

# 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

4 May 2022

### BUY

Last Traded Price (29 Apr 2022): S\$17.15 (STI : 3,356.90)  
Price Target 12-mth: S\$22.70 (32% upside) (Prev S\$22.60)

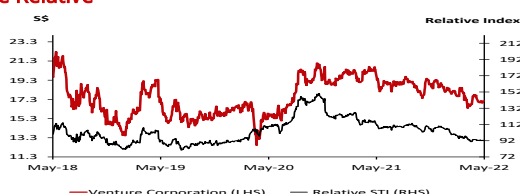
#### Analyst

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#### What's New

- 1Q22 slightly above expectations; revenue similar to pre-COVID level
- Continued growth momentum; steady demand outlook
- Pretax margin was strong but net margin affected by higher tax rate
- Maintain BUY with TP of S\$22.70 based on 19x FY22F PE

#### Price Relative



#### Forecasts and Valuation

FY Dec (S\$m)	2020A	2021A	2022F	2023F
Revenue	3,013	3,107	3,644	3,872
EBITDA	386	398	457	489
Pre-tax Profit	344	361	420	448
Net Profit	297	312	348	371
Net Pft (Pre Ex.)	297	312	348	371
Net Pft Gth (Pre-ex) (%)	(18.1)	4.9	11.4	6.6
EPS (S cts)	103	107	120	128
EPS Pre Ex. (S cts)	103	107	120	128
EPS Gth Pre Ex (%)	(18)	5	11	7
Diluted EPS (S cts)	103	107	120	128
Net DPS (S cts)	75.0	75.0	75.0	75.0
BV Per Share (S cts)	893	935	980	1,032
PE (X)	16.7	16.0	14.3	13.4
PE Pre Ex. (X)	16.7	16.0	14.3	13.4
P/Cash Flow (X)	11.0	48.9	29.1	15.5
EV/EBITDA (X)	10.5	10.5	9.3	8.6
Net Div Yield (%)	4.4	4.4	4.4	4.4
P/Book Value (X)	1.9	1.8	1.8	1.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	11.7	11.8	12.5	12.7
Earnings Rev (%)			1	0
Consensus EPS (S cts):			119	128
Other Broker Recs:		B: 11	S: 1	H: 1

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

### Growth momentum continues

#### Investment Thesis:

Growth momentum continues on the back of robust demand. Venture saw broad-based growth in most segments, a result of the sustained growth momentum from 4Q21. We expect the strong momentum to continue in the next few quarters, barring any worsening of lockdowns, especially in China. We project revenue to reach the pre-pandemic level of c.S\$3.6bn but net margins to be lower, at 9.5%- 9.6%, due to supply chain disruptions, inflationary pressure, and a higher tax rate. Nevertheless, we still expect a 11%/7% growth in net profit for FY22F/23F. We remain positive about Venture, as the group continues to build on its capabilities to attract quality customers. Coupled with a nimble and dynamic structure, the group is able to respond to changes swiftly.

**Strong financials to support dividend.** A strong net cash position of S\$815.1m as at end-March 2022 with no debt would support at least a repeat of the 75 Scts DPS in FY22, which works out to an attractive yield of c.4%. Net cash per share works out to S\$2.81.

#### Valuation:

Maintain BUY and TP of S\$22.70. Our TP of S\$22.70 is still pegged to a 19x PE, the peak in 2020, which is also near +2SD of its four-year average forward PE, on FY22F earnings.

#### Where we differ:

We remain positive about 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)	4,983 / 3,594
Major Shareholders (%)	
Wong Ngit Liong	7.1
Schroders PLC	6.8
Blackrock Inc	5.9
Free Float (%)	80.2
3m Avg. Daily Val (US\$m)	15.2
GIC Industry : Information Technology / Technology Hardware & Equipment	



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## WHAT'S NEW

### 1Q22 slightly above expectations, riding on continued growth momentum

**1Q22 slightly above expectations; revenue similar to pre-COVID level.** Venture reported a 29.5% y-o-y increase in 1Q22 revenue to S\$889.3m (-1.8% q-o-q), riding on the growth momentum from last year. This revenue level is similar to the pre-COVID levels of S\$856m in 1Q18 and S\$929m in 1Q19. 1Q22 revenue and pretax profit account for 26% of our full-year forecasts, vs. 21%-22% in 1Q21, slightly above expectations, as 1Q is a seasonally weaker quarter.

**Steady demand outlook.** The strong performance is attributable to broad-based growth across most of Venture's technology domains, underpinned by robust demand from customers in the Lifestyle & Wellness, Advanced Payment Systems, Advanced Industrial and Instrumentation, Test and Measurement Technology domains. The Networking & Communications, Security & Safety, Building Automation, and Industrial IoT segments saw flat y-o-y growth, partly due to a higher base during the COVID pandemic in 2021. Recent new product launches have also been well received by end customers and have contributed to additional growth. The slight 1.8% drop in revenue from 4Q21 was mainly due to the seasonality factor and a shorter production period during the CNY period.

