

Singapore Company Update

Venture Corporation

Bloomberg: VMS SP | Reuters: VENM.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

28 Feb 2022

BUY

Last Traded Price (25 Feb 2022): S\$17.68 (STI : 3,294.47)
Price Target 12-mth: S\$22.60 (28% upside)

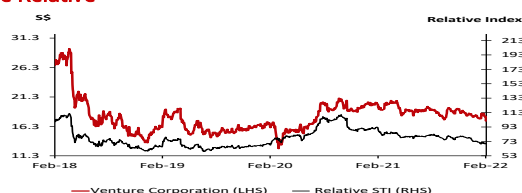
Analyst

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What's New

- FY21 results in line; 50Scts DPS declared
- Delivered strong 4Q21 on improving supply chain situation and COVID lockdowns
- Robust net margin of 10.5% in 4Q21 and 10% in FY21; Expect sustainable net margins of 10% ahead
- Demand momentum remains strong, with healthy order pipeline; maintain BUY and S\$22.60 TP

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2020A	2021A	2022F	2023F
Revenue	3,013	3,107	3,443	3,697
EBITDA	386	398	436	469
Pre-tax Profit	344	361	399	428
Net Profit	297	312	345	370
Net Pft (Pre Ex.)	297	312	345	370
Net Pft Gth (Pre-ex) (%)	(18.1)	4.9	10.7	7.2
EPS (S cts)	103	107	119	127
EPS Pre Ex. (S cts)	103	107	119	127
EPS Gth Pre Ex (%)	(18)	5	11	7
Diluted EPS (S cts)	103	107	119	127
Net DPS (S cts)	75.0	75.0	75.0	75.0
BV Per Share (S cts)	893	935	979	1,031
PE (X)	17.2	16.5	14.9	13.9
PE Pre Ex. (X)	17.2	16.5	14.9	13.9
P/Cash Flow (X)	11.3	50.4	20.6	16.6
EV/EBITDA (X)	10.9	10.9	9.9	9.1
Net Div Yield (%)	4.2	4.2	4.2	4.2
P/Book Value (X)	2.0	1.9	1.8	1.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	11.7	11.8	12.4	12.7
Earnings Rev (%):			0	0
Consensus EPS (S cts):			116	123
Other Broker Recs:		B: 9	S: 1	H: 3

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

Robust demand outlook

Investment Thesis:

Expect a stronger year ahead, on easing of supply chain disruptions and robust order momentum. Despite the challenging environment, Venture was able to maintain a 10% net margin for FY21. 4Q21 was the strongest quarter, with net margin of 10.5% while net profit accounted for 30% of FY21 numbers. With a strong pipeline of orders and gradual easing of supply chain disruptions, we expect 2022 to be a strong year for Venture. We expect FY22F earnings to grow by 11%, followed by another 7% in FY23F, from 5% growth in FY21. Key growth segments include Life Science, Medical Devices, Semiconductor and Lifestyle & Wellness.

Strong financials to support dividend. A strong net cash position of S\$807.9m with no debt to support at least a repeat of 75 Scts DPS in FY22, which works out to an attractive yield of c.4%. Net cash per share works out to S\$2.78.

Valuation:

Maintain BUY and TP of S\$22.60. Our TP of S\$22.60 is still pegged to 19x PE, the peak in 2020, which is also near +2SD of its 4-year average forward PE, on FY22F earnings.

Where we differ:

We remain positive on Venture's ability to continue investing to enhance its differentiating capabilities within its ecosystems in the longer term.

Key Risks to Our View:

Weakening client or global growth prospects. Global economic slowdown; weakening of clients' end-demand and/or the US Dollar (USD) could dampen revenue growth.

At A Glance

Issued Capital (m shrs)	291
Mkt. Cap (S\$m/US\$m)	5,138 / 3,796
Major Shareholders (%)	
Wong Ngit Liong	7.0
Schroders PLC	7.0
Blackrock Inc	6.2
Free Float (%)	79.8
3m Avg. Daily Val (US\$m)	12.1
GIC Industry : Information Technology / Technology Hardware & Equipment	



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WHAT'S NEW

Ending the year with a strong 4Q; net margin for FY21 sustained at 10%

Results Review

FY21 results in line; 50Scts DPS declared. Venture reported 5% y-o-y rise in net profit to S\$312.1m, on the back of the 3.1% gain in revenue to S\$3,107.5m, in line with our estimates. The robust performance is attributable to growth across Venture's various technology domains. A final DPS of 50Scts was declared, bringing full year DPS to 75Scts, similar to FY20. This works out to a dividend payout ratio of 70% (73% in FY20).

