

# Singapore Company Guide

## Venture Corporation

Version 12 | Bloomberg: VMS SP | Reuters: VENM.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

26 Apr 2018

### BUY

Last Traded Price ( 25 Apr 2018): S\$22.57 (STI : 3,568.01)

Price Target 12-mth: S\$27.20 (21% upside) (Prev S\$32.20)

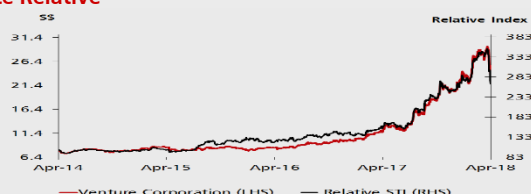
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### What's New

- Venture's decent 1Q18 net profit of S\$83.7m (+72.3% y-o-y) should calm market jitters
- No let-up in business activity; rising R&D activity and inventory levels despite 1Q lull suggests that Venture could be preparing for more orders ahead
- Shares are oversold as current price of S\$22.57 assumes zero growth
- Maintain BUY; TP lowered to S\$27.20 on lower valuation multiple

#### Price Relative



#### Forecasts and Valuation

| FY Dec (S\$m)            | 2016A | 2017A | 2018F | 2019F |
|--------------------------|-------|-------|-------|-------|
| Revenue                  | 2,874 | 4,005 | 4,267 | 4,448 |
| EBITDA                   | 263   | 480   | 528   | 589   |
| Pre-tax Profit           | 216   | 444   | 497   | 553   |
| Net Profit               | 181   | 373   | 419   | 466   |
| Net Pft (Pre Ex.)        | 181   | 361   | 419   | 466   |
| Net Pft Gth (Pre-ex) (%) | 17.3  | 100.1 | 15.9  | 11.2  |
| EPS (S cts)              | 64.8  | 131   | 147   | 164   |
| EPS Pre Ex. (S cts)      | 64.8  | 127   | 147   | 164   |
| EPS Gth Pre Ex (%)       | 15    | 96    | 16    | 11    |
| Diluted EPS (S cts)      | 64.8  | 131   | 147   | 164   |
| Net DPS (S cts)          | 50.0  | 60.0  | 60.0  | 60.0  |
| BV Per Share (S cts)     | 703   | 762   | 849   | 953   |
| PE (X)                   | 34.8  | 17.2  | 15.3  | 13.8  |
| PE Pre Ex. (X)           | 34.8  | 17.7  | 15.3  | 13.8  |
| P/Cash Flow (X)          | 27.2  | 14.3  | 17.8  | 13.9  |
| EV/EBITDA (X)            | 22.4  | 11.9  | 10.5  | 9.0   |
| Net Div Yield (%)        | 2.2   | 2.7   | 2.7   | 2.7   |
| P/Book Value (X)         | 3.2   | 3.0   | 2.7   | 2.4   |
| Net Debt/Equity (X)      | CASH  | CASH  | CASH  | CASH  |
| ROAE (%)                 | 9.4   | 18.1  | 18.3  | 18.2  |
| Earnings Rev (%):        |       |       | (5)   | (6)   |
| Consensus EPS (S cts):   |       |       | 157   | 175   |
| Other Broker Recs:       |       | B: 9  | S: 0  | H: 0  |

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

### Oversold on market rumours

**Shares oversold but fundamentally attractive.** Venture's share price has fallen c.22% since Friday on several rumours relating to Philip Morris International's (PMI) I Quit Ordinary Smoking (IQOS) devices. Production estimates for HeatSticks – modified cigarettes used in IQOS were cut by c.8% as PMI signaled for slower demand growth in FY18F after a remarkable surge in sales the previous year.

The decent set of 1Q18 results, which saw 72.3% y-o-y jump in earnings on the back of margin expansion, should calm market jitters. The doubling of R&D expense (a possible leading indicator for the group) and rise in inventory levels to a record S\$725m despite the 1Q lull also suggests that Venture could be preparing for more orders ahead.

While expectations of double-digit growth at key industry clusters continues to provide visibility for Venture's growth prospects, we have cut our growth assumptions for FY18F/19F by c.5% p.a. to reflect the larger q-o-q revenue decline in 1Q18 vs 1Q17. Given the lower growth, we have lowered our valuation multiple accordingly – from a premium of 19.5x to peers' average of 17.5x.

**Where we differ:** While we have assumed lower earnings growth vs consensus on more conservative revenue and margin assumptions, we remain positive on Venture's growth profile, and believe the market has yet to fully price in the group's unique offerings, know-how and hard-to-replicate ecosystems.

**Potential catalysts:** New products and continued expansion into non-traditional markets with higher margins, and new customer acquisitions are potential near-term catalysts. In the medium to long term, acquisition of companies along the manufacturing value chain could increase Venture's capabilities.

#### Valuation:

**Maintain BUY with a lower TP of S\$27.20.** Given lower growth, we believe a valuation multiple of 17.5x (based on peers' average) would be more suitable, vs 19.5x previously. Against a c.5% p.a. cut to our earnings estimates, this translates to a lower TP of S\$27.20 based on blended FY18F/19F PE.

#### Key Risks to Our View:

**Weakening client or global growth prospects.** A broad global slowdown is likely to impact Venture due to its vulnerability to business cycles. Potential weakening client's end-demand and/or the USD could also dampen revenue growth.

