

Singapore

ADD (no change)

Consensus ratings*: Buy 7 Hold 2 Sell 1

Current price:	S\$15.72
Target price:	S\$17.44
Previous target:	S\$17.44
Up/downside:	10.9%
CGS-CIMB / Consensus:	1.9%

Reuters:	VENM.SI
Bloomberg:	VMS SP
Market cap:	US\$3,338m
	S\$4,524m
Average daily turnover:	US\$13.16m
	S\$17.98m
Current shares o/s:	288.1m
Free float:	93.0%

*Source: Bloomberg

Key changes in this note

- FY20F EPS decreased by 2.1%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	10.2	6.9	-28.6
Relative (%)	7.7	3.4	-22.3

Major shareholders

	% held
Wong Ngit Liong	7.0
Blackrock	6.0
Schroders	5.0

Analyst(s)

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Venture Corporation

Venture: expecting qoq revenue growth

- Guided by Venture's qoq revenue growth expectations, we estimate 4Q18 net profit at S\$100.7m.
- Key risk is impact on economic growth from the US-China trade war.
- Maintain Add and S\$17.44 TP based on 12.56x FY20F core EPS.

V-shaped recovery needed to regain investor confidence

Given the unexpected earnings miss in 3Q18, Venture will need to deliver on its guidance of a V-shaped recovery for 4Q18 to regain investors' confidence. We currently estimate 4Q18 net profit of S\$100.7m (+ 24.6% qoq, -29.6% yoy). As at 8 Feb 2019, consensus expectations are for 4Q18 net profit of S\$99.9m (+23.6% qoq, -30.2% yoy). Venture will report after the market closes on Friday, 22 Feb 2019.

Illumina still has a long run way

Illumina (ILMN US, Not Rated) reported yoy revenue growth of 21% for FY18. For 1Q19, Illumina guided for revenue to be lower qoq but sees FY19 revenue growth at 13-14% yoy. The disappointment in Illumina's FY18 results was the miss in equipment unit shipments. Sequencing systems sales in FY18 were c.315 units (guidance: 330 units). Illumina, however, expects the multi-year upgrade cycle to remain intact as it estimates that at least 75% of its customer base has yet to switch to the current leading product.

Opportunities at Philip Morris (PM US, Not Rated)

PM's 4Q18 results beat Wall Street consensus estimates. Although PM did not guide for FY19 Heated Tobacco Units volume, it reiterated its previous guidance of 90bn to 100bn unit shipments by FY20. In its earnings call, US analysts asked about the progress of its other product platforms; we think over the next 2 years key focus will remain on IQOS. As at end-4Q18, PM noted that one-third of its IQOS user base was now in markets outside of Asia (progress was made in the EU region and Russia).

Possible growth drivers

Altria Group (MO US, Not Rated) which owns the PM USA business is establishing brick-and-mortar stores in multiple locations in the US and has already hired personnel to support pre-launch activities for IQOS. Altria is hopeful that IQOS will be approved soon for sale in the US and has included its full roll out in its guidance. Interestingly, looking into the future, PM believes that it will eventually introduce a device that can be used with different consumables such as e-vapour, heated and even nicotine.

Trade war is key risk

Given the risk to global economic growth from the US-China trade war, we reduce our FY20F revenue growth forecast. Our TP which is based on 12.56x (0.5 s.d. below 12-year forward average P/E of 15.55x vs. 12.3x P/E or 0.5 s.d. below the 11-year forward average P/E of 15.3x) FY20F core EPS is unchanged at S\$17.44. Catalysts are new product launch by customers. Downside risk: slower orders from customers.

Financial Summary

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue (S\$m)	2,874	4,005	3,604	3,784	3,935
Net Profit (S\$m)	179.4	372.8	363.0	376.9	400.0
Core EPS (S\$)	0.63	1.27	1.26	1.31	1.39
Core EPS Growth	18%	103%	(1%)	4%	6%
FD Core P/E (x)	25.00	12.25	12.40	12.02	11.32
Price To Sales (x)	1.52	1.12	1.26	1.20	1.15
DPS (S\$)	0.50	0.60	0.60	0.60	0.60
Dividend Yield	3.18%	3.82%	3.82%	3.82%	3.82%
EV/EBITDA (x)	16.03	8.22	8.89	7.86	7.04
P/FCFE (x)	32.45	12.53	28.94	12.92	12.13
Net Gearing	(20.7%)	(33.3%)	(25.2%)	(29.4%)	(33.9%)
P/BV (x)	2.24	2.07	1.92	1.77	1.62
ROE	9.1%	17.5%	16.1%	15.3%	15.0%
% Change In Core EPS Estimates			0.00%	0.00%	(2.07%)
CIMB/consensus EPS (x)			0.99	0.98	0.99

