

Singapore Company Guide

Venture Corporation

Version 18 | Bloomberg: VMS SP | Reuters: VENM.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

13 Aug 2019

BUY

Last Traded Price (8 Aug 2019): S\$14.76 (STI : 3,168.94)

Price Target 12-mth: S\$18.60 (26% upside)

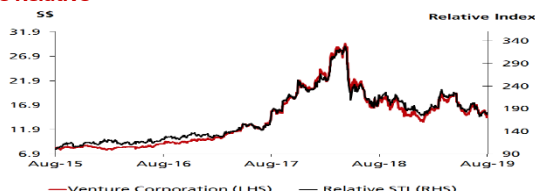
Analyst

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What's New

- 2Q19 results largely within expectations; net margins of 10.1% comparable to 1Q19 and 2Q18
- Strong cash position; net cash increased 17.5% y-o-y on strong operating cash flow
- Building new differentiating capabilities; gaining traction with existing and new customers
- Retain BUY call and TP of S\$18.60

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2017A	2018A	2019F	2020F
Revenue	4,005	3,485	3,641	3,823
EBITDA	480	465	461	492
Pre-tax Profit	444	433	426	460
Net Profit	373	370	364	392
Net Pft (Pre Ex.)	361	370	364	392
Net Pft Gth (Pre-ex) (%)	100.1	2.4	(1.5)	7.6
EPS (S cts)	131	128	126	136
EPS Pre Ex. (S cts)	127	128	126	136
EPS Gth Pre Ex (%)	96	1	(2)	8
Diluted EPS (S cts)	131	128	126	136
Net DPS (S cts)	60.0	70.0	70.0	70.0
BV Per Share (S cts)	762	813	869	935
PE (X)	11.3	11.5	11.7	10.9
PE Pre Ex. (X)	11.6	11.5	11.7	10.9
P/Cash Flow (X)	9.4	16.8	7.2	7.9
EV/EBITDA (X)	7.2	7.7	7.0	5.9
Net Div Yield (%)	4.1	4.7	4.7	4.7
P/Book Value (X)	1.9	1.8	1.7	1.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	18.1	16.4	15.0	15.0
Earnings Rev (%):			-	-
Consensus EPS (S cts):			127	137
Other Broker Recs:		B: 4	S: 2	H: 4

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

Resilient 1H19 despite volatility

Retain BUY call and TP of S\$18.60. Despite the prolonged trade US-China war and weak global outlook, Venture Corporation's (VMS) 1H19 results were commendable (flattish vs 1H18). 2Q19 results were not as weak as expected. VMS stands out for its strength in various technology domains and partnership with key industry leaders. Its above-average net margin is a key differentiating factor from its peers. The company's strong net cash should support expectations of a repeat of the higher 70-Sct dividend per share (DPS) in FY19F, which works out to a yield of 4.7%. VMS is one of the few blue chips that still offer attractive yields in this yield-hungry environment.

Where we differ: We remain positive on VMS' ability to monetise its unique offerings, know-how and hard-to-replicate ecosystems. It continues to build new differentiating capabilities to enhance its competitiveness.

Potential catalysts: New products and continued expansion into non-traditional markets with higher margins, and new customers. Customer mergers and acquisitions (M&As) and US-China trade developments, while noisy in the near-term, may give rise to new business opportunities ahead.

Valuation:

Maintain BUY; TP of S\$18.60. Our target price (TP) is pegged to VMS' 10-year average price-to-earnings (PE) of 13.7x on FY20F earnings.

Key Risks to Our View:

Weakening client or global growth prospects. A broad global slowdown is likely to impact VMS due to its vulnerability to business cycles. Potential weakening of clients' end-demand and/or the US Dollar (USD) could also dampen revenue growth.

