

Singapore Company Guide

Venture Corporation

Version 22 | Bloomberg: VMS SP | Reuters: VENM.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

11 May 2020

HOLD (downgrade from BUY)

Last Traded Price (8 May 2020): S\$15.74 (STI : 2,591.88)

Price Target 12-mth: S\$15.90 (1% upside) (Prev S\$15.80)

Analyst

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What's New

- Weak 1Q20 performance, below expectations
- Full resumption of production; working with customers to scale up demand-side
- Cut earnings for FY20F/FY21F by 12%/7% on weaker 1Q20, and lower margins
- Downgrade to HOLD on limited upside to TP of S\$15.90

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2018A	2019A	2020F	2021F
Revenue	3,485	3,633	3,452	3,651
EBITDA	465	459	412	465
Pre-tax Profit	433	420	375	429
Net Profit	370	363	322	368
Net Pft (Pre Ex.)	370	363	322	368
Net Pft Gth (Pre-ex) (%)	2.4	(1.9)	(11.4)	14.4
EPS (\$ cts)	128	125	111	127
EPS Pre Ex. (\$ cts)	128	125	111	127
EPS Gth Pre Ex (%)	1	(2)	(11)	14
Diluted EPS (\$ cts)	128	125	111	127
Net DPS (\$ cts)	70.0	70.0	70.0	70.0
BV Per Share (\$ cts)	813	862	903	960
PE (X)	12.3	12.6	14.2	12.4
PE Pre Ex. (X)	12.3	12.6	14.2	12.4
P/Cash Flow (X)	17.9	19.9	15.3	17.2
EV/EBITDA (X)	8.3	8.4	9.2	8.2
Net Div Yield (%)	4.4	4.4	4.4	4.4
P/Book Value (X)	1.9	1.8	1.7	1.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	16.4	15.0	12.6	13.6
Earnings Rev (%)			(12)	(7)
Consensus EPS (\$ cts):			116	127
Other Broker Recs:		B: 8	S: 3	H: 2

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

Temporary setback

Limited upside to TP, downgrade to HOLD. We continue to believe that given Venture's expertise and its entrenched relationship with the industry leaders in the various technology domains, coupled with its balance sheet strength, the group would emerge stronger from the current crisis and is well-positioned for longer term growth. However, in the near term, the damage to the supply and demand side of the entire technology value chain would take time to heal. We have cut FY20F/FY21F earnings by 12%/7% on the back of the weak 1Q20 results, and lower margin assumption. Share price has done well recently, up 26% from its trough in March to outperform the market's (ST Index) 16% gain during the same period. Given the limited upside to our revised TP of S\$15.90, we downgrade Venture to HOLD.

Where we differ: We remain positive on Venture's ability to continue to invest to enhance its differentiating capabilities within its ecosystems of interest. However, we are cautious in the near term.

Potential catalysts: New products and continued expansion into higher margin segments, and new customers. New business opportunities from customer mergers and acquisitions (M&As) amid the US-China trade war and COVID-19.

Valuation:

Cut to HOLD, TP S\$15.90. Our TP is pegged to 12.5x on FY21F earnings, which is -0.5SD of its 10-year average PE.

Key Risks to Our View:

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

At A Glance

Issued Capital (m shrs)	289
Mkt. Cap (\$m/US\$m)	4,543 / 3,216
Major Shareholders (%)	
Wong Ngit Liong	7.0
Schroders Plc	7.0
Blackrock	5.0
Free Float (%)	81.0
3m Avg. Daily Val (US\$m)	20.3
GIC Industry : Information Technology / Technology Hardware & Equipment	



Live more, Bank less

WHAT'S NEW

Weak 1Q20 performance

Weak 1Q20, below expectations. Venture's 1Q20 was affected by the lockdown measures due to COVID-19. Net profit was down 33.6% on the back of the 27.5% drop in revenue. Net margins fell to 9%, the weakest quarter in the last two years. In comparison, 1Q19 net margin was 9.8% and 10.3% in 4Q19. The disruptions to the global supply chain in China, Malaysia and Singapore, and factory lockdowns in China, Spain, the US and Malaysia, mainly impacted the second half of 1Q 2020.

