

## Singapore

**ADD** (no change)

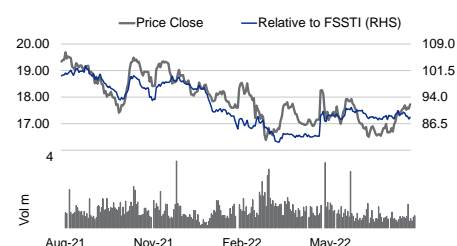
Consensus ratings\*: Buy 11 Hold 2 Sell 0

Current price:	S\$17.73
Target price:	S\$23.32
Previous target:	S\$23.32
Up/downside:	31.5%
CGS-CIMB / Consensus:	8.4%
Reuters:	VENM.SI
Bloomberg:	VMS SP
Market cap:	US\$3,734m
	S\$5,160m
Average daily turnover:	US\$9.12m
	S\$12.64m
Current shares o/s:	291.1m
Free float:	92.9%

\*Source: Bloomberg

### Key changes in this note

- FY22F EPS raised by 0.50%.
- FY23F EPS raised by 0.01%.
- FY22-24F tax rate assumption raised from 14.0% previously to 18.0%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	6.8	-2.9	-8.3
Relative (%)	1	-1.1	-11.7

### Major shareholders

	% held
Wong Ngit Liong	7.1
Schroders	6.8

### Analyst(s)



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# Venture Corporation

## Margins defended despite cost pressures

- 1H22 revenue/net profit was 8.5%/7.7% above our expectation. 1H22 revenue increased 25.4% yoy as the global economy reopened.
- Despite cost pressures, pre-tax margin was 11.8% in 1H22, better than 11.3% in 1H21. NPM was 9.7% in 1H22 (tax impact) versus 9.8% in 1H21.
- We raise our FY22F EPS by 0.5% to reflect the continued customer demand. Our TP remains at S\$23.32. Reiterate Add.

### 1H22 results: above expectation

1H22 revenue rose 25.4% yoy to S\$1,796.1m with all business segments registering yoy growth. 2Q22 revenue grew 21.6% yoy to S\$906.8m. 1H22 revenue was 8.5% above our expectation. 1H22 net profit increased 24.1% yoy while 2Q22 net profit rose 20.2% yoy. 1H22 core net profit of S\$174.3m was 7.7% above our forecast of S\$161.8m. Pre-tax margin was 12.2% in 2Q22 vs. 11.6% in 2Q21 and 11.5% in 1Q22 while net profit margin (NPM) was 10.0% in 2Q22 compared to 10.1% in 2Q21 and 9.5% in 1Q22. Cost pressure was evident with gross material profit margin erosion to 25.1% in 1H22 vs. 26.4% in 1H21 and the 26.4% yoy increase in other operating expenses. Aiding the better pre-tax margin in 1H22 was a) a 13.3% yoy decline in depreciation expenses (as some machinery were fully depreciated), and b) a 25.4% yoy decline in R&D expenses. Net profit margin was lowered by a higher tax rate of 18.0% in 1H22 vs. 13.2% in 1H21 (Venture had earlier guided for a tax rate of 18.0%).

### 2H22 outlook: demand remains strong

Based on customer order patterns, Venture expects demand to remain unabated in 2H22F. The group sees resilient demand across its diversified customer base, especially in the Life Science Genomics, Healthcare Wellness, Networking Communications, Test Measurement Instrumentation and Process Test equipment in the semiconductor technology domains. Challenges continue to stem from the global supply chain constraints (including component tightness though there has been an improvement in the situation), rising inflationary pressures and a tight labour situation. Management will look into improving its operating cash flow which was temporarily affected by the need for a higher inventory balance given string customer orders and the component shortage.

