

Singapore

ADD (no change)

Consensus ratings*: Buy 8 Hold 4 Sell 0

Current price:	S\$14.10
Target price:	S\$15.93
Previous target:	S\$15.90
Up/downside:	13.0%
CGSI / Consensus:	3.7%
Reuters:	VENM.SI
Bloomberg:	VMS SP
Market cap:	US\$3,050m
	S\$4,093m
Average daily turnover:	US\$8.33m
	S\$11.14m
Current shares o/s:	291.1m
Free float:	92.9%

*Source: Bloomberg

Key changes in this note

- FY24F EPS forecast reduced by 0.245%.
- FY25F EPS raised by 0.209%.
- FY26F forecast introduced.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.1	8	-22.4
Relative (%)	-0.2	4.5	-20.1

Major shareholders	% held
Wong Ngit Liong	7.1
Schroders	6.8

Analyst(s)



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Venture Corporation

Free cash flow generator

- FY23 net profit fell 26.9% yoy to S\$270.0m, slightly above at 101.3% of our full-year forecast but 2.3% below Bloomberg consensus.
- Net cash (zero borrowings) hit a record S\$1.06bn in FY23, while free cash flow hit a record S\$473.9m.
- A final DPS of S\$0.50 (unchanged yoy) was declared. We reiterate our Add call with a TP of S\$15.93, based on 14.6x P/E (15-year average).

FY23 net profit slightly better than expected

FY23 revenue fell 21.7% yoy to S\$3,025.0m and was 3.9%/3.7% below our/Bloomberg consensus' full-year expectations. The revenue decline was due to: a) weaker customer demand arising from soft macroeconomic conditions, and b) customers' ongoing inventory destocking, resulting in lower demand. FY23 net profit fell 26.9% yoy to S\$270.0m, slightly above our S\$266.6m forecast but 2.3% below Bloomberg consensus' full-year expectation. A final DPS of S\$0.50 was declared. Given the revenue decline and the higher cost base in FY23 arising from inflationary conditions, Venture Corporation's pre-tax margin fell from 11.6% in FY22 to 10.9% in FY23. A higher effective tax rate of 18.2% in FY23 (FY22: 17.6%) eroded net profit margin to 8.9% in FY23 (from 9.6% in FY22). On the cost side, Venture reduced its employee expense by 10.6% yoy, but R&D expenses rose 77.8% yoy as the group engaged customers on potential new products. Net cash at end Dec-23 was S\$1.06bn.

Management expects a stronger 2H24F

Management guided that it expects customer demand to be stronger in 2H24F and that efforts to explore new opportunities with various customers in different technology domains are ongoing.

Reiterate Add; TP raised slightly to S\$15.93

We reiterate our Add call on Venture given its 5.32% dividend yield (over FY24-26F) and potential for EPS growth resumption in FY24-26F. We retain our valuation basis of 14.6x FY25F P/E (15-year average). Given the soft macroeconomic conditions, we reduce our FY24-25F revenue forecasts by 3.5-3.9%. This led to a 0.4% reduction in our FY24F net profit forecast and a 0.245% reduction in our EPS forecast as Venture cancelled some of the shares bought back from the market. Our FY25F net profit is unchanged despite the revenue cut as we assume a slower pace of R&D spending in FY25F, but our EPS forecast increased by 0.209% due to the lower share base. Re-rating catalysts include: new product launches by customers and better-than-expected revenue opportunities over FY24-26F as further business opportunities arise from corporations keen to diversify their production orders from China to Malaysia. Key downside risks include: a) potential supply chain disruptions affecting the availability of parts and components, b) labour shortages potentially lowering its production output, and c) a worsening global economic outlook potentially further reducing orders from customers.

