

# 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

23 Feb 2024

## BUY

Last Traded Price (22 Feb 2024): S\$14.10 (STI: 3,222.94)  
 Price Target 12-mth: S\$16.90 (20% upside) (Prev S\$15.10)

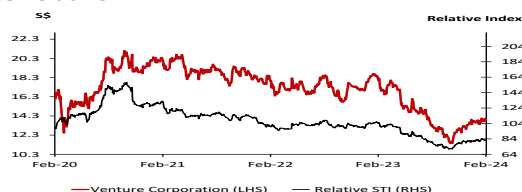
### Analysts

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### What's New

- FY23 results in line; commendable net margin of 8.9% despite high inflationary pressure
- Foray into data centre ecosystem riding on the AI wave
- Stronger 2H24 vs. 1H24 expected; 1Q24 may be weaker both y-o-y and q-o-q
- No change in estimates; maintain BUY with higher TP of S\$16.90. Valuations still attractive despite recent run-up

### Price Relative



### Forecasts and Valuation

FY Dec (\$m)	2022A	2023A	2024F	2025F
Revenue	3,864	3,025	3,306	3,472
EBITDA	482	363	411	445
Pre-tax Profit	449	331	376	404
Net Profit	370	270	307	331
Net Pft (Pre Ex.)	370	270	307	331
Net Pft Gth (Pre-ex) (%)	18.5	(26.9)	13.8	7.6
EPS (S cts)	127	92.8	106	114
EPS Pre Ex. (S cts)	127	92.8	106	114
EPS Gth Pre Ex (%)	18	(27)	14	8
Diluted EPS (S cts)	127	92.8	106	114
Net DPS (S cts)	75.0	75.0	75.0	75.0
BV Per Share (S cts)	976	974	1,004	1,043
PE (X)	11.1	15.2	13.4	12.4
PE Pre Ex. (X)	11.1	15.2	13.4	12.4
P/Cash Flow (X)	15.2	7.9	17.1	13.2
EV/EBITDA (X)	6.8	8.4	7.4	6.7
Net Div Yield (%)	5.3	5.3	5.3	5.3
P/Book Value (X)	1.4	1.4	1.4	1.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	13.3	9.5	10.7	11.1
Earnings Rev (%):		-	-	-
Consensus EPS (S cts):		104	112	130
Other Broker Recs:		B: 8	S: 0	H: 4

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

## On the path to recovery

### Investment Thesis:

**Technology capabilities setting 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 for 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.

**A stronger 2H24 vs. 1H24 expected; 1Q24 could be weaker y-o-y and q-o-q. Longer term growth strategies in place.** Based on customer feedback, demand schedule will be stronger in 2H24 compared to 1H24. Hence, 1Q24 could be weaker both on y-o-y and q-o-q bases, the latter given that 1Q23 was relatively strong as it benefitted from some demand flow from the strong FY22. This observation is in line with our view for a more significant recovery for the downstream players in 2H24. 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 FY24F to be a recovery year, with a projected earnings growth of 13.8% and another 7.6% in FY25F.

**Strong cash position to support dividend and drive next phase of growth.** A strong net cash position of >\$1bn (c.26% of current market cap) as of 31 December 2023, with no debt, should support a repeat of the 75scts DPS for FY24 which works out to an attractive c.5.3% yield. A strong war chest also enables the group to capture new opportunities for its next growth phase.

**Maintain BUY; TP raised to S\$16.90** (previously S\$15.10) based on a c.16x PE (its four-year average) on FY24F earnings, up from 14x. We believe there is further room to re-rate to at least the average PE level of c.16x, based on improving outlook. Maintain BUY.

### 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 (\$m/US\$m)	4,103 / 3,055
Major Shareholders (%)	
Wong Ngit Liong	7.1
Ameriprise Financial Inc	6.0
Schroders PLC	6.0
Free Float (%)	80.9
3m Avg. Daily Val (US\$m)	8.7
<b>GIC Industry</b> : Information Technology / Technology Hardware &	

**WHAT'S NEW****FY23 results in line; commendable margins despite challenging environment**

**FY23 results in line.** 4Q23 net profit came in at S\$66.7m (-31.9% y-o-y, +5.3% q-o-q) while revenue declined 29.5% y-o-y (+4.3% q-o-q). FY23 revenue was registered at S\$3,025.0m, down 21.7% y-o-y, due to softer demand across its technology domains as well as customers' inventory destocking. Net profit saw a 26.9% y-o-y drop to S\$270.0m. Overall, FY23 revenue and net profit were in line with our expectations.

A 50Scts DPS was declared, similar to last year.