#### At A Glance

|                           |               |
|---------------------------|---------------|
| Issued Capital (m shrs)   | 287           |
| Mkt. Cap (S\$m/US\$m)     | 6,487 / 4,882 |
| Major Shareholders (%)    |               |
| Ngit Liong Wong           | 7.1           |
| Schroders Plc             | 5.0           |
| Blackrock                 | 5.0           |
| Free Float (%)            | 82.9          |
| 3m Avg. Daily Val (US\$m) | 35.5          |

ICB Industry : Industrials / Electronic & Electrical Equipment

## WHAT'S NEW

**Venture's decent 1Q18 profit of S\$83.7m should calm market jitters****1Q18 net profit up 72% y-o-y despite forex pressures.**

Venture has proven to be able to navigate volatile exchange rate environments sufficiently well, which was demonstrated once again as the group delivered a decent set of results despite forex volatility.

1Q18 net profit surged 72.3% y-o-y to S\$83.7m despite flattish sales of S\$856m (+1.5% y-o-y) as net margins jumped from 5.8% in 1Q17 to 9.8%. On constant currency (USD) basis, revenue growth would have been higher at c.9.1%.

Overall, revenue and profits formed more than 19% of our and consensus FY18F forecasts, which is slightly below average 1Q contributions of c.21% over the last two years.

**Business as usual for Venture.** In 1Q18, Venture doubled up on its R&D expense (a possible leading indicator in our opinion) compared to a year ago. Coupled with the rise in inventory levels to a record S\$725m despite the seasonal 1Q lull gives us an inkling of current business activity levels, which appears to be growing.

**Venture share price hit by PMI's weaker guidance.** Venture's share price plunged 22% after PMI released weaker guidance for IQOS during its 1Q reporting last Friday (20 Apr). On its earnings call, PMI disclosed that IQOS device sales were slower than its "ambitious expectations", as the pent-up demand envisioned for IQOS devices in Japan did not materialise after sales restrictions were lifted in 1Q18.

Apart from a -8% adjustment to HeatStick production estimates, PMI maintained its positive stance and confidence in doubling global HeatStick sales in FY18F, but concerns of slowing growth for IQOS in Japan sparked a sell-down in PMI (-16% on Friday), which spilled over to Venture.

**Supplier's weak 1H18 outlook statement and market rumours add fuel to fire.** An IPO debutant on the SZSE named Venture as a key client, which contributed c.52.73% of its 1H17 revenue of RMB693m (or S\$160.6m). On an annualized basis, this would have made up c.10.6% of Venture's COGS in FY17. According to the company's 1H18 outlook statement, the pullback of orders for IQOS-related plastic components in 2Q18 could offset other growth areas, resulting in a 0%-15% y-o-y decline in their 1H18 revenue.

Several reports have surfaced this week, as the street weighted in on PMI's (specifically, the IQOS) role in Venture's record FY17 performance. Divergent views have emerged, with contributions to FY17 sales from PMI ranging from 5% to 25%.

**Limited disclosures on key clients.** In observance of strict NDAs and to protect margins, Venture continued to maintain client confidentiality during its post-results briefing and refrained from engaging in client-specific discussions, including PMI issues.

Instead, management drew attention to several fundamental strengths – a subtle aim at dispelling market rumours:

(i) Diversification strategy; no change in proportion of clients that are still growing

Broad-based growth led by active working relationships with at least 100 of its >150 customers. Overall, 75% are still growing and 7% are relatively flattish.

(ii) Superior margins a reflection of its strong value capture and engineering capabilities

Given its strong value proposition, Venture's lucrative partnerships are unlikely to be displaced in the event of pricing competition.

(iii) Strict cost controls and multi-sourcing strategy

With a vast network of over 60-70k suppliers, Venture has flexibility in managing its procurement costs and allocations. As such, we believe it is the revelation of above-average margins for its components supplier post-IPO that resulted in lower allocations from Venture, rather than weakness in end-demand.

**Concerns over PMI overdone.** In its FY17 Annual Report, Venture maintained that only one customer made up more than 10% of the group's revenue, as has been the case in the last five years (and more). While it is plausible that PMI was the single customer contributing more than 10% of Venture's revenue in FY17, we expect growth from Venture to remain broad-based.

Venture has typically traded at a premium forward valuation multiple of 19.5x. Even if we assume a lower valuation multiple of 17.5x (in line with peers) given the recent sell-off, Venture's current share price of S\$22.57 implies blended FY18F/19F net profit of c.S\$366.6m – a c.2% drop in earnings vs FY17, which is unlikely, in our view.

Concerns over PMI are overdone, as current levels assume zero growth despite several key clients guiding for low teens growth in FY18F.

**Maintain BUY, TP adjusted to \$27.20 on lower growth expectations.** We are shaving back revenue growth for the group, given 1Q's relatively flat revenue, amidst threat of trade wars and currency volatility. Overall, we are cutting earnings by for FY18F-19F by c.5% p.a.

We have lowered our valuation multiple for the group from 19.5x to 17.5x, on slower core earnings growth outlook for 2018F (from 21% to 16%). Our target price has been adjusted down to \$27.20 on blended FY18F/19F earnings. Maintain BUY.