Financial Summary

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Revenue (S\$m)	3,864	3,025	3,146	3,299	3,448
Net Profit (S\$m)	369.6	270.0	290.0	316.9	333.3
Core EPS (S\$)	1.28	0.94	1.00	1.09	1.15
Core EPS Growth	18.4%	(26.9%)	6.6%	9.3%	5.2%
FD Core P/E (x)	11.08	15.17	14.12	12.92	12.29
Price To Sales (x)	1.05	1.34	1.30	1.24	1.19
DPS (S\$)	0.75	0.75	0.75	0.75	0.75
Dividend Yield	5.32%	5.32%	5.32%	5.32%	5.32%
EV/EBITDA (x)	7.02	9.28	7.97	7.16	6.56
P/FCFE (x)	16.78	8.21	9.94	14.97	14.17
Net Gearing	(27.7%)	(36.3%)	(42.0%)	(42.5%)	(43.3%)
P/BV (x)	1.44	1.44	1.41	1.36	1.31
ROE	13.3%	9.5%	10.1%	10.7%	10.9%
% Change In Core EPS Estimates			(0.245%)	0.209%	
EPS/Consensus EPS (x)			0.95	0.96	

SOURCES: CGSI RESEARCH, COMPANY REPORTS

Figure 1: Results comparison

FYE Dec (\$\$ m)	2H23	2H22	yoy % chg	1H23	hoh % chg	Prev FY23F	Comments
Revenue	1,442.81	2,067.60	(30.22)	1,582.22	(8.81)	3,147.45	FY23 revenue was 3.9% below our expectation. FY23 revenue was 3.7% below Bloomberg consensus expectation.
Operating costs	(1,288.95)	(1,823.24)	(29.30)	(1,408.32)	(8.48)	(2,813.83)	
EBITDA	153.86	244.37	(37.04)	173.90	(11.53)	333.62	
Depn & amort.	(15.84)	(16.38)	(3.25)	(15.64)	1.30	(34.13)	Lower as more machinery were fully depreciated.
EBIT	138.02	227.99	(39.46)	158.26	(12.79)	299.49	
Other income	3.84	1.50	156.24	0.90	324.89	1.80	Higher yoy due to receipt of government grants.
Foreign exchange	2.19	0.90	143.16	0.12	1,768.38	0.12	
Investment revenue	15.68	6.08	157.99	12.48	25.60	24.96	Due to higher interest rate.
Interest expense	(0.34)	(0.37)	(7.03)	(0.38)	(9.47)	(0.76)	
Exceptionals	0.00	0.00	na	0.00	na	0.00	
Pretax profit	159.38	236.10	(32.49)	171.39	(7.01)	325.61	
Tax	(28.94)	(40.48)	(28.51)	(31.10)	(6.96)	(58.61)	
Minority interests	0.43	0.28	53.57	0.28	53.57	0.40	
Net profit	130.01	195.34	(33.44)	140.01	(7.14)	266.60	FY23 net profit was 1.3% above our expectation. FY23 net profit was 2.3% below Bloomberg consensus expectation.
Core net profit	130.01	195.34	(33.44)	140.01	(7.14)	266.60	
EPS (\$\$)	0.45	0.67	(33.38)	0.48	(7.07)	0.92	
Core EPS (\$\$)	0.45	0.67	(33.38)	0.48	(7.07)	0.92	
DPS (\$\$)	0.50	0.50	0.00	0.25	100.00	0.75	In line with our expectation.
			<u>yoy chg</u> in % pts		<u>hoh chg</u> in % pts		
EBITDA margin	10.66	11.82	(1.16)	10.99	(0.33)	10.60	Margin erosion due to 21.7% yoy sales decline, higher R&D spending.
Pre-tax profit margin	11.05	11.42	(0.37)	10.83	0.21	10.35	
Net profit margin	9.01	9.45	(0.44)	8.85	0.16	8.47	
Tax rate (%)	18.16	17.14	1.01	18.15	0.01	18.00	Higher tax rate as guided by management.

