

6 August 2018

Technology | Electronics

Venture Corp

Buy (Maintained)

IQOS Rumours Set Straight

Maintain BUY with a new SGD22.20 TP from SGD26.00, 31% upside – pegged to 15.5x (from 17.2x) FY18F P/E. We attended an analyst briefing with management and came away bullish. Venture reported strong 2Q18, which debunked IQOS rumours, with PATMI up 40.2% YoY despite -6% YoY in revenue. This was due to higher margins from a change in business model to have more designing content in products produced, own proprietary product yielding 16-20% net margins and cost optimising throughout the company.

IQOS rumours debunked. There were constant fears that I Quit Ordinary Smoking (IQOS), which formed a large part of Venture Corp's revenue, and the drop in orders or weak Purchasing Managers' Index (PMI) results would affect it severely. However, with 2Q results showing PATMI surged 40.2% YoY despite a 6% drop in revenue, it has clearly debunked existing IQOS rumours.

Higher margins expected – transforming from EMS player. Venture incurred higher research & development (R&D) expenses, as many new projects won came with design content. Still, these expenses can be recouped in several ways. Based on the milestone with customers, it can bill customers and related costs will be booked into P&L.

Management has revealed that higher R&D expenses will lead to higher margins and it is constantly looking to increase depth and value of design content with customer products, which involve product and technology development. It has also developed its own propriety product, which is distributed and sold globally and yields a net profit margin of 16-20%, explaining the significantly higher overall net margins, compared to electronics manufacturing services (EMS) peers.

Trade war – implications and benefits. Management has declared that <2% of topline is implicated by the Harmonised System (HS) code in which it has worked out various strategies to mitigate these issues. Any duties will also be paid by its partners in the US. Its partners have also come out with 4-6 different ways to avoid extra tariffs. Management cited an example of a customer selling several products to Europe and the US, where it has its own factories in Europe shipping products to US. As a result, Venture can ship products to Europe while that customer's own production can be sent to the US. However, management is fearful of an escalation of the trade war, which might lead to more drastic scenario which will cause the whole economy to be affected and eventually influence Venture.

Interim dividend of SGD0.20 declared. On the strong financial performance and cash position, management declared an interim dividend of SGD0.20. Venture stated that it has paid a total of SGD2.1bn in dividends since it first started the exercise, excluding the recent declared dividend. All in all, we expect Venture to pay out a total of SGD0.70/share this year, slightly higher than last year, representing FY18F yield of 4.2%. Maintain BUY with new SGD22.20 TP, pegged to 15.5x FY18F P/E due to weaker industry outlook.

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (SGDm)	2,877	4,018	4,153	4,307	4,468
Reported net profit (SGDm)	181	373	411	427	456
Recurring net profit (SGDm)	181	373	411	427	456
Recurring net profit growth (%)	18.1	106.3	10.2	4.0	6.9
Recurring EPS (SGD)	0.65	1.32	1.44	1.50	1.60
DPS (SGD)	0.50	0.60	0.70	0.70	0.70
Recurring P/E (x)	26.0	12.7	11.7	11.2	10.5
P/B (x)	2.37	2.22	2.02	1.84	1.67
P/CF (x)	20.1	10.4	12.6	10.7	10.1
Dividend Yield (%)	3.0	3.6	4.2	4.2	4.2
EV/EBITDA (x)	16.9	8.5	7.5	7.0	6.2
Return on average equity (%)	9.4	18.0	18.1	17.1	16.7
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted)					

Source: Company data, RHB

Target Price: SGD22.20
Price: SGD16.90
Market Cap: USD3,545m
Bloomberg Ticker: VMS SP

Share Data

Avg Daily Turnover (SGD/USD)	61.5m/45.7m
52-wk Price low/high (SGD)	13.9 - 29.5
Free Float (%)	90
Shares outstanding (m)	281
Estimated Return	31%

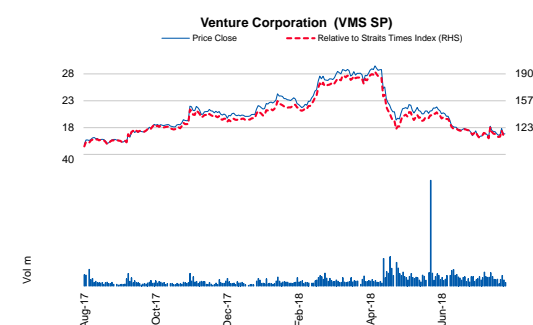
Shareholders (%)

Aberdeen Asset Management	9.0
Sprucegrove Investment	8.0
Ngit Liong Wong	7.0

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(17.7)	(3.8)	(14.7)	(28.5)	22.3
Relative	(13.7)	(4.7)	(6.0)	(21.0)	24.6