### Broad-based y-o-y growth across domains

Portfolio A	
Life Science, Genomics, Molecular Diagnostics, and Related Materials Technology	Growth
Medical Devices and Equipment	Growth
Healthcare & Wellness Technology, Lifestyle Consumer Tech, Health Improvement Products, and Others	Growth
<b>Overall Portfolio A Performance</b>	<b>Growth</b>
Portfolio B	
Instrumentation, Test & Measurement Technology	Growth
Networking & Communications, Security & Safety, Building Automation, and Industrial IoT	Flat
Advanced Payment Systems	Growth
Computing & Productivity Systems, Advanced Industrial Technology, Printing & Imaging, Related Components Technology, and Others	Growth
<b>Overall Portfolio B Performance</b>	<b>Growth</b>

Source: Company, DBS Bank

**Pretax margin was strong but net margin affected by higher tax rate.** Net profit gained 28.6% y-o-y (-11.2% q-o-q), landing at S\$84m. The net margin of 9.5% is similar to that of 1Q21 but lower than the 10.5% in 4Q21 and 10% for FY21. This was mainly due to a higher tax rate of 18% (vs. 12.9% in 1Q21), as some of the tax incentives that the group previously enjoyed were removed. Pretax margin was strong at 11.5% in 1Q22, vs. 10.9% in 1Q21. Venture's differentiating capabilities, especially in R&D, have enabled the group to add value for its customers. Venture works with more than 50% of its customers on R&D content. Hence, we expect the group to be in a better position to command higher margins moving forward.

### 1Q22 results summary

(\$m)	1Q22	1Q21	% chg
Revenue	889.3	686.7	+29.5
Pretax profit	102.6	75.0	+36.9
PBT margin (%)	11.5	10.9	
Income tax expense	-18.5	-9.6	+91.5
Effective tax rate (%)	18.0	12.9	
Net profit	84.0	65.3	+28.6
Net margin (%)	9.5	9.5	

Source: Company, DBS Bank

**Higher working capital in particular inventories.** Working capital for 1Q22 has increased to S\$1,340m, 8.5% higher than 4Q21. The group continues to hold higher inventories to support customers' orders in the coming quarters. More customers are also willing to extend longer order commitment, as the supply chain situation remains challenging.

**Impact from higher revenue projections partly offset by higher tax.** We have raised FY22F/23F revenue by 6%/5% on the back of the strong order momentum. As a prudent approach, we have also assumed the tax rate would revert to 17%, the corporate rate in Singapore, vs. 13.3% previously, which includes some tax incentives enjoyed by the group. Hence, net earnings for FY22F only saw a 1% increase. No change in earnings for FY23F. Net margin is reduced to 9.5%/9.6% for FY22F/23F, from 10% previously.

**Venture Corporation**

**Maintain BUY, TP: S\$22.70.** We remain positive about Venture, as the group continues to build on its capabilities to attract quality customers. Coupled with a nimble and dynamic structure, the group is able to respond to changes swiftly. Our TP of S\$22.70 (previously S\$22.60) is still pegged to 19x PE, the peak in 2020, which is also near +2SD of its four-year average forward PE, on FY22F earnings. Maintain BUY.

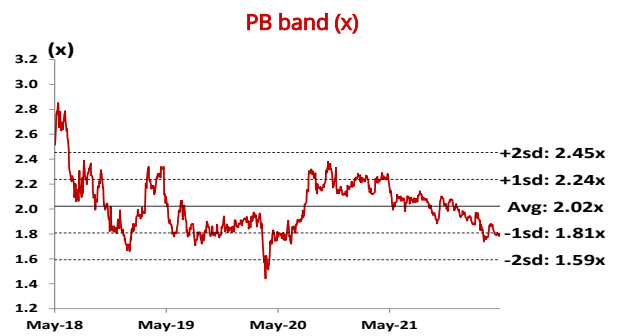
**Company Background**

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.

**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	9.54	9.57
% of SGA (%)	13.7	15.3	14.8	14.9	14.9

### Segmental Breakdown

FY Dec	2019A	2020A	2021A	2022F	2023F
<b>Revenues (\$m)</b>					
Advanced Manufacturing & Design Solutions	2,775	2,151	1,563	1,251	1,001
Technology Products & Design Solutions (TPS)	858	862	1,544	2,393	2,872
<b>Total</b>	<b>3,633</b>	<b>3,013</b>	<b>3,107</b>	<b>3,644</b>	<b>3,872</b>