A strong 4Q21 on improving supply chain situation and COVID lockdowns. Revenue in 4Q21 increased 17.6% q-o-q to S\$905.4m while net profit grew 22.9% to S\$94.6m to account for 30% of the total net profit in FY21. All the various tech domains recorded positive growth in 4Q21 as compared to 3Q21. In 3Q21, Venture was affected by the sporadic lockdowns in Southeast Asia, including its manufacturing facilities in Malaysia, due to the pandemic. With the high vaccination rate of more than 96% of its workforce in Malaysia as of September 2021, Venture was able to run at almost full capacity in 4Q21. Though the bulk of orders were fulfilled in 4Q21, there was still some backlog.

2021 sequential results summary

(S\$m)	FY21	1Q21	2Q21	3Q21	4Q21
Revenue	3,107.5	686.7	745.5	769.9	905.4
Pretax profit	359.6	75.0	86.7	88.2	109.7
PBT margin	11.6%	10.9%	11.6%	11.5%	12.1%
Net profit	312.1	65.3	75.1	77.0	94.6
Net margin	10.0%	9.5%	10.1%	10.0%	10.5%

Source: Company; DBS Bank

Working with various parties to meet customers' commitments. With regards to the supply chain disruptions, Venture has been working with its customers to manage its inventories. It has set up special task forces to work collaboratively with customers and suppliers, as well as relevant government agencies and industry associations, to overcome supply chain disruptions and meet customers' commitments. Though the situation is improving, it is not out of the woods yet. Some of critical parts that are still in shortage include integrated circuit (ICs). With its technological capabilities, Venture is also working with its customers to design some of the parts that are in shortage.

With the increase in capacity from chip manufacturers gradually coming online, we believe the chip shortage is likely to resolve in 2H23 when the bulk of the new production capacity comes fully online.

Strong net margin of 10.5% in 4Q21, 10% in FY21. Net margin for 4Q21 improved to 10.5% from 10% in 3Q21. For FY21, the group recorded a net margin of 10%. Venture has been able to manage costs well, despite the challenging environment. This was achieved with improving productivity and efficiency, and the support of its customers to shoulder part of the cost increases given the supply chain bottlenecks.

Demand momentum remains strong, with a healthy order pipeline. Venture anticipates a robust demand outlook based on customers' orders and forecasts across various technology domains. Key growth segments include [Life Science](#), [Medical Devices](#), [Semiconductor](#) and [Lifestyle & Wellness](#). Positive market momentum is also visible across [Instrumentation](#), [Test and Measurement](#), [Networking & Communications](#), as well as [Advanced Industrials](#) domains, where several new product introductions are expected.

Gearing up for next phase of growth. The group is gearing up for its next phase of expansion, both organically and inorganically, by investing in new technological capabilities and human capital to support its strong business momentum across its technology domains. The group aims to have more differentiating capabilities, and innovative products, leveraging on its strength in R&D.

Earnings & Recommendation

Maintain BUY and S\$22.60 TP. No change to our forecasts as we have already factored in a stronger year in 2022, on the back of the easing of the supply chain disruptions and strong order momentum. Our TP of S\$22.60 is pegged to 19x PE, the peak in 2020, which is also near +2SD of its 4-year average forward PE, on FY22F earnings. Maintain BUY.

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 providing high-mix, high-value, and complex manufacturing.

Venture Corporation

Interim Income Statement (\$m)

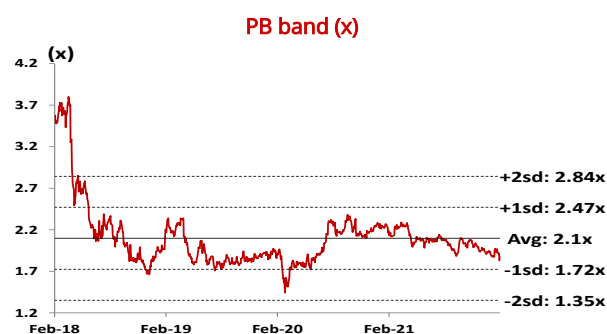
FY Dec	2H2020	1H2021	2H2021	% chg yoy	% chg hoh
Revenue	1,647	1,432	1,675	1.7	17.0
Cost of Goods Sold	(1,217)	(1,054)	(1,243)	2.1	17.9
Gross Profit	430	378	432	0.5	14.3
Other Oper. (Exp)/Inc	(240)	(220)	(237)	(1.4)	7.8
Operating Profit	190	158	195	2.8	23.4
Other Non Opg (Exp)/Inc	2	4	3	22.4	(26.9)
Associates & JV Inc	0	0	0	-	-
Net Interest (Exp)/Inc	0	0	0	-	-
Exceptional Gain/(Loss)	0	0	0	-	-
Pre-tax Profit	192	162	198	3.2	22.4
Tax	(25)	(21)	(26)	4.0	21.4
Minority Interest	0	0	0	-	-
Net Profit	167	140	172	2.9	22.3
Net profit bef Except.	167	140	172	2.9	22.3
EBITDA	214	183	218	1.7	19.1
Margins (%)					
Gross Margins	26.1	26.4	25.8		
Opg Profit Margins	11.5	11.0	11.6		
Net Profit Margins	10.1	9.8	10.2		