At A Glance

Issued Capital (m shrs)	288
Mkt. Cap (S\$m/US\$m)	4,256 / 3,068
Major Shareholders (%)	
Wong Ngit Liong	7.1
Schroders Plc	6.0
Blackrock	6.0
Free Float (%)	80.9
3m Avg. Daily Val (US\$m)	14.2
ICB Industry : Industrials / Electronic & Electrical Equipment	
Bloomberg ESG disclosure score (2017)^	22.7
- Environmental / Social / Governance	10.9 / 19.3 / 53.6

[^ refer to back page for more information](#)



Live more, Bank less

WHAT'S NEW

Commendable 1H19 despite prolonged trade war and weaker global outlook

2Q19 results broadly in line; net margins comparable to 1Q19 and 2Q18. VMS' 2Q19 revenue of S\$903.5m was down 5.1% y-o-y and 2.7% q-o-q, mainly due to product transitions. Some of its customers are in the midst of launching new products or making enhancements to existing products. However, as a result of the trade war, outlook is cloudy and visibility shortened. Some customers prefer to stay on the sidelines before launching their new products, while older products are already being phased out.

Net profit margin of 10.1% in 2Q19 was comparable to 9.8% in 1Q19 and 10.3% in 2Q18. Overall, its net earnings of S\$90.8m declined 7.3% y-o-y but were flat q-o-q. Both 2Q19 revenue and earnings account for 25% of our forecasts.

In 1H19, VMS' revenue of S\$1832.2m and net earnings of S\$181.7m were flat y-o-y and account for 51% / 50% of our forecasts. We were expecting a weaker 2Q19 but stronger 2H. The Group's performance was underpinned by impactful value creation for its partners and relentless focus on operational excellence to drive productivity gains.

An interim DPS of S\$0.20 was declared, no change from last year.

Lower R&D expenses. 2Q19 Research and Development (R&D) expenses were down 74% y-o-y to S\$8.96m, due to lower customers' requirements for prototyping, tooling, non-recurring engineering (NRE), materials and its related services. R&D manpower costs are separately recorded under employee benefits expense.

Strong cash position. Net cash position remained strong at S\$760.2m after final dividend payment of S\$144.0m in May 2019. Y-o-y, net cash increased by S\$113.3m (+17.5%) on strong operating cash flow.

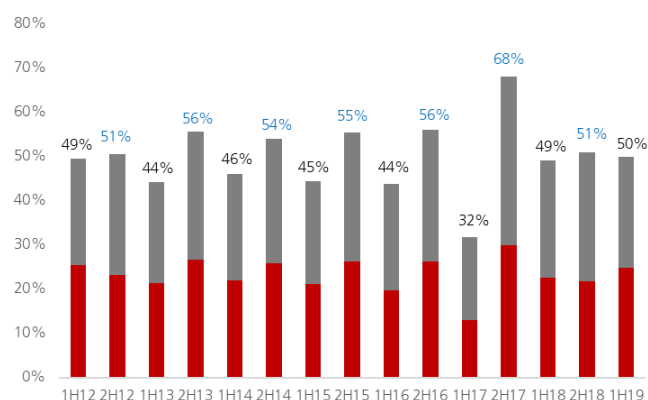
Building new differentiating capabilities to enhance competitiveness. VMS will continue to diversify its value creation/value capture pathways in the multiple ecosystems it participates in. Focus will be on selected domains that have growth and value creation opportunities.

Gaining traction with existing and new customers. Thus far, VMS has been able to navigate through the challenging environment due to the trade war. In 2Q19, most of its technology domains did well. VMS has been gaining traction with existing customers and new ones. Some new products initiatives are expected to be launched this year, which should help to narrow the gap during the product transition period.

Going forward, VMS will continue to work with its customers to expand its value creation capabilities in domains like Test & Measurement, Medical & Devices and Life Science. Some of the segments in this cluster, for example genome sequencing, is still at the nascent stage of growth and opportunities are aplenty.

No change in earnings forecast, TP and BUY call. Traditionally VMS' 2H has been stronger than its 1H (refer to chart below). However, the volatile environment is set to persist, especially with renewed tension on the trade war front. We prefer to be more cautious and maintain our forecasts even though 1H19 earnings already account for 50% of our full year estimates. Our TP of S\$18.60 is pegged to its 10-year average PE of 13.7x on FY20F earnings. Maintain BUY.

