recurring net profit (SGDm)	18.5	19.1	11.9	9.7	8.2
Recurring net profit growth (%)	4.3	3.0	-37.6	-18.1	-16.3
Recurring P/E (x)	5.5	5.0	8.1	9.9	11.9
P/BV (x)	1.0	0.9	0.8	0.8	0.8
P/CF (x)	12.8	6.5	7.6	6.9	4.4
Dividend Yield (%)	8.2	7.2	6.2	5.2	5.2
EV/EBITDA (x)	1.0	1.5	1.7	1.7	2.2
ROE (%)	17.7	17.1	10.2	8.1	6.7
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Interest coverage (x)	83.5	35.8	24.8	46.0	32.8

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18
Singapore	Recurring EPS (SGD)	0.09	0.10	0.06	0.05	0.04
Consumer Cyclical	DPS (SGD)	0.04	0.04	0.03	0.03	0.03
Kingsmen Creatives	BVPS (SGD)	0.50	0.57	0.59	0.61	0.61
KMEN SP	ROE (%)	17.73	17.14	10.18	8.06	6.73
Not Rated						
Valuation basis	Valuation metrics	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18
N/A	Recurring P/E (x)	5.7	5.1	8.3	10.2	12.2
	P/B (x)	1.0	0.9	0.8	0.8	0.8
	FCF Yield (%)	29.1	0.0	28.3	21.1	56.6
	Dividend yield (%)	8.0	7.0	6.0	5.0	5.0
	EV/EBITDA (x)	1.1	1.6	1.9	1.9	2.4
	EV/EBIT (x)	1.2	1.8	2.2	1.6	2.0
Key drivers	Income statement (SGDm)	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18
i. New installations of NERFS FEC;	Total turnover	336	328	330	307	361
ii. Acquisition of new IPs.	Gross profit	85	84	83	77	82
	EBITDA (adj.)	22	25	17	21	22
	Depreciation & amortisation	-2	-18	-4	-12	-18
	Operating profit	20	23	15	25	26
	Net interest	0	0	0	-15	-15
	Pre-tax profit	21	22	14	10	11
	Taxation	-4	-3	-3	-1	-4
	Net profit	17	19	12	10	8
	Recurring net profit	19	19	12	10	8
Key risks	Cash flow (SGDm)	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18
i. Ability to generate recurring visitors to permanent sets;	Change in working capital	3	-5	0	2	-5
ii. Take up rate of travelling sets;	Cash flow from operations	25	13	15	14	9
iii. Slowdown in traditional business.	Capex	-2	-18	-4	-12	-18
	Cash flow from investing activities	0	-24	-3	-12	-19
	Dividends paid	-8	-7	-6	-5	-5
	Cash flow from financing activities	-6	-1	8	-3	17
	Cash at beginning of period	62	81	71	75	71
	Net change in cash	19	-12	4	-2	7
	Ending balance cash	81	71	75	71	78
Company Profile	Balance sheet (SGDm)	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18
Kingsmen Creatives is a regional communications design and production group that builds displays for exhibitions and provides interior fit-out services. It also does thematic works for theme-parks.	Total cash and equivalents	83	73	76	74	80
	Tangible fixed assets	11	24	25	34	49
	Total investments	8	8	8	9	9
	Total assets	224	252	258	246	294
	Short-term debt	5	5	3	8	13
	Total long-term debt	2	8	7	5	23
	Total liabilities	123	139	140	124	173
	Total equity	101	113	119	122	121
	Total liabilities & equity	224	252	258	246	294
Key metrics	Key metrics	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18
	Revenue growth (%)	13.6	(2.5)	0.6	(6.8)	17.5
	Recurrent EPS growth (%)	(4.0)	9.8	(38.0)	(18.6)	(16.5)
	Gross margin (%)	25.2	25.5	25.3	25.1	22.7
	Operating EBITDA margin (%)	6.6	7.6	5.2	6.7	6.2
	Net profit margin (%)	5.5	5.8	3.6	3.2	2.3
	Capex/sales (%)	0.7	5.4	1.1	3.9	5.1
	Interest cover (x)	83.5	35.8	24.8	46.0	32.8

Source: Company data, RHB

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The first NERF experience centre

The group launched its first NERF experience centre this month at the Marina Square, Singapore. It is co-conceptualised, built, owned and operated by Kingsmen. The arena occupies 18,000 sqft and features four main activity zones – Compete, Conquer, Challenge and Create – designed to encourage active play and teamwork. This experience centre would be used as a prototype for future NERF experience centres overseas.

