

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

6 Nov 2023

BUY

Last Traded Price (3 Nov 2023): S\$12.19 (STI: 3,143.66)
Price Target 12-mth: S\$15.10 (24% upside) (Prev S\$15.40)

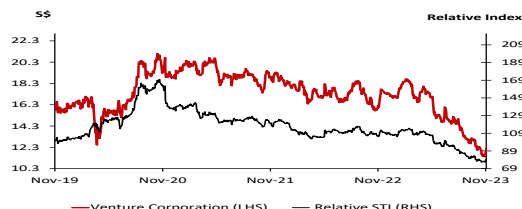
Analyst

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What's New

- 9M23/3Q23 results below expectations, hit by weak demand and inventory destocking
- Q-o-q decline slowed in 3Q23; better 4Q23 with various NPIs in the pipeline forecasted
- Earnings for FY23F-25F cut by 7%/8% on weaker-than-expected 9M23 results
- Maintain BUY with revised TP of S\$15.10. Current PE valuation attractive at below -2SD

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2022A	2023F	2024F	2025F
Revenue	3,864	3,033	3,306	3,472
EBITDA	486	371	420	454
Pre-tax Profit	449	330	375	404
Net Profit	370	270	307	331
Net Pft (Pre Ex.)	370	270	307	331
Net Pft Gth (Pre-ex) (%)	18.5	(26.9)	13.7	7.6
EPS (S cts)	127	92.9	106	114
EPS Pre Ex. (S cts)	127	92.9	106	114
EPS Gth Pre Ex (%)	18	(27)	14	8
Diluted EPS (S cts)	127	92.9	106	114
Net DPS (S cts)	75.0	75.0	75.0	75.0
BV Per Share (S cts)	976	994	1,024	1,063
PE (X)	9.6	13.1	11.5	10.7
PE Pre Ex. (X)	9.6	13.1	11.5	10.7
P/Cash Flow (X)	13.2	5.7	14.2	11.1
EV/EBITDA (X)	5.6	6.4	5.6	5.1
Net Div Yield (%)	6.2	6.2	6.2	6.2
P/Book Value (X)	1.2	1.2	1.2	1.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	13.3	9.4	10.5	10.9
Earnings Rev (%)		(8)	(7)	(7)
Consensus EPS (S cts):		99	107	116
Other Broker Recs:		B: 5	S: 0	H: 7

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

Outlook improving

Investment Thesis

Differentiating technology capabilities set it apart. As a leading global provider of technology services, products and solutions, Venture is best known for its superior and differentiating capabilities in engineering, manufacturing, and R&D, as well as providing high-mix, high-value, and complex manufacturing. With its diversified product mix and blue-chip customer base, Venture is in a sweet spot to capture new opportunities in emerging technology domains.

Not immune to macro-economic headwinds in the near term; longer term growth strategies in place. Despite our optimism, there is a possibility that 4Q23 performance may still be muted. However, it should still be better than 3Q23. We are already seeing a slowdown in q-o-q decline with 3Q23's revenue and net profit compared to the previous two quarters. On the longer-term, Venture continues to invest and develop new differentiating capabilities across multiple technology domains to pave the way for future growth. Key areas include domains with structural long-term growth potential such as Life Sciences, Medical, and Healthcare. Overall, we expect earnings to drop 27% y-o-y in FY23F and recover by 14% in FY24F.

Strong cash position to support dividend and drive next phase of growth. A strong net cash position of S\$956m (c.27% of current market cap) as of 30 September 2023, with no debt, should support a repeat of the 75 Scts DPS for FY23, which works out to an attractive c.6% yield. A strong war chest also enables the group to capture new opportunities for its next growth phase.

Maintain BUY; TP lowered to S\$15.10 (previously S\$15.40) based on a c.14x PE (-1SD from its four-year average) due to FY24F earnings on the back of the 7-8% cut in earnings. We believe the sharp decline in share price is excessive. With valuations below the previous trough level, we believe the upside risk outweighs the downside, even though 4Q23 results are still likely to be muted, since it should still be better than 3Q23.

Key Risks

Global economic slowdown, weaker demand from clients, and/or US dollar (USD) volatility could impact revenue growth.

