

COMPANY UPDATE

Venture Corporation (VMS SP)

Expect Healthy Earnings Growth In 1Q22 On The Back Of Positive Outlook

We expect VMS to report 1Q22 earnings of S\$78m (23% of 2022), representing a 20% yoy growth. The strong growth will be driven by: a) robust demand outlook from VMS' customers, b) improvement in the global component shortages, and c) easing of border restrictions and restrictive measures in Malaysia. VMS is trading at an attractive valuation of 2022F ex-cash PE of 12x vs its clients' average PE of 28x along with a dividend yield of 4.7%. Maintain BUY and target price of S\$22.80.

WHAT'S NEW

- Robust demand outlook from VMS' customers.** In the list of Venture Corporation's (VMS) customers that we track, all the customers are guiding for revenue growth in the range of 5-16% yoy for 2022. This trend is consistent with VMS's latest outlook statement which highlighted that it expects 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 in are driving demand. Positive market momentum is also visible across instrumentation, test and measurement, networking and communications, as well as advanced industrials domains. More importantly, we believe VMS could capture higher growth than its customers' revenue growth, given its ability to provide customised solutions for new product launches and entry into new high-growth domains.
- Improvement in global component shortages.** In VMS' response to questions received from shareholders pre-AGM dated 21 Apr 22, it highlighted that the global components shortage is easing for some parts and by working closely with its customers and suppliers, VMS has created several pathways to overcome the shortage problem. In addition, our channel check with other manufacturing companies also suggests that the global component shortages are easing due to the reopening especially in Japan and Korea. Also, in Feb 22, Hon Hai, the biggest assembler of iPhones, highlighted that a major improvement in part shortages is likely in the first quarter, with overall supply constraints set to ease in the second half of the year.
- Malaysian plants should enjoy improved production capacity from removal of COVID-19 restrictions.** Since Jan 22, all the states in Malaysia, where VMS has the most of its manufacturing facilities in, have entered into Phase 4 of the National Recovery Plan (NRP), where the COVID-19 and movement restrictions have all been removed. To recap, VMS reported a soft 1Q21 due to the movement control in Malaysia and global component shortages.

KEY FINANCIALS

Year to 31 Dec (\$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 (\$ cent)	102.3	107.5	116.9	127.0	138.4
PE (x)	16.7	15.9	14.6	13.5	12.4
P/B (x)	1.9	1.8	1.8	1.7	1.6
EV/EBITDA (x)	10.4	10.1	9.3	8.7	8.0
Dividend yield (%)	4.4	4.4	4.7	4.7	4.7
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	-	-	345	372	402
UOBKH/Consensus (x)	-	-	0.98	0.99	1.00

Source: VMS, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$17.13
Target Price	S\$22.80
Upside	+33.1%

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):	290.7
Market cap (\$m):	4,979.2
Market cap (US\$m):	3,644.1
3-mth avg daily t'over (US\$m):	15.5

Price Performance (%)

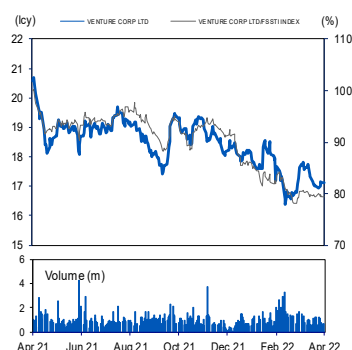
52-week high/low S\$20.691/S\$16.38

1mth	3mth	6mth	1yr	YTD
2.0	(6.0)	(11.8)	(15.3)	(6.4)

Major Shareholders

	%
Wong Ngit Liong	7.1
FY22 NAV/Share (\$)	9.73
FY22 Net Cash/Share (\$)	3.67

PRICE CHART



Source: Bloomberg

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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.
- **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.
- **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.
- **Positive guidance of key customers:**
 - Broadcom: 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.
 - Illumina: Expects 2022 revenue growth of 14-16% yoy.
 - Waters: Expects 2022 revenue growth of 6% yoy.
 - Philip Morris: Expects 2022 revenue growth of 4-6% yoy and EPS growth of 8-11%.

EARNINGS REVISION/RISK

- We maintain our earnings forecasts.

VALUATION/RECOMMENDATION

- **Maintain BUY and target price of S\$22.80**, pegged to +1SD above its forward mean PE, of 19.5x on 2022F earnings. Currently, VMS offers an attractive dividend yield of 4.7%.

PEER COMPARISON OF VMS' CLIENTS

Company	Ticker	Trading Curr (lcy)	Price @ 21 Apr 22 (lcy)	Market Cap (US\$m)	PE		P/B		Yield 2022 (%)	ROE 2022 (%)	Net Gearing (%)
					2022 (x)	2023 (x)	2022 (x)	2023 (x)			
Broadcom Inc	AVGO US	US\$	592.73	242,000	16.6	15.3	12.0	11.9	2.7	63.8	127.4
Agilent Technologies Inc	A US	US\$	125.29	37,601	25.7	23.3	6.3	5.8	0.7	25.9	30.5
Keysight Technologies Inc	KEYS US	US\$	149.35	27,178	21.3	19.7	6.3	5.3	0.2	30.8	1.0
Thermo Fisher Scientific	TMO US	US\$	580.43	227,203	25.8	23.9	5.0	4.8	0.2	21.4	77.8
Fortive Corp	FTV US	US\$	59.70	21,436	19.3	17.4	2.1	2.0	0.5	11.5	34.9
Illumina Inc	ILMN US	US\$	335.79	52,748	81.2	64.2	4.5	4.1	0.0	5.8	11.2
Medtronic Plc	MDT US	US\$	113.09	151,715	19.5	17.9	2.8	2.7	2.3	14.7	26.4
Trimble Inc	TRMB US	US\$	68.95	17,263	23.8	21.0	3.8	3.3	n.a.	14.9	28.5
Philip Morris International	PM US	US\$	105.06	162,852	18.2	16.4	n.a.	n.a.	4.9	(82.1)	n.a.
Average					27.9	24.3	5.4	5.0	1.4	11.9	42.2

Source: Bloomberg, UOB Kay Hian

LONG-TERM PE CHART



Source: Bloomberg, 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

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

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

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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