### Recommendation: reiterate Add with a TP of S\$23.32

With the better 1H22 performance, our FY22-24F revenue forecasts are raised by 3.9-8.5%. We also raise our tax rate assumption to 18.0% (previously 14.0%). Hence, we lift our FY22-23F EPS forecasts by 0.01-0.50%. Our TP of S\$23.32 is based on 17.3x FY23F P/E (0.5 s.d. above its 20-year average of 15.1x). Re-rating catalysts are new product launches by customers and improvements in component availability. The key downside risks are the ongoing supply chain disruptions, which affect the availability of parts and components, labour shortages and global economic outlook.

### Financial Summary

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (S\$m)	3,013	3,107	3,741	3,835	3,950
Net Profit (S\$m)	297.3	312.1	361.4	383.0	413.1
Core EPS (S\$)	1.03	1.08	1.25	1.35	1.42
Core EPS Growth	(18.1%)	5.0%	15.8%	7.6%	5.5%
FD Core P/E (x)	17.28	16.52	14.25	13.25	12.47
Price To Sales (x)	1.70	1.65	1.37	1.33	1.30
DPS (S\$)	0.75	0.75	0.75	0.75	0.75
Dividend Yield	4.23%	4.23%	4.23%	4.23%	4.23%
EV/EBITDA (x)	11.26	11.27	9.18	8.00	7.10
P/FCFE (x)	12.22	58.01	20.73	11.00	10.57
Net Gearing	(35.1%)	(29.2%)	(28.8%)	(35.4%)	(41.6%)
P/BV (x)	2.00	1.90	1.80	1.70	1.60
ROE	11.7%	11.8%	13.0%	13.2%	13.2%
% Change In Core EPS Estimates			0.54%	0.01%	0.00%
CGS-CIMB/Consensus EPS (x)			1.04	1.03	1.02

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 1: Results comparison**

FYE Dec (\$\$ m)	1H22	1H21	yoy % chg	2H21	hoh % chg	Prev FY22F	Comments
Revenue	1,796.12	1,432.20	25.41	1,675.26	7.21	3,448.26	1H22 revenue 8.5% above our expectation.
Operating costs	(1,572.97)	(1,258.79)	24.96	(1,465.18)	7.36	(3,003.73)	
EBITDA	223.15	173.41	28.68	210.08	6.22	444.53	
Depn & amort.	(16.48)	(19.01)	(13.35)	(17.87)	(7.77)	(39.83)	Lower as more machinery were fully depreciated.
EBIT	206.67	154.40	33.85	192.22	7.52	404.70	
Other income	0.57	1.55	(63.10)	0.86	(33.14)	3.00	Lower as as Covid-19 related government grants eased.
Foreign exchange	2.55	2.08	22.32	2.13	19.51	4.22	
Investment revenue	3.16	3.91	(19.31)	2.86	10.35	7.00	
Interest expense	(0.15)	(0.23)	(36.64)	(0.19)	(23.04)	(0.60)	
Exceptionals	0.00	0.00	#DIV/0!	0.00	#DIV/0!	0.00	
Pretax profit	212.80	161.71	31.59	197.87	7.54	418.32	
Tax	(38.31)	(21.35)	79.42	(25.92)	47.80	(58.56)	
Minority interests	0.00	(0.03)	(100.00)	0.30	(100.00)	0.25	
Net profit	174.50	140.40	24.29	171.66	1.66	359.50	1H22 net profit was 7.7% above our expectation.
Core net profit	174.50	140.40	24.29	171.66	1.66	359.50	
EPS (\$\$)	0.60	0.48	23.76	0.59	1.35	1.24	
Core EPS (\$\$)	0.60	0.48	23.76	0.59	1.35	1.24	
DPS (\$\$)	0.25	0.25	0.00	0.50	(50.00)	0.75	In line with our expectation.
			yoy chg in % pts		hoh chg in % pts		
EBITDA margin	12.42	12.11	0.32	12.54	(0.12)	12.89	
Pre-tax profit margin	11.85	11.29	0.56	11.81	0.04	12.13	
Net profit margin	9.72	9.80	(0.09)	10.25	(0.53)	10.43	
Tax rate (%)	18.00	13.20	4.80	13.10	4.90	14.00	Higher tax rate as guided by management.