Net earnings: 1H vs 2H



Source: DBS Bank, Company

Quarterly / Interim Income Statement (\$m)

FY Dec	2Q2018	1Q2019	2Q2019	% chg yoy	% chg qoq
Revenue	952	929	903	(5.1)	(2.7)
Cost of Goods Sold	(685)	(702)	(678)	(0.9)	(3.3)
Gross Profit	268	227	225	(15.8)	(0.8)
Other Oper. (Exp)/Inc	(154)	(118)	(115)	(25.2)	(2.6)
Operating Profit	113	104	103	(9.4)	(1.1)
Other Non Opg (Exp)/Inc	2.02	2.48	2.66	31.5	7.2
Associates & JV Inc	0.0	0.0	0.04	-	nm
Net Interest (Exp)/Inc	(0.3)	(0.1)	(0.1)	62.4	8.6
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	115	106	105	(8.5)	(0.8)
Tax	(17.3)	(15.4)	(14.5)	(16.1)	(5.8)
Minority Interest	0.0	0.0	(0.1)	nm	-
Net Profit	97.9	90.9	90.8	(7.3)	(0.1)
Net profit bef Except.	97.9	90.9	90.8	(7.3)	(0.1)
EBITDA	125	117	116	(7.0)	(0.9)
Margins (%)					
Gross Margins	28.1	24.5	24.9		
Opg Profit Margins	11.9	11.2	11.4		
Net Profit Margins	10.3	9.8	10.1		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

Net margin critical in driving share price, well supported by changing business mix. According to our critical factor analysis, VMS' net margins have a direct correlation with its share price. Its evolving business mix, with increasing contribution from the Test & Measurement, Medical & Devices and Life Science clusters and declining contribution from Computer Peripherals and Printing, is likely to improve its margins.

We believe that the specialised nature of the Medical and Life Science segment permits VMS to realise better margins on contracts. Coupled with higher operational efficiencies, this should continue to drive margins higher ahead.

Growing exposure to attractive, high-growth end markets. Some of these high-end segments include Test & Measurement, Medical & Devices and Life Science. VMS has established strong relationships with companies researching on genome sequencing, which could see healthy growth over the medium term with increasing investments and use of medical technologies (MedTech).

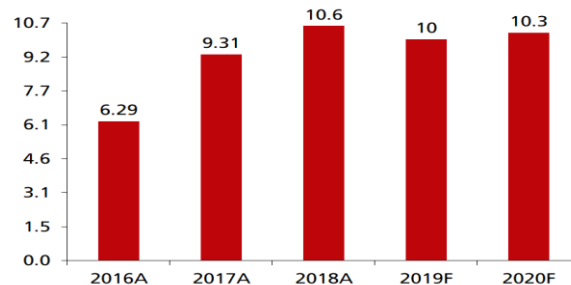
An increased focus on lower-cost technologies in healthcare is likely to boost the Test & Measurement, Medical & Devices and Life Science segments. This cluster has contributed strongly to the company's top line in recent years, which helped offset the weak performance from the Computer Peripherals & Data Storage segments. Growing exposure to these high-growth segments should lead to higher earnings growth.

Investments in R&D. A key differentiating factor for VMS from its peers is its strong research and development (R&D) capabilities. It has been pursuing innovation and technical competencies, building depth and density in engineering and R&D, as well as manufacturing operations and processes to create distinct differentiators in its technology services, products and solution offerings.

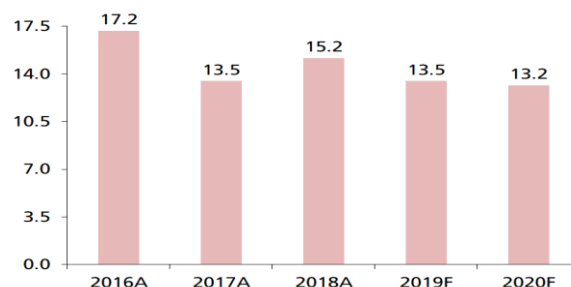
New sites acquired near high-tech companies.

