

Singapore Company Update Venture Corporation

Bloomberg: VMS SP | Reuters: VENM.SI

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DBS Group Research . Equity

9 Nov 2020

BUY

Last Traded Price (6 Nov 2020): S\$19.82 (STI : 2,578.68)
Price Target 12-mth: S\$24.30 (23% upside) (Prev S\$20.70)

Analyst

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What's New

- 3Q20 results up for the second consecutive quarter but net margins dipped below 10%
- Expecting another quarterly growth in 4Q but at a more muted rate
- Demand momentum to remain strong in FY21; launch of new products a key driver
- Maintain BUY and raising our TP to S\$24.30, pegged to a higher PE of 20.3x as sector continues to re-rate

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2019A	2020F	2021F	2022F
Revenue	3,633	3,063	3,430	3,628
EBITDA	459	383	441	468
Pre-tax Profit	420	347	405	431
Net Profit	363	297	347	370
Net Pft (Pre Ex.)	363	297	347	370
Net Pft Gth (Pre-ex) (%)	(1.9)	(18.2)	16.8	6.6
EPS (S cts)	125	103	120	128
EPS Pre Ex. (S cts)	125	103	120	128
EPS Gth Pre Ex (%)	(2)	(18)	17	7
Diluted EPS (S cts)	125	103	120	128
Net DPS (S cts)	70.0	70.0	70.0	70.0
BV Per Share (S cts)	862	894	944	1,001
PE (X)	15.8	19.3	16.6	15.5
PE Pre Ex. (X)	15.8	19.3	16.6	15.5
P/Cash Flow (X)	25.0	14.2	30.1	17.1
EV/EBITDA (X)	11.0	12.7	11.2	10.4
Net Div Yield (%)	3.5	3.5	3.5	3.5
P/Book Value (X)	2.3	2.2	2.1	2.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	15.0	11.7	13.0	13.1
Earnings Rev (%):		(8)	(6)	NEW
Consensus EPS (S cts):		108	128	137
Other Broker Recs:		B: 7	S: 2	H: 4

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



Brain Box

(Our NEW Pilot Research Platform) is available to Institutional Investors on Demand. Please contact your DBSV Institutional Sales contact for a demonstration.

Strong demand momentum

Investment Thesis:

Buy for steady recovery and quality earnings of a tech blue chip. 3Q20 saw a second consecutive quarter of earnings growth and we are expecting another quarterly growth in 4Q20, albeit at a more muted rate. Beyond FY20F, demand momentum is expected to remain strong. Besides new product initiatives, key growth areas include Life Science, Medical Devices & Equipment, Networking & Communications and Semiconductor.

Beneficiary of realignment of the global supply chain. With its diversified geographical footprint, Venture is poised to benefit from the shift in supply chain.

Strong financials to support dividend. Strong cash position to support the repeat of a 70 Scts DPS which works out to an attractive yield of c.4%.

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

Valuation:

Maintain BUY with higher TP S\$24.30. Our TP is pegged to 20.3x on FY21F earnings, which is +2SD (standard deviation) of its 5-year average price-to-earnings (PE) vs +1SD previously, given that the worst could be over for its supply chain and demand remains strong.

Where we differ:

Though 9M20 earnings growth is slower than our projection, we remain positive on Venture's ability to continue investing to enhance its differentiating capabilities within its ecosystems of interest in the longer term.

Key Risks to Our View:

Weakening client or global growth prospects. Global economic slowdown; weakening of clients' end-demand and/or the US Dollar (USD) could dampen revenue growth.

At A Glance

Issued Capital (m shrs)	290
Mkt. Cap (S\$m/US\$m)	5,745 / 4,260
Major Shareholders (%)	
Wong Ngit Liong	7.0
Schroders PLC	7.0
Blackrock Inc	5.0
Free Float (%)	76.2
3m Avg. Daily Val (US\$m)	17.4
GIC Industry : Information Technology / Technology Hardware & Equipment	



Live more, Bank less

WHAT'S NEW

3Q20 results up for a second consecutive quarter

Results Highlight

3Q20 results up for second consecutive quarters. Venture reported 3Q20 net profit of S\$80.2m (+14.2% q-o-q, -5.9% y-o-y) on the back of 18.1% q-o-q increase (-5.8% y-o-y) in revenue to S\$818.4m. On a 9-month basis, revenue and net profit accounted for 63% and 66% respectively of our full year forecasts, below expectations, as we were expecting much stronger growth.