Source of all data: Company, DBS Bank

Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

Venture Corporation

Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Net margin (%)	9.99	9.87	10.0	10.0	10.0
% of SGA (%)	13.7	15.3	14.8	14.9	14.9

Segmental Breakdown

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (\$m)					
Advanced Manufacturing	2,775	2,151	1,563	1,251	1,001
Technology Products &	858	862	1,544	2,192	2,697
Total	3,633	3,013	3,107	3,443	3,697

Income Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	3,633	3,013	3,107	3,443	3,697
Cost of Goods Sold	(2,727)	(2,220)	(2,298)	(2,541)	(2,729)
Gross Profit	907	793	810	902	969
Other Opng (Exp)/Inc	(497)	(456)	(457)	(511)	(549)
Operating Profit	410	337	353	391	420
Other Non Opng (Exp)/Inc	11.0	6.23	6.77	6.77	6.77
Associates & JV Inc	0.04	0.0	0.20	0.20	0.20
Net Interest (Exp)/Inc	(0.5)	(0.5)	(0.4)	0.0	0.0
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	420	344	361	399	428
Tax	(56.6)	(45.4)	(47.3)	(52.8)	(56.6)
Minority Interest	(0.3)	(0.1)	(0.3)	(0.3)	(0.3)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	363	297	312	345	370
Net Profit before Except.	363	297	312	345	370
EBITDA	459	386	398	436	469
Growth					
Revenue Gth (%)	4.3	(17.1)	3.1	10.8	7.4
EBITDA Gth (%)	(1.2)	(16.0)	3.1	9.7	7.5
Opg Profit Gth (%)	(3.6)	(17.7)	4.7	10.9	7.3
Net Profit Gth (Pre-ex) (%)	(1.9)	(18.1)	4.9	10.7	7.2
Margins & Ratio					
Gross Margins (%)	25.0	26.3	26.1	26.2	26.2
Opg Profit Margin (%)	11.3	11.2	11.4	11.4	11.4
Net Profit Margin (%)	10.0	9.9	10.0	10.0	10.0
ROAE (%)	15.0	11.7	11.8	12.4	12.7
ROA (%)	11.2	9.1	9.1	9.3	9.4
ROCE (%)	14.5	11.4	11.5	12.2	12.4
Div Payout Ratio (%)	55.8	73.1	69.8	63.1	58.9
Net Interest Cover (x)	783.0	717.2	834.6	NM	NM

Source: Company, DBS Bank

Interim Income Statement (\$m)

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Revenue	1,801	1,366	1,647	1,432	1,675
Cost of Goods Sold	(1,347)	(1,002)	(1,217)	(1,054)	(1,243)
Gross Profit	454	363	430	378	432
Other Oper. (Exp)/Inc	(237)	(216)	(240)	(220)	(237)
Operating Profit	203	147	190	158	195
Other Non Opp (Exp)/Inc	5.86	3.89	2.34	3.91	2.86
Associates & JV Inc	0.0	0.0	0.0	0.0	0.20
Net Interest (Exp)/Inc	(0.3)	(0.3)	(0.2)	(0.2)	(0.2)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	208	151	192	162	198
Tax	(26.8)	(20.5)	(24.9)	(21.4)	(25.9)
Minority Interest	(0.2)	(0.1)	0.01	0.03	(0.3)
Net Profit	181	131	167	140	172
Net profit bef Except.	181	131	167	140	172
EBITDA	232	175	214	183	218

Growth

Revenue Gth (%)	(1.7)	(24.2)	20.6	(13.1)	17.0
EBITDA Gth (%)	0.1	(24.6)	22.6	(14.6)	19.1
Opp Profit Gth (%)	(1.8)	(27.3)	28.6	(16.7)	23.4
Net Profit Gth (%)	(0.1)	(28.1)	27.8	(15.8)	22.3

Margins

Gross Margins (%)	25.2	26.6	26.1	26.4	25.8
Opp Profit Margins (%)	11.3	10.8	11.5	11.0	11.6
Net Profit Margins (%)	10.1	9.6	10.1	9.8	10.2