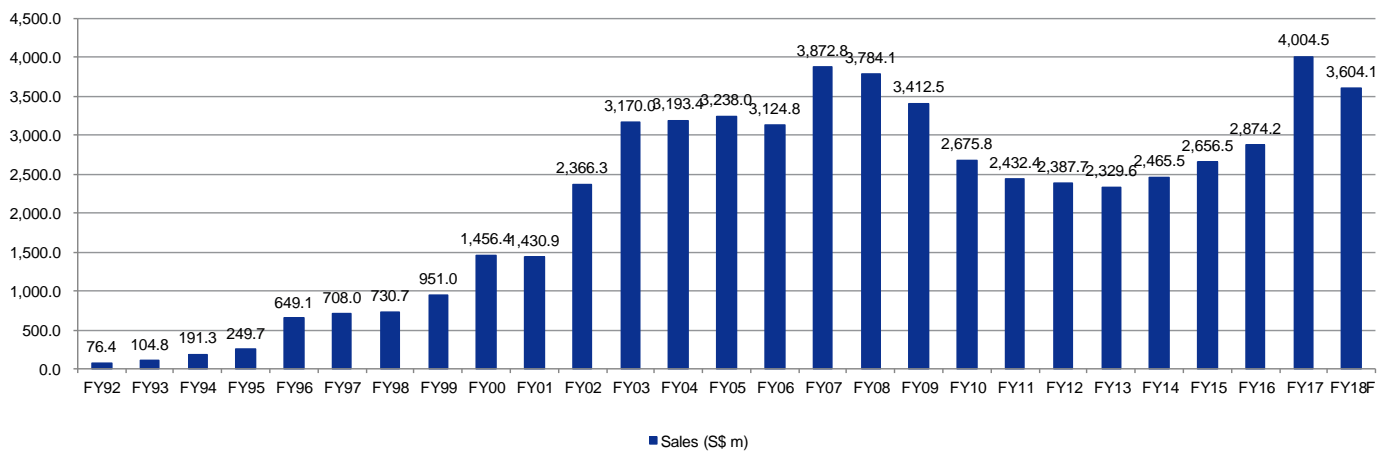
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Earnings revisions

(S\$m)	2019F			2020F		
	Old	New	% chg	Old	New	% chg
Revenue	3,784.3	3,784.3	0.0	3,973.5	3,935.4	(1.0)
Revenue growth (%)	5.0	5.0	0.0	5.0	4.0	(1.0)
Gross material margin (%)	27.5	27.5	0.0	27.5	27.5	0.0
EBITDA	480.4	480.4	0.0	520.0	509.5	(2.0)
Net profit	376.9	376.9	0.0	408.5	400.0	(2.1)
Core EPS (S\$)	1.31	1.31	0.0	1.42	1.39	(2.1)
Core EPS growth (%)	3.81	3.81	0.0	8.39	6.14	(2.2)

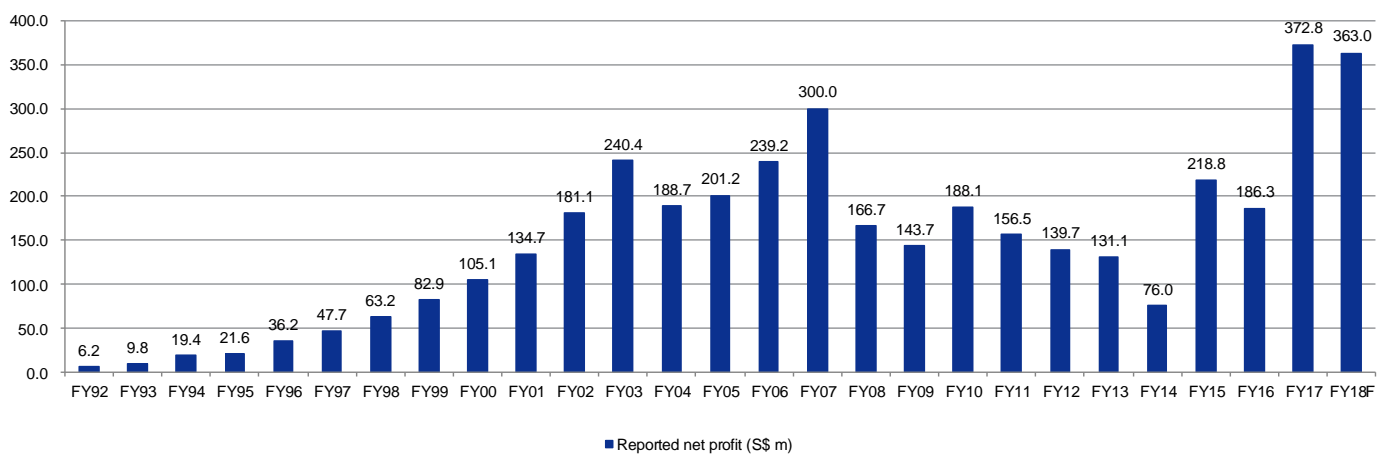
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Full year revenue trend