Net margins dipped below 10%. 3Q20 net margins of 9.8% was similar to 3Q19 but lower than 10.1% in 2Q20. This could be due to the product mix. In 2Q20, the focus was mainly to fulfil orders for the essential goods which tend to have a higher margin. In 3Q, besides fulfilling orders for Portfolio 1, which include Life Science, Medical Devices and Equipment and Healthcare & Wellness which generally commands higher margins, Venture also fulfilled orders from Portfolio 2, which generally includes lower-margin projects from the Electronics Manufacturing Services segment.

Strong net cash level. Venture's net cash position of S\$829.7m remained healthy, up 16.3% from S\$713.4m at end-December 2019, even after a higher interim dividend payment of S\$72.5m in September 2020. Its net cash now accounts for c.15% of its market capitalisation. With improved cash level, Venture is in a stronger position to further enhance its technological capabilities and propel the group to the next level of excellence.

Summary of 3Q20 results

(\$m)	1Q20	2Q20	3Q20	9M20
Revenue	673.0	692.7	818.4	2184.1
Profit before tax	69.9	81.2	92.9	244.0
<i>PBT margin (%)</i>	<i>10.4</i>	<i>11.7</i>	<i>11.3</i>	<i>11.2</i>
Net profit	60.3	70.2	80.2	210.7
<i>Net margin (%)</i>	<i>9.0</i>	<i>10.1</i>	<i>9.8</i>	<i>9.6</i>
y-o-y growth (%)				
Revenue	(27.5)	(23.3)	(5.8)	-19.1
Profit before tax	(34.2)	(22.9)	(5.8)	-22.9
Net profit	(33.6)	(22.7)	(5.9)	-21.0
q-o-q growth (%)				
Revenue	(27.8)	2.9	18.1	
Profit before tax	(36.4)	16.2	14.4	
Net profit	(37.4)	16.4	14.2	

Source: Company; DBS Bank

Outlook

Order backlog largely fulfilled, much faster than our earlier expectations of end 2020. 3Q20 was the first full quarter without much of the disruption from COVID-19 as demand and supply were affected by the pandemic in 1H20. With the situation normalising in 3Q20, Venture was able to fulfill most of the order backlog from 1H20, for both essential and non-essential products. Venture was able to fulfill the backlog orders much faster than our earlier expectations of at least till the end of 2020.

Expecting another quarterly growth in 4Q20 but at a more muted rate. As most of the order backlog has been fulfilled, we do not expect the repeat of 3Q20's 18.1% and 14.2% q-o-q growth in revenue and net profit respectively in 4Q20. Given that demand is still strong, we expect 4Q20 to register a third consecutive quarter of earnings growth, but at a more muted rate of 8% q-o-q, vs 16.4% in 2Q20 and 14.2% in 3Q20.

Beyond FY20, NPI is the key driver. New products/ services initiatives in 2021 is expected to drive FY21 higher. A number of these have been pushed back to FY21 due to the demand and supply disruption as a result of the COVID-19 pandemic. New products/ services engineered and developed in Venture's R&D labs are scheduled for release into end markets by its partners and customers in several technology domains. These include fast-growing domains and ecosystems such as Life Science & Genomics, Healthcare & Wellness, as well as COVID-19 related detection, testing, diagnostics products and solutions.

Demand for Medical Devices & Equipment, Networking & Communications and Semiconductor-related Modules & Equipment remains strong.

Earnings & Recommendation

Cut FY20F/FY21F earnings by 8%/6%; maintain BUY. Given that most of the order backlog has been fulfilled and the expectation of a more muted 4Q20, we have trimmed our FY20F/FY21F earnings by 8%/6%. Overall, we are still expecting a stronger 2H20, contributing 56% to our FY20F earnings projection. Beyond FY20F, demand momentum is expected to remain strong. Besides new product initiatives,

Venture Corporation

other key growth areas for Venture include Life Science, Medical Devices & Equipment, Networking & Communications and Semiconductor-related Equipment domains. In the longer term, the diversity of Venture's capabilities and technical skills and expertise will continue to drive the group to greater heights. Maintain BUY.