At A Glance

Issued Capital (m shrs)	291
Mkt. Cap (S\$m/US\$m)	3,547 / 2,619
Major Shareholders (%)	
Wong Ngit Liong	7.1
Schroders PLC	6.0
Vanguard Group Inc/The	5.1
Free Float (%)	81.8
3m Avg. Daily Val (US\$m)	24.7

GIC Industry: Information Technology / Technology Hardware & Equipment



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WHAT'S NEW

9M23/3Q23 results below expectations, hit by weak demand and inventory destocking

9M23/3Q23 results below expectations. Venture reported 9M23 revenue of S\$2,288.5m (-18.8% y-o-y) while net profit was down 25.2% y-o-y to \$203.3m. Net margin of 8.9% was lower than the 9.6% in 9M22. The weak results were mainly due to soft customer demand and ongoing inventory destocking.

For 3Q23, revenue came in at S\$706.3m (-30.9% y-o-y, -7.1% q-o-q). Net profit of S\$63.3m was down 35% y-o-y and 4.7% q-o-q. Net margin of 9.0% was slightly higher than 8.7% in 2Q23 but still lower than the 9.5% in 3Q22. Overall, 3Q23/9M23 revenue accounted for 21%/67% of our forecasts while net profit accounted for 21%/69%, well below expectations.

3Q23 and 9M23 performance

(\$m)	3Q23	y-o-y (%)	9M23	y-o-y (%)
Revenue	706.3	-30.9	2,288.5	-18.8
Profit before tax	78.3	-34.1	331.7	-24.7
PBT margin (%)	11.1	-50bps	11.8	-90bps
Net profit	63.3	-35.0	271.7	-25.2
Net margin (%)	9.0	-50bps	9.6	-70bps

Source: Company; DBS Bank

Healthy balance sheet with high net cash. Venture continues to maintain a healthy balance sheet, with a net cash position that further increased to S\$956m (c.27% of current market cap) as of 30 September 2023. The group has zero debt, which stacks well against its peers in the net debt position, especially in the current high interest rate environment.

Further improvement in inventory level. Inventories continued to record sequential improvement, with a 5.4% reduction q-o-q and 24.3% reduction y-o-y to S\$949m as of 30 September 2023. This is in line with the overall inventory picture for the industry, as we expect the inventory level to normalize by 4Q23.

3Q23 could be the worst quarter, expect q-o-q improvement for 4Q. Given that the macro picture is on a recovery path with an improving outlook for export electronics for countries such as Singapore and Taiwan, we could see a better 4Q23 for Venture. 3Q23's q-o-q decline in both revenue and net profit has also slowed compared to the previous two quarters.

Slowdown in decline for 3Q23 revenue and net profit

(q-o-q chg %)	1Q23	2Q23	3Q23
Revenue	-21.4	-7.4	-7.1
Net profit	-24.8	-9.8	-4.7

Source: Company; DBS Bank

Various NPIs in the pipeline. The group is working on several new product introductions (NPIs) with both existing and new customers, where productions are starting to ramp up and on track to be rolled out next year. These products are in various domains, including the wellness and premium consumer space, industrial medical life Science, Test & measurements, power control, and semiconductor.

Cut FY23F-25F earnings by 7% to 8%. Given the weaker-than-expected 9M23 results, we reduced our earnings estimate for FY23F-25F by 7-8%. Our target price was reduced to S\$15.10 (previously S\$15.40), based on a c.14x PE (-1SD from its four-year average) on FY24F earnings. Maintain BUY.

Attractive valuations. Venture's PE has plunged below -2SD of its historical mean and is currently trading at a c.11x forward PE, below its COVID pandemic low of c.12x. We believe the concerns surrounding its removal from the STI is overblown. Although among the 30-STI stocks, Venture's market capitalization is currently among the lowest, thus there is minimum risk that it will be removed. Based on the rules for stock insertion or deletion, a constituent company will be deleted if it falls beyond the 40th position and a new company will be added if its market capitalisation rises to the 20th position and above. For now, we do not see the former happening, though this will likely weigh on sentiment near term.

