

COMPANY RESULTS

Venture Corporation (VMS SP)

2021: Results Above Expectations; Robust Customers' Outlook

VMS's 2021 earnings of S\$312m (+5% yoy) beat our expectation by 5%. 4Q21 recorded a strong growth of 23% qoq due to improvement in component shortages, resumption of full labour force and fulfilment of backlog orders. VMS anticipates a robust demand outlook based on customers' orders and forecasts across various technology domains. As a result, we raise our 2022 and 2023 EPS forecasts by 4%. Maintain BUY with a 4% higher target price of S\$22.80 (pegged to +1SD, 19.5x 2022F PE).

2021 RESULTS

Year to 31 Dec (S\$m)	2021	2020	yoy % chg	4Q21	3Q21	qoq % chg
Revenue	3,107.5	3,012	3.1	905.4	769.9	17.6
PBT	359.6	342.8	4.9	109.7	88.2	24.3
PBT margin (%)	11.6	11.4	0.2ppt	12.1	11.5	0.6ppt
Net profit	312.1	297.3	5.0	94.6	77.0	22.9
Net margin (%)	10.0	9.9	0.1ppt	10.5	10.0	0.5ppt

Source: Venture, UOB Kay Hian

RESULTS

- Results above expectations due to improvement in component shortages and labour force.** Venture Corporation's (VMS) 2021 earnings of S\$312m (+5% yoy) beat our expectation by 5%. 4Q21 recorded a strong growth of 23% qoq due to an improvement in component shortages, the full resumption of its labour force since Sep 21 and fulfilment of backlog orders. Overall, the strong performance is attributable to diversified growth across VMS' various technology domains. Amid global component shortages and lockdowns, VMS's special task forces worked collaboratively with customers, suppliers, relevant government agencies and industry associations to overcome supply chain disruptions.
- VMS anticipates a robust demand outlook** based on customers' orders and forecasts across various technology domains. In the life science domain, demand for products in the area of analytical instruments remains strong. Growing trends in next-generation sequencing and other breakthrough technologies where its R&D Labs are engaged are driving demand. Positive market momentum is also visible across instrumentation, test and measurement, networking and communications, as well as advanced industrials domains, where several new product introductions are expected. Customers in the lifestyle and wellness sectors have provided positive outlook.
- Positive signal from recent share purchases of the Executive Chairman.** On 8 Nov 21, Mr Wong Ngit Leong, the Executive Chairman and largest shareholder of VMS, acquired 200,000 shares at S\$18.73/share. Previously, his acquisition of 566,300 shares at an average price of S\$14.45/share from Jul-Sep 17 turned out to be a strong positive signal as VMS's share price hit an all-time high of S\$29.50 in Apr 18.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	3,013	3,107	3,404	3,718	4,037
EBITDA	375	388	419	451	487
Operating profit	334	351	384	417	455
Net profit (rep./act.)	297	312	339	369	402
Net profit (adj.)	297	312	339	369	402
EPS (S cent)	102.3	107.5	116.9	127.0	138.4
PE (x)	17.3	16.4	15.1	13.9	12.8
P/B (x)	2.0	1.9	1.8	1.7	1.6
EV/EBITDA (x)	10.9	10.5	9.7	9.0	8.4
Dividend yield (%)	4.2	4.2	4.5	4.5	4.5
Net margin (%)	9.9	10.0	10.0	9.9	10.0
Net debt/(cash) to equity (%)	(35.9)	(29.7)	(37.8)	(37.2)	(37.3)
ROE (%)	11.7	11.8	12.3	12.7	13.2
Consensus net profit	-	-	336	357	-
UOBKH/Consensus (x)	-	-	1.01	1.03	-

Source: VMS, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$17.68
Target Price	S\$22.80
Upside	+29.0%
(Previous TP)	S\$22.04

COMPANY DESCRIPTION

Venture Corporation is a leading global electronics services provider. It provides technology solutions, products and services over a diversified range of high-mix, high-value and complex products.