Raised TP to S\$24.30, pegged to higher PE of 20.3x on continuing sector re-rating. On the back of strong demand momentum and that the worst is already behind us, assuming COVID-19 induced lockdowns and disruptions do not deteriorate further, we have raised our TP valuation target to 20.3x (previous 16.3x), which is +2SD of its average forward PE on FY21 earnings. This works out to a TP of S\$24.30.

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.

Historical PE and PB band



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



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

Key Assumptions

FY Dec	2018A	2019A	2020F	2021F	2022F
Net margin (%)	10.6	9.99	9.70	10.1	10.2
% of SGA (%)	15.2	13.7	15.6	15.2	15.1

Segmental Breakdown

FY Dec	2018A	2019A	2020F	2021F	2022F
Revenues (\$\$m)					
Advanced Manufacturing & Design Solutions (AMDS)	2,600	2,775	2,359	2,642	2,801
Technology Products & Design Solutions (TPS)	885	858	704	788	827
Total	3,485	3,633	3,063	3,430	3,628

Income Statement (\$\$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Revenue	3,485	3,633	3,063	3,430	3,628
Cost of Goods Sold	(2,531)	(2,727)	(2,245)	(2,511)	(2,656)
Gross Profit	954	907	818	919	972
Other Opng (Exp)/Inc	(529)	(497)	(477)	(521)	(547)
Operating Profit	425	410	341	399	425
Other Non Opng (Exp)/Inc	9.21	11.0	5.00	5.00	5.00
Associates & JV Inc	(0.1)	0.04	0.04	0.04	0.04
Net Interest (Exp)/Inc	(1.0)	(0.5)	0.0	0.0	0.0
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	433	420	347	405	431
Tax	(62.9)	(56.6)	(48.4)	(56.5)	(60.2)
Minority Interest	0.0	(0.3)	(0.3)	(0.3)	(0.3)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	370	363	297	347	370
Net Profit before Except.	370	363	297	347	370
EBITDA	465	459	383	441	468
Growth					
Revenue Gth (%)	(13.0)	4.3	(15.7)	12.0	5.8
EBITDA Gth (%)	(3.2)	(1.2)	(16.6)	15.1	6.0
Opg Profit Gth (%)	(0.7)	(3.6)	(16.8)	17.0	6.7
Net Profit Gth (Pre-ex) (%)	2.4	(1.9)	(18.2)	16.8	6.6
Margins & Ratio					
Gross Margins (%)	27.4	25.0	26.7	26.8	26.8
Opg Profit Margin (%)	12.2	11.3	11.1	11.6	11.7
Net Profit Margin (%)	10.6	10.0	9.7	10.1	10.2
ROAE (%)	16.4	15.0	11.7	13.0	13.1
ROA (%)	11.7	11.2	9.1	10.3	10.4
ROCE (%)	15.9	14.5	11.4	12.8	12.9
Div Payout Ratio (%)	54.7	55.8	68.3	58.5	54.8
Net Interest Cover (x)	432.6	783.0	NM	NM	NM

Source: Company, DBS Bank

Interim Income Statement (\$5m)

FY Dec	1H2018	2H2018	1H2019	2H2019	1H2020
Revenue	1.808	1.676	1.832	1.801	1.366
Cost of Goods Sold	(1.313)	(1.218)	(1.380)	(1.347)	(1.002)
Gross Profit	495	459	452	454	363
Other Oper. (Exp)/Inc	(285)	(244)	(234)	(237)	(216)
Operating Profit	210	228	207	203	147
Other Non Opd (Exp)/Inc	3.97	5.24	5.15	5.86	3.89
Associates & JV Inc	0.0	0.0	0.04	0.0	0.0
Net Interest (Exp)/Inc	(0.5)	(14.1)	(0.2)	(0.3)	(0.3)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	214	219	212	208	151
Tax	(32.2)	(30.7)	(29.9)	(26.8)	(20.5)
Minority Interest	0.0	0.0	(0.1)	(0.2)	(0.1)
Net Profit	182	188	182	181	131
Net profit bef Except.	182	188	182	181	131
EBITDA	232	251	232	232	164