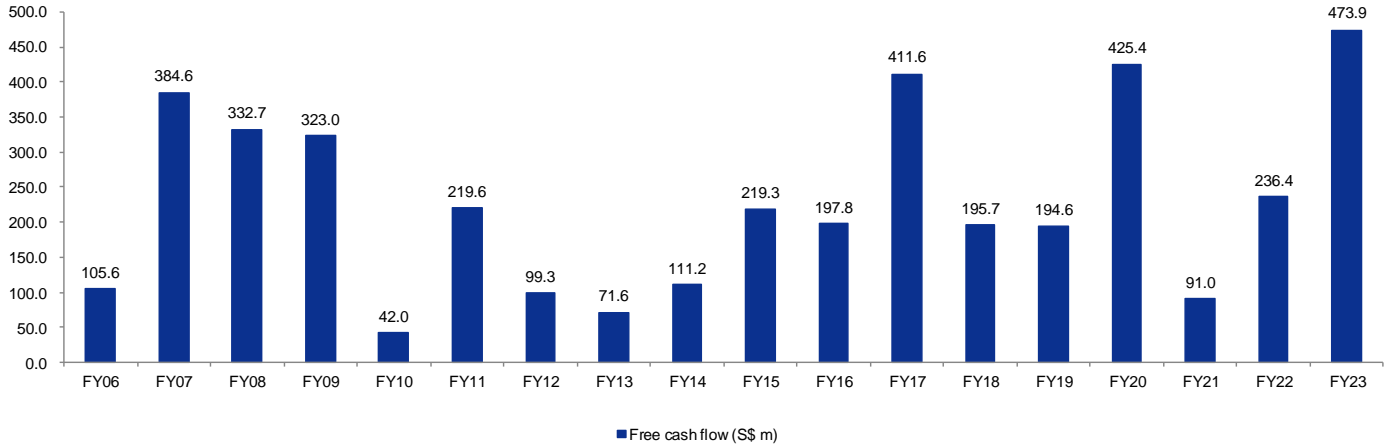
SOURCES: CGSI RESEARCH, COMPANY REPORTS

Figure 2: Earnings revisions

(\$\$m)	Old		New		Change	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	3,273.4	3,420.7	3,146.0	3,299.2	(3.9)	(3.5)
Pre-tax profit	355.7	386.9	354.5	387.3	(0.3)	0.1
Net profit	291.3	316.9	290.0	316.9	(0.4)	0.0
Number of shares (m)	291.0	291.0	290.4	290.4	(0.2)	(0.2)
					<u>chg (% pts)</u>	
Effective tax rate (%)	18.0	18.0	18.0	18.0	0.0	0.0
Pre-tax profit margin (%)	10.9	11.3	11.3	11.7	0.4	0.4
Net profit margin (%)	8.9	9.3	9.2	9.6	0.3	0.3