**Quarterly / Interim Income Statement (\$m)**

| FY Dec                  | 1Q2017      | 4Q2017     | 1Q2018      | % chg yoy   | % chg qoq     |
|-------------------------|-------------|------------|-------------|-------------|---------------|
| Revenue                 | 843         | 1,086      | 856         | 1.5         | (21.2)        |
| Cost of Goods Sold      | (654)       | (794)      | (628)       | (4.0)       | (20.8)        |
| <b>Gross Profit</b>     | <b>189</b>  | <b>293</b> | <b>228</b>  | <b>20.6</b> | <b>(22.3)</b> |
| Other Oper. (Exp)/Inc   | (129)       | (126)      | (131)       | 1.0         | 3.5           |
| <b>Operating Profit</b> | <b>59.4</b> | <b>167</b> | <b>97.0</b> | <b>63.3</b> | <b>(41.9)</b> |
| Other Non Opg (Exp)/Inc | 0.93        | 1.34       | 1.95        | 110.5       | 45.7          |
| Associates & JV Inc     | 0.0         | 0.0        | 0.0         | -           | -             |
| Net Interest (Exp)/Inc  | (0.3)       | (0.2)      | (0.3)       |             | 50            |
| Exceptional Gain/(Loss) | 0.0         | 0.0        | 0.0         | -           | -             |
| <b>Pre-tax Profit</b>   | <b>60.0</b> | <b>168</b> | <b>98.6</b> | <b>64.4</b> | <b>(41.3)</b> |
| Tax                     | (11.4)      | (25.0)     | (14.9)      | 30.4        | (40.5)        |
| Minority Interest       | 0.0         | 0.0        | 0.0         | -           | -             |
| <b>Net Profit</b>       | <b>48.6</b> | <b>143</b> | <b>83.7</b> | <b>72.3</b> | <b>(41.4)</b> |
| Net profit bef Except.  | 48.6        | 143        | 83.7        | 72.3        | (41.4)        |
| EBITDA                  | 66.9        | 178        | 109         | 62.3        | (38.9)        |
| <b>Margins (%)</b>      |             |            |             |             |               |
| Gross Margins           | 22.4        | 27.0       | 26.6        |             |               |
| Opg Profit Margins      | 7.0         | 15.4       | 11.3        |             |               |
| Net Profit Margins      | 5.8         | 13.2       | 9.8         |             |               |

Source of all data: Company, DBS Bank

## CRITICAL DATA POINTS TO WATCH

## Critical Factors

**Net margin is a critical factor driving share price, which is currently well supported by changing business mix.** According to our critical factor analysis (see next page), Venture's net margins have a direct correlation with its share price. Venture's evolving business mix, with increasing contribution from the Test, Measurement, Medical and Life Science segment and declining contribution from Computer Peripherals and Printing is likely to improve its margins.

We believe that the specialised nature of the Medical and Life Science segment permits Venture to realise better margins on contracts.

**Growing exposure to attractive, high-growth end markets,** including the Test, Medical and Life Science segments. Venture has established strong relationships with companies researching on Genome sequencing, which could see healthy growth over the medium term with increasing investments and use of MedTech.

Further, an increased focus on lower-cost technologies in healthcare is likely to boost the Test, Measurement, Medical and Life Science segment. The segment has contributed strongly to the top line in recent years, which has helped to offset the weak performance from the Computer Peripherals & Data Storage segments.

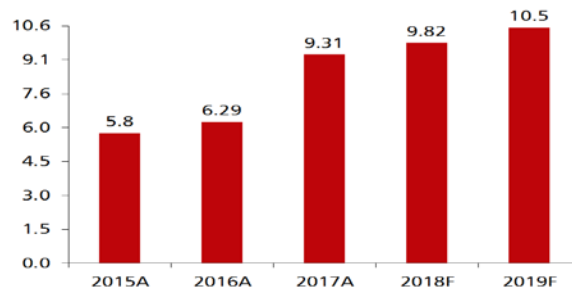
**Stronger USD to benefit Venture.** The bulk of Venture's revenues are derived in SGD. Meanwhile, we estimate that 50-55% of Venture's cost base, excluding COGS, is denominated in MYR. DBS Group Research forecasts the USD/MYR to move to 4.18 by the end of FY18 (compared to 3.93 in 1Q18).

Our sensitivity analysis shows that every 1% depreciation of MYR against USD will increase net profit by c.2%.

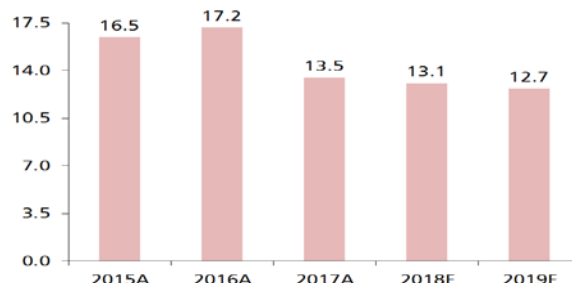
**Newly acquired sites are at catchment areas for high-tech companies, which may benefit Venture.** In 2Q16, Venture acquired a leasehold facility in Batu Kawan, which is almost ready for launch. Located in the Batu Kawan Industrial Park near Penang island, well known for its high-tech electronics manufacturing industry, we believe that Venture could benefit from the proximity to leading tech/manufacturing companies, specialised labour and improved supply chain networks with its presence in this area.

