

Y Ventures Group Ltd

More controlled expansion



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SINGAPORE | E-COMMERCE | 2H18 RESULTS

8 March 2019

- Results were below expectations due to poor sales of non-book products, weaker gross margins, higher operating expenses and write-offs in inventory and bad debts.
- 80% of FY18 revenue is from the sale of books and YVEN has expanded their publishing principals from 1 to 8.
- A major change in strategy is to faster monetize their data analytics capabilities through the sale of services.
- We lowered FY19e earnings to marginal profitability. Any turnaround in profits is earmarked in FY20e. Our target price of S\$0.16 will be based off FY20e earnings and PE of 30x. This is priced against other e-retailer comparables.

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.078
FORECAST DIV	SGD 0.000
TARGET PRICE	SGD 0.160
TOTAL RETURN	105.1%

COMPANY DATA

BLOOMBERG CODE	YVEN SP
O/S SHARES (MN)	205
MARKET CAP (USD mn /SGD mn)	12 / 16
52 - WK HI/LO (SGD)	0.68 / 0.05
3M Average Daily T/O (mn)	0.22

MAJOR SHAREHOLDERS (%)

Low Yik Sen	36.0%
Low Yik Jin	36.0%

Results at a glance

US\$000	2H18	2H17	YoY	FY18	FY17	YoY	Comments (FY18 vs FY17)
Revenue	8,773	6,827	22%	18,066	14,123	28%	Books grew 21.7% and non-books surged 81.3%
Gross profit	1,338	2,896	-116%	5,502	5,874	-6%	Non-book margins collapsed 56% to 29%
Gross margins	15.3%	42.4%		30.5%	41.6%		
Profit after tax	(4,033)	(779)	19%	(3,603)	(787)	358%	One-offs of -\$0.91mn offset \$0.85 disposal gain

Source: Company, PSR

The Positives

+ Book sales rose 22% in FY18. YVEN added seven book publishers to its suite of products in FY18, from just a single publisher when it was listed in 2017. The relationship and commerciality of these new publishers will require some time to mature, especially the ability to select the choicest titles. Therefore, inventory will be sub-optimal and may require a gestation period of 1 to 2 years.

+ Faire Leather is performing well. This new leather products brand that was launched on Kickstarter in December 2017 is now being distributed in Taiwan, China and Europe.

The Negatives

- Margins collapsed in FY18.

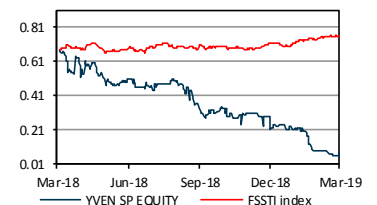
- Gross margins were dragged down by GP margins in the non-books category, which fell from 56% to 29% in 2H18. There were also provisions in obsolete inventories. The non-books segment was hurt by the entry of Chinese manufacturers into the Amazon platform. Prices of these competitors were drastically below YVEN private label products. GP margins in the books category also suffered, by c.7 points, due to the aforementioned sub-optimal inventory.
- EBIT margins dipped due to provision of bad debts (trade and non-trade totaling US\$0.5mn) as well as a surge in overheads as YVEN's headcount jumped 60%. Selling expenses also increased due to higher commissions paid out.

- An external independent review. YVEN has been required to undertake an external review of its internal controls, which is estimated to cost the Group a five-figure sum.

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(13)	(64.5)	(88.4)
STIRETURN	0.9	4.1	(3.0)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (USD mn)	FY17	FY18	FY19e	FY20e
Revenue	14.1	18.1	22.6	28.2
EBITDA	(0.93)	(4.82)	0.05	0.89
NPAT	(0.79)	(3.60)	0.15	0.99
EPS (SGD Cents)	(0.50)	(2.41)	0.10	0.65
PER (X)	N.M.	N.M.	N.M.	N.M.
P/BV (X)	19	3.4	3.3	2.6
DPS (SGD Cents)	0.0	0.0	0.0	0.0
ROE	-18.5%	-74.6%	4.3%	24.0%

Source: Bloomberg, PSR

Valuation Method:

P/E Multiple @ 30x

Paul Chew (+65 6212 1851)

Head Of Research

paulchewkl@phillip.com.sg

Outlook

YVEN was pursuing several initiatives and projects to expand its non-books category in 2018. The outcome was less than favourable. The new focus will be to use crowdfunding platforms to launch products, monetise their data analytics capabilities through services and release more differentiated non-book products with a more cost-effective route to market.