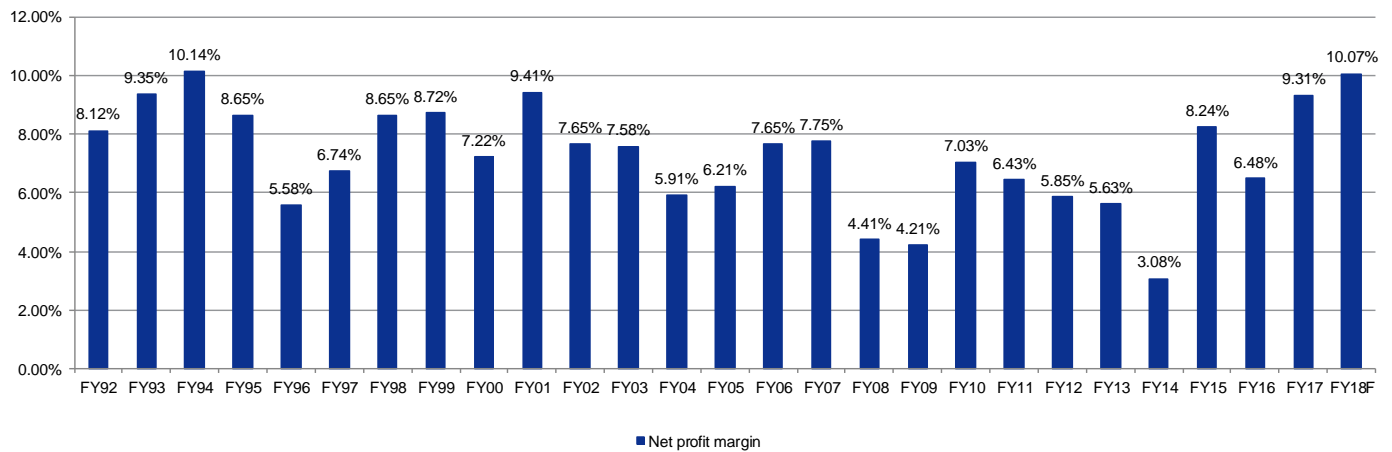
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 3: Full year net profit trend



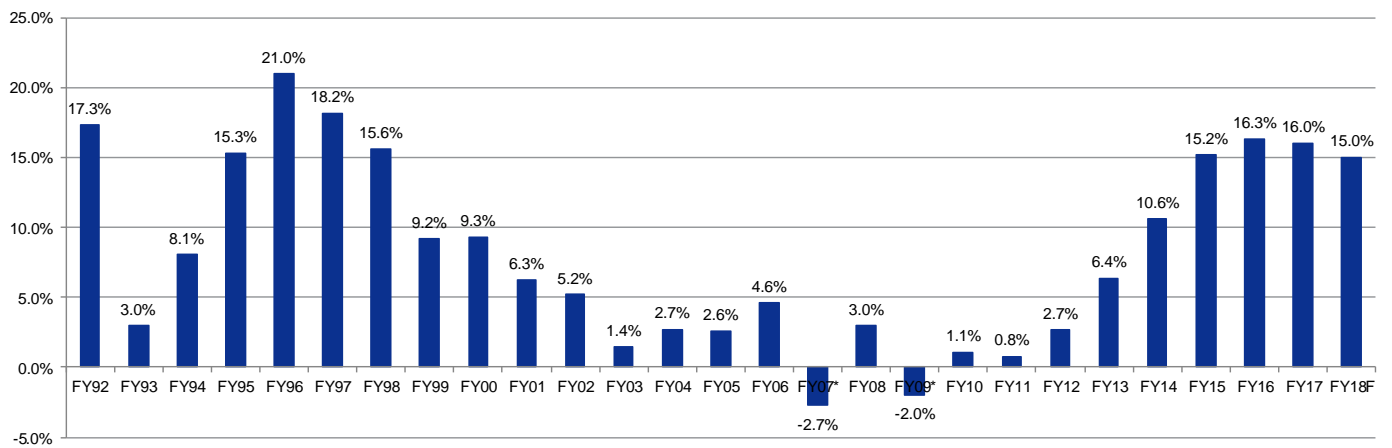
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 4: Yearly net profit margin trend



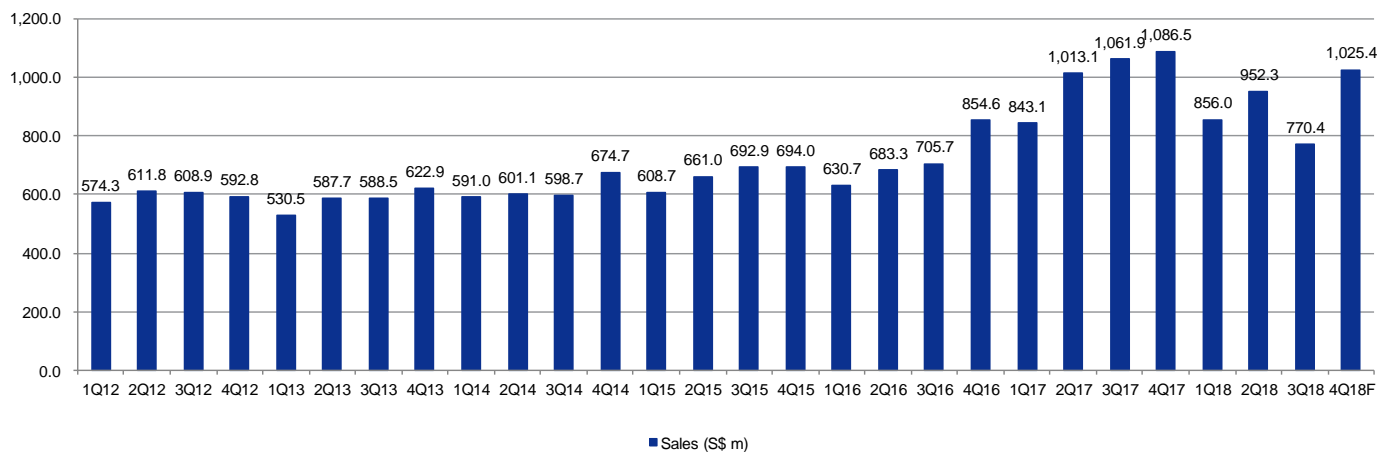
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Figure 5: Effective tax rate trend