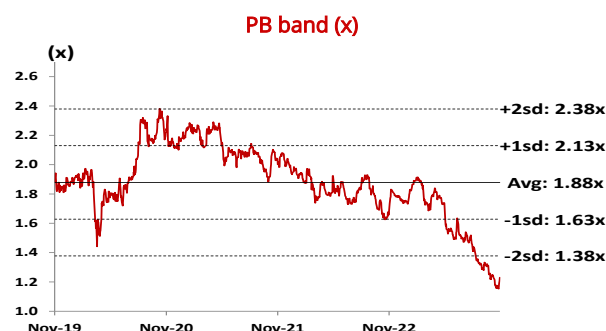
Company Background

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	2021A	2022A	2023F	2024F	2025F
Net margin (%)	10.0	9.57	8.91	9.29	9.53
% of SGA (%)	14.8	13.0	13.5	13.2	13.2

Segmental Breakdown

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenues (\$m)					
Advanced Manufacturing & Design Solutions (AMDS)	1,563	1,919	1,478	1,611	1,692
Technology Products & Design Solutions (TPS)	1,544	1,944	1,555	1,695	1,780
Total	3,107	3,864	3,033	3,306	3,472

Income Statement (\$m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenue	3,107	3,864	3,033	3,306	3,472
Cost of Goods Sold	(2,298)	(2,924)	(2,305)	(2,506)	(2,621)
Gross Profit	810	940	728	800	851
Other Opng (Exp)/Inc	(457)	(500)	(407)	(434)	(456)
Operating Profit	353	440	321	366	394
Other Non Opg (Exp)/Inc	6.77	9.23	9.23	9.23	9.23
Associates & JV Inc	0.20	0.32	0.32	0.32	0.32
Net Interest (Exp)/Inc	(0.4)	(0.5)	0.0	0.0	0.0
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	360	449	330	375	404
Tax	(47.3)	(78.8)	(59.4)	(67.6)	(72.7)
Minority Interest	(0.3)	(0.5)	(0.5)	(0.5)	(0.5)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	312	370	270	307	331
Net Profit before Except.	312	370	270	307	331
EBITDA	397	486	371	420	454
Growth					
Revenue Gth (%)	3.1	24.3	(21.5)	9.0	5.0
EBITDA Gth (%)	3.2	22.5	(23.7)	13.3	8.0
Opg Profit Gth (%)	4.7	24.6	(27.1)	14.1	7.8
Net Profit Gth (Pre-ex) (%)	4.9	18.5	(26.9)	13.7	7.6
Margins & Ratio					
Gross Margins (%)	26.1	24.3	24.0	24.2	24.5
Opg Profit Margin (%)	11.4	11.4	10.6	11.1	11.4
Net Profit Margin (%)	10.0	9.6	8.9	9.3	9.5
ROAE (%)	11.8	13.3	9.4	10.5	10.9
ROA (%)	9.1	10.0	7.3	8.2	8.5
ROCE (%)	11.5	13.0	9.1	10.1	10.6
Div Payout Ratio (%)	69.8	59.0	80.8	71.0	66.0
Net Interest Cover (x)	834.6	850.8	NM	NM	NM

Source: Company, DBS Bank

Venture Corporation

Interim Income Statement (\$m)

FY Dec	1H2021	2H2021	1H2022	2H2022	1H2023
Revenue	1,432	1,675	1,796	2,068	1,582
Cost of Goods Sold	(1,054)	(1,243)	(1,346)	(1,578)	(1,186)
Gross Profit	378	432	450	490	397
Other Oper. (Exp)/Inc	(220)	(237)	(237)	(263)	(225)
Operating Profit	158	195	210	230	159
Other Non Opg (Exp)/Inc	3.91	2.86	3.16	6.08	12.5
Associates & JV Inc	0.0	0.20	0.0	0.32	0.0
Net Interest (Exp)/Inc	(0.2)	(0.2)	(0.2)	(0.4)	(0.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	162	198	213	236	171
Tax	(21.4)	(25.9)	(38.3)	(40.5)	(31.1)
Minority Interest	0.03	(0.3)	(0.2)	(0.3)	(0.3)
Net Profit	140	172	174	195	140
Net profit bef Except.	140	172	174	195	140
EBITDA	183	218	231	255	187