Overall, 1Q20 revenue and net profit accounted for 18% and 17% respectively of our full year forecasts, below expectations.

Summary of 1Q20 results

(\$m)	1Q20	1Q19	4Q19	Y-o-Y	Q-o-Q
Revenue	673	928.8	932.1	-28%	-28%
Profit before tax	69.9	106.2	109.9	-34%	-36%
PBT margin	10.4%	11.4%	11.8%	-1ppt	-1.4ppt
Taxation	-9.6	-15.4	-13.6	-38%	-29%
Net profit	60.3	90.9	96.3	-34%	-37%
Net margin	9.0%	9.8%	10.3%	-0.8ppt	-1.3ppt

Source: Company, DBS Bank

Stronger cash position. Net cash position as at end-1Q20 improved 19.5% y-o-y to S\$852.5m. This works out to S\$2.94 per share or c. 19% of its current market capitalisation. Venture's strong net cash position should support expectations that the 70-Sct DPS can be sustained going forward. This represents 4.4% yield based on its current share price.

Full resumption of production; working with customers to scale up demand-side. Venture's businesses are deemed as suppliers of both "essential products" as well as "essential services". By end April, most if not all its operating entities received exemptions to operate without headcount or working hours constraints.

Venture is working closely with its customers/partners to scale up the demand side. Venture continues to see strengths in demand for services and products in technology domains such as Life Science, Healthcare & Wellness, Semiconductor-related Equipment, Communications and Networking modules and products, Diagnostic and Research equipment, and Instrumentation for Test & Measurement.

Strong demand for products used to help COVID-19 infected individuals and advantage. There is strong demand for Venture's products that are being used to help COVID-19-infected individuals, such as ventilators and DNA molecule

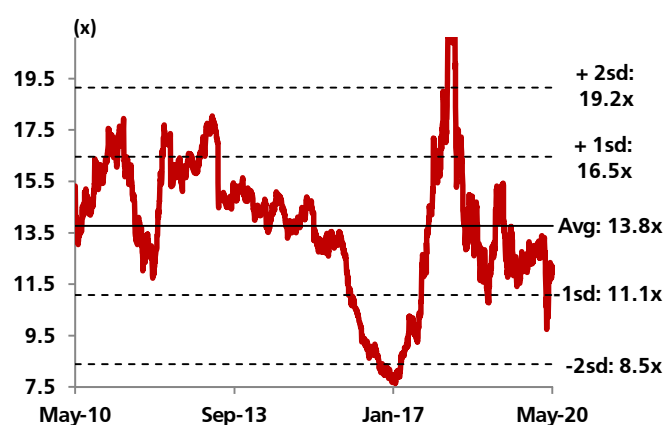
testing and monitoring equipment, including those used for next-gen sequencing and the related supply chains.

Beneficiary of realignment of the global supply chain. The COVID-19 pandemic could push companies to diversify their supply chain network, especially out of China, which accounts for the bulk of the global manufacturing output. Venture, with its strong footing in both Malaysia and Singapore, should benefit from this diversification trend in the medium term.

Cut earnings for FY20F/FY21F by 12%/7%; downgrade to HOLD. We have cut earnings for FY20F/FY21F by 12%/7% to account for the weaker 1Q20 results and lower margins. Our target price is raised to S\$15.90 (previously S\$15.80), as we rolled forward to FY21F earnings but still pegged to 12.5x, which is -0.5SD of its 10-year average PE. Share price has done well recently, up 26% from its trough in March, to outperform the market's (ST Index) 16% gain during the same period. Given the limited upside to our revised TP, we downgrade Venture to HOLD.

We continue to believe that given Venture's expertise and its entrenched relationship with industry leaders in the various technology domains, coupled with its balance sheet strength, Venture would emerge stronger from the current crisis and is well-positioned for longer term growth.