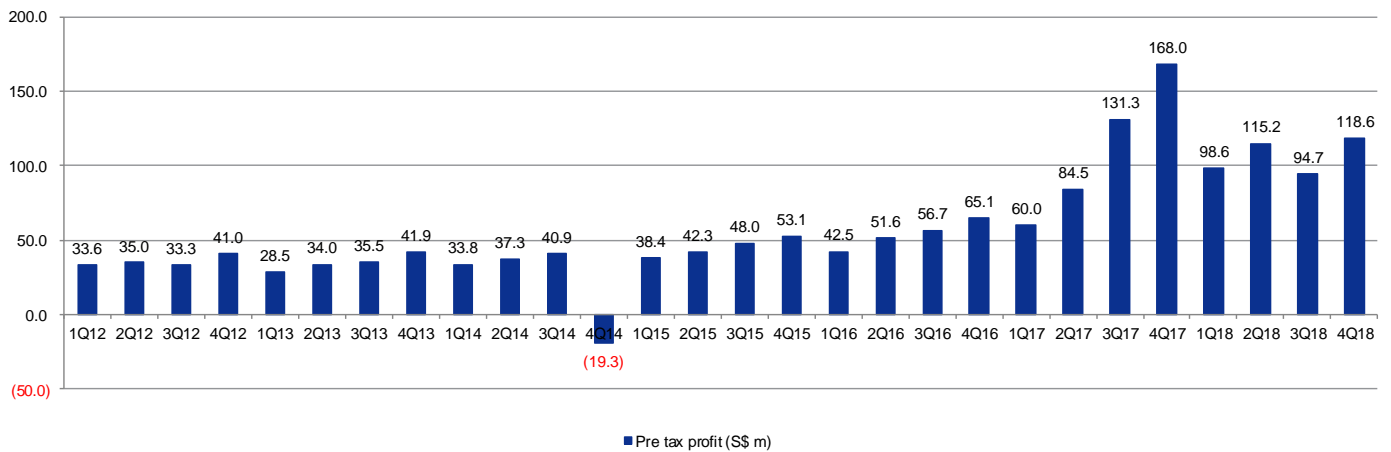
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Figure 6: Quarterly revenue trend



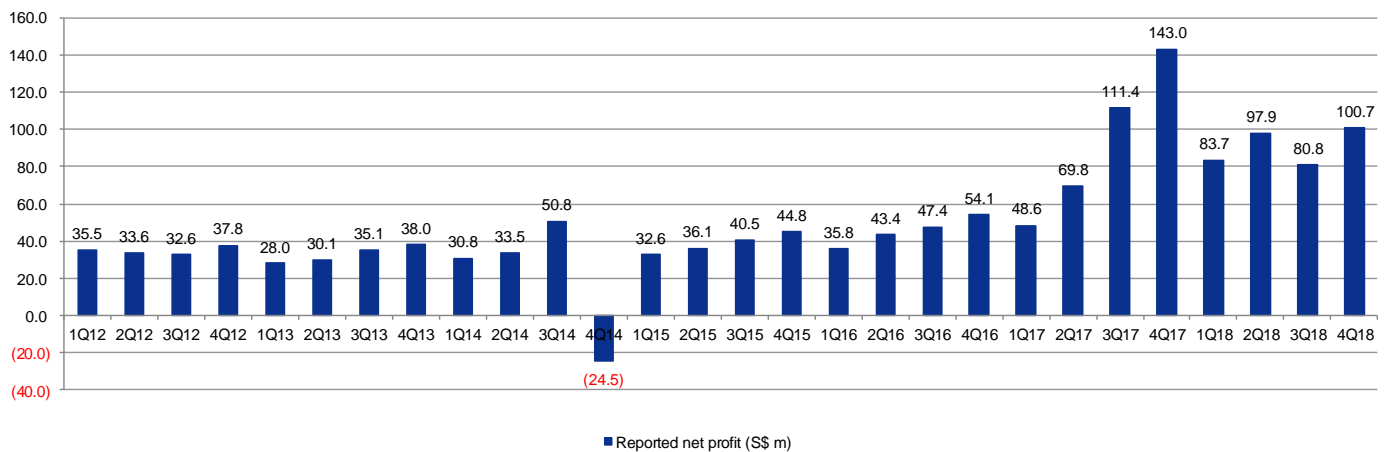
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 7: Quarterly pre-tax profit trend