In January 2018, VMS acquired a freehold site in Milpitas (California) within the Silicon Valley. When ready, the Milpitas facilities will enhance its US cluster, creating opportunities for future growth. In February 2019, VMS announced the acquisition of a new facility in Tebrau, Johor in Malaysia. This will fortify the group's strong foothold in Southeast Asia.

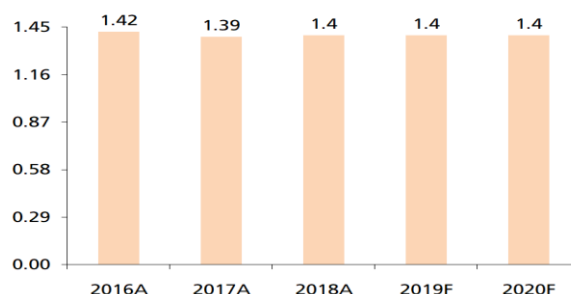
Net margin (%)



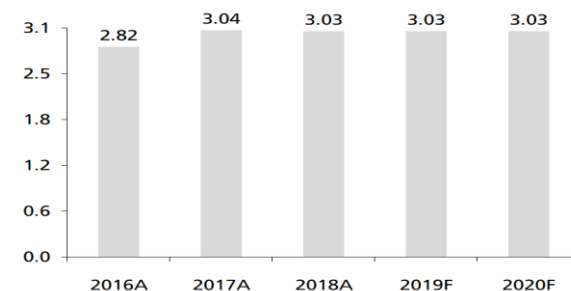
% of SGA (%)



USD/SGD



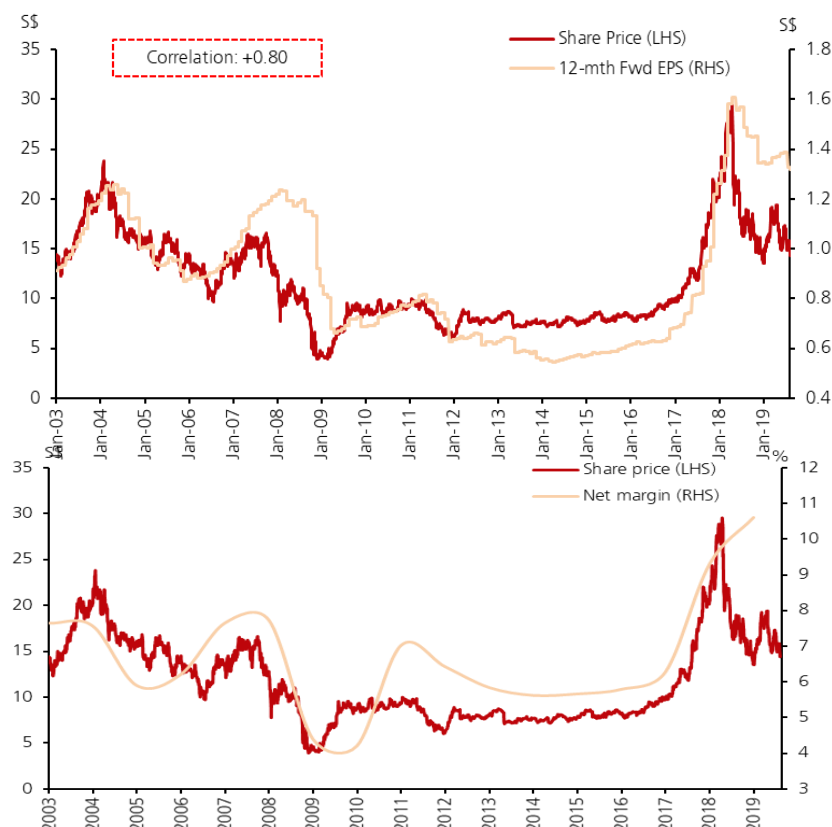
SGD/MYR



Source: Company, DBS Bank

Appendix 1: A look at Company's listed history – what drives its share price?