Venture 10-year forward PE Band



Source: 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, Venture's 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 Venture 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. Venture 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).

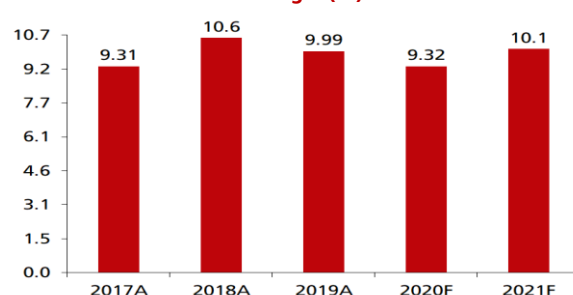
An increased focus on lower-cost technologies in healthcare is likely to boost the Test & Measurement, Medical & Devices and Life Science segments. This cluster has contributed strongly to the group's top line in recent years, which helped offset the weak performance from the Computer Peripherals & Data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

Investments in R&D. A key differentiating factor for Venture 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.

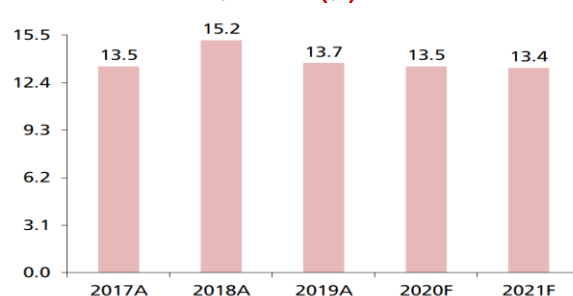
Acquisition of new sites for future expansion.

Venture has acquired a freehold site in Milpitas (California) within the Silicon Valley. This will further enhance its ability to cater to its US customer cluster and creates opportunities for future growth. Venture has also acquired a plot of land with an industrial building in Tebrau, Johor in Malaysia. This will fortify the group's strong foothold in Southeast Asia.

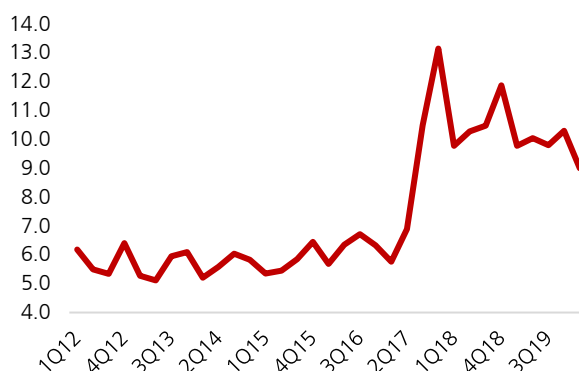
Net margin (%)



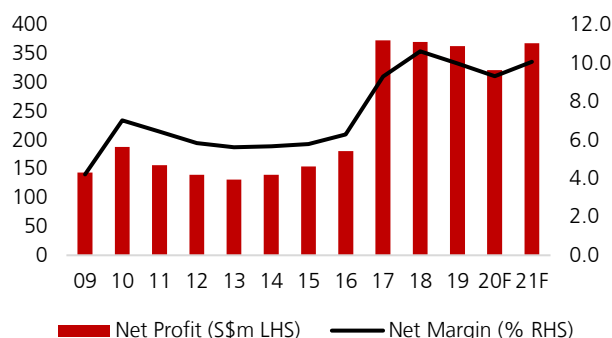
% of SGA (%)



Quarterly net margin trend (%)



Net profit and margins trend



Source: Company, DBS Bank

Venture Corporation

Balance Sheet:

Strong balance sheet. Venture's net cash position had at least tripled since FY15 to c.\$852.5m as at end-1Q20, which should support its 70-Sct DPS going forward

Share Price Drivers:

Expect more volatility ahead. With the cloudy outlook and shortened visibility from the ongoing trade war, and now, the COVID-19 outbreak, we expect more volatility for Venture's share price. The ability to sustain net margins above the 10% level is one of the key factors to watch out for.