Growth

Revenue Gth (%)	(13.1)	17.0	7.2	15.1	(23.5)
EBITDA Gth (%)	(14.6)	19.1	6.2	10.1	(26.5)
Opg Profit Gth (%)	(16.7)	23.4	7.6	9.7	(30.8)
Net Profit Gth (%)	(15.8)	22.3	1.5	12.1	(28.3)

Margins

Gross Margins (%)	26.4	25.8	25.1	23.7	25.1
Opg Profit Margins (%)	11.0	11.6	11.7	11.1	10.1
Net Profit Margins (%)	9.8	10.2	9.7	9.4	8.8

Balance Sheet (\$m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Net Fixed Assets	215	225	214	199	180
Invts in Associates & JVs	0.63	0.80	1.12	1.44	1.76
Other LT Assets	682	693	693	693	692
Cash & ST Invts	808	813	1,185	1,187	1,258
Inventory	1,049	1,065	836	912	957
Debtors	829	906	712	776	814
Other Current Assets	50.9	48.6	48.6	48.6	48.6
Total Assets	3,635	3,751	3,689	3,816	3,952
ST Debt	0.0	0.0	0.0	0.0	0.0
Creditor	644	533	419	456	479
Other Current Liab	264	360	360	360	360
LT Debt	0.0	0.0	0.0	0.0	0.0
Other LT Liabilities	8.31	15.4	15.4	15.4	15.4
Shareholder's Equity	2,716	2,840	2,892	2,981	3,093
Minority Interests	3.10	3.21	3.70	4.20	4.70
Total Cap. & Liab.	3,635	3,751	3,689	3,816	3,952
Non-Cash Wkg. Capital	1,022	1,127	818	920	981
Net Cash/(Debt)	808	813	1,185	1,187	1,258
Debtors Turn (avg days)	90.0	82.0	97.3	82.1	83.6
Creditors Turn (avg days)	84.0	74.4	76.7	64.9	66.4
Inventory Turn (avg days)	137.7	133.7	153.3	129.6	132.6
Asset Turnover (x)	0.9	1.0	0.8	0.9	0.9
Current Ratio (x)	3.0	3.2	3.6	3.6	3.7
Quick Ratio (x)	1.8	1.9	2.4	2.4	2.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	N/A	N/A	N/A	N/A	N/A

Source: Company, DBS Bank

Venture Corporation

Cash Flow Statement (\$m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Pre-Tax Profit	360	449	330	375	404
Dep. & Amort.	36.9	36.9	40.9	44.9	49.9
Tax Paid	(55.9)	(51.1)	(59.4)	(67.6)	(72.7)
Assoc. & JV Inc/(loss)	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)
Chg in Wkg.Cap.	(242)	(153)	309	(102)	(61.6)
Other Operating CF	3.05	(12.8)	0.0	0.0	0.0
Net Operating CF	102	269	620	251	319
Capital Exp.(net)	(11.0)	(33.4)	(30.0)	(30.0)	(30.0)
Other Invs.(net)	0.0	0.0	0.0	0.0	0.0
Invs 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	8.90	8.52	0.0	0.0	0.0
Net Investing CF	(2.1)	(24.9)	(30.0)	(30.0)	(30.0)
Div Paid	(218)	(218)	(218)	(218)	(218)
Chg in Gross Debt	0.0	0.0	0.0	0.0	0.0
Capital Issues	5.72	5.32	0.0	0.0	0.0
Other Financing CF	(13.6)	(13.9)	0.0	0.0	0.0
Net Financing CF	(226)	(227)	(218)	(218)	(218)
Currency Adjustments	5.17	(12.8)	0.0	0.0	0.0
Chg in Cash	(121)	4.66	372	2.43	71.0
Opg CFPS (S cts)	118	145	107	121	131
Free CFPS (S cts)	31.3	81.0	203	75.8	99.4

Source: Company, DBS Bank

Target Price & Ratings 12-mth 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:	27 Feb 23	17.28	20.10	BUY
2:	08 May 23	15.95	18.10	HOLD
3:	07 Aug 23	13.89	15.40	HOLD
4:	12 Sep 23	13.04	15.40	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

Completed Date: 6 Nov 2023 07:39:52 (SGT)

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