EPS, Net Margins as Critical Factors



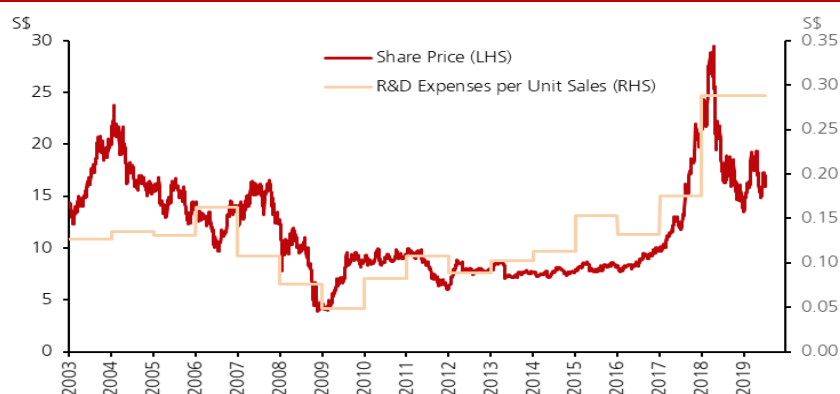
Remarks

For the last 16 years, share price has tracked 12-month forward earnings per share (EPS) forecasts (correlation +0.80), which has largely been driven by changes in margins.

In 2H18, share price was affected by the downturn in the technology cycle on the back of global uncertainties. However, Venture continued to register higher margins, driven by operational efficiencies and improved product mix.

R&D expenses per unit sales are also on an uptrend, despite the volatility in share price.

R&D as Critical Factor



Source: DBS Bank, Company, Bloomberg Finance L.P.

Venture Corporation

Balance Sheet:

Strong balance sheet. VMS' net cash position has at least tripled since FY15 to c.S\$760m as at end-2Q19, which should support expectations of a repeat of the higher 70-Sct DPS in FY19F.

Share Price Drivers:

Expect more volatility ahead. With the cloudy outlook and shortened visibility from the ongoing trade war, we expect more volatility for VMS' quarterly results and share price.

The group's strategy of pursuing the more resilient Test & Measurement, Medical & Devices and Life Science clusters has been successful in generating revenue and profits. We believe this strategy should buffer VMS from subdued or zero growth in other technology domains, and hopefully deliver a stronger 2H19.

Key Risks:

Dependent on global market conditions. With exposure to customers in the US, European Union (EU) and Asia, a broad global slowdown is likely to impact VMS due to its vulnerability to business cycles. A possible weakness in the Eurozone arising from political instability or restrictive trading policies by the US could weaken global growth prospects. We note that most electronic products do not carry tariffs in the US. Deterioration in the world economy could affect corporate spending and adversely impact VMS' results.