**Commendable net margin of 8.9% for FY23 despite high inflationary pressure coupled with lower revenue.** 4Q23 net margin improved further to 9.1% (from 9.0% in 3Q23 and 8.7% in 2Q23). FY23's net margin of 8.9% was lower than the 9.6% in FY22. Nevertheless, it is still commendable given the high inflationary environment in FY23, coupled with lower revenue.

**Strong NPI pipeline ahead.** The new product introductions (NPIs) pipeline straddled across most domains, including the wellness and premium consumer space, industrial medical life science, test & measurements, power control, and semiconductor. With the gradual recovery of global economies, customers are now more ready to launch new products.

**Foray into the data centre ecosystem, riding on the AI wave.** The consistent push towards AI innovation, coupled with the proliferation of generative AI, has fuelled the growth of advanced servers and equipment. Given Venture's strength in a diversified technology domain – including network & communications, security & safety, industrial IOT, computing & productivity systems and semiconductor – the group is able to ride on this trend, working with several data centre players to provide different forms of services. Venture has already been in this space for the past two to three years, and this offers a great opportunity for the group to grow further. Venture has also seen an increase in the number of customers in the semiconductor space, a key focus area for generative AI.

**Healthy net cash position exceeding S\$1bn.** Venture continues to maintain a healthy balance sheet, with a net cash position of S\$1.056bn (c.26% of current market cap) as of 31 December 2023, up 30% from a year ago. The group has zero debt, which stacks well against its peers in the net debt position, especially in the current high interest rate environment. Besides utilizing the cash for dividend payment and potential M&As, the group has also established a share buyback programme in November 2023 to purchase up to 10 million shares.

**A stronger 2H24 vs. 1H24 expected; 1Q24 could be weaker y-o-y and q-o-q.** Based on customer feedback, demand schedule will be stronger in 2H24 compared to 1H24. Hence, 1Q24 could be weak both on y-o-y and q-o-q bases, given that 1Q23 was still relatively strong, benefitting from some demand flow from the strong FY22. This observation is in line with our view for a more significant recovery for the downstream players in 2H24.

**No change in estimates, maintain BUY with higher TP of S\$16.90. Valuations still attractive despite recent run-up.** The share price has gained c.24% from its low in end-October '23. Despite this, valuations are still very attractive, with a current PE of about 13x, below -1SD level from its five-year average. We believe there is further room to re-rate to at least the average PE level of c.16x, on the improving outlook. Our TP is raised to S\$16.90 (previously S\$15.10), pegged to 16x on FY24F 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.

## Venture Corporation

### Interim Income Statement (\$m)

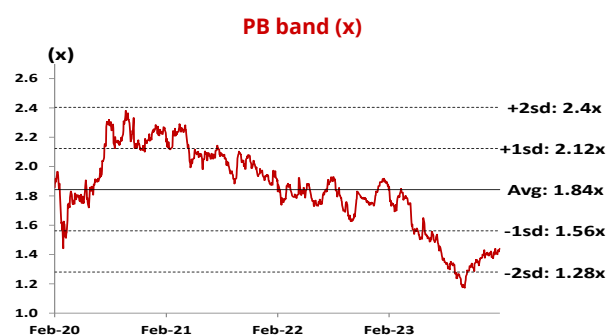
FY Dec	2H2022	1H2023	2H2023	% chg y-o-y	% chg h-o-h
Revenue	2,068	1,582	1,443	(30.2)	(8.8)
Cost of Goods Sold	(1,578)	(1,186)	(1,069)	(32.2)	(9.8)
<b>Gross Profit</b>	<b>490</b>	<b>397</b>	<b>373</b>	<b>(23.8)</b>	<b>(5.9)</b>
Other Oper. (Exp)/Inc	(263)	(225)	(214)	(18.5)	(4.7)
<b>Operating Profit</b>	<b>230</b>	<b>159</b>	<b>144</b>	<b>(37.4)</b>	<b>(9.6)</b>
Other Non Opg (Exp)/Inc	6	12	16	158.0	25.6
Associates & JV Inc	0	0	0	-	-
Net Interest (Exp)/Inc	0	0	0	-	-
Exceptional Gain/(Loss)	0	0	0	-	-
<b>Pre-tax Profit</b>	<b>236</b>	<b>171</b>	<b>159</b>	<b>(32.5)</b>	<b>(7.0)</b>
Tax	(40)	(31)	(29)	(28.5)	(7.0)
Minority Interest	0	0	0	-	-
<b>Net Profit</b>	<b>195</b>	<b>140</b>	<b>130</b>	<b>(33.4)</b>	<b>(7.1)</b>
Net profit bef Except.	195	140	130	(33.4)	(7.1)
EBITDA	255	187	176	(31.1)	(6.3)
<b>Margins (%)</b>					
Gross Margins	23.7	25.1	25.9		
Opg Profit Margins	11.1	10.1	10.0		
Net Profit Margins	9.4	8.8	9.0		