Growth

Revenue Gth (%)	(15.8)	(7.3)	9.3	(1.7)	(24.2)
EBITDA Gth (%)	(27.4)	8.3	(7.7)	0.1	(29.1)
Opd Profit Gth (%)	(29.3)	8.4	(9.4)	(1.8)	(27.3)
Net Profit Gth (%)	(28.6)	3.7	(3.6)	(0.1)	(28.1)

Margins

Gross Margins (%)	27.4	27.4	24.7	25.2	26.6
Opd Profit Margins (%)	11.6	13.6	11.3	11.3	10.8
Net Profit Margins (%)	10.0	11.2	9.9	10.1	9.6

Balance Sheet (\$5m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Net Fixed Assets	231	232	245	259	273
Invt in Associates & JVs	0.73	0.76	0.80	0.83	0.87
Other LT Assets	667	696	696	696	696
Cash & ST Invt	713	714	867	804	886
Inventory	808	706	595	667	705
Debtors	736	899	851	1,009	1,067
Other Current Assets	49.2	25.8	25.8	25.8	25.8
Total Assets	3,205	3,274	3,281	3,462	3,654
ST Debt	1.80	1.06	1.06	1.06	1.06
Creditor	529	490	403	440	465
Other Current Liab	320	264	264	264	264
LT Debt	0.0	0.0	0.0	0.0	0.0
Other LT Liabilities	2.06	20.4	20.4	20.4	20.4
Shareholder's Equity	2,350	2,496	2,590	2,735	2,902
Minority Interests	2.23	2.40	2.40	2.40	2.40
Total Cap. & Liab.	3,205	3,274	3,281	3,462	3,654
Non-Cash Wkg. Capital	745	877	805	998	1,069
Net Cash/(Debt)	711	713	866	803	885
Debtors Turn (avg days)	78.6	82.1	104.3	98.9	104.4
Creditors Turn (avg days)	81.8	69.2	73.8	62.2	63.0
Inventory Turn (avg days)	110.1	102.8	107.5	93.1	95.6
Asset Turnover (x)	1.1	1.1	0.9	1.0	1.0
Current Ratio (x)	2.7	3.1	3.5	3.6	3.7
Quick Ratio (x)	1.7	2.1	2.6	2.6	2.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	3,261.4	3,281.9	4,725.9	4,725.9	4,725.9
Z-Score (X)	6.7	7.2	7.3	7.3	7.3

Source: Company, DBS Bank

Cash Flow Statement (\$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Pre-Tax Profit	433	420	346	404	430
Dep. & Amort.	30.7	38.7	36.3	36.3	36.3
Tax Paid	(56.3)	(61.5)	(48.4)	(56.5)	(60.2)
Assoc. & JV Inc/(loss)	0.06	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(147)	(157)	71.8	(193)	(71.3)
Other Operating CF	(5.9)	(10.7)	0.0	0.0	0.0
Net Operating CF	254	230	405	191	335
Capital Exp.(net)	(58.6)	(34.7)	(50.0)	(50.0)	(50.0)
Other Invt.(net)	1.31	(1.4)	(0.3)	(0.3)	(0.3)
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.03	0.0	0.0	0.0	0.0
Other Investing CF	8.74	11.4	0.0	0.0	0.0
Net Investing CF	(48.6)	(24.7)	(50.3)	(50.3)	(50.3)
Div Paid	(230)	(202)	(203)	(203)	(203)
Chg in Gross Debt	11.3	(0.7)	0.0	0.0	0.0
Capital Issues	(18.1)	5.52	0.0	0.0	0.0
Other Financing CF	0.0	(8.1)	0.0	0.0	0.0
Net Financing CF	(237)	(205)	(203)	(203)	(203)
Currency Adjustments	(8.6)	1.67	0.0	0.0	0.0
Chg in Cash	(39.6)	1.64	152	(62.4)	81.9
Opg CFPS (\$ cts)	139	133	115	132	140
Free CFPS (\$ cts)	67.7	67.3	123	48.5	98.4

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	11 Nov 19	15.63	17.20	HOLD
2:	28 Feb 20	16.45	18.50	BUY
3:	01 Apr 20	13.15	15.80	BUY
4:	11 May 20	15.75	15.90	HOLD
5:	05 Aug 20	18.80	20.70	BUY
6:	11 Aug 20	20.00	20.70	BUY

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

Source: DBS Bank

Analyst: Lee Keng LING

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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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