

COMPANY RESULTS

Venture Corporation (VMS SP)

2023: Results In Line With Expectations; Expect A Better 2H24 Than 1H24

2023 earnings of S\$270m (-27% yoy) are in line with our forecasts. 2023 revenue fell 22% yoy due to soft customer demand and ongoing inventory destocking. Based on VMS customers' feedback, the demand schedule is expected to be stronger in 2H24 vs 1H24. VMS is actively investing to grow further in existing and new areas including hyperscale data centres and semiconductor domains. Maintain BUY and target price of S\$16.37.

FY23 RESULTS

Year to 31 Dec (S\$m)	FY23	FY22	yoy % chg
Revenue	3,025.0	3,863.7	(21.7)
PBT	330.8	448.9	(26.3)
PBT margin (%)	10.9	11.6	(0.7ppt)
Net profit	270.0	369.6	(26.9)
Net margin (%)	8.9	9.6	(0.7ppt)

Source: VMS, UOB Kay Hian

RESULTS

- Results in line with expectations.** Venture Corporation's (VMS) 2023 earnings of S\$270m (-27% yoy) were in line with expectations, forming 101% of our full-year estimate. Revenue fell 22% yoy against a high base last year due to demand softening across most of its technology domains and customers' inventory destocking. 2023 net margin fell 0.7ppt to 8.9%, mainly due to higher tax, inflationary cost pressure and lower operating leverage as revenue declined
- Expect stronger 2H24 vs 1H24.** Based on customers' feedback, VMS expects that the demand schedule will be stronger in 2H24 vs 1H24. To recap, VMS was still coming off the high base quarter in 1Q23 where it recorded earnings of S\$74m, before normalising in 2Q23-4Q23 with earnings of S\$63-67m.
- VMS is actively investing and building its manufacturing, engineering and total business excellence** to grow further in the Life Sciences, Test & Measurement Instrumentation, Hyperscale Data Centres, Semiconductor Equipment, Advanced Industrial, Networking & Communications and Luxury Lifestyle & Wellness domains. This will deepen collaboration with many of VMS's class-leading customers.
- VMS is expanding its participation in customers' products** by providing more services across the design, sourcing and supply chain management process. It is also creating advanced modules that help improve product performance, generating outstanding value for its customers. VMS is also mitigating geopolitical risks for both existing and prospective customers through innovative redesign and supply chain solutions.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	3,864	3,025	3,116	3,209	3,306
EBITDA	471	330	340	350	361
Operating profit	438	298	310	322	334
Net profit (rep./fact.)	370	270	280	290	300
Net profit (adj.)	370	270	280	290	300
EPS (S\$ cent)	127.3	92.8	96.1	99.6	103.0
PE (x)	11.1	15.2	14.7	14.2	13.7
P/B (x)	1.4	1.4	1.4	1.4	1.3
EV/EBITDA (x)	6.1	8.7	8.5	8.2	8.0
Dividend yield (%)	5.3	5.3	5.3	5.3	5.3
Net margin (%)	9.6	8.9	9.0	9.0	9.1
Net debt/(cash) to equity (%)	(28.6)	(37.3)	(42.4)	(42.6)	(44.2)
ROE (%)	13.3	9.5	9.8	9.9	9.8
Consensus net profit	-	-	305	332	-
UOBKH/Consensus (x)	-	-	0.92	0.87	-

Source: VMS, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$14.10
Target Price	S\$16.37
Upside	+16.1%

COMPANY DESCRIPTION

Venture Corporation is a leading global electronics services provider. It provides technology solutions, products and services over a diversified range of high-mix, high-value and complex products.