Recently in Jan 2018, Venture acquired a freehold site in Milpitas (California) within the Silicon Valley, which suggests that bigger plans lie ahead.

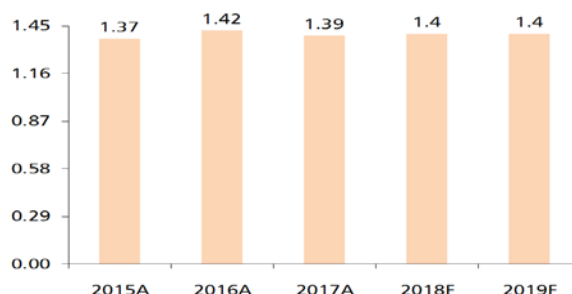
Net margin (%)



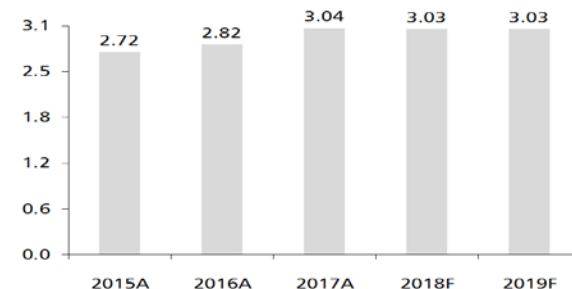
% of SGA (%)



USD/SGD



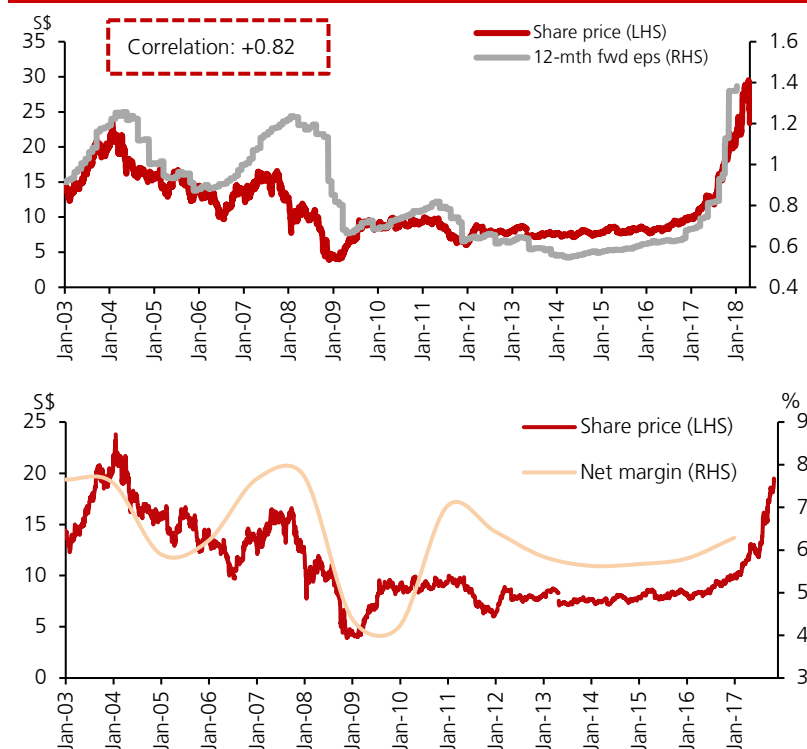
SGD/MYR



Source: Company, DBS Bank

## Appendix 1: A look at Company's listed history – what drives its share price?

Chart 1: EPS, Net Margins as Critical Factors

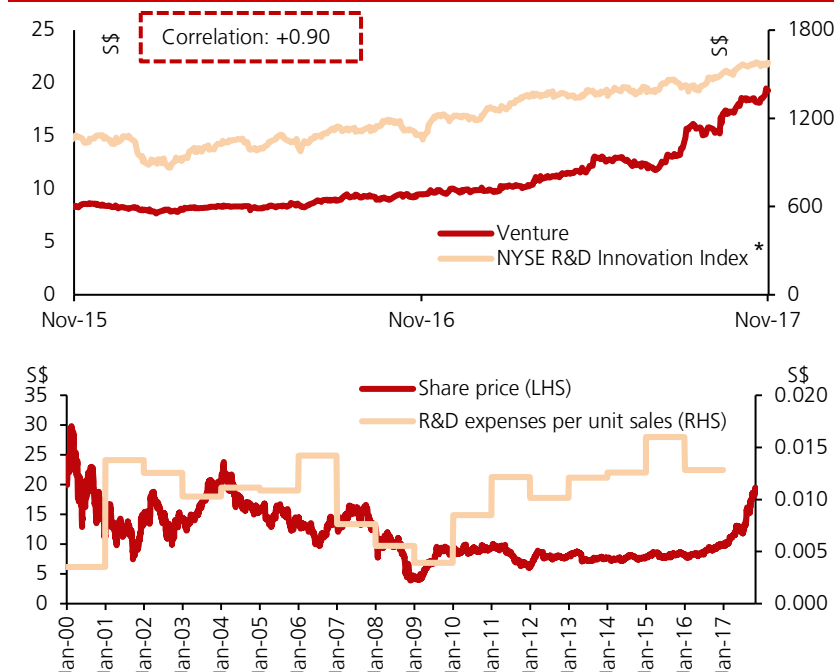


### Remarks

For the last 15 years, share price has tracked 12-month forward EPS forecasts (correlation +0.82), which is largely driven by changes in margins.