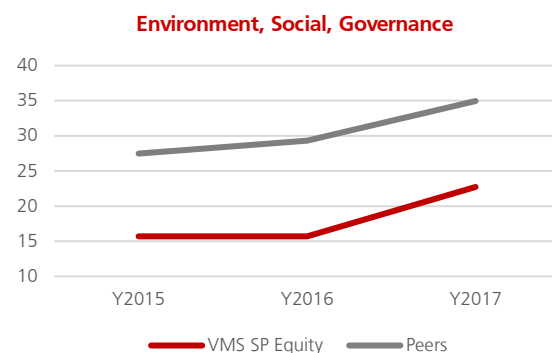
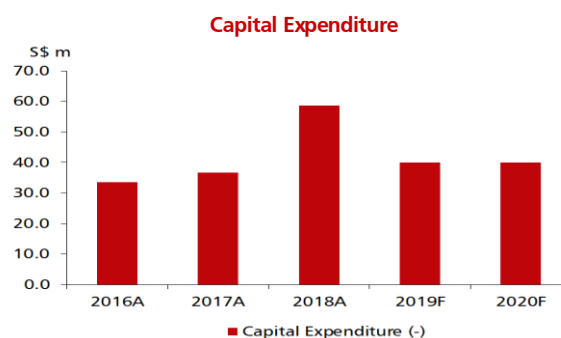
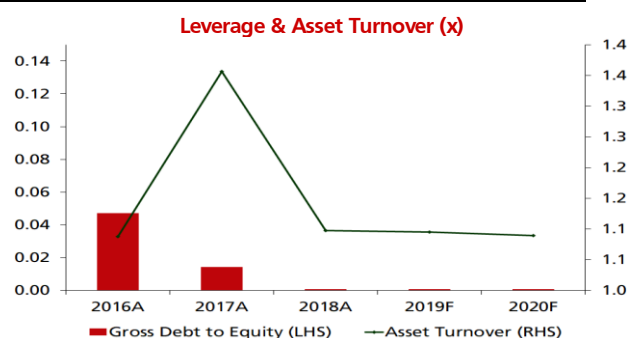
Weak USD could affect top line. A weakening USD against the Singapore Dollar (SGD) and a prolonged accommodative monetary policy could impact VMS' earnings. Our sensitivity analysis shows that every 1% appreciation of USD against SGD will increase VMS' net profit by ~1.9%.

Environmental, Social, Governance (ESG):

VMS issued its first sustainability report in 2017. Although its environmental, social and governance (ESG) score is below its peers, improving its sustainability performance is an ongoing process. In FY18, VMS introduced several sustainability initiatives, such as the launch of the Learning Management System, investing in energy efficiency solutions and enhancing policies and practices to safeguard confidential information.

Company Background

Venture Corporation 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.



Source: Company, DBS Bank

Key Assumptions

FY Dec	2016A	2017A	2018A	2019F	2020F
Net margin (%)	6.29	9.31	10.6	10.0	10.3
% of SGA (%)	17.2	13.5	15.2	13.5	13.2

Segmental Breakdown

FY Dec	2016A	2017A	2018A	2019F	2020F
Revenues (\$m)					
Advanced Manufacturing	2,155	3,205	2,600	2,730	2,894
Technology Products &	719	800	885	911	930
Total	2,874	4,005	3,485	3,641	3,823

Income Statement (\$m)

FY Dec	2016A	2017A	2018A	2019F	2020F
Revenue	2,874	4,005	3,485	3,641	3,823
Cost of Goods Sold	(2,172)	(3,039)	(2,531)	(2,731)	(2,867)
Gross Profit	702	965	954	910	956
Other Opng (Exp)/Inc	(491)	(537)	(529)	(490)	(503)
Operating Profit	211	428	425	420	453
Other Non Opng (Exp)/Inc	3.06	3.80	9.21	6.00	6.00
Associates & JV Inc	2.96	1.67	(0.1)	(0.1)	(0.1)
Net Interest (Exp)/Inc	(0.9)	(1.0)	(1.0)	0.0	0.0
Exceptional Gain/(Loss)	0.0	11.4	0.0	0.0	0.0
Pre-tax Profit	216	444	433	426	460
Tax	(35.2)	(71.1)	(62.9)	(61.8)	(66.5)
Minority Interest	0.0	0.12	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	181	373	370	364	392
Net Profit before Except.	181	361	370	364	392
EBITDA	263	480	465	461	492
Growth					
Revenue Gth (%)	8.2	39.3	(13.0)	4.5	5.0
EBITDA Gth (%)	15.0	82.3	(3.2)	(0.8)	6.8
Opg Profit Gth (%)	18.6	103.1	(0.7)	(1.1)	7.7
Net Profit Gth (Pre-ex) (%)	17.3	100.1	2.4	(1.5)	7.6
Margins & Ratio					
Gross Margins (%)	24.4	24.1	27.4	25.0	25.0
Opg Profit Margin (%)	7.3	10.7	12.2	11.5	11.8
Net Profit Margin (%)	6.3	9.3	10.6	10.0	10.3
ROAE (%)	9.4	18.1	16.4	15.0	15.0
ROA (%)	6.8	12.6	11.7	11.0	11.2
ROCE (%)	8.6	16.9	15.9	14.7	14.8
Div Payout Ratio (%)	77.1	45.7	54.7	55.5	51.6
Net Interest Cover (x)	235.5	422.9	432.6	n.m.	n.m.