### Income Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	3,633	3,013	3,107	3,644	3,872
Cost of Goods Sold	(2,727)	(2,220)	(2,298)	(2,691)	(2,858)
<b>Gross Profit</b>	<b>907</b>	<b>793</b>	<b>810</b>	<b>953</b>	<b>1,015</b>
Other Opng (Exp)/Inc	(497)	(456)	(457)	(541)	(575)
<b>Operating Profit</b>	<b>410</b>	<b>337</b>	<b>353</b>	<b>412</b>	<b>440</b>
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
<b>Pre-tax Profit</b>	<b>420</b>	<b>344</b>	<b>361</b>	<b>420</b>	<b>448</b>
Tax	(56.6)	(45.4)	(47.3)	(71.3)	(76.0)
Minority Interest	(0.3)	(0.1)	(0.3)	(0.3)	(0.3)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>363</b>	<b>297</b>	<b>312</b>	<b>348</b>	<b>371</b>
Net Profit before Except.	363	297	312	348	371
EBITDA	459	386	398	457	489
<b>Growth</b>					
Revenue Gth (%)	4.3	(17.1)	3.1	17.3	6.3
EBITDA Gth (%)	(1.2)	(16.0)	3.1	14.9	6.9
Opg Profit Gth (%)	(3.6)	(17.7)	4.7	16.8	6.7
Net Profit Gth (Pre-ex) (%)	(1.9)	(18.1)	4.9	11.4	6.6
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	25.0	26.3	26.1	26.2	26.2
Opg Profit Margin (%)	11.3	11.2	11.4	11.3	11.4
Net Profit Margin (%)	10.0	9.9	10.0	9.5	9.6
ROAE (%)	15.0	11.7	11.8	12.5	12.7
ROA (%)	11.2	9.1	9.1	9.3	9.3
ROCE (%)	14.5	11.4	11.5	12.3	12.5
Div Payout Ratio (%)	55.8	73.1	69.8	62.7	58.8
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)
<b>Gross Profit</b>	<b>454</b>	<b>363</b>	<b>430</b>	<b>378</b>	<b>432</b>
Other Oper. (Exp)/Inc	(237)	(216)	(240)	(220)	(237)
<b>Operating Profit</b>	<b>203</b>	<b>147</b>	<b>190</b>	<b>158</b>	<b>195</b>
Other Non Opg (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
<b>Pre-tax Profit</b>	<b>208</b>	<b>151</b>	<b>192</b>	<b>162</b>	<b>198</b>
Tax	(26.8)	(20.5)	(24.9)	(21.4)	(25.9)
Minority Interest	(0.2)	(0.1)	0.01	0.03	(0.3)
<b>Net Profit</b>	<b>181</b>	<b>131</b>	<b>167</b>	<b>140</b>	<b>172</b>
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
Opg 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
Opg 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	682
Cash & ST Invts	714	929	808	721	784
Inventory	706	656	1,049	1,231	1,308
Debtors	899	703	829	972	1,033
Other Current Assets	25.8	35.5	50.9	50.9	50.9
<b>Total Assets</b>	<b>3,274</b>	<b>3,240</b>	<b>3,635</b>	<b>3,876</b>	<b>4,077</b>
ST Debt	1.06	0.0	0.0	0.0	0.0
Creditor	490	398	644	755	802
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	2,846	2,999
Minority Interests	2.40	2.68	3.10	3.37	3.64
<b>Total Cap. &amp; Liab.</b>	<b>3,274</b>	<b>3,240</b>	<b>3,635</b>	<b>3,876</b>	<b>4,077</b>
Non-Cash Wkg. Capital	877	758	1,022	1,235	1,326
Net Cash/(Debt)	713	929	808	721	784
Debtors Turn (avg days)	82.1	97.0	90.0	90.2	94.5
Creditors Turn (avg days)	69.2	74.4	84.0	96.1	100.9
Inventory Turn (avg days)	102.8	114.2	137.7	156.8	164.5
Asset Turnover (x)	1.1	0.9	0.9	1.0	1.0
Current Ratio (x)	3.1	3.7	3.0	2.9	3.0
Quick Ratio (x)	2.1	2.6	1.8	1.7	1.7
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

## Venture Corporation

### Cash Flow Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	420	343	360	419	447
Dep. & Amort.	38.7	41.5	36.9	36.9	40.9
Tax Paid	(61.5)	(45.0)	(55.9)	(71.3)	(76.0)
Assoc. & JV Inc/(loss)	0.0	0.03	(0.2)	(0.2)	(0.2)
Chg in Wkg. Cap.	(157)	115	(242)	(213)	(90.8)
Other Operating CF	(10.7)	(1.0)	3.05	0.0	0.0
<b>Net Operating CF</b>	<b>230</b>	<b>453</b>	<b>102</b>	<b>171</b>	<b>321</b>
Capital Exp. (net)	(34.7)	(27.6)	(11.0)	(40.0)	(40.0)
Other Invt. (net)	(1.4)	0.0	0.0	0.0	0.0
Invt. 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
<b>Net Investing CF</b>	<b>(24.7)</b>	<b>(19.9)</b>	<b>(2.1)</b>	<b>(40.0)</b>	<b>(40.0)</b>
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
<b>Net Financing CF</b>	<b>(205)</b>	<b>(214)</b>	<b>(226)</b>	<b>(218)</b>	<b>(218)</b>
Currency Adjustments	1.67	(4.7)	5.17	0.0	0.0
Chg in Cash	1.64	214	(121)	(86.5)	62.9
Opg CFPS (S cts)	133	117	118	132	142
Free CFPS (S cts)	67.3	147	31.3	45.2	96.7

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:	03 May 21	19.67	22.70	BUY
2:	05 Nov 21	18.58	22.60	BUY
3:	28 Feb 22	17.53	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

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Sources for all charts and tables are DBS Bank unless otherwise specified.

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