Re-rating from 2H2016 was primarily driven by EPS growth expected from margin expansion following shift in product segment mix.

Chart 2: R&D, Innovation are Possible Leading/ Critical Factors



### Remarks

Collaborating closely with its diversified pool of high-tech customers at the forefront of innovation, Venture's share price performance has also demonstrated a strong correlation (+0.90) to the NYSE R&D Innovation Index\*.

Since FY2000, the peaks seen in R&D expenditure were followed by two subsequent peaks in share price, due to strong operating performance. Spending on R&D is critical for high-tech companies as knowledge, know-how, and skills allow companies to differentiate their offerings. Successful R&D can often lead to increased and better offerings, allowing companies to expand their customer base. R&D expenditure may be a leading indicator of future share price performance if higher expenditure translates into successful product developments.

\*Comprises of the most innovative companies in the US across sectors and market cap.  
Source: Thomson Reuters, DBS Bank

**Balance Sheet:**

**Strong balance sheet position.** Venture has grown its net cash position substantially by over 50% y-o-y to a record c.765.3m as at end-1Q18, which should support expectations that the higher 60 Scts DPS will be repeated in FY18F.

**Share Price Drivers:**

**Consistent quarterly revenue and profit growth over last four years.** Venture has posted consistent revenue and profit growth (excluding exceptional items) over the past 16 quarters (on a y-o-y basis), despite the weak economic conditions of its customers' markets.

The group's strategy of pursuing the more resilient Test, Measurement, Medical and Life Science segment has been successful in generating revenue and profits. We believe the continued demonstration of its successes would result in a more bullish market perception for Venture, and re-rate the stock.

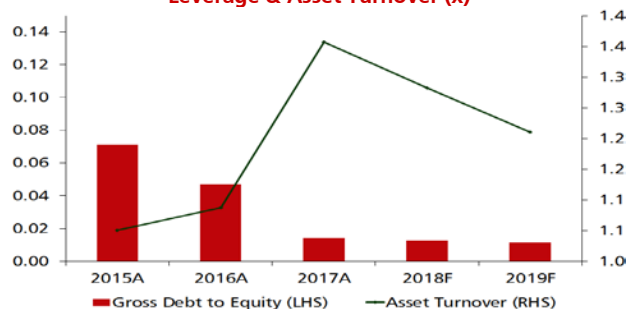
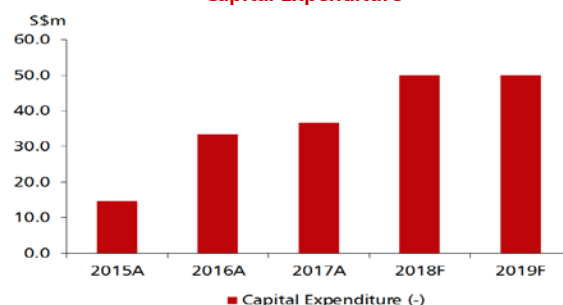
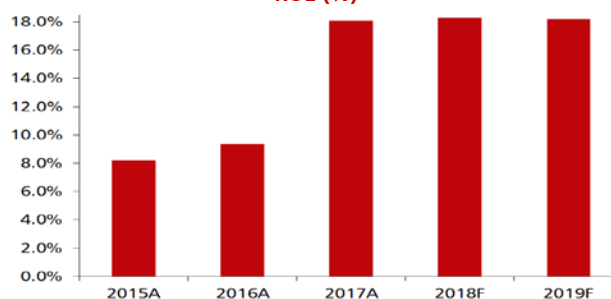
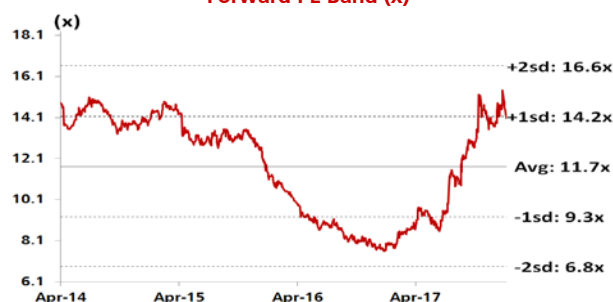
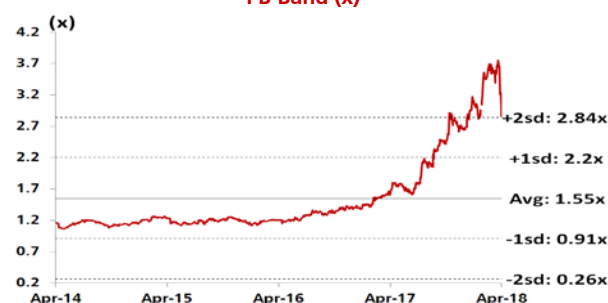
**Key Risks:**

**Dependent on global market conditions.** As Venture has exposure to customers in the US, EU and Asia, a broad global slowdown is likely to impact Venture due to its vulnerability to business cycles. Possible weakness in the Eurozone arising from political instability or the adoption of restrictive trading policies by the US could weaken global growth prospects. We note that most electronic products do not carry tariffs in the US. Deterioration in the world economy could affect corporate spending, which will in turn adversely impact Venture's results.