Source of all data: Company, DBS Bank Ltd

### Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank Ltd estimates



Source: Bloomberg Finance L.P., DBS Bank Ltd estimates

## Venture Corporation

### Key Assumptions

FY Dec	2021A	2022A	2023A	2024F	2025F
Net margin (%)	10.0	9.57	8.93	9.29	9.53
% of SGA (%)	14.8	13.0	15.6	13.2	13.2

### Segmental Breakdown

FY Dec	2021A	2022A	2023A	2024F	2025F
<b>Revenues (\$\$m)</b>					
Portfolio A*	1,288	1,700	1,291	1,434	1,524
Portfolio B*	1,819	2,164	1,734	1,873	1,947
<b>Total</b>	<b>3,107</b>	<b>3,864</b>	<b>3,025</b>	<b>3,306</b>	<b>3,472</b>

### Income Statement (\$\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Revenue	3,107	3,864	3,025	3,306	3,472
Cost of Goods Sold	(2,298)	(2,924)	(2,255)	(2,506)	(2,621)
<b>Gross Profit</b>	<b>810</b>	<b>940</b>	<b>770</b>	<b>800</b>	<b>851</b>
Other Opng (Exp)/Inc	(457)	(500)	(467)	(434)	(456)
<b>Operating Profit</b>	<b>353</b>	<b>440</b>	<b>303</b>	<b>366</b>	<b>394</b>
Other Non Opg (Exp)/Inc	6.77	9.23	28.2	9.50	9.50
Associates & JV Inc	0.20	0.32	0.24	0.24	0.24
Net Interest (Exp)/Inc	(0.4)	(0.5)	(0.7)	0.0	0.0
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>360</b>	<b>449</b>	<b>331</b>	<b>376</b>	<b>404</b>
Tax	(47.3)	(78.8)	(60.0)	(67.6)	(72.8)
Minority Interest	(0.3)	(0.5)	(0.7)	(0.7)	(0.7)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>312</b>	<b>370</b>	<b>270</b>	<b>307</b>	<b>331</b>
Net Profit before Except.	312	370	270	307	331
EBITDA	397	482	363	411	445
<b>Growth</b>					
Revenue Gth (%)	3.1	24.3	(21.7)	9.3	5.0
EBITDA Gth (%)	3.2	21.5	(24.7)	13.2	8.2
Opg Profit Gth (%)	4.7	24.6	(31.1)	20.7	7.8
Net Profit Gth (Pre-ex) (%)	4.9	18.5	(26.9)	13.8	7.6
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	26.1	24.3	25.5	24.2	24.5
Opg Profit Margin (%)	11.4	11.4	10.0	11.1	11.4
Net Profit Margin (%)	10.0	9.6	8.9	9.3	9.5
ROAE (%)	11.8	13.3	9.5	10.7	11.1
ROA (%)	9.1	10.0	7.4	8.5	8.8
ROCE (%)	11.5	13.0	8.7	10.3	10.8
Div Payout Ratio (%)	69.8	59.0	80.8	71.0	66.0
Net Interest Cover (x)	834.6	850.8	418.6	NM	NM

Note: \*

Portfolio A comprised Life Science, Genomics, Molecular Diagnostics and Related Materials Technology, Medical Devices and Equipment, Healthcare & Wellness Technology, Lifestyle Consumer Tech, Health Improvement Products and Others.

Portfolio B comprised Instrumentation, Test & Measurement Technology, Networking & Communications, Security & Safety, Building Automation, Industrial IOT, Fintech & Advanced Payment Systems, Computing & Productivity Systems, Advanced Industrial Technology, Semiconductor Related Products, Printing & Imaging, Related Components Technology and Others.

Source: Company, DBS Bank Ltd

## Venture Corporation

### Interim Income Statement (\$\$m)

FY Dec	2H2021	1H2022	2H2022	1H2023	2H2023
Revenue	1,675	1,796	2,068	1,582	1,443
Cost of Goods Sold	(1,243)	(1,346)	(1,578)	(1,186)	(1,069)
<b>Gross Profit</b>	<b>432</b>	<b>450</b>	<b>490</b>	<b>397</b>	<b>373</b>
Other Oper. (Exp)/Inc	(237)	(237)	(263)	(225)	(214)
<b>Operating Profit</b>	<b>195</b>	<b>210</b>	<b>230</b>	<b>159</b>	<b>144</b>
Other Non Opg (Exp)/Inc	2.86	3.16	6.08	12.5	15.7
Associates & JV Inc	0.20	0.0	0.32	0.0	0.0
Net Interest (Exp)/Inc	(0.2)	(0.2)	(0.4)	(0.4)	(0.3)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>198</b>	<b>213</b>	<b>236</b>	<b>171</b>	<b>159</b>
Tax	(25.9)	(38.3)	(40.5)	(31.1)	(28.9)
Minority Interest	(0.3)	(0.2)	(0.3)	(0.3)	(0.4)
<b>Net Profit</b>	<b>172</b>	<b>174</b>	<b>195</b>	<b>140</b>	<b>130</b>
Net profit bef Except.	172	174	195	140	130
EBITDA	218	231	255	187	176