STOCK DATA

GICS sector	Information Technology
Bloomberg ticker:	VMS SP
Shares issued (m):	290.6
Market cap (S\$m):	5,137.7
Market cap (US\$m):	3,792.5
3-mth avg daily t'over (US\$m):	12.0

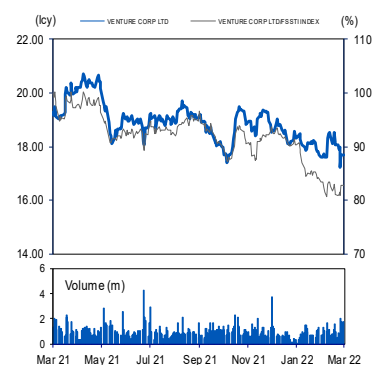
Price Performance (%)

52-week high/low	S\$20.71/S\$17.21				
1mth	3mth	6mth	1yr	YTD	
(1.2)	(8.3)	(7.9)	(10.3)	(3.4)	

Major Shareholders

	%
Wong Ngit Liong	7.0
FY22 NAV/Share (S\$)	9.73
FY22 Net Cash/Share (S\$)	3.67

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- **VMS remains positive on its long-term growth** as it continues to engage and collaborate with successful and innovative customers in various high-growth, fast expanding market segments. 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, and deliver sustainable growth to all stakeholders.
- **Strong balance sheet and good dividends provide limited share price downside.** As of end-21, VMS recorded net cash of S\$808m (accounting for about 15% of its current market cap) and led the pack of US-listed peers which were mostly in net debt positions. More importantly, VMS has consistently paid the same amount of dividends or better than that in the preceding years.

EARNINGS REVISION/RISK

- We raise our 2022-23 revenue and earnings forecasts by 4%, to account for the robust demand outlook of VMS based on its customers' orders and forecasts across various technology domains. In addition, our channel check suggests that most of VMS' customers are guiding for revenue growth for 2022.

VALUATION/RECOMMENDATION

- **Maintain BUY with a 4% higher target price of S\$22.80 (S\$22.04 previously)**, pegged to +1SD above its forward mean PE, of 19.5x on 2022F earnings. At the current price, VMS offers an attractive dividend yield of 4.5%.

POSITIVE GUIDANCE OF KEY CUSTOMERS

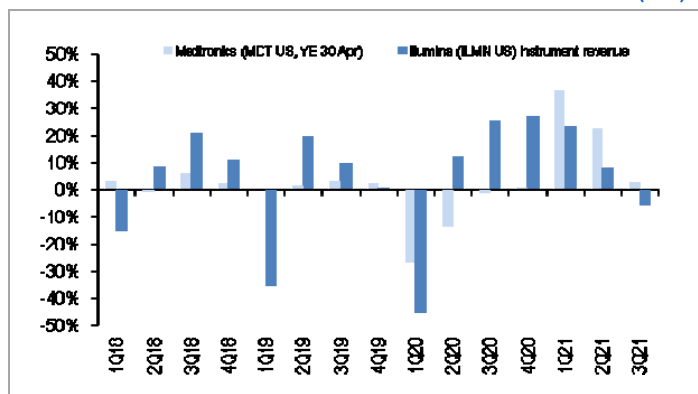
- Broadcomm: Expects 1Q22 revenue growth of 14% yoy.
- NCR: 2022 guidance of 12-15% yoy revenue growth and 27-39% yoy EPS growth.
- Agilent: 2022 guidance of 7% yoy revenue and EPS growth.
- Fortive: Expects 2022 revenue growth of 7% yoy.
- Keysight: Expects 2022 revenue growth of 5% yoy.
- Waters: Expects 2022 revenue growth of 6% yoy.
- Philip Morris: Expects 2021 revenue growth of 7% yoy and EPS growth of 14% yoy.

LONG-TERM FORWARD MEAN PE



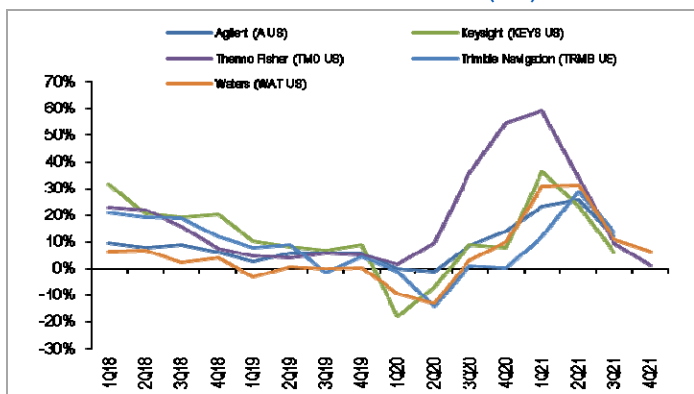
Source: Bloomberg, UOB Kay Hian

TEST & MEASUREMENT AND ANALYTICAL CLIENTS REVENUE GROWTH (YOY)