What did not work:

1. **Selling own branded (private label) products** such as JustNile home accessories. The competition was intense as Chinese manufacturers entered the Amazon platform to directly sell their products. YVEN will lower their exposure to this business to a fifth of the current size. There was insufficient differentiation in their products to command higher prices.
2. **Representing brands to sell online in SE Asia** such as Disney merchandise. The SE Asia e-commerce market is still at a nascent stage and requires much investment.
3. **The response of ICO AORA** was not up to expectations.

New focus:

1. **Use crowdfunding platform** to launch new products. YVEN will market their new products on global crowdfunding platforms such as Indiegogo and Kickstarter before launch and production. This form of marketing is less cash-intensive and enables YVEN to test the demand for the product before mass production. The key is to use their data analytics to find differentiated products that are in demand and where competition is fragmented.
2. **Monetise the data analytics** of e-commerce consumer spending. YVEN will now sell data analytics as a service – such as the study of distributors, brand competitors and demand before the launch of new products. The challenge for YVEN will be to build a timely track record of their methodology.
3. **Rendering a service to help new brands to access online and offline distribution into SE Asia.** This will help YVEN de-risk from taking inventory. A possible mode of pricing is a percentage of sales.

Maintain BUY with a lower TP of S\$0.16 (previously S\$0.61)

We lowered FY19e earnings to marginal profitability. Any turnaround in profits is earmarked in FY20e. Our target price is based off FY20e earnings and a PE multiple of 30x. This PE multiple was derived via a benchmark against other e-retailer comparables.

Financials

Income Statement

Y/E Dec, USD '000	FY16	FY17	FY18	FY19e	FY20e
Revenue	12,107	14,123	18,066	22,583	28,228
Gross Profit	5,318	5,874	5,502	8,581	10,162
EBITDA	1,778	(925)	(4,824)	47	889
Depreciation & Amortisation	102	124	234	173	204
EBIT	1,676	(1,013)	(4,936)	(45)	790
Net Finance Inc/(Exp)	(23)	(20)	(76)	(45)	(56)
Profit before tax	1,843	(886)	(3,875)	155	991
Taxation	(197)	(22)	(15)	-	-
Net profit before NCI	1,646	(908)	(3,890)	155	991
Non-controlling interest	113	(121)	(287)	-	-
Net profit, reported	1,533	(787)	(3,603)	155	991

Per share data (USD Cents)

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	0.75	(0.38)	(1.76)	0.08	0.48
DPS	-	-	-	-	-
BVPS	1.18	3.09	1.70	1.77	2.26

Per share data (SGD Cents)

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
FX rate (USD/SGD)	1.44	1.31	1.37	1.35	1.35
EPS, reported	1.08	(0.50)	(2.41)	0.10	0.65
DPS	-	-	-	-	-
BVPS	1.70	4.03	2.33	2.40	3.05

Cash Flow

Y/E Dec, USD '000	FY16	FY17	FY18	FY19e	FY20e
CFO					
Profit before tax	1,843	(886)	(3,875)	155	991
Adjustments	122	366	(412)	218	261
WC changes	657	(3,579)	2,097	621	(508)
Cash generated from ops	2,622	(4,099)	(2,190)	994	745
Tax paid	(10)	(15)	(225)	-	-
Others	-	9	1	-	-
Cashflow from ops	2,612	(4,105)	(2,415)	994	745
CFI					
CAPEX, net	(55)	(86)	(112)	(200)	(201)
Others	-	(250)	45	(200)	(201)
Cashflow from investments	(55)	(336)	(67)	(400)	(402)
CFE					
Share issuance, net	143	5,179	914	-	-
Loans, net of repayments	-	-	1,397	500	500
Dividends	(2,432)	(600)	-	-	-
Interest paid	(23)	(20)	(76)	(45)	(56)
Others	(27)	(195)	(154)	(30)	(30)
Cashflow from financing	(2,339)	4,363	2,081	425	414
Net change in cash	218	(77)	(401)	1,019	756
Effects of exchange rates	(13)	22	(1)	-	-
CCE, end	938	883	481	1,500	2,256