STOCK DATA

GICS sector	Information Technology
Bloomberg ticker:	VMS SP
Shares issued (m):	290.3
Market cap (S\$m):	4,092.6
Market cap (US\$m):	3,051.7
3-mth avg daily t'over (US\$m):	8.8

Price Performance (%)

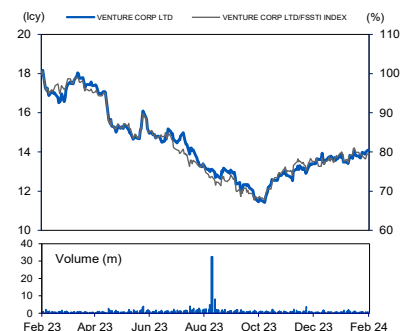
52-week high/low S\$18.17/S\$11.42

1mth	3mth	6mth	1yr	YTD
2.1	8.0	5.2	(22.4)	3.6

Major Shareholders

	%
Wong Ngit Liong	7.1
FY23 NAV/Share (S\$)	9.97
FY23 Net Cash/Share (S\$)	4.23

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **VMS intends to expand its participation in new high-growth technology domains.** VMS will continue to capitalise on its core strengths of excellence and innovation to deliver long-term sustainable growth and greater value for its shareholders.
- **Healthy balance sheet and consistent dividends.** As of FY23, VMS had net cash of S\$1,056m (accounting for around 25% of its current market cap) and led the pack of US-listed peers which were mostly in net debt positions. Also, VMS continues to issue the same amount of dividends or better than that of preceding years.

EARNINGS REVISION/RISK

- We maintain our financial estimates.

VALUATION/RECOMMENDATION

- **Maintain BUY and target price of S\$16.37**, pegged to 0.5SD above its long-term mean PE of 17x 2024F earnings to capture the potential earnings recovery in 2024 and upcycle beyond that. Currently, VMS is trading at 14.7x 2024F PE (10x ex-cash 2024 PE) and offers a decent dividend yield of 5.3%.

BREAKDOWN OF PORTFOLIO A AND B

Portfolio A	
1. Life Science, Genomics, Molecular Diagnostics and Related Materials Technology	
2. Medical Devices and Equipment	
3. Healthcare & Wellness Technology, Lifestyle Consumer Tech, Health Improvement Products and Others	
Portfolio B	
4. Instrumentation, Test & Measurement Technology	
5. Networking & Communications, Security & Safety, Building Automation, Industrial IOT	
6. Advanced Payment Systems	
7. Advanced Industrial Technology, Computing & Productivity Systems, Printing & Imaging, Related Components Technology and Others	

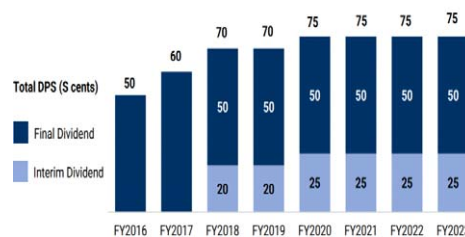
Source: VMS

PEER COMPARISON OF VMS' CLIENTS

Company	Ticker	Trading Curr (lcy)	Price @ 22-Feb-24 (lcy)	Market Cap (US\$m)	PE		P/B		Yield 2023 (%)	ROE 2023 (%)
					2023 (x)	2024 (x)	2023 (x)	2024 (x)		
Broadcom Inc	AVGO US	US\$	630.12	262,712	15.2	14.4	11.5	9.3	2.9	70.6
Agilent Technologies Inc	A US	US\$	133.3	39,417	23.4	21.2	6.2	5.6	0.7	28.2
Keysight Technologies In	KEYS US	US\$	143.66	25,591	18.0	16.9	5.2	4.4	0.0	29.6
Thermo Fisher Scientific Inc	TMO US	US\$	546.38	210,750	23.0	20.6	4.4	4.1	0.2	19.0
Fortive Corp	FTV US	US\$	64.72	22,882	19.3	17.6	2.2	2.1	0.4	12.0
Illumina Inc	ILMN US	US\$	199.66	31,566	149.0	63.1	4.5	3.7	0.0	2.5
Medtronic Plc	MDT US	US\$	90.06	119,818	17.2	15.9	2.3	2.2	3.0	12.4
Trimble Inc	TRMB US	US\$	48.05	11,904	18.3	16.8	2.6	2.3	n.a.	17.9
Philip Morris International	PM US	US\$	95.56	148,328	15.3	14.1	n.a.	n.a.	5.4	(112.0)
Average					33.2	22.3	4.9	4.2	1.6	8.9
Venture Corp Ltd	VMS SP	S\$	14.10	3,051	15.2	14.7	1.4	1.4	5.3	9.5