Balance Sheet (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	232	227	215	218	217
Invts in Associates & JVs	0.76	0.73	0.63	0.83	1.03
Other LT Assets	696	689	682	682	681
Cash & ST Invts	714	929	808	799	851
Inventory	706	656	1,049	1,163	1,249
Debtors	899	703	829	919	987
Other Current Assets	25.8	35.5	50.9	50.9	50.9
Total Assets	3,274	3,240	3,635	3,832	4,037
ST Debt	1.06	0.0	0.0	0.0	0.0
Creditor	490	398	644	713	766
Other Current Liab	264	239	264	264	264
LT Debt	0.0	0.0	0.0	0.0	0.0
Other LT Liabilities	20.4	14.2	8.31	8.31	8.31
Shareholder's Equity	2,496	2,586	2,716	2,844	2,996
Minority Interests	2.40	2.68	3.10	3.10	3.10
Total Cap. & Liab.	3,274	3,240	3,635	3,832	4,037
Non-Cash Wkg. Capital	877	758	1,022	1,156	1,257
Net Cash/(Debt)	713	929	808	799	851
Debtors Turn (avg days)	82.1	97.0	90.0	92.7	94.1
Creditors Turn (avg days)	69.2	74.4	84.0	98.9	100.4
Inventory Turn (avg days)	102.8	114.2	137.7	161.2	163.7
Asset Turnover (x)	1.1	0.9	0.9	0.9	0.9
Current Ratio (x)	3.1	3.7	3.0	3.0	3.0
Quick Ratio (x)	2.1	2.6	1.8	1.8	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 (%)	3,281.9	N/A	N/A	N/A	N/A
Z-Score (X)	7.2	7.3	7.3	7.3	7.3

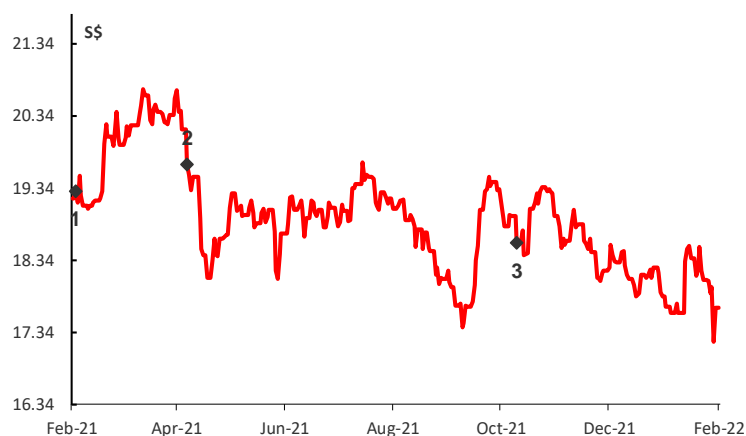
Source: Company, DBS Bank

Cash Flow Statement (\$\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	420	343	360	398	427
Dep. & Amort.	38.7	41.5	36.9	36.9	40.9
Tax Paid	(61.5)	(45.0)	(55.9)	(52.8)	(56.6)
Assoc. & JV Inc/(loss)	0.0	0.03	(0.2)	(0.2)	(0.2)
Chg in Wkg.Cap.	(157)	115	(242)	(133)	(101)
Other Operating CF	(10.7)	(1.0)	3.05	0.0	0.0
Net Operating CF	230	453	102	249	310
Capital Exp.(net)	(34.7)	(27.6)	(11.0)	(40.0)	(40.0)
Other Invs.(net)	(1.4)	0.0	0.0	0.0	0.0
Invs in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	11.4	7.71	8.90	0.0	0.0
Net Investing CF	(24.7)	(19.9)	(2.1)	(40.0)	(40.0)
Div Paid	(202)	(217)	(218)	(218)	(218)
Chg in Gross Debt	(0.7)	(1.1)	0.0	0.0	0.0
Capital Issues	5.52	15.6	5.72	0.0	0.0
Other Financing CF	(8.1)	(11.8)	(13.6)	0.0	0.0
Net Financing CF	(205)	(214)	(226)	(218)	(218)
Currency Adjustments	1.67	(4.7)	5.17	0.0	0.0
Chg in Cash	1.64	214	(121)	(9.1)	52.3
Opg CFPS (S cts)	133	117	118	132	142
Free CFPS (S cts)	67.3	147	31.3	71.9	93.0

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:	01 Mar 21	19.30	24.30	BUY
2:	03 May 21	19.67	22.70	BUY
3:	05 Nov 21	18.58	22.60	BUY

Source: DBS Bank

Analyst: Lee Keng LING

DBS Bank recommendations are based on an 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 share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 28 Feb 2022 07:02:35 (SGT)

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