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, USD '000	FY16	FY17	FY18	FY19e	FY20e
ASSETS					
PPE	1,524	1,342	1,334	1,442	1,543
Others	-	213	305	424	520
Total non-current assets	1,524	1,556	1,639	1,866	2,063
Accounts receivables	819	1,305	1,085	1,807	2,258
Cash	938	883	1,132	2,151	2,907
Inventories	2,632	6,060	9,587	4,517	5,646
Amt due from a director	-	-	-	-	-
Total current assets	4,389	8,248	11,804	8,474	10,811
Total Assets	5,913	9,804	13,443	10,340	12,874
LIABILITIES					
Accounts payables	1,609	1,947	6,889	3,162	4,234
Short term loans	25	37	1,947	2,417	2,887
Amt Due to Directors	308	-	-	-	-
Tax payable	407	400	190	190	190
Total current liabilities	2,349	2,384	9,026	5,769	7,311
Long term loans	939	943	916	916	916
Deferred tax liabilities	16	31	31	31	31
Total non-current liabilities	955	973	947	947	947
Total Liabilities	3,304	3,357	9,973	6,716	8,258
EQUITY					
Non-controlling interests	247	274	(13)	(13)	(13)
Shareholder Equity	2,362	6,171	3,483	3,638	4,629

Valuation Ratios

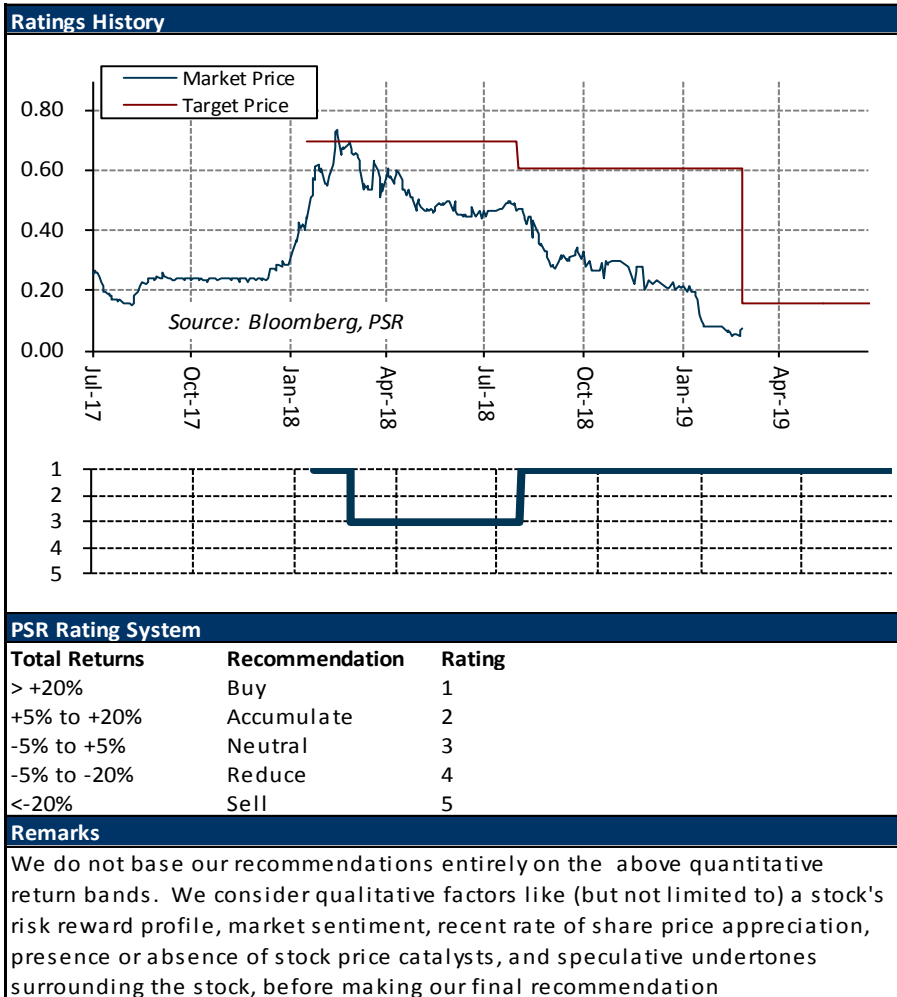
Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
P/E (X)	-	N.M.	N.M.	N.M.	N.M.
P/B (X)	-	1.9	3.4	3.3	2.6
EV/EBITDA (X)	-	N.M.	(2.1)	212.7	10.9
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Growth & Margins