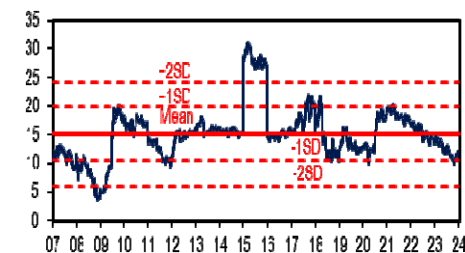
Source: Bloomberg, UOB Kay Hian

GOOD DIVIDEND TRACK RECORD



Source: Bloomberg, UOB Kay Hian

LONG-TERM PE CHART



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Net turnover	3,025.0	3,115.8	3,209.3	3,305.5
EBITDA	329.8	339.6	350.5	361.0
Deprec. & amort.	31.5	29.7	28.2	26.8
EBIT	298.3	309.9	322.2	334.2
Total other non-operating income	4.7	5.0	5.0	5.0
Associate contributions	0.2	0.2	0.2	0.2
Net interest income/(expense)	27.4	27.4	27.4	27.4
Pre-tax profit	330.8	342.6	354.9	366.8
Tax	(60.0)	(62.2)	(64.4)	(66.6)
Minorities	(0.7)	(0.7)	(0.7)	(0.7)
Net profit	270.0	279.7	289.8	299.5
Net profit (adj.)	270.0	279.7	289.8	299.5

CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Operating	521.4	395.5	260.7	268.1
Pre-tax profit	330.8	342.6	354.9	366.8
Tax	(72.6)	(62.2)	(64.4)	(66.6)
Deprec. & amort.	31.5	29.7	28.2	26.8
Associates	(0.2)	(0.2)	(0.2)	(0.2)
Working capital changes	263.4	113.8	(29.6)	(30.6)
Non-cash items	(0.7)	0.0	0.0	0.0
Other operating cashflows	(30.7)	(28.2)	(28.2)	(28.2)
Investing	(22.6)	(6.8)	(6.8)	(6.8)
Capex (growth)	(47.5)	(35.0)	(35.0)	(35.0)
Investments	(0.4)	0.0	0.0	0.0
Proceeds from sale of assets	0.4	0.0	0.0	0.0
Others	24.9	28.2	28.2	28.2
Financing	(236.5)	(217.8)	(217.8)	(145.2)
Dividend payments	(218.2)	(217.8)	(217.8)	(145.2)
Issue of shares	(6.1)	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(12.1)	0.0	0.0	0.0
Net cash inflow (outflow)	262.3	170.8	36.1	116.1
Beginning cash & cash equivalent	812.6	1,056.3	1,227.1	1,263.2
Changes due to forex impact	(18.6)	0.0	0.0	0.0
Ending cash & cash equivalent	1,056.3	1,227.1	1,263.2	1,379.2

BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Fixed assets	247.5	253.2	260.4	269.0
Other LT assets	702.1	701.9	701.7	701.5
Cash/ST investment	1,056.3	1,227.1	1,263.2	1,379.2
Other current assets	1,548.9	1,502.7	1,545.5	1,589.9
Total assets	3,554.8	3,684.9	3,770.8	3,939.7
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	696.7	764.2	777.5	791.3
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	20.2	20.2	20.2	20.2
Shareholders' equity	2,834.1	2,896.0	2,968.0	3,122.3
Minority interest	3.7	4.5	5.2	5.9
Total liabilities & equity	3,554.8	3,684.9	3,770.8	3,939.7

KEY METRICS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	10.9	10.9	10.9	10.9
Pre-tax margin	10.9	11.0	11.1	11.1
Net margin	8.9	9.0	9.0	9.1
ROA	7.4	7.7	7.8	7.8
ROE	9.5	9.8	9.9	9.8
Growth				
Turnover	(21.7)	3.0	3.0	3.0
EBITDA	(29.9)	3.0	3.2	3.0
Pre-tax profit	(26.3)	3.6	3.6	3.4
Net profit	(26.9)	3.6	3.6	3.4
Net profit (adj.)	(26.9)	3.6	3.6	3.4
EPS	(27.1)	3.6	3.6	3.4
Leverage				
Debt to total capital	0.0	0.0	0.0	0.0
Debt to equity	0.0	0.0	0.0	0.0
Net debt/(cash) to equity	(37.3)	(42.4)	(42.6)	(44.2)

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