**Weakening USD could impact the top line.** A weakening USD against SGD and a prolonged accommodative monetary policy could impact Venture's earnings. DBS Group Research forecasts the USD/SGD to move to 1.37 by end of 2018. Our sensitivity analysis shows that every 1% appreciation of USD against SGD will increase net profit by ~1.9%.

**Company Background**

Venture is a global provider of technology products and solutions. It is best known for its superior capabilities in Original Design Manufacturing (ODM) and in providing high-mix, high-value and complex manufacturing.

**Leverage & Asset Turnover (x)****Capital Expenditure****ROE (%)****Forward PE Band (x)****PB Band (x)**

Source: Company, DBS Bank

### Key Assumptions

| FY Dec         | 2015A | 2016A | 2017A | 2018F | 2019F |
|----------------|-------|-------|-------|-------|-------|
| Net margin (%) | 5.80  | 6.29  | 9.31  | 9.82  | 10.5  |
| % of SGA (%)   | 16.5  | 17.2  | 13.5  | 13.1  | 12.7  |
| USD/SGD        | 1.37  | 1.42  | 1.39  | 1.40  | 1.40  |
| SGD/MYR        | 2.72  | 2.82  | 3.04  | 3.03  | 3.03  |

### Segmental Breakdown

| FY Dec                  | 2015A        | 2016A        | 2017A        | 2018F        | 2019F        |
|-------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Revenues (\$\$m)</b> |              |              |              |              |              |
| Printing & Imaging      | 255          | 180          | 178          | 184          | 189          |
| Computer                | 277          | 197          | 201          | 207          | 213          |
| Networking/Comms        | 473          | 533          | 661          | 708          | 743          |
| Retail Store solutions  | 746          | 720          | 800          | 832          | 848          |
| Others                  | 906          | 1,244        | 2,164        | 2,338        | 2,455        |
| <b>Total</b>            | <b>2,657</b> | <b>2,874</b> | <b>4,004</b> | <b>4,267</b> | <b>4,448</b> |

### Income Statement (\$\$m)

| FY Dec                      | 2015A      | 2016A      | 2017A      | 2018F        | 2019F        |
|-----------------------------|------------|------------|------------|--------------|--------------|
| Revenue                     | 2,657      | 2,874      | 4,005      | 4,267        | 4,448        |
| Cost of Goods Sold          | (2,041)    | (2,172)    | (3,039)    | (3,218)      | (3,336)      |
| <b>Gross Profit</b>         | <b>616</b> | <b>702</b> | <b>965</b> | <b>1,050</b> | <b>1,112</b> |
| Other Opng (Exp)/Inc        | (438)      | (491)      | (537)      | (557)        | (563)        |
| <b>Operating Profit</b>     | <b>178</b> | <b>211</b> | <b>428</b> | <b>493</b>   | <b>549</b>   |
| Other Non Opg (Exp)/Inc     | 2.99       | 3.06       | 3.80       | 2.50         | 2.00         |
| Associates & JV Inc         | 2.03       | 2.96       | 1.67       | 1.67         | 1.67         |
| Net Interest (Exp)/Inc      | (1.0)      | (0.9)      | (1.0)      | (0.2)        | (0.3)        |
| Exceptional Gain/(Loss)     | 0.0        | 0.0        | 11.4       | 0.0          | 0.0          |
| <b>Pre-tax Profit</b>       | <b>182</b> | <b>216</b> | <b>444</b> | <b>497</b>   | <b>553</b>   |
| Tax                         | (27.6)     | (35.2)     | (71.1)     | (78.0)       | (86.8)       |
| Minority Interest           | (0.1)      | 0.0        | 0.12       | 0.12         | 0.12         |
| Preference Dividend         | 0.0        | 0.0        | 0.0        | 0.0          | 0.0          |
| <b>Net Profit</b>           | <b>154</b> | <b>181</b> | <b>373</b> | <b>419</b>   | <b>466</b>   |
| Net Profit before Except.   | 154        | 181        | 361        | 419          | 466          |
| EBITDA                      | 229        | 263        | 480        | 528          | 589          |
| <b>Growth</b>               |            |            |            |              |              |
| Revenue Gth (%)             | 7.7        | 8.2        | 39.3       | 6.6          | 4.2          |
| EBITDA Gth (%)              | 14.7       | 15.0       | 82.3       | 10.1         | 11.5         |
| Opg Profit Gth (%)          | 18.2       | 18.6       | 103.1      | 15.2         | 11.4         |
| Net Profit Gth (Pre-ex) (%) | 10.2       | 17.3       | 100.1      | 15.9         | 11.2         |
| <b>Margins &amp; Ratio</b>  |            |            |            |              |              |
| Gross Margins (%)           | 23.2       | 24.4       | 24.1       | 24.6         | 25.0         |
| Opg Profit Margin (%)       | 6.7        | 7.3        | 10.7       | 11.6         | 12.4         |
| Net Profit Margin (%)       | 5.8        | 6.3        | 9.3        | 9.8          | 10.5         |
| ROAE (%)                    | 8.2        | 9.4        | 18.1       | 18.3         | 18.2         |
| ROA (%)                     | 6.1        | 6.8        | 12.6       | 12.6         | 12.7         |
| ROCE (%)                    | 7.4        | 8.6        | 16.9       | 17.9         | 17.8         |
| Div Payout Ratio (%)        | 89.0       | 77.1       | 45.7       | 40.7         | 36.6         |
| Net Interest Cover (x)      | 181.9      | 235.5      | 422.9      | 2,033.9      | 1,782.0      |