Growth					
Revenue	-	16.7%	27.9%	25.0%	25.0%
EBITDA	-	-152.0%	N.M.	-101.0%	N.M.
EBIT	-	-160.5%	N.M.	-99.1%	N.M.
Net profit, adj.	-	-151.4%	N.M.	-104.3%	540.3%
Margins					
Gross margin	43.9%	41.6%	30.5%	38.0%	36.0%
EBITDA margin	14.7%	-6.6%	-26.7%	0.2%	3.2%
EBIT margin	13.8%	-7.2%	-27.3%	-0.2%	2.8%
Net profit margin	12.7%	-5.6%	-19.9%	0.7%	3.5%

Key Ratios

ROE (%)	64.9%	-18.5%	-74.6%	4.3%	24.0%
ROA (%)	25.9%	-10.0%	-31.0%	1.3%	8.5%
Net Debt / (Cash)	26	97	1,731	1,182	896
Net Gearing (X)	0.01	0.02	0.50	0.32	0.19



Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks
 We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

Contact Information (Singapore Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Admin

research@phillip.com.sg

Banking & Finance | Healthcare

Tin Min Ying – tinmy@phillip.com.sg

Oil & Gas | Energy

Chen Guangzhi - chengz@phillip.com.sg

Telco | Technology

Alvin Chia - alvinchiawy@phillip.com.sg

Property | REITs

Tara Wong - tarawongsi@phillip.com.sg

REITs

Natalie Ong - natalieongpf@phillip.com.sg

China/HK Equity

Zheng Jieyuan – zhengjy@phillip.com.sg

US Equity

Edmund Xue – edmundxuejj@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd

Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

JAPAN

Phillip Securities Japan, Ltd.

4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

THAILAND

Phillip Securities (Thailand) Public Co. Ltd

15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

UNITED STATES

Phillip Capital Inc

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

INDIA

PhillipCapital (India) Private Limited

No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

CAMBODIA

Phillip Bank Plc

Ground Floor of B-Office Centre,#61-64,
Norodom Blvd Corner Street 306,Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

MALAYSIA

Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

INDONESIA

PT Phillip Securities Indonesia

ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

FRANCE

King & Shaxson Capital Limited

3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

AUSTRALIA

Phillip Capital Limited

Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 8633 9803
Fax +61-03 8633 9899
Website: www.phillipcapital.com.au

TURKEY

PhillipCapital Menkul Degerler

Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

HONG KONG

Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd

No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

UNITED KINGDOM

King & Shaxson Capital Limited

6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

SRI LANKA

Asha Phillip Securities Limited

No. 60, 5th Lane,
Colombo 3, Sri Lanka
Tel: (94) 11 2429 100
Fax: (94) 11 2429 199
Website: www.ashaphillip.net

DUBAI

Phillip Futures DMCC

Member of the Dubai Gold and
Commodities Exchange (DGCX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

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