Venture is working closely with its customers/partners to scale up the demand-side and will be supporting several partners in their new and key product launches. 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 for the longer term.

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 Venture 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. Deterioration in the world economy could affect corporate spending and adversely impact Venture's results.

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

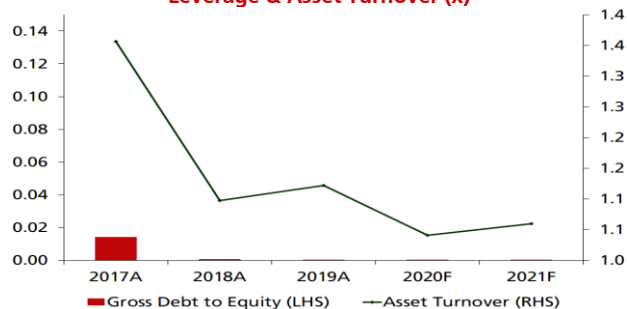
Environment, Social, Governance:

Venture 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, Venture 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.

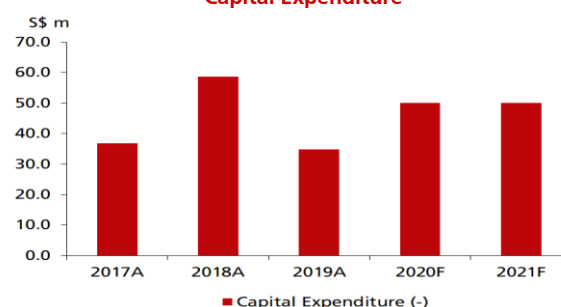
Company Background

Venture Corporation (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.

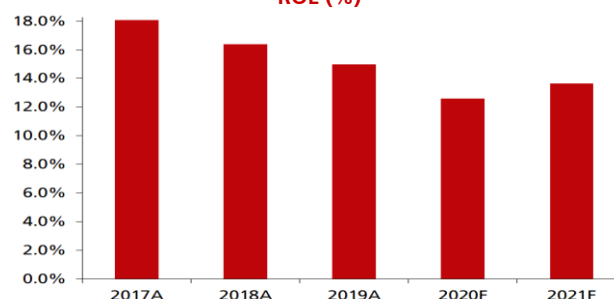
Leverage & Asset Turnover (x)



Capital Expenditure



ROE (%)



Forward PE Band (x)



PB Band (x)



Source: Company, DBS Bank

Key Assumptions

FY Dec	2017A	2018A	2019A	2020F	2021F
Net margin (%)	9.31	10.6	9.99	9.32	10.1
% of SGA (%)	13.5	15.2	13.7	13.5	13.4

Segmental Breakdown

FY Dec	2017A	2018A	2019A	2020F	2021F
Revenues (\$\$m)					
Advanced Manufacturing & Design Solutions (AMDS)	3,205	2,600	2,775	2,637	2,795
Technology Products & Design Solutions (TPS)	800	885	858	815	856
Total	4,005	3,485	3,633	3,452	3,651

