



Venture Corporation Limited

Earnings close to record levels

SINGAPORE | TECHNOLOGY MANUFACTURING | 1Q22 UPDATE

- 1Q22 PAT rose 28% YoY to S\$84mn and beat our estimates by 10%. It was the 2nd highest Mar quarter for Venture. PAT was 23% of our FY22e forecast.
- Venture has coped well with supply chain challenges through a strong balance sheet to bulk up on inventories and re-design of products with new components.
- Outlook remains upbeat with customers committing to six to 12 months of visibility. We also believe new products especially life science are gaining more traction. Despite the earnings beat, we maintain our FY22e PATMI. We are incorporating a buffer as the slowing macro environment remains a concern. The target price of S\$20.00 is unchanged and based on 16x PE FY22e, its 5-year average. Our recommendation is upgraded from ACCUMULATE to BUY. The current share price offers a 5% dividend yield with an attractive unlevered ROE of 13% and a net cash balance sheet of S\$808mn.

Results at a glance

SGDmn	1Q22	1Q21	YoY	Comments
Revenue	889.3	686.7	29.5%	2nd highest March quarter revenue.
PBT	102.6	75.0	36.8%	
PBT margin	11.5%	10.9%	0.6%	
Net profit	84.0	65.3	28.6%	
Net margin	9.4%	9.5%	-0.1%	
Net cash	815.1	989.6	-17.6%	Inventory was up S\$462mn YoY to S\$1.1bn.

Source: Company, PSR #Note – Only selected financials are provided in the 1Q22 update.

The Positive

+ Revenue building up momentum. Revenue momentum has picked up since 4Q21. Revenue is recovering to pre-pandemic levels as factory closures and supply chain disruptions over the past two years start to ease. Due to long lead times and shortages, Venture has managed to re-design products with alternative components.

The Negative

- Inventories spiked almost 70% YoY to S\$1.1bn. To support customer orders, Venture needs to hold inventories of semiconductors, materials and other components. It is a near-term drag on working capital. Both receivables and inventory are up S\$680mn YoY. The additional working capital required was \$370mn to fund the \$283mn increase in revenue over the past 12 months as payables jumped by S\$305mn. Net cash dropped to S\$815mn from S\$989mn a year ago.

Outlook

We expect FY22e to be a recovery year for Venture as: (i) There is order visibility as customers make longer-term commitments to ensure supply; (ii) Growth is broad-based across six of their seven key industries; (iii) Rebound from last year's factory shutdown in Malaysia; and (iv) New products gaining more traction with customers, namely in life science and lifestyle and wellness.

Upgrade to BUY from ACCUMULATE with an unchanged TP of S\$20.00

Our FY22e revenue and earnings forecast are unchanged.

3 May 2022

BUY (Upgraded)

CLOSING PRICE	SGD 17.15
FORECAST DIV	SGD 0.85
TARGET PRICE	SGD 20.00
TOTAL RETURN	21.6%

COMPANY DATA

BLOOMBERG CODE:	VMS SP
O/S SHARES (MN):	291
MARKET CAP (USD mn / SGD mn):	3607 / 4985
52 - WK HI/LO (SGD):	20.23 / 16.24
3M Average Daily T/O (mn):	1.21

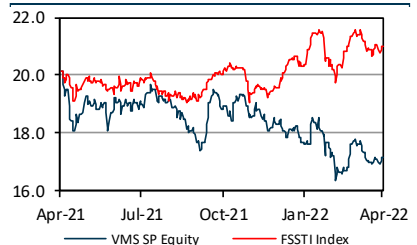
MAJOR SHAREHOLDERS

Wong Ngit Liong	7.1%
Schroders PLC	6.8%
BlackRock Inc	5.9%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(2.4)	(2.6)	(6.3)
STI RETURN	(0.8)	4.4	8.7