SOURCES: CGSI RESEARCH, COMPANY REPORTS

Figure 3: Free cash flow trend



SOURCES: CGSI RESEARCH, COMPANY REPORTS

Figure 4: Peer comparison

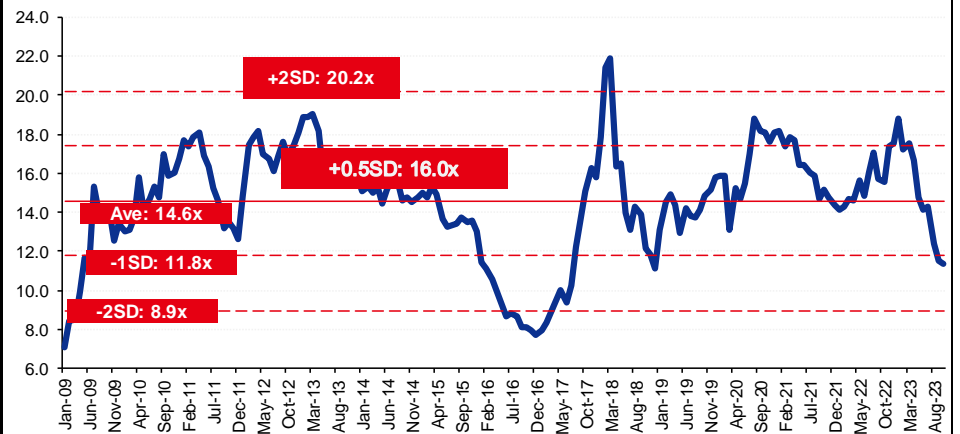
Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	P/E (x) CY23F	P/E (x) CY24F	3-year EPS CAGR (%)	P/BV (x) CY23F	Recurring ROE (%) CY23F	Dividend Yield (%) CY23F
Venture Corporation	VMS SP	ADD	14.1	15.93	3,050	15.3	14.1	-4.4%	1.42	9.2%	5.3%
US											
Benchmark Electronics	BHE US	NR	30.35	NA	1,059	16.8	16.1	7.9%	0.98	6.1%	2.2%
Celestica Inc	CLS US	NR	39.53	NA	4,438	19.4	13.9	38.4%	2.50	14.2%	0.0%
Flextronics International	FLEX US	NR	28.22	NA	11,485	16.1	12.1	15.5%	2.07	17.8%	0.0%
Jabil Circuit	JBL US	NR	138.5	NA	17,484	22.5	14.8	17.9%	7.73	37.5%	0.2%
Plexus Corp	PLXS US	NR	95.43	NA	2,597	18.9	18.8	8.7%	2.08	11.7%	0.0%
Sanmina-SCI Corp	SANM US	NR	59.99	NA	3,270	11.2	10.6	4.5%	na	14.9%	0.0%
Simple Average (US)						17.5	14.4	15.5%	3.07	17.0%	0.4%
Simple Average (all co)						17.2	14.3	12.6%	2.80	15.9%	1.1%

DATA AS AT 22 FEB 2024


SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

Note: Estimates for Not Rated (NR) companies are based on Bloomberg consensus

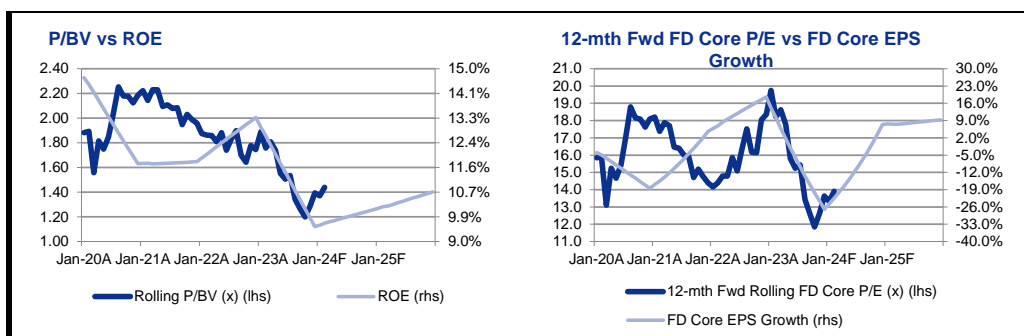
Figure 5: 12-month forward rolling P/E (x)



SOURCES: CGSI RESEARCH, BLOOMBERG

		Refinitiv ESG Scores					
ESG in a nutshell		C+	A+	C+	D+	B-	B
		ESG Score	ESG Controversies Score	ESG Combined Score	ESG Environment Pillar Score	ESG Social Pillar Score	ESG Government Pillar Score
<p>Venture Corporation Ltd is an electronic equipment and parts company headquartered in Singapore. Venture maintained its C+ ESG Grade from Refinitiv from FY20 to FY21. Venture was conferred Runner-up, Most Transparent Company Award (Technology Category), by the Securities Investors Association (Singapore) (SIAS) in 2022, according to Venture's 2022 Annual Report.</p>							
Keep your eye on	Implications						
Customer concentration risk.	<p>Due to non-disclosure agreements with customers, Venture does not name its major customers. Based on its FY22 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.</p>						
ESG highlights	Implications						
Based on our channel checks, we believe that Venture is involved in manufacturing e-cigarettes.	<p>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.</p>						
Trends	Implications						
Venture's main source of energy usage is electricity from the grid. Venture successfully reduced its carbon emission intensity by revenue from 27.6 TCO ₂ e/\$m in 2021 to 22.1 TCO ₂ e/\$m in 2022.	<p>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.</p>						
SOURCES: CGS RESEARCH, REFINITIV							