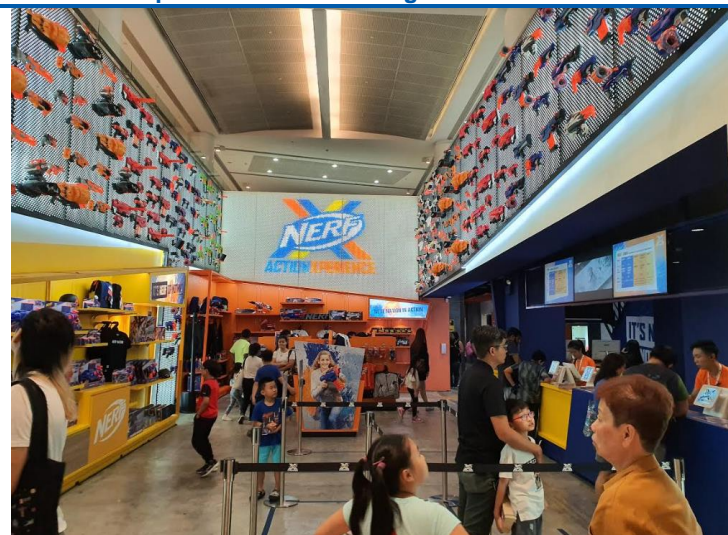
Figure 1: NERF Experience Centre arenas at the Marina Square



Source: Company

Our visit. We visited the NERF experience centre on the launch day, 4 Oct, and were positively surprised with the strong public turnout (Figures 2-4). Most of the customers were between the ages of 5 to 15 with some accompanying adults. According to management, 35,000 tickets were pre-sold and not redeemed yet. While we saw decent turnout on the launch date, this could be largely because it coincided with Children's Day which was a school holiday. Management cited that the arena is mostly packed on weekends but generally quieter on weekdays especially in the early afternoon.

Figure 2: We saw decent crowd at the Lobby & Retail area of the NERF Experience Centre during the launch



Source: RHB

Figure 3: In the Compete arena, players could choose to compete in the Zombie City or Camp Dune

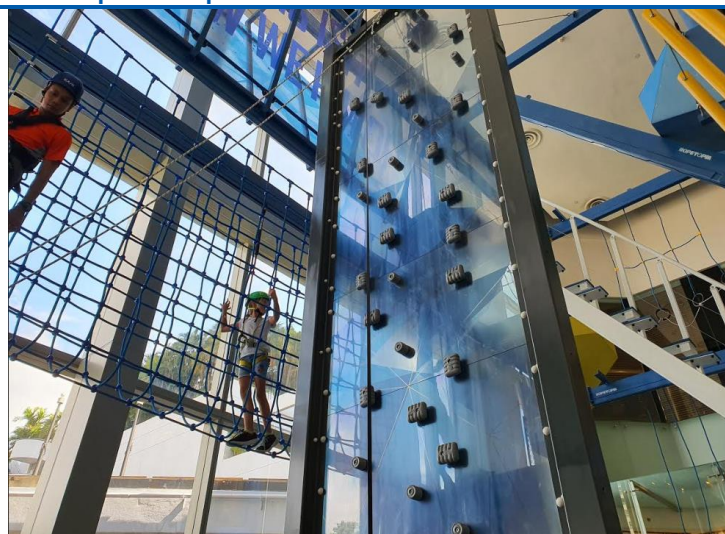


Source: RHB

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Figure 4: The Conquer arena consists of rock climbing landscape and rope courses