Source: Company, DBS Bank

Quarterly / Interim Income Statement (\$\$m)

FY Dec	2Q2018	3Q2018	4Q2018	1Q2019	2Q2019
Revenue	952	770	906	929	903
Cost of Goods Sold	(685)	(556)	(662)	(702)	(678)
Gross Profit	268	214	244	227	225
Other Oper. (Exp)/Inc	(154)	(122)	(122)	(118)	(115)
Operating Profit	113	106	122	104	103
Other Non Opg (Exp)/Inc	2.02	2.36	2.88	2.48	2.66
Associates & JV Inc	0.0	0.0	0.0	0.0	0.04
Net Interest (Exp)/Inc	(0.3)	(13.9)	(0.2)	(0.1)	(0.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	115	94.7	124	106	105
Tax	(17.3)	(13.9)	(16.8)	(15.4)	(14.5)
Minority Interest	0.0	0.0	0.0	0.0	(0.1)
Net Profit	97.9	80.8	108	90.9	90.8
Net profit bef Except.	97.9	80.8	108	90.9	90.8
EBITDA	125	118	134	117	116

Growth

Revenue Gth (%)	11.2	(19.1)	17.6	2.5	(2.7)
EBITDA Gth (%)	15.2	(5.4)	13.6	(12.7)	(0.9)
Opg Profit Gth (%)	17.0	(6.3)	14.7	(14.8)	(1.1)
Net Profit Gth (Pre-ex) (%)	17.0	(17.5)	33.3	(15.6)	(0.1)

Margins

Gross Margins (%)	28.1	27.8	27.0	24.5	24.9
Opg Profit Margins (%)	11.9	13.8	13.4	11.2	11.4
Net Profit Margins (%)	10.3	10.5	11.9	9.8	10.1

Balance Sheet (\$\$m)

FY Dec	2016A	2017A	2018A	2019F	2020F
Net Fixed Assets	203	198	231	236	243
Invt in Associates & JVs	20.3	0.79	0.73	0.67	0.61
Other LT Assets	661	669	667	667	667
Cash & ST Invt	500	752	713	1,063	1,360
Inventory	623	700	808	700	617
Debtors	713	766	736	728	637
Other Current Assets	38.3	58.3	49.2	49.2	49.2
Total Assets	2,759	3,144	3,205	3,445	3,574
ST Debt	92.6	30.8	1.80	1.80	1.80
Creditor	491	591	529	607	546
Other Current Liab	211	352	320	320	320
LT Debt	0.0	0.0	0.0	0.0	0.0
Other LT Liabilities	1.80	1.72	2.06	2.06	2.06
Shareholder's Equity	1,960	2,166	2,350	2,512	2,702
Minority Interests	2.42	2.31	2.23	2.23	2.23
Total Cap. & Liab.	2,759	3,144	3,205	3,445	3,574
Non-Cash Wkg. Capital	673	580	745	551	437
Net Cash/(Debt)	407	722	711	1,061	1,358
Debtors Turn (avg days)	81.5	67.4	78.6	73.4	65.2
Creditors Turn (avg days)	72.5	66.0	81.8	76.9	74.2
Inventory Turn (avg days)	101.3	80.7	110.1	102.1	84.8
Asset Turnover (x)	1.1	1.4	1.1	1.1	1.1
Current Ratio (x)	2.4	2.3	2.7	2.7	3.1
Quick Ratio (x)	1.5	1.6	1.7	1.9	2.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	36.2	119.2	3,261.4	2,224.7	2,224.7
Z-Score (X)	5.5	5.8	5.8	5.5	5.8