### Growth

Revenue Gth (%)	17.0	7.2	15.1	(23.5)	(8.8)
EBITDA Gth (%)	19.1	6.2	10.1	(26.5)	(6.3)
Opg Profit Gth (%)	23.4	7.6	9.7	(30.8)	(9.6)
Net Profit Gth (%)	22.3	1.5	12.1	(28.3)	(7.1)

### Margins

Gross Margins (%)	25.8	25.1	23.7	25.1	25.9
Opg Profit Margins (%)	11.6	11.7	11.1	10.1	10.0
Net Profit Margins (%)	10.2	9.7	9.4	8.8	9.0

### Balance Sheet (\$\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Net Fixed Assets	215	225	248	242	233
Invts in Associates & JVs	0.63	0.80	0.89	1.13	1.37
Other LT Assets	682	693	701	701	700
Cash & ST Invts	808	813	1,056	1,048	1,111
Inventory	1,049	1,065	823	899	944
Debtors	829	906	677	740	777
Other Current Assets	50.9	48.6	48.6	48.6	48.6
<b>Total Assets</b>	<b>3,635</b>	<b>3,751</b>	<b>3,555</b>	<b>3,681</b>	<b>3,815</b>
ST Debt	0.0	0.0	0.0	0.0	0.0
Creditor	644	533	392	428	449
Other Current Liab	264	360	305	305	305
LT Debt	0.0	0.0	0.0	0.0	0.0
Other LT Liabilities	8.31	15.4	20.2	20.2	20.2
Shareholder's Equity	2,716	2,840	2,834	2,923	3,036
Minority Interests	3.10	3.21	3.75	4.46	5.17
<b>Total Cap. &amp; Liab.</b>	<b>3,635</b>	<b>3,751</b>	<b>3,555</b>	<b>3,681</b>	<b>3,815</b>
Non-Cash Wkg. Capital	1,022	1,127	852	955	1,016
Net Cash/(Debt)	808	813	1,056	1,048	1,111
Debtors Turn (avg days)	90.0	82.0	95.6	78.3	79.8
Creditors Turn (avg days)	84.0	74.3	75.9	60.5	62.0
Inventory Turn (avg days)	137.7	133.5	155.0	127.2	130.4
Asset Turnover (x)	0.9	1.0	0.8	0.9	0.9
Current Ratio (x)	3.0	3.2	3.7	3.7	3.8
Quick Ratio (x)	1.8	1.9	2.5	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 Ltd

## Venture Corporation

### Cash Flow Statement (S\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Pre-Tax Profit	360	449	331	376	404
Dep. & Amort.	36.9	32.9	31.5	35.5	40.5
Tax Paid	(55.9)	(51.1)	(72.6)	(67.6)	(72.8)
Assoc. & JV Inc/(loss)	(0.2)	(0.3)	(0.2)	(0.2)	(0.2)
Chg in Wkg.Cap.	(242)	(153)	263	(103)	(60.6)
Other Operating CF	3.05	(8.7)	(31.3)	0.0	0.0
<b>Net Operating CF</b>	<b>102</b>	<b>269</b>	<b>521</b>	<b>240</b>	<b>311</b>
Capital Exp.(net)	(11.0)	(33.4)	(47.6)	(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	24.9	0.0	0.0
<b>Net Investing CF</b>	<b>(2.1)</b>	<b>(24.9)</b>	<b>(22.6)</b>	<b>(30.0)</b>	<b>(30.0)</b>
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	0.78	0.0	0.0
Other Financing CF	(13.6)	(13.9)	(19.0)	0.0	0.0
<b>Net Financing CF</b>	<b>(226)</b>	<b>(227)</b>	<b>(236)</b>	<b>(218)</b>	<b>(218)</b>
Currency Adjustments	5.17	(12.8)	(18.6)	0.0	0.0
Chg in Cash	(121)	4.66	244	(8.2)	62.8
Opg CFPS (S cts)	118	145	88.7	118	128
Free CFPS (S cts)	31.3	81.0	163	72.2	96.6

Source: Company, DBS Bank Ltd

### 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
5:	06 Nov 23	12.34	15.10	BUY

Source: DBS Bank Ltd

Analyst: Lee Keng LING

DBS Bank Ltd 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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Dissemination Date: 23 Feb 2024 07:32:29 (SGT)

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

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