Source: RHB

Figure 5: The average price point per entry is about SGD25

Package	KICK OFF	MASSIVE	CHALLENGE	CHALLENGE & CREATE DUO	CREATE
Time Limit	2 hours	3 hours	2 hours	3 hours	-
Zones Included	CONQUER COMPETE	CONQUER COMPETE CREATE	CHALLENGE	CHALLENGE CREATE	CREATE
Price	\$29	\$39	\$22	\$29	\$15
Age Limit	For Adults and Children 7 years old & above.		For Children 3 - 6 years old only. One accompanying adult enters FREE. Additional accompanying adult @ \$8.		For all ages, as a top up on any package.

Source: RHB

Business model. Kingsmen acquired the licensing rights from Hasbro by paying a one-off fee of USD1.0m to co-conceptualise, create, build and operate NERF experience centres across Asia Pacific and the US for 13 years, starting from the end-2017. Kingsmen would pay Hasbro a percentage of revenue royalty fee for each NERF experience centre, with an annual minimum revenue commitment.

Kingsmen has committed to develop a minimum of seven NERF FECs in Asia Pacific, eight in the US and two in Canada. We note that the first NERF experience in Singapore is owned and operated by Kingsmen but the group would seek local partners to own/operate future NERF FECs outside of Singapore.

For NERF FECs outside of Singapore, Kingsmen is likely to sub-license the rights to a local partner. This would transfer the capex (SGD5-8m for each site) and operational risks to the local partner. On top of that, Kingsmen would earn the following from the local partner:

- i. One-off building and development fees;
- ii. Sales of merchandise fees;
- iii. Royalty fees (a percentage of revenue);
- iv. Attraction management fee (if the local partner hires Kingsmen to operate the NERF FEC).

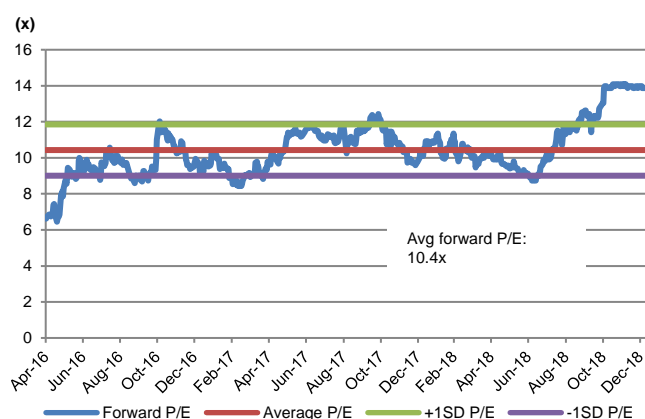
We are generally positive on Kingsmen's venture into the content and IP business segments as the subsequent sets are likely to bring much higher margins given that the assets would be owned and operated by the local partners. This helps to diversify the group's earnings from the retail and corporate interior business (50% of revenue contribution) which has been seeing declining margins in the last five years. Earnings from the new content and IP business however could be lumpy due to one-off sub-license fees and one-off development and building fees.

Key risks would include the ability for each location to generate sufficient and consistent visitors to cover the minimum revenue commitment to Hasbro as well as the operating costs.