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 2: Earnings revisions**

	FY22F			FY23F			FY24F		
(\$\$m)	Old	New	Chg	Old	New	Chg	Old	New	Chg
Revenue	3,448.3	3,741.2	8.5%	3,620.7	3,834.7	5.9%	3,801.7	3,949.7	3.9%
Pre-tax profit	418.3	441.3	5.5%	453.4	476.1	5.0%	480.6	504.3	4.9%
Net profit	359.5	361.4	0.54%	389.7	390.0	0.01%	413.1	413.1	0.00%
Number of shares (m)	290.6	290.6	0.0%	290.6	290.6	0.0%	290.6	290.6	0.0%
			% pts			% pts			% pts
Effective tax rate (%)	14.0	18.0	4.0	14.0	18.0	4.0	14.0	18.0	4.0
Pre-tax profit margin (%)	12.1	11.8	-0.3	12.5	12.4	-0.1	12.6	12.8	0.1
Net profit margin (%)	10.4	9.7	-0.8	10.8	10.2	-0.6	10.9	10.5	-0.4

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

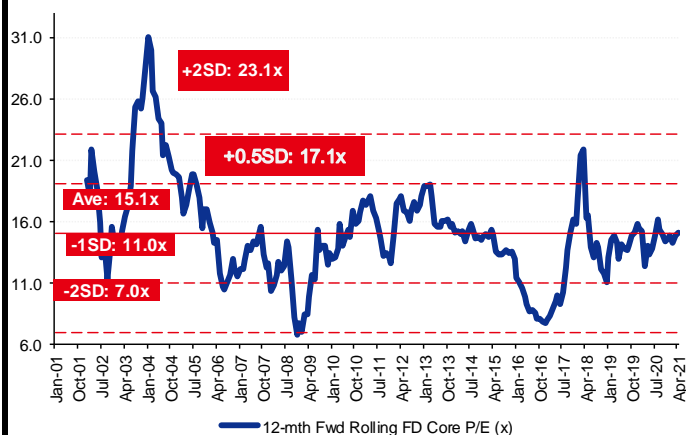
**Figure 3: Peer comparison**

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	P/E (x) CY22F	P/E (x) CY23F	3-year EPS CAGR (%)	P/BV (x) CY22F	Recurring ROE (%) CY22F	Dividend Yield (%) CY22F
Venture Corporation	VMS SP	Add	17.73	23.32	3,734	14.1	13.2	9.8%	1.80	13.1%	4.2%
US											
Benchmark Electronics	BHE US	NR	25.78	NA	945	14.6	12.6	na	na	na	na
Celestica Inc	CLS US	NR	10.44	NA	1,342	6.1	5.6	33.4%	na	13.8%	0.0%
Flextronics International	FLEX US	NR	16.63	NA	7,813	8.4	7.4	10.9%	1.85	23.4%	0.0%
Jabil Circuit	JBL US	NR	59.24	NA	8,421	7.8	7.6	-0.9%	3.05	40.9%	0.5%
Plexus Corp	PLXS US	NR	94.01	NA	2,592	19.5	16.4	0.3%	2.31	12.2%	na
Sanmina-SCI Corp	SANM US	NR	45.68	NA	2,879	9.2	9.1	-0.1%	na	16.6%	0.0%
Simple Average (US)						10.9	9.8	8.7%	2.40	21.4%	0.1%
Simple Average (all co)											
						11.4	10.3	8.9%	2.25	20.0%	1.0%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