Source: Medtronics, Illumina, UOB Kay Hian

MEDICAL/LIFE SCIENCES CLIENTS REVENUE GROWTH (YOY)



Source: Agilent, Keysight, Thermo Fisher, Trimble Navigation, Waters, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	3,107.5	3,404.0	3,717.6	4,036.9
EBITDA	387.5	418.9	450.7	487.1
Deprec. & amort.	36.9	35.0	33.3	31.7
EBIT	350.6	383.8	417.4	455.5
Total other non-operating income	2.4	0.8	0.8	0.8
Associate contributions	0.2	0.2	0.2	0.2
Net interest income/(expense)	6.3	6.3	6.3	6.3
Pre-tax profit	359.6	391.2	424.8	462.8
Tax	(47.3)	(51.4)	(55.8)	(60.8)
Minorities	(0.3)	(0.3)	(0.3)	(0.3)
Net profit	312.1	339.5	368.7	401.7
Net profit (adj.)	312.1	339.5	368.7	401.7

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	101.8	519.0	295.3	325.1
Pre-tax profit	359.6	391.2	424.8	462.8
Tax	(55.9)	(51.4)	(55.8)	(60.8)
Deprec. & amort.	36.9	35.0	33.3	31.7
Associates	(0.2)	(0.2)	(0.2)	(0.2)
Working capital changes	(241.5)	151.2	(100.0)	(101.5)
Non-cash items	(0.5)	0.0	0.0	0.0
Other operating cashflows	3.6	(6.8)	(6.8)	(6.8)
Investing	(2.1)	(28.2)	(28.2)	(28.2)
Capex (growth)	(10.8)	(35.0)	(35.0)	(35.0)
Investments	(0.6)	0.0	0.0	0.0
Proceeds from sale of assets	3.0	0.0	0.0	0.0
Others	6.3	6.8	6.8	6.8
Financing	(225.7)	(232.2)	(232.2)	(232.2)
Dividend payments	(217.8)	(232.2)	(232.2)	(232.2)
Issue of shares	(2.8)	0.0	0.0	0.0
Proceeds from borrowings	5.7	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(10.9)	0.0	0.0	0.0
Net cash inflow (outflow)	(126.0)	258.6	34.8	64.7
Beginning cash & cash equivalent	928.7	807.9	1,066.5	1,101.4
Changes due to forex impact	5.2	0.0	0.0	0.0
Ending cash & cash equivalent	807.9	1,066.5	1,101.4	1,166.0

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	215.2	215.4	217.3	220.9
Other LT assets	682.6	682.5	682.5	682.4
Cash/ST investment	807.9	1,066.5	1,101.4	1,166.0
Other current assets	1,929.6	1,629.6	1,775.4	1,923.0
Total assets	3,635.3	3,594.0	3,776.5	3,992.3
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	907.5	758.7	804.6	850.6
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	8.3	8.3	8.3	8.3
Shareholders' equity	2,716.4	2,823.6	2,960.0	3,129.5
Minority interest	3.1	3.4	3.6	3.9
Total liabilities & equity	3,635.3	3,594.0	3,776.5	3,992.3

KEY METRICS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	12.5	12.3	12.1	12.1
Pre-tax margin	11.6	11.5	11.4	11.5
Net margin	10.0	10.0	9.9	10.0
ROA	9.1	9.4	10.0	10.3
ROE	11.8	12.3	12.7	13.2
Growth				
Turnover	3.1	9.5	9.2	8.6
EBITDA	3.2	8.1	7.6	8.1
Pre-tax profit	4.9	8.8	8.6	9.0
Net profit	5.0	8.8	8.6	9.0
Net profit (adj.)	5.0	8.8	8.6	9.0
EPS	5.1	8.8	8.6	9.0
Leverage				
Debt to total capital	0.0	0.0	0.0	0.0
Debt to equity	0.0	0.0	0.0	0.0
Net debt/(cash) to equity	(29.7)	(37.8)	(37.2)	(37.3)

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