Source: Company, DBS Bank



## Quarterly / Interim Income Statement (\$m)

| FY Dec                  | 1Q2017      | 2Q2017      | 3Q2017     | 4Q2017     | 1Q2018      |
|-------------------------|-------------|-------------|------------|------------|-------------|
| Revenue                 | 843         | 1,013       | 1,062      | 1,086      | 856         |
| Cost of Goods Sold      | (654)       | (791)       | (801)      | (794)      | (628)       |
| <b>Gross Profit</b>     | <b>189</b>  | <b>223</b>  | <b>261</b> | <b>293</b> | <b>228</b>  |
| Other Oper. (Exp)/Inc   | (129)       | (140)       | (130)      | (126)      | (131)       |
| <b>Operating Profit</b> | <b>59.4</b> | <b>82.3</b> | <b>131</b> | <b>167</b> | <b>97.0</b> |
| Other Non Opg (Exp)/Inc | 0.93        | 0.74        | 0.80       | 1.34       | 1.95        |
| Associates & JV Inc     | 0.0         | 1.67        | 0.0        | 0.0        | 0.0         |
| Net Interest (Exp)/Inc  | (0.3)       | (0.2)       | (0.3)      | (0.2)      | (0.3)       |
| Exceptional Gain/(Loss) | 0.0         | 0.0         | 0.0        | 0.0        | 0.0         |
| <b>Pre-tax Profit</b>   | <b>60.0</b> | <b>84.5</b> | <b>131</b> | <b>168</b> | <b>98.6</b> |
| Tax                     | (11.4)      | (14.7)      | (19.9)     | (25.0)     | (14.9)      |
| Minority Interest       | 0.0         | 0.0         | 0.0        | 0.0        | 0.0         |
| <b>Net Profit</b>       | <b>48.6</b> | <b>69.8</b> | <b>111</b> | <b>143</b> | <b>83.7</b> |
| Net profit bef Except.  | 48.6        | 69.8        | 111        | 143        | 83.7        |
| EBITDA                  | 66.9        | 91.8        | 140        | 178        | 109         |

## Growth

|                             |        |      |      |      |        |
|-----------------------------|--------|------|------|------|--------|
| Revenue Gth (%)             | (1.3)  | 20.2 | 4.8  | 2.3  | (21.2) |
| EBITDA Gth (%)              | (15.2) | 37.2 | 53.0 | 26.4 | (38.9) |
| Opg Profit Gth (%)          | (6.1)  | 38.6 | 59.0 | 27.5 | (41.9) |
| Net Profit Gth (Pre-ex) (%) | (10.1) | 43.7 | 59.5 | 28.3 | (41.4) |

## Margins

|                        |      |      |      |      |      |
|------------------------|------|------|------|------|------|
| Gross Margins (%)      | 22.4 | 22.0 | 24.6 | 27.0 | 26.6 |
| Opg Profit Margins (%) | 7.0  | 8.1  | 12.3 | 15.4 | 11.3 |
| Net Profit Margins (%) | 5.8  | 6.9  | 10.5 | 13.2 | 9.8  |

## Balance Sheet (\$m)

| FY Dec                        | 2015A        | 2016A        | 2017A        | 2018F        | 2019F        |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|
| Net Fixed Assets              | 186          | 203          | 198          | 217          | 230          |
| Invt in Associates & JVs      | 19.4         | 20.3         | 0.79         | 2.46         | 4.13         |
| Other LT Assets               | 703          | 661          | 669          | 669          | 669          |
| Cash & ST Invt                | 459          | 500          | 752          | 892          | 1,131        |
| Inventory                     | 556          | 623          | 700          | 821          | 855          |
| Debtors                       | 570          | 713          | 766          | 853          | 890          |
| Other Current Assets          | 33.4         | 38.3         | 58.3         | 58.3         | 58.3         |
| <b>Total Assets</b>           | <b>2,528</b> | <b>2,759</b> | <b>3,144</b> | <b>3,513</b> | <b>3,838</b> |
| ST Debt                       | 109          | 92.6         | 30.8         | 30.8         | 30.8         |
| Creditor                      | 353          | 491          | 591          | 711          | 741          |
| Other Current Liab            | 141          | 211          | 352          | 352          | 352          |
| LT Debt                       | 26.5         | 0.0          | 0.0          | 0.0          | 0.0          |
| Other LT Liabilities          | 3.14         | 1.80         | 1.72         | 1.72         | 1.72         |
| Shareholder's Equity          | 1,893        | 1,960        | 2,166        | 2,414        | 2,710        |
| Minority Interests            | 2.58         | 2.42         | 2.31         | 2.19         | 2.19         |
| <b>Total Cap. &amp; Liab.</b> | <b>2,528</b> | <b>2,759</b> | <b>3,144</b> | <b>3,513</b> | <b>3,838</b> |
| Non-Cash Wkg. Capital         | 666          | 673          | 580          | 669          | 710          |
| Net Cash/(Debt)               | 324          | 407          | 722          | 861          | 1,100        |
| Debtors Turn (avg days)       | 77.5         | 81.5         | 67.4         | 69.2         | 71.5         |
| Creditors Turn (avg days)     | 67.6         | 72.5         | 66.0         | 74.6         | 80.3         |
| Inventory Turn (avg days)     | 101.5        | 101.3        | 80.7         | 87.1         | 92.7         |
| Asset Turnover (x)            | 1.1          | 1.1          | 1.4          | 1.3          | 1.2          |
| Current Ratio (x)             | 2.7          | 2.4          | 2.3          | 2.4          | 2.6          |
| Quick Ratio (x)               | 1.7          | 1.5          | 1.6          | 1.6          | 1.8          |
| Net Debt/Equity (X)           | CASH         | CASH         | CASH         | CASH         | CASH         |
| Net Debt/Equity ex MI (X)     | CASH         | CASH         | CASH         | CASH         | CASH         |
| Capex to Debt (%)             | 10.8         | 36.2         | 119.2        | 162.2        | 162.2        |
| Z-Score (X)                   | 9.8          | 8.4          | 7.9          | 7.3          | 7.1          |