NOTE: FORECASTS FOR NOT RATED COMPANIES ARE BLOOMBERG CONSENSUS ESTIMATES

DATA AS AT 5 AUG 2022

**Figure 4: Venture's 12-month forward rolling FD core P/E (x)**


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

**Figure 5: Venture's P/BV (x)**


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

## ESG in a nutshell



### Refinitiv ESG Scores



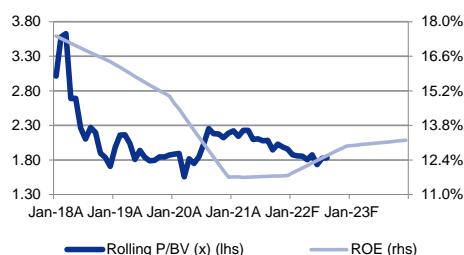
Venture Corporation Ltd is an electronic equipment and parts company headquartered in Singapore. Venture received an ESG Grade of C+ from Refinitiv. Refinitiv noted that Venture saw improvements in workforce, human rights and management categories but saw relative deteriorations in emissions, product responsibility, resource use categories.

<b>Keep your eye on</b>  Customer concentration risk.	<b>Implications</b>  Due to non-disclosure agreements with customers, Venture does not name its major customers. Based on its FY20 annual report, we note that it has one major customer that accounts for more than 10% of its revenue. The loss of this customer will negatively affect Venture. We do not assume that Venture will lose this customer.
<b>ESG highlights</b>  Based on our channel checks, we believe that Venture is involved in manufacturing e-cigarettes.	<b>Implications</b>  Although our valuation methodology does not impute any discount for involvement in e-cigarettes, we note that some investors may be constrained in investing in companies with exposure to smoking.
<b>Trends</b>  Venture's main source of energy usage is electricity from the grid. Carbon emission intensity by revenue increased from 23.7 kg of TCO <sub>2</sub> e/\$m in 2019 to 28.5 TCO <sub>2</sub> e/\$m in 2020.	<b>Implications</b>  We have not imputed any carbon costs in our forecasts. We note that Venture has adopted measures to reduce electricity usage, such as replacing traditional lighting with energy efficient LED lighting and replacing older air conditioning systems with newer and more energy efficient inverter type air conditioners.

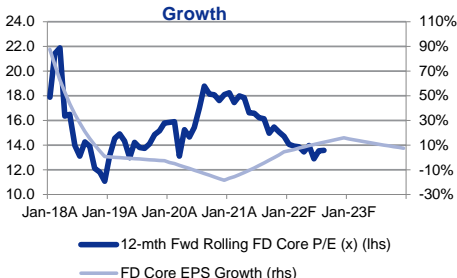
SOURCES: CGS-CIMB RESEARCH, REFINITIV

## BY THE NUMBERS

**P/BV vs ROE**



**12-mth Fwd FD Core P/E vs FD Core EPS Growth**



### Profit & Loss

(\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
<b>Total Net Revenues</b>	<b>3,013</b>	<b>3,107</b>	<b>3,741</b>	<b>3,835</b>	<b>3,950</b>
<b>Gross Profit</b>	<b>793</b>	<b>810</b>	<b>935</b>	<b>980</b>	<b>1,025</b>
<b>Operating EBITDA</b>	<b>374</b>	<b>383</b>	<b>467</b>	<b>505</b>	<b>536</b>
Depreciation And Amortisation	(42)	(37)	(40)	(43)	(46)
<b>Operating EBIT</b>	<b>332</b>	<b>346</b>	<b>428</b>	<b>462</b>	<b>491</b>
Financial Income/(Expense)	6	6	6	6	6
Pretax Income/(Loss) from Assoc.	(0)	0	0	0	0
Non-Operating Income/(Expense)	5	7	7	7	7
<b>Profit Before Tax (pre-EI)</b>	<b>343</b>	<b>360</b>	<b>441</b>	<b>476</b>	<b>504</b>
Exceptional Items	0	0	0	(7)	0
<b>Pre-tax Profit</b>	<b>343</b>	<b>360</b>	<b>441</b>	<b>469</b>	<b>504</b>
Taxation	(45)	(47)	(79)	(86)	(91)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>297</b>	<b>312</b>	<b>362</b>	<b>383</b>	<b>414</b>
Minority Interests	(0)	(0)	(0)	(0)	(0)
Preferred Dividends	0	0	0	0	0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>297</b>	<b>312</b>	<b>361</b>	<b>383</b>	<b>413</b>
Recurring Net Profit	297	312	361	389	413
<b>Fully Diluted Recurring Net Profit</b>	<b>297</b>	<b>312</b>	<b>361</b>	<b>389</b>	<b>413</b>