New business model as catalyst to share price

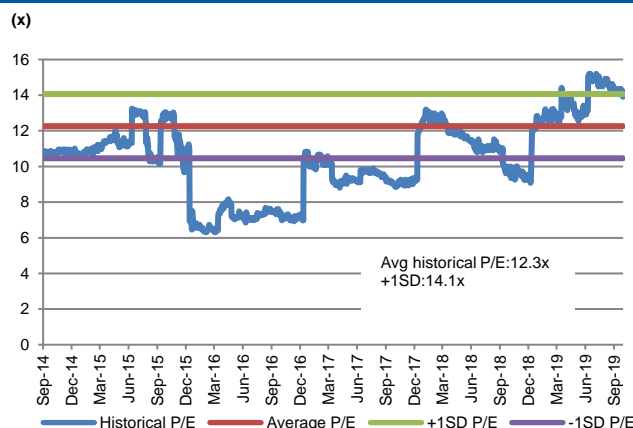
Valuation multiples may not change significantly but strong potential for earnings growth. We compare Kingsmen to its now-delisted peer, Cityneon. We note that Cityneon’s valuation has hovered around an average of 10x forward P/E even after it ventured into the IP rights business in 2015. Eventually the stock was privatised in 2018 at SGD1.30/share which implied about 12-13x forward P/E based on consensus estimated earnings at that point of time. Given that Kingsmen is now trading at 14x historical P/E and averaged 12x historical P/E for the last five years, we do not think the P/E multiple would change significantly with the new business model. However, we note that Cityneon’s share price has skyrocketed 8x from its low in 2015 of SGD0.16 to SGD1.30 in 2018 as the new IP business catapulted earnings growth for the group. The IP business is also proven to have a much higher margin than the traditional fit-outs, exhibitions and theme parks businesses (Figure 9).

Figure 6: Cityneon’s forward P/E averaged at c.10x



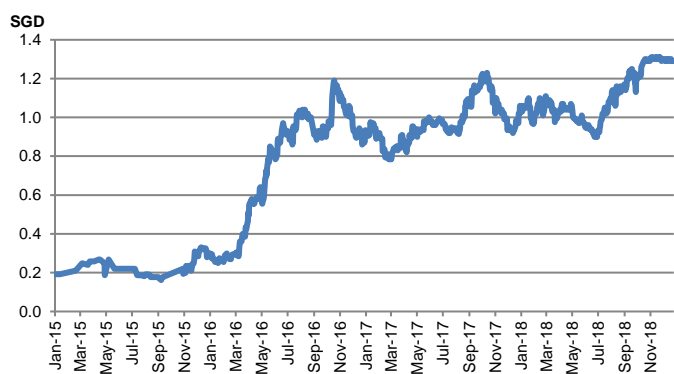
Source: Bloomberg

Figure 7: Kingsmen’s historical P/E averaged c.12x



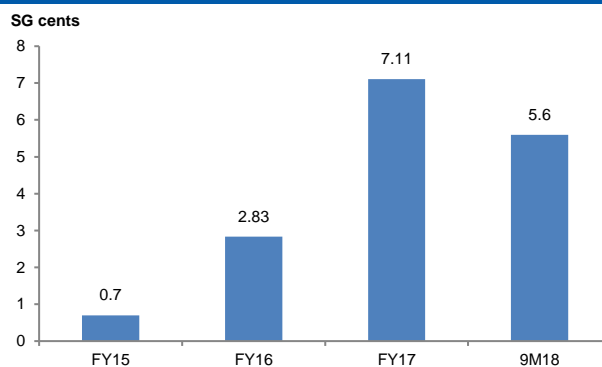
Source: Bloomberg

Figure 8: Cityneon’s share price soared 8x to SGD1.30 from the low of SGD0.16 after entering into IP rights business



Source: Bloomberg

Figure 9: Cityneon’s earnings have also surged in the three years after it entered into the IP rights business



Source: Bloomberg

Figure 10: The IP rights business has a much higher operating margin

Cityneon’s business segments	Operating margin (%)
Intellectual Property	54.1
Exhibition Services	10.3
Experiential Environment	2.9
Interior Architecture	2.2
Event Management	-12.7

Source: Bloomberg, Company

We do not have a recommendation for Kingsmen as its content and IP business is still at the infant stage. Over the next couple of quarters, we think earnings might be dragged down by the higher depreciation costs and operating costs of the newly opened NERF FEC in Singapore. But we believe we would start to see positive earnings contributions once the construction for the NERF FECs in China and US begins and Kingsmen starts billing development fees and building fees to its partners. Once these NERF FECs commence operations in 2021, we believe earnings would start to show more meaningfully with rising royalty fees.

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