Source: Company, DBS Bank



### Cash Flow Statement (\$m)

| FY Dec                  | 2015A         | 2016A         | 2017A         | 2018F         | 2019F         |
|-------------------------|---------------|---------------|---------------|---------------|---------------|
| Pre-Tax Profit          | 182           | 216           | 444           | 497           | 553           |
| Dep. & Amort.           | 46.1          | 46.4          | 46.4          | 31.2          | 36.2          |
| Tax Paid                | (9.6)         | (33.5)        | (50.3)        | (78.0)        | (86.8)        |
| Assoc. & JV Inc/(loss)  | (2.0)         | (3.0)         | (1.7)         | (1.7)         | (1.7)         |
| Chg in Wkg.Cap.         | 48.7          | (8.2)         | 13.8          | (88.8)        | (40.8)        |
| Other Operating CF      | (31.0)        | 13.6          | (3.4)         | 0.0           | 0.12          |
| <b>Net Operating CF</b> | <b>234</b>    | <b>231</b>    | <b>449</b>    | <b>360</b>    | <b>460</b>    |
| Capital Exp.(net)       | (14.6)        | (33.5)        | (36.7)        | (50.0)        | (50.0)        |
| Other Invt.(net)        | 2.37          | 0.0           | (15.3)        | 0.0           | 0.0           |
| Invt in Assoc. & JV     | 0.0           | 0.0           | 31.6          | 0.0           | 0.0           |
| Div from Assoc & JV     | 0.0           | 1.05          | 1.08          | 0.0           | 0.0           |
| Other Investing CF      | (1.5)         | 2.06          | 5.36          | 0.0           | 0.0           |
| <b>Net Investing CF</b> | <b>(13.7)</b> | <b>(30.4)</b> | <b>(14.0)</b> | <b>(50.0)</b> | <b>(50.0)</b> |
| Div Paid                | (138)         | (138)         | (141)         | (171)         | (171)         |
| Chg in Gross Debt       | (33.5)        | (42.0)        | (56.3)        | 0.0           | 0.0           |
| Capital Issues          | 0.0           | 17.7          | 70.7          | 0.0           | 0.0           |
| Other Financing CF      | 0.0           | (1.1)         | (25.0)        | 0.0           | 0.0           |
| <b>Net Financing CF</b> | <b>(172)</b>  | <b>(164)</b>  | <b>(151)</b>  | <b>(171)</b>  | <b>(171)</b>  |
| Currency Adjustments    | 17.4          | 3.33          | (30.5)        | 0.0           | 0.0           |
| Chg in Cash             | 66.0          | 40.5          | 253           | 139           | 239           |
| Opg CFPS (\$ cts)       | 67.5          | 85.9          | 153           | 158           | 176           |
| Free CFPS (\$ cts)      | 80.0          | 71.0          | 145           | 109           | 144           |

Source: Company, DBS Bank

### Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

| S.No. | Date of Report | Closing Price | 12-mth Target Price | Rating |
|-------|----------------|---------------|---------------------|--------|
| 1:    | 02 May 17      | 12.90         | 14.30               | BUY    |
| 2:    | 03 May 17      | 13.06         | 14.30               | BUY    |
| 3:    | 09 May 17      | 12.83         | 14.30               | BUY    |
| 4:    | 03 Jul 17      | 12.05         | 14.30               | BUY    |
| 5:    | 28 Aug 17      | 15.16         | 16.60               | BUY    |
| 6:    | 06 Oct 17      | 18.45         | 21.00               | BUY    |
| 7:    | 06 Nov 17      | 21.99         | 26.00               | BUY    |
| 8:    | 01 Mar 18      | 26.92         | 32.20               | BUY    |

Source: DBS Bank

Analyst: Carmen Tay  
Suvro Sarkar

DBS Bank recommendations are based on Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return i.e. > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

*Share price appreciation + dividends*

Completed Date: 26 Apr 2018 11:04:53 (SGT)

Dissemination Date: 26 Apr 2018 11:17:57 (SGT)

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