Income Statement (\$\$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Revenue	4,005	3,485	3,633	3,452	3,651
Cost of Goods Sold	(3,039)	(2,531)	(2,727)	(2,623)	(2,745)
Gross Profit	965	954	907	828	905
Other Opng (Exp)/Inc	(537)	(529)	(497)	(465)	(488)
Operating Profit	428	425	410	363	417
Other Non Opg (Exp)/Inc	3.80	9.21	11.0	11.0	11.0
Associates & JV Inc	1.67	(0.1)	0.04	0.04	0.04
Net Interest (Exp)/Inc	(1.0)	(1.0)	(0.5)	0.0	0.0
Exceptional Gain/(Loss)	11.4	0.0	0.0	0.0	0.0
Pre-tax Profit	444	433	420	375	429
Tax	(71.1)	(62.9)	(56.6)	(52.4)	(59.9)
Minority Interest	0.12	0.0	(0.3)	(0.3)	(0.3)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	373	370	363	322	368
Net Profit before Except.	361	370	363	322	368
EBITDA	480	465	459	412	465
Growth					
Revenue Gth (%)	39.3	(13.0)	4.3	(5.0)	5.8
EBITDA Gth (%)	82.3	(3.2)	(1.2)	(10.4)	13.1
Opg Profit Gth (%)	103.1	(0.7)	(3.6)	(11.3)	14.8
Net Profit Gth (Pre-ex) (%)	100.1	2.4	(1.9)	(11.4)	14.4
Margins & Ratio					
Gross Margins (%)	24.1	27.4	25.0	24.0	24.8
Opg Profit Margin (%)	10.7	12.2	11.3	10.5	11.4
Net Profit Margin (%)	9.3	10.6	10.0	9.3	10.1
ROAE (%)	18.1	16.4	15.0	12.6	13.6
ROA (%)	12.6	11.7	11.2	9.7	10.7
ROCE (%)	16.9	15.9	14.5	12.1	13.2
Div Payout Ratio (%)	45.7	54.7	55.8	63.1	55.1
Net Interest Cover (x)	422.9	432.6	783.0	34,327.1	39,407.1

Source: Company, DBS Bank

Quarterly / Interim Income Statement (\$5m)

FY Dec	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019
Revenue	906	929	903	869	932
Cost of Goods Sold	(662)	(702)	(678)	(652)	(694)
Gross Profit	244	227	225	217	238
Other Oper. (Exp)/Inc	(122)	(118)	(115)	(116)	(122)
Operating Profit	122	104	103	95.6	107
Other Non Opg (Exp)/Inc	2.88	2.48	2.66	3.15	2.71
Associates & JV Inc	0.0	0.0	0.04	0.0	0.0
Net Interest (Exp)/Inc	(0.2)	(0.1)	(0.1)	(0.2)	(0.2)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	124	106	105	98.6	110
Tax	(16.8)	(15.4)	(14.5)	(13.2)	(13.6)
Minority Interest	0.0	0.0	(0.1)	(0.2)	0.0
Net Profit	108	90.9	90.8	85.2	96.3
Net profit bef Except.	108	90.9	90.8	85.2	96.3
EBITDA	134	117	116	111	123

Growth

Revenue Gth (%)	17.6	2.5	(2.7)	(3.8)	7.2
EBITDA Gth (%)	13.6	(12.7)	(0.9)	(4.6)	10.8
Opg Profit Gth (%)	14.7	(14.8)	(1.1)	(7.0)	12.3
Net Profit Gth (Pre-ex) (%)	33.3	(15.6)	(0.1)	(6.2)	13.0

Margins

Gross Margins (%)	27.0	24.5	24.9	24.9	25.5
Opg Profit Margins (%)	13.4	11.2	11.4	11.0	11.5
Net Profit Margins (%)	11.9	9.8	10.1	9.8	10.3

Balance Sheet (\$5m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Net Fixed Assets	198	231	232	245	259
Invt in Associates & JVs	0.79	0.73	0.76	0.80	0.83
Other LT Assets	669	667	696	696	696
Cash & ST Invt	752	713	714	759	770
Inventory	700	808	706	671	710
Debtors	766	736	899	959	1,074
Other Current Assets	58.3	49.2	25.8	25.8	25.8
Total Assets	3,144	3,205	3,274	3,357	3,536
ST Debt	30.8	1.80	1.06	1.06	1.06
Creditor	591	529	490	454	468
Other Current Liab	352	320	264	264	264
LT Debt	0.0	0.0	0.0	0.0	0.0
Other LT Liabilities	1.72	2.06	20.4	20.4	20.4
Shareholder's Equity	2,166	2,350	2,496	2,615	2,780
Minority Interests	2.31	2.23	2.40	2.40	2.40
Total Cap. & Liab.	3,144	3,205	3,274	3,357	3,536
Non-Cash Wkg. Capital	580	745	877	937	1,077
Net Cash/(Debt)	722	711	713	758	769
Debtors Turn (avg days)	67.4	78.6	82.1	98.2	101.6
Creditors Turn (avg days)	66.0	81.8	69.2	66.6	62.1
Inventory Turn (avg days)	80.7	110.1	102.8	97.1	93.0
Asset Turnover (x)	1.4	1.1	1.1	1.0	1.1
Current Ratio (x)	2.3	2.7	3.1	3.4	3.5
Quick Ratio (x)	1.6	1.7	2.1	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 (%)	119.2	3,261.4	3,281.9	4,725.9	4,725.9
Z-Score (X)	6.4	5.9	6.3	6.4	6.4