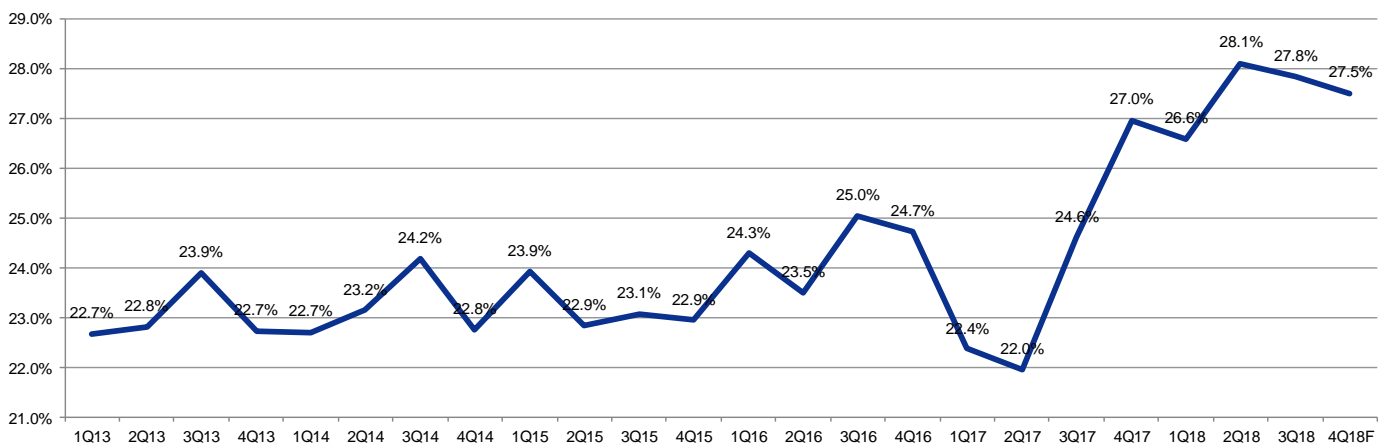
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 8: Quarterly net profit trend



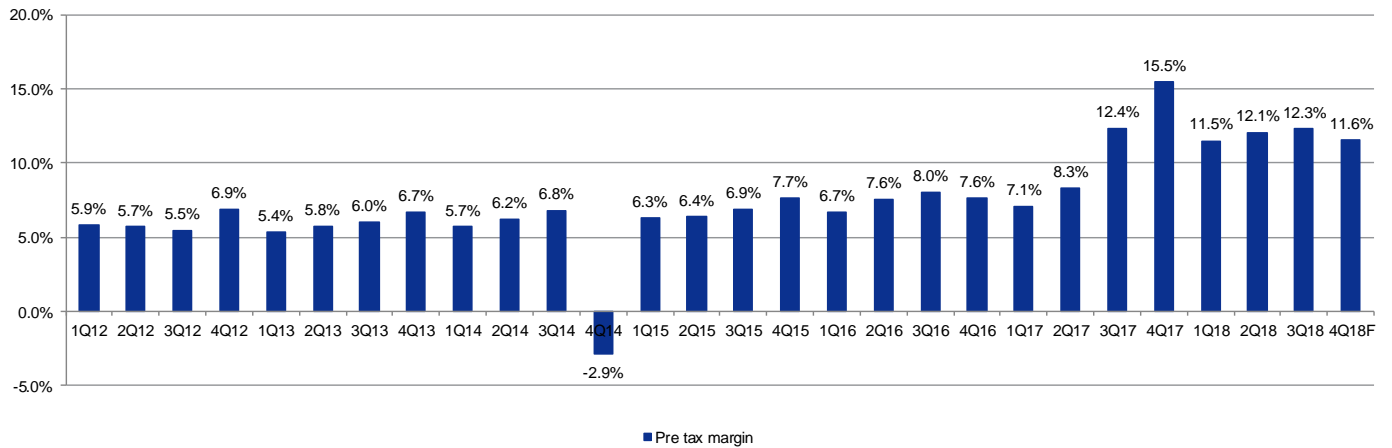
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 9: Quarterly gross material margin