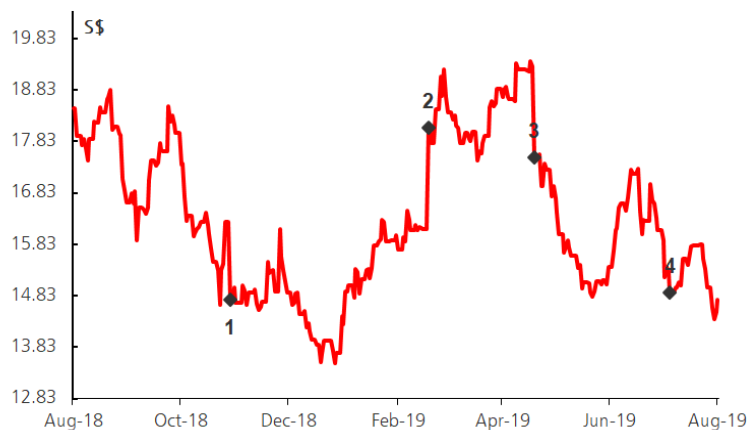
Source: Company, DBS Bank

Cash Flow Statement (\$m)

FY Dec	2016A	2017A	2018A	2019F	2020F
Pre-Tax Profit	216	444	433	426	459
Dep. & Amort.	46.4	46.4	30.7	34.7	32.9
Tax Paid	(33.5)	(50.3)	(56.3)	(61.8)	(66.5)
Assoc. & JV Inc/(loss)	(3.0)	(1.7)	0.06	0.06	0.06
Chg in Wkg.Cap.	(8.2)	13.8	(147)	194	114
Other Operating CF	13.6	(3.4)	(5.9)	0.12	0.12
Net Operating CF	231	449	254	593	539
Capital Exp.(net)	(33.5)	(36.7)	(58.6)	(40.0)	(40.0)
Other Invt.(net)	0.0	(15.3)	1.31	(0.1)	(0.1)
Invt in Assoc. & JV	0.0	31.6	0.0	0.0	0.0
Div from Assoc & JV	1.05	1.08	0.03	0.0	0.0
Other Investing CF	2.06	5.36	8.74	0.0	0.0
Net Investing CF	(30.4)	(14.0)	(48.6)	(40.1)	(40.1)
Div Paid	(138)	(141)	(230)	(202)	(202)
Chg in Gross Debt	(42.0)	(56.3)	11.3	0.0	0.0
Capital Issues	17.7	70.7	(18.1)	0.0	0.0
Other Financing CF	(1.1)	(25.0)	0.0	0.0	0.0
Net Financing CF	(164)	(151)	(237)	(202)	(202)
Currency Adjustments	3.33	(30.5)	(8.6)	0.0	0.0
Chg in Cash	40.5	253	(39.6)	350	297
Opg CFPS (\$ cts)	85.9	153	139	138	147
Free CFPS (\$ cts)	71.0	145	67.7	191	173

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	05 Nov 18	14.75	21.30	BUY
2:	25 Feb 19	18.10	21.70	BUY
3:	26 Apr 19	17.52	21.70	BUY
4:	12 Jul 19	14.90	18.60	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Lee Keng LING

[^] Bloomberg ESG Disclosure Scores rate companies annually based on their disclosure of quantitative and policy-related ESG data. It is based on a scoring scale of 0-100, and calculated using a subset of more than 100 raw data points it collects on ESG. It is designed to measure the robustness of companies' disclosure of ESG information in their reporting/the public domain. Based on Bloomberg disclosures, as of 25 Jan 2019, the global ESG disclosure average score is 24.92 and 22.14, 28.26, 49.97 for Environmental, Social and Governance, respectively.

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*

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