BY THE NUMBERS



Profit & Loss

(\$m)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Net Revenues	3,864	3,025	3,146	3,299	3,448
Gross Profit	940	770	793	838	876
Operating EBITDA	467	328	361	394	419
Depreciation And Amortisation	(33)	(31)	(33)	(33)	(33)
Operating EBIT	434	296	328	361	386
Financial Income/(Expense)	9	27	24	24	19
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	6	7	2	2	2
Profit Before Tax (pre-EI)	449	331	355	387	407
Exceptional Items	0	0	0	0	0
Pre-tax Profit	449	331	355	387	407
Taxation	(79)	(60)	(64)	(70)	(73)
Exceptional Income - post-tax					
Profit After Tax	370	271	291	318	334
Minority Interests	(0)	(1)	(1)	(1)	(1)
Preferred Dividends	0	0	0	0	0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	370	270	290	317	333
Recurring Net Profit	370	270	290	317	333
Fully Diluted Recurring Net Profit	370	270	290	317	333

Cash Flow

(\$m)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
EBITDA	467.2	327.5	360.9	393.7	418.6
Cash Flow from Inv. & Assoc.	(0.3)	(0.2)	(0.0)	(0.0)	(0.0)
Change In Working Capital	(152.6)	263.4	119.3	(46.4)	(46.6)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	6.4	4.1	1.4	1.8	1.2
Net Interest (Paid)/Received	(0.5)	(0.7)	(0.8)	(0.8)	(0.8)
Tax Paid	(51.1)	(72.6)	(63.8)	(69.7)	(73.3)
Cashflow From Operations	269.1	521.4	416.9	278.5	299.1
Capex	(32.7)	(47.5)	(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	7.8	24.9	25.0	25.0	20.0
Cash Flow From Investing	(24.9)	(22.6)	(5.0)	(5.0)	(10.0)
Debt Raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Proceeds From Issue Of Shares	5.3	0.8	0.0	0.0	0.0
Shares Repurchased	(2.9)	(7.9)	0.0	0.0	0.0
Dividends Paid	(218.1)	(218.2)	(217.8)	(217.8)	(217.8)
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
Cash Flow From Financing	(215.7)	(225.4)	(217.8)	(217.8)	(217.8)
Total Cash Generated	28.5	273.4	194.1	55.7	71.2
Free Cashflow To Equity	244.2	498.8	411.9	273.5	289.1
Free Cashflow To Firm	244.7	499.5	412.6	274.3	289.8

SOURCES: CGSI RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(S\$m)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Cash And Equivalents	813	1,056	1,251	1,308	1,380
Total Debtors	906	677	776	814	850
Inventories	1,065	823	645	674	705
Total Other Current Assets	49	49	49	49	49
Total Current Assets	2,833	2,605	2,720	2,844	2,983
Fixed Assets	248	273	271	268	266
Total Investments	26	26	26	26	26
Intangible Assets	641	641	640	640	640
Total Other Non-Current Assets	4	9	9	9	9
Total Non-current Assets	918	950	947	944	941
Short-term Debt	11	9	9	9	9
Current Portion of Long-Term Debt					
Total Creditors	533	392	431	452	472
Other Current Liabilities	349	296	296	296	296
Total Current Liabilities	893	697	736	757	777
Total Long-term Debt	13	19	19	19	19
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0	0	0	0	0
Total Non-current Liabilities	13	19	19	19	19
Total Provisions	2	2	2	2	2
Total Liabilities	909	717	756	777	798
Shareholders' Equity	2,840	2,834	2,906	3,004	3,119
Minority Interests	3	4	4	5	6
Total Equity	2,843	2,838	2,911	3,009	3,125