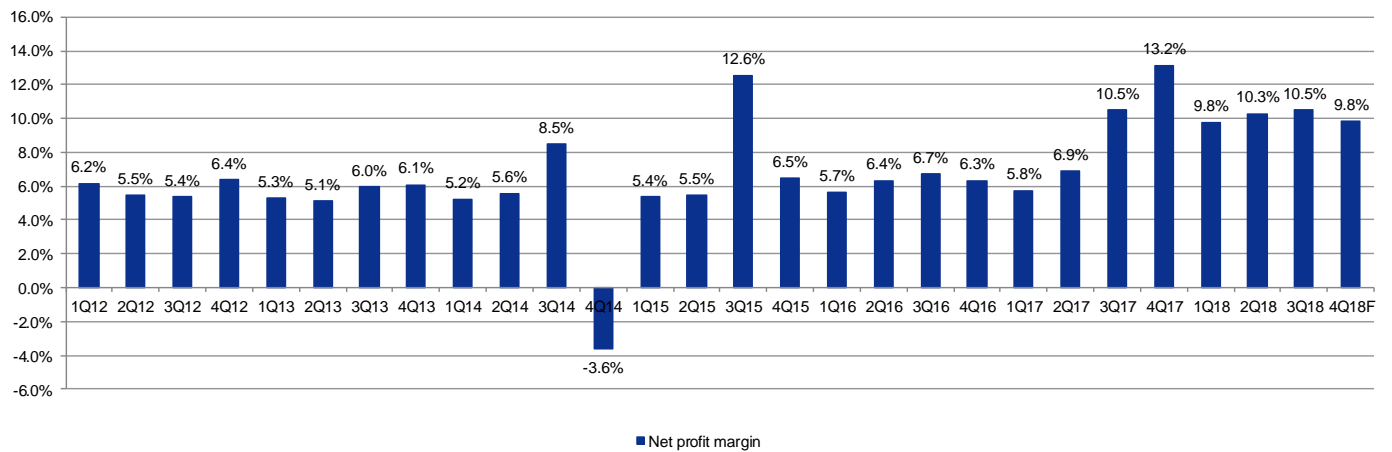
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Figure 10: Quarterly pre-tax margin trend



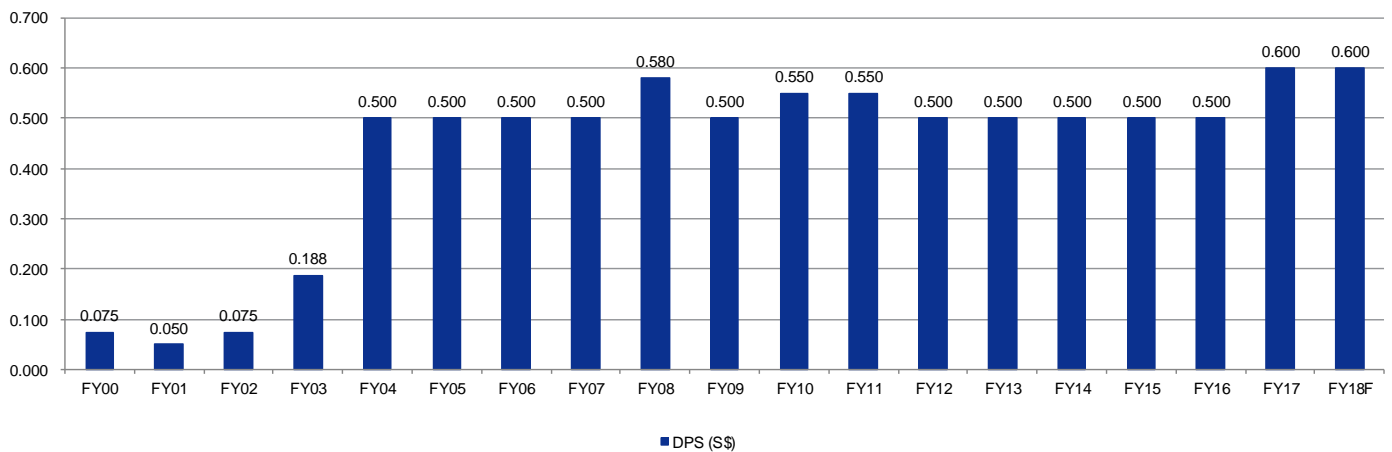
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 11: Quarterly net profit margin trend



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 12: Dividend trend



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 13: 12-month forward P/BV (x)


SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 14: 12-month forward P/E (x)


SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

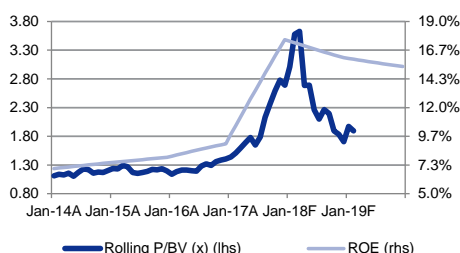
Figure 15: Peer comparison

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	P/E (x)		3-year EPS		Recurring ROE (%)	Dividend Yield (%)
						CY18F	CY19F	CAGR (%)	P/BV (x) CY18F		
Venture Corporation	VMS SP	Add	15.72	17.44	3,338	12.5	12.0	3.7%	1.92	16.2%	3.8%
US											
Benchmark Electronics	BHE US	NR	27.53	NA	1,203	56.2	16.5	na	na	na	0.0%
Celestica Inc	CLS US	NR	8.28	NA	1,128	11.7	8.8	18.2%	0.85	7.4%	0.0%
Flextronics International	FLEX US	NR	9.63	NA	5,021	11.9	8.0	22.9%	1.63	18.4%	0.0%
Jabil Circuit	JBL US	NR	27.25	NA	4,216	54.5	8.7	75.4%	2.30	11.0%	1.2%
Plexus Corp	PLXS US	NR	56.19	NA	1,737	140.5	14.6	19.2%	1.94	4.2%	0.0%
Sanmina-SCI Corp	SANM US	NR	32.16	NA	2,201	na	10.7	48.6%	na	-1.2%	0.0%
Simple Average (US)						11.8*	11.2	36.9%	1.68	8.0%	1.2%
Simple Average (all co)						12.0	11.3	31.3%	1.8	11.4%	2.5%