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD mn	FY20	FY21	FY22e	FY23e
Revenue	3,013	3,107	3,403	3,641
EBITDA	375.4	387.7	449.8	466.0
Net Profit	297.3	312.1	363.1	372.7
P/E (X)	16.7	16.0	13.7	13.4
Dividend Yield	4.4%	4.4%	5.0%	5.0%
ROE	11.5%	11.5%	12.7%	12.4%
ROA	9.2%	8.6%	9.7%	9.5%

Source: Company, PSR

VALUATION METHOD

16x PE Multiple FY22e

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Financials

Income Statement

Y/E Dec, SGD '000	FY19	FY20	FY21	FY22e	FY23e
Revenue	3,633,431	3,012,894	3,107,457	3,402,665	3,640,852
Gross profit	907,505	796,450	811,973	913,414	966,326
EBITDA	447,488	375,384	387,711	449,832	466,029
Depreciation & Amortisation	(38,692)	(41,607)	(36,879)	(39,860)	(42,855)
EBIT	408,796	333,777	350,832	409,972	423,174
Net Finance Inc/(Exp)	(523)	(470)	(423)	0	0
Profit before tax	420,024	342,830	359,588	419,909	433,553
Taxation	(56,643)	(45,426)	(47,266)	(56,688)	(60,697)
PATMI	363,130	297,325	312,051	363,071	372,705

Per share data (SGD Cents)

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
EPS, reported	125.3	102.5	107.4	125.0	128.3
DPS	70.0	75.0	75.0	85.0	85.0
BVPS	8.6	8.9	9.4	9.9	10.4

Cash Flow

Y/E Dec, SGD '000	FY19	FY20	FY21	FY22e	FY23e
CFO					
Profit before tax	420,024	342,830	359,588	419,909	433,553
Adjustments	28,504	40,938	40,141	31,922	34,435
WC changes	(156,795)	114,872	(241,543)	(57,930)	127,940
Cash generated from ops	291,733	498,640	158,186	393,901	595,928
Tax paid	(61,509)	(45,020)	(55,928)	(56,688)	(60,697)
Others	(523)	(470)	(423)	0	0
Cashflow from ops	229,701	453,150	101,835	337,213	535,231
CFI					
CAPEX, net	(35,071)	(27,768)	(10,793)	(30,000)	(35,000)
Others	10,329	7,880	8,704	8,237	8,679
Cashflow from investments	(24,742)	(19,888)	(2,089)	(21,763)	(26,321)
CFE					
Share issuance, net	7,698	15,554	5,724	0	0
Loans, net of repayments	(4,021)	(1,120)	0	0	0
Dividends	(201,694)	(216,900)	(217,822)	(217,926)	(232,454)
Others	(6,969)	(11,786)	(13,623)	0	0
Cashflow from financing	(204,986)	(214,252)	(225,721)	(217,926)	(232,454)
Net change in cash	(27)	219,010	(125,975)	97,524	276,455
CCE, end	714,467	928,740	807,934	905,458	1,181,914