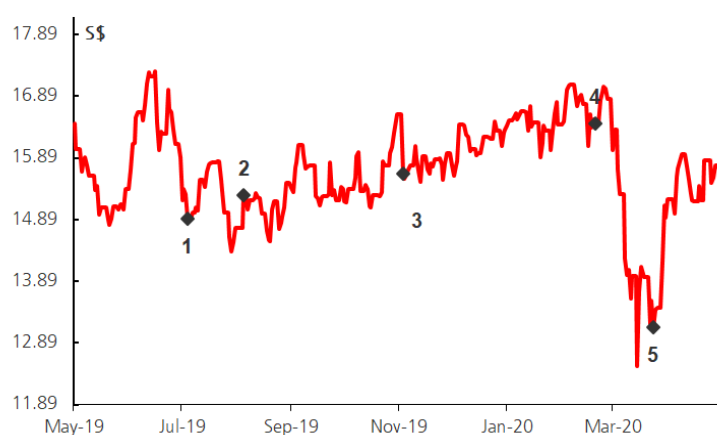
Source: Company, DBS Bank

Cash Flow Statement (\$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Pre-Tax Profit	444	433	420	374	428
Dep. & Amort.	46.4	30.7	38.7	36.3	36.3
Tax Paid	(50.3)	(56.3)	(61.5)	(52.4)	(59.9)
Assoc. & JV Inc/(loss)	(1.7)	0.06	0.0	0.0	0.0
Chg in Wkg.Cap.	13.8	(147)	(157)	(60.8)	(140)
Other Operating CF	(3.4)	(5.9)	(10.7)	0.0	0.0
Net Operating CF	449	254	230	297	265
Capital Exp.(net)	(36.7)	(58.6)	(34.7)	(50.0)	(50.0)
Other Invt.(net)	(15.3)	1.31	(1.4)	(0.3)	(0.3)
Invt in Assoc. & JV	31.6	0.0	0.0	0.0	0.0
Div from Assoc & JV	1.08	0.03	0.0	0.0	0.0
Other Investing CF	5.36	8.74	11.4	0.0	0.0
Net Investing CF	(14.0)	(48.6)	(24.7)	(50.3)	(50.3)
Div Paid	(141)	(230)	(202)	(203)	(203)
Chg in Gross Debt	(56.3)	11.3	(0.7)	0.0	0.0
Capital Issues	70.7	(18.1)	5.52	0.0	0.0
Other Financing CF	(25.0)	0.0	(8.1)	0.0	0.0
Net Financing CF	(151)	(237)	(205)	(203)	(203)
Currency Adjustments	(30.5)	(8.6)	1.67	0.0	0.0
Chg in Cash	253	(39.6)	1.64	44.3	11.5
Opg CFPS (\$ cts)	153	139	133	124	140
Free CFPS (\$ cts)	145	67.7	67.3	85.4	74.1

Source: Company, DBS Bank

Target Price & Ratings 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:	12 Jul 19	14.90	18.60	BUY
2:	13 Aug 19	15.28	18.60	BUY
3:	11 Nov 19	15.63	17.20	HOLD
4:	28 Feb 20	16.45	18.50	BUY
5:	01 Apr 20	13.15	15.80	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*

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

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