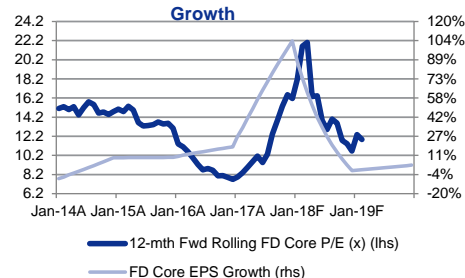
 * Excluding Benchmark Electronics, Jabil Circuits and Plexus Corp
 SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS

P/BV vs ROE



12-mth Fwd FD Core P/E vs FD Core EPS Growth



Profit & Loss

(\$m)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Net Revenues	2,874	4,005	3,604	3,784	3,935
Gross Profit	702	965	991	1,041	1,082
Operating EBITDA	247	457	443	480	509
Depreciation And Amortisation	(46)	(31)	(30)	(31)	(32)
Operating EBIT	200	426	413	449	477
Financial Income/(Expense)	2	3	8	3	3
Pretax Income/(Loss) from Assoc.	3	2	0	0	0
Non-Operating Income/(Expense)	9	14	6	2	2
Profit Before Tax (pre-EI)	215	444	427	454	482
Exceptional Items	0	0	0	0	0
Pre-tax Profit	215	444	427	454	482
Taxation	(35)	(71)	(64)	(77)	(82)
Exceptional Income - post-tax					
Profit After Tax	179	373	363	377	400
Minority Interests	(0)	0	0	0	0
Preferred Dividends	0	0	0	0	0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	179	373	363	377	400
Recurring Net Profit	175	362	363	377	400
Fully Diluted Recurring Net Profit	175	362	363	377	400

Cash Flow

(\$m)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
EBITDA	246.9	456.7	443.0	480.4	509.5
Cash Flow from Inv. & Assoc.	(3.0)	(1.7)	0.0	0.0	0.0
Change In Working Capital	(8.2)	13.8	(227.6)	(42.1)	(35.3)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	2.4	2.4	2.4	2.4	2.4
Net Interest (Paid)/Received	2.2	2.8	8.0	3.0	3.0
Tax Paid	(33.5)	(50.3)	(91.9)	(64.1)	(77.2)
Cashflow From Operations	206.9	423.8	133.8	379.6	402.4
Capex	(33.5)	(37.0)	(88.5)	(30.0)	(30.0)
Disposals Of FAs/subsidiaries	0.0	0.0	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0	0.0
Other Investing Cashflow	3.1	23.0	6.0	1.0	1.0
Cash Flow From Investing	(30.4)	(14.0)	(82.5)	(29.0)	(29.0)
Debt Raised/(repaid)	(42.0)	(56.3)	104.2	0.0	0.0
Proceeds From Issue Of Shares	18.2	46.2	0.0	0.0	0.0
Shares Repurchased	(0.5)	0.0	0.0	0.0	0.0
Dividends Paid	(138.4)	(140.7)	(170.8)	(172.9)	(172.9)
Preferred Dividends					
Other Financing Cashflow	0.0	24.5	0.0	0.0	0.0
Cash Flow From Financing	(162.7)	(126.3)	(66.6)	(172.9)	(172.9)
Total Cash Generated	13.8	283.5	(15.2)	177.8	200.6
Free Cashflow To Equity	134.5	353.5	155.5	350.6	373.4
Free Cashflow To Firm	177.4	410.8	52.4	351.6	374.4

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(S\$m)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Cash And Equivalents	500	752	729	889	1,080
Total Debtors	751	824	948	995	1,035
Inventories	623	700	644	677	704
Total Other Current Assets	0	0	0	0	0
Total Current Assets	1,874	2,276	2,321	2,561	2,819
Fixed Assets	203	198	257	257	256
Total Investments	37	30	24	26	28
Intangible Assets	640	640	640	640	640
Total Other Non-Current Assets	4	1	20	20	20
Total Non-current Assets	885	868	941	943	943
Short-term Debt	93	31	109	109	109
Current Portion of Long-Term Debt					
Total Creditors	683	910	750	788	819
Other Current Liabilities	18	34	15	15	15
Total Current Liabilities	794	974	874	912	943
Total Long-term Debt	0	0	26	26	26
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0	0	0	0	0
Total Non-current Liabilities	0	0	26	26	26
Total Provisions	2	2	3	3	3
Total Liabilities	796	976	904	941	973
Shareholders' Equity	1,960	2,166	2,356	2,560	2,787
Minority Interests	2	2	2	2	2
Total Equity	1,963	2,168	2,358	2,562	2,789