Key Ratios

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Revenue Growth	24.3%	(21.7%)	4.0%	4.9%	4.5%
Operating EBITDA Growth	21.9%	(29.9%)	10.2%	9.1%	6.3%
Operating EBITDA Margin	12.1%	10.8%	11.5%	11.9%	12.1%
Net Cash Per Share (S\$)	2.71	3.54	4.21	4.41	4.66
BVPS (S\$)	9.77	9.76	10.01	10.34	10.74
Gross Interest Cover	840.1	408.9	431.8	474.9	507.7
Effective Tax Rate	17.6%	18.2%	18.0%	18.0%	18.0%
Net Dividend Payout Ratio	48.6%	66.0%	61.6%	56.3%	53.6%
Accounts Receivables Days	81.98	95.55	84.53	87.91	88.06
Inventory Days	132.0	152.8	114.1	97.8	97.8
Accounts Payables Days	73.45	74.84	63.97	65.47	65.58
ROIC (%)	22.8%	14.6%	18.4%	21.7%	22.6%
ROCE (%)	15.8%	11.3%	12.2%	12.9%	13.1%
Return On Average Assets	11.9%	8.3%	9.1%	9.7%	10.1%

Key Drivers

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Revenue growth (%)	24.3%	-21.7%	4.0%	4.9%	4.5%

SOURCES: CGSI RESEARCH, COMPANY REPORTS

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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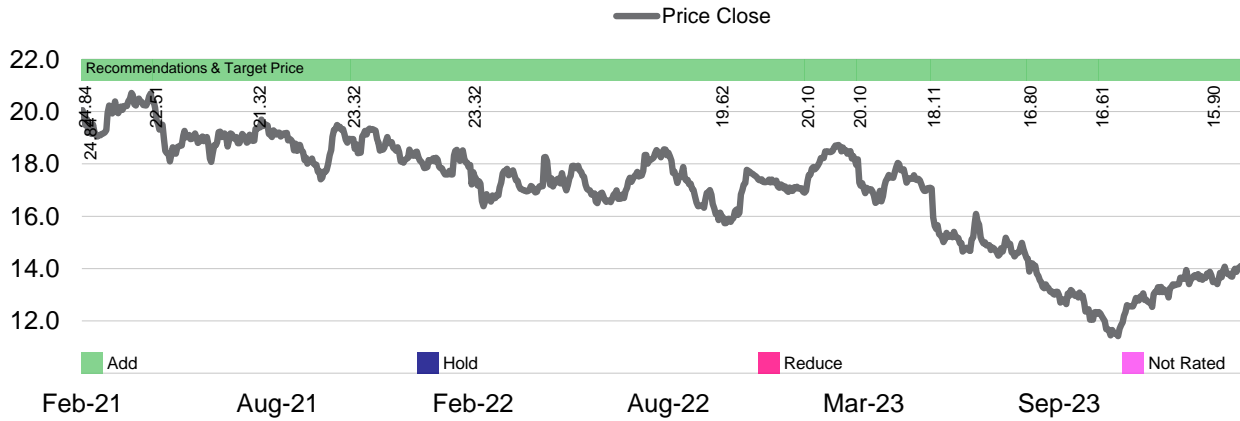
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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2023		
636 companies under coverage for quarter ended on 31 December 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	67.5%	1.3%
Hold	22.5%	0.0%
Reduce	10.1%	0.2%

Spitzer Chart for stock being researched (2 year data)

Venture Corporation (VMS SP)



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.

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Definition:

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Neutral A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.

Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.