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

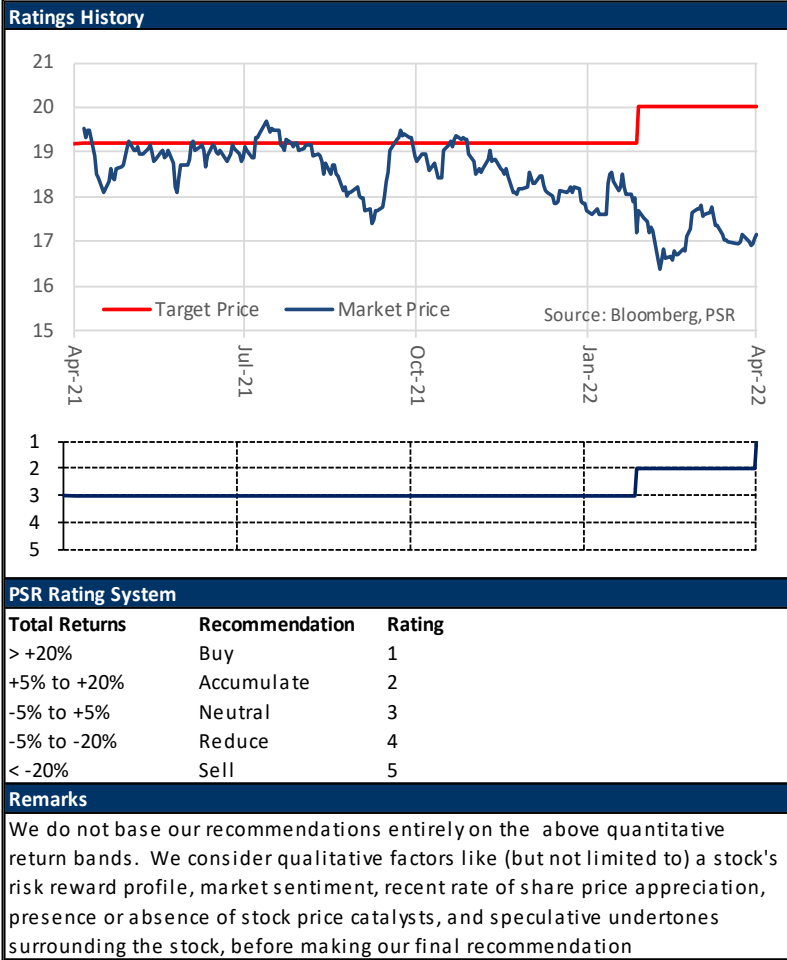
Y/E Dec, SGD '000	FY19	FY20	FY21	FY22e	FY23e
ASSETS					
PPE	231,739	226,704	215,169	205,060	196,976
Others	697,170	689,533	682,571	682,522	682,492
Total non-current assets	928,909	916,237	897,740	887,582	879,468
Receivables	916,237	721,377	860,125	983,626	941,093
Cash	714,467	928,740	807,934	905,458	1,181,914
Inventories	706,150	656,453	1,049,429	952,746	910,213
Others	8,482	16,760	20,033	20,033	20,033
Total current assets	2,345,336	2,323,330	2,737,521	2,861,864	3,053,253
Total Assets	3,274,245	3,239,567	3,635,261	3,749,445	3,932,720
LIABILITIES					
Accounts payables	659,981	555,784	799,952	768,841	811,714
Tax payable	34,274	34,187	25,764	25,764	25,764
Bank loan	1,058	0	0	0	0
Others	49,380	36,152	73,052	73,052	73,052
Total current liabilities	755,294	636,228	907,499	876,388	919,261
Deferred tax liabilities	3,040	3,365	3,512	3,512	3,512
Total non-current liabilities	20,358	14,210	8,312	8,312	8,312
Total Liabilities	775,652	650,438	915,811	884,700	927,573
EQUITY					
Non-controlling Interests	2,395	2,679	3,098	3,248	3,398
Shareholder's Equity	2,496,198	2,586,450	2,716,352	2,861,498	3,001,749

Valuation Ratios

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/E (X)	13.7	16.7	16.0	13.7	13.4
P/B (X)	2.0	1.9	1.8	1.7	1.7
EV/EBITDA (X)	9.5	10.8	10.7	9.0	8.1

Growth & Margins

Growth					
Revenue	4.3%	-17.1%	3.1%	9.5%	7.0%
EBITDA	-1.4%	-16.1%	3.3%	16.0%	3.6%
EBIT	-3.4%	-18.4%	5.1%	16.9%	3.2%
PATMI	-1.9%	-18.1%	5.0%	16.3%	2.7%
Margins					
Gross margin	25.0%	26.4%	26.1%	26.8%	26.5%
EBITDA margin	12.3%	12.5%	12.5%	13.2%	12.8%
EBIT margin	11.3%	11.1%	11.3%	12.0%	11.6%
Net profit margin	10.0%	9.9%	10.0%	10.7%	10.2%
Key Ratios					
ROE	14.5%	11.5%	11.5%	12.7%	12.4%
ROA	11.1%	9.2%	8.6%	9.7%	9.5%
Dividend Yield	4.1%	4.4%	4.4%	5.0%	5.0%
Dividend Payout Ratio	55.8%	73.2%	69.8%	68.0%	66.3%



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