Key Ratios

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue Growth	8.2%	39.3%	(10.0%)	5.0%	4.0%
Operating EBITDA Growth	16.2%	85.0%	(3.0%)	8.4%	6.1%
Operating EBITDA Margin	8.6%	11.4%	12.3%	12.7%	12.9%
Net Cash Per Share (S\$)	1.46	2.54	2.06	2.62	3.28
BVPS (S\$)	7.03	7.61	8.18	8.89	9.67
Gross Interest Cover	224.0	420.6	408.2	443.8	471.3
Effective Tax Rate	16.4%	16.0%	15.0%	17.0%	17.0%
Net Dividend Payout Ratio	65.0%	38.5%	40.5%	38.1%	35.9%
Accounts Receivables Days	81.71	67.39	83.78	87.86	88.51
Inventory Days	99.36	79.42	93.87	87.86	88.51
Accounts Payables Days	71.12	64.99	82.67	80.79	81.39
ROIC (%)	13.3%	28.0%	29.1%	25.8%	26.7%
ROCE (%)	9.9%	20.2%	18.0%	17.4%	17.1%
Return On Average Assets	8.0%	14.9%	13.1%	13.3%	13.2%

Key Drivers

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
ASP Change (% , Main Product)	0.0%	0.0%	0.0%	0.0%	0.0%
Unit sales growth (% , main prod)	6.8%	6.8%	6.8%	6.8%	6.8%
No. Of Lines (main Product)	N/A	N/A	N/A	N/A	N/A
Rev per line (US\$, main prod)	N/A	N/A	N/A	N/A	N/A
ASP chg (% , 2ndary prod)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% , 2ndary prod)	N/A	N/A	N/A	N/A	N/A
No. Of Lines (secondary Product)	N/A	N/A	N/A	N/A	N/A
Rev per line (US\$, 2ndary prod)	N/A	N/A	N/A	N/A	N/A

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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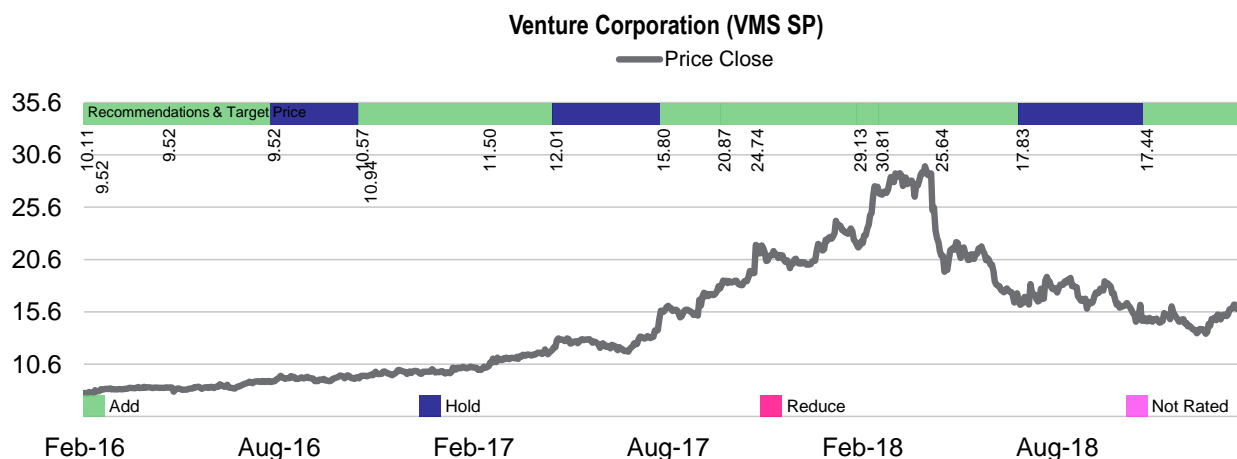
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758 companies under coverage for quarter ended on 31 December 2018		
	Rating Distribution (%)	Investment Banking clients (%)
Add	61.2%	4.2%
Hold	25.1%	2.1%
Reduce	13.7%	0.4%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2018, Anti-Corruption 2018

ADVANC – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, Declared, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BCP** - Excellent, Certified, **BCPG** – Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – Very Good, Declared, **BH** - Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** - Good, Declared, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENDEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Very Good, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **DELTA** - Excellent, n/a, **DEMCO** – Excellent, Certified, **DDD** – Very Good, Declared, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HREIT** - Excellent, Certified, **ICHI** – Excellent, Declared, **HUMAN** – not available, n/a, **III** – Good, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD*** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Declared, **MALEE** – Very Good, Certified, **MC** – Very Good, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTC** – Excellent, Declared, **NETBAY** – Good, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PSH** – Excellent, Certified, **PSTC** – Good, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **RSP** – not available, n/a, **SAMART** - Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Very Good, Certified, **SF** – Good, n/a, **SIRI** – Very Good, Certified, **SPA** - Good, n/a, **SPALI** - Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Declared, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TKN** – Very Good, Declared, **TMB** - Excellent, Certified, **TNR** – Very Good, Declared, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TIPIP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Very Good, Declared, **UNIQ** – Good, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WORK** – Good, n/a.

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
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- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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Definition:

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- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Definition:

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