### Cash Flow

(\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
<b>EBITDA</b>	<b>373.5</b>	<b>383.3</b>	<b>467.5</b>	<b>505.3</b>	<b>536.4</b>
Cash Flow from Inv. & Assoc.	0.0	(0.2)	(0.0)	(0.0)	(0.0)
Change In Working Capital	114.9	(241.5)	(123.0)	65.4	58.6
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	10.2	16.6	7.2	7.2	6.7
Net Interest (Paid)/Received	(0.5)	(0.4)	(0.6)	(0.6)	(0.6)
Tax Paid	(45.0)	(55.9)	(79.4)	(85.7)	(90.8)
<b>Cashflow From Operations</b>	<b>453.2</b>	<b>101.8</b>	<b>271.6</b>	<b>491.6</b>	<b>510.3</b>
Capex	(27.8)	(10.8)	(30.0)	(30.0)	(30.0)
Disposals Of FAs/subsidiaries	0.0	0.0	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0	0.0
Other Investing Cashflow	7.9	8.7	7.0	7.0	7.0
<b>Cash Flow From Investing</b>	<b>(19.9)</b>	<b>(2.1)</b>	<b>(23.0)</b>	<b>(23.0)</b>	<b>(23.0)</b>
Debt Raised/(repaid)	(12.9)	(10.9)	0.0	0.0	0.0
Proceeds From Issue Of Shares	15.6	5.7	0.0	0.0	0.0
Shares Repurchased	0.0	(2.8)	0.0	0.0	0.0
Dividends Paid	(216.9)	(217.8)	(217.9)	(217.9)	(217.9)
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
Other Financing Cashflow	0.0	0.0	0.0	0.0	0.0
<b>Cash Flow From Financing</b>	<b>(214.3)</b>	<b>(225.7)</b>	<b>(217.9)</b>	<b>(217.9)</b>	<b>(217.9)</b>
Total Cash Generated	219.0	(126.0)	30.6	250.6	269.3
<b>Free Cashflow To Equity</b>	<b>420.4</b>	<b>88.9</b>	<b>248.6</b>	<b>468.6</b>	<b>487.3</b>
<b>Free Cashflow To Firm</b>	<b>433.7</b>	<b>100.2</b>	<b>249.2</b>	<b>469.2</b>	<b>487.9</b>

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## BY THE NUMBERS... cont'd

### Balance Sheet

(\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	929	808	839	1,089	1,359
Total Debtors	703	829	1,025	946	974
Inventories	656	1,049	1,153	978	801
Total Other Current Assets	35	51	51	51	51
<b>Total Current Assets</b>	<b>2,323</b>	<b>2,738</b>	<b>3,068</b>	<b>3,063</b>	<b>3,185</b>
Fixed Assets	247	228	218	205	190
Total Investments	26	26	26	26	26
Intangible Assets	640	640	640	640	640
Total Other Non-Current Assets	4	4	4	4	4
<b>Total Non-current Assets</b>	<b>916</b>	<b>898</b>	<b>888</b>	<b>875</b>	<b>859</b>
Short-term Debt	10	9	9	9	9
Current Portion of Long-Term Debt					
Total Creditors	398	644	820	630	541
Other Current Liabilities	229	255	255	255	255
<b>Total Current Liabilities</b>	<b>636</b>	<b>907</b>	<b>1,084</b>	<b>894</b>	<b>805</b>
Total Long-term Debt	11	5	5	5	5
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0	0	0	0	0
<b>Total Non-current Liabilities</b>	<b>11</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>5</b>
Total Provisions	3	4	4	4	4
<b>Total Liabilities</b>	<b>650</b>	<b>916</b>	<b>1,092</b>	<b>903</b>	<b>813</b>
Shareholders' Equity	2,586	2,716	2,860	3,032	3,227
Minority Interests	3	3	3	4	4
<b>Total Equity</b>	<b>2,589</b>	<b>2,719</b>	<b>2,863</b>	<b>3,036</b>	<b>3,231</b>

### Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	(17.1%)	3.1%	20.4%	2.5%	3.0%
Operating EBITDA Growth	(15.7%)	2.6%	22.0%	8.1%	6.2%
Operating EBITDA Margin	12.4%	12.3%	12.5%	13.2%	13.6%
Net Cash Per Share (\$)	3.12	2.73	2.84	3.70	4.63
BVPS (\$)	8.89	9.35	9.84	10.43	11.11
Gross Interest Cover	706.2	819.0	712.7	770.8	817.7
Effective Tax Rate	13.3%	13.1%	18.0%	18.3%	18.0%
Net Dividend Payout Ratio	63.7%	60.6%	49.4%	45.8%	43.3%
Accounts Receivables Days	97.28	89.97	90.45	93.78	88.93
Inventory Days	112.3	135.5	143.3	136.2	111.3
Accounts Payables Days	73.20	82.69	95.19	92.73	73.30
ROIC (%)	18.2%	20.9%	22.5%	22.9%	25.3%
ROCE (%)	13.1%	13.2%	15.5%	15.8%	15.8%
Return On Average Assets	10.3%	10.3%	11.5%	11.9%	12.5%

### Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue growth (%)	3.1%	20.4%	2.5%	3.0%	0.0%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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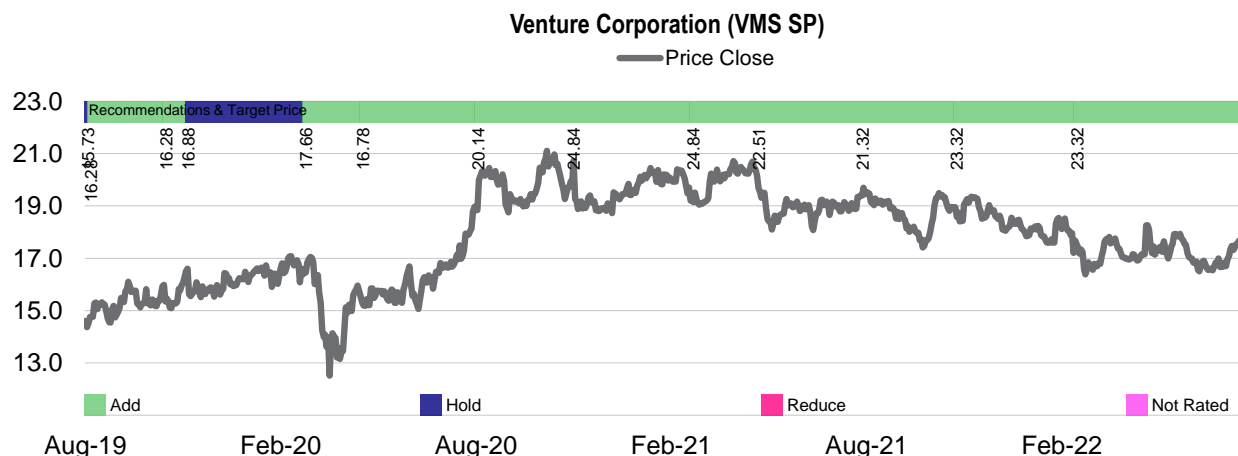
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643 companies under coverage for quarter ended on 30 June 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

## Spitzer Chart for stock being researched ( 2 year data )



### Recommendation Framework

#### Stock Ratings

Definition:

Add

The stock's total return is expected to exceed 10% over the next 12 months.

Hold

The stock's total return is expected to be between 0% and positive 10% over the next 12 months.

Reduce

The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

#### Sector Ratings

Definition:

Overweight

An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.

Neutral

A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.

Underweight

An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

#### Country Ratings

Definition:

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Neutral

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Underweight

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