Source: Bloomberg



Source: Bloomberg

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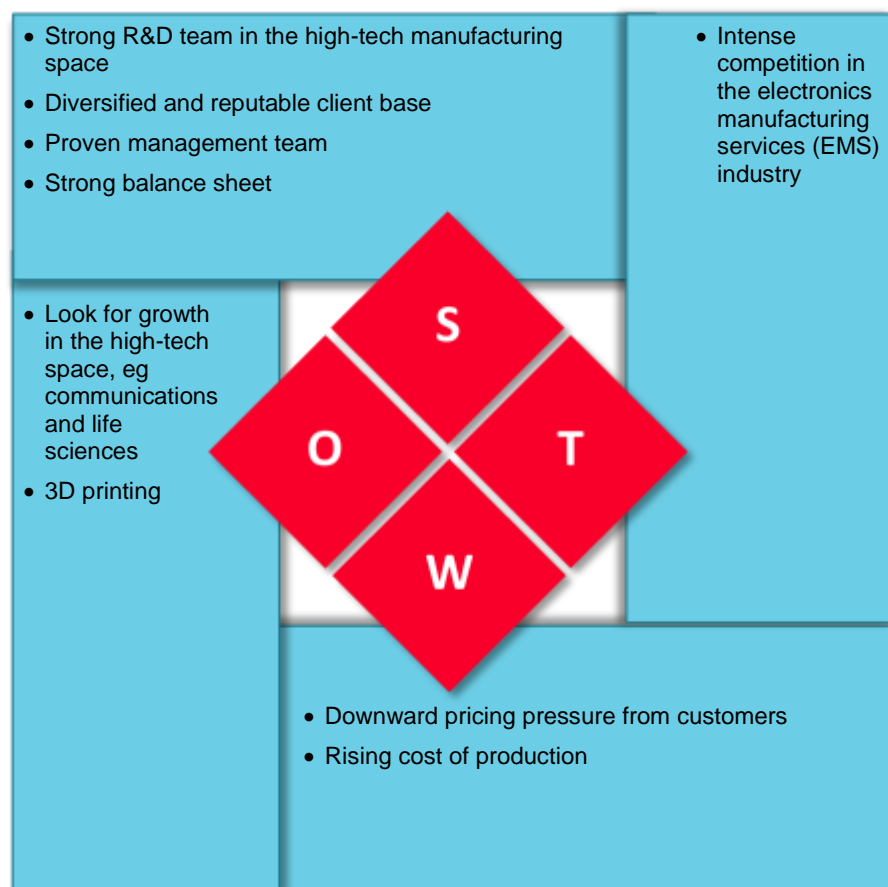
Financial Exhibits

Financial model updated on : 2018-08-05

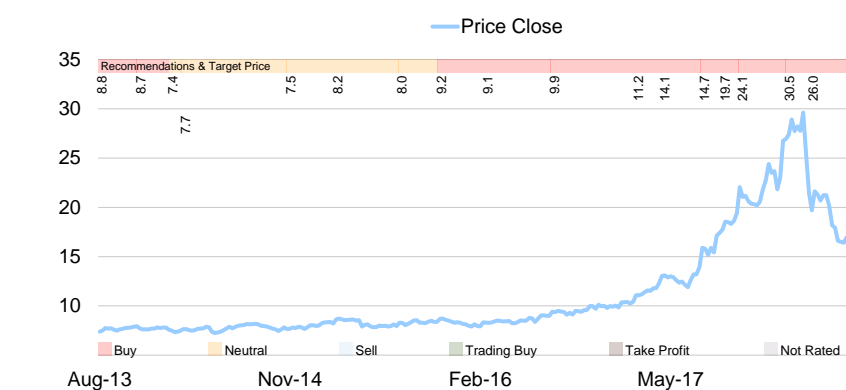
Asia	Financial summary	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Singapore	Recurring EPS (SGD)	0.65	1.32	1.44	1.50	1.60
Technology	EPS (SGD)	0.65	1.32	1.44	1.50	1.60
Venture Corp	DPS (SGD)	0.50	0.60	0.70	0.70	0.70
Bloomberg VMS SP	BVPS (SGD)	7.1	7.6	8.4	9.2	10.1
Buy	Weighted avg adjusted shares (m)	279	282	285	285	285
Valuation basis	Valuation metrics	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
DCF-backed TP (TG 0%, WACC 7%) of SGD22.20, implying a 15.5x FY18F P/E	Recurring P/E (x)	26.0	12.7	11.7	11.2	10.5
Key drivers	P/E (x)	26.0	12.7	11.7	11.2	10.5
Value creation and margin improvement	P/B (x)	2.37	2.22	2.02	1.84	1.67
Key risks	FCF Yield (%)	4.3	8.8	6.9	8.3	8.8
Economic slowdown	Dividend Yield (%)	3.0	3.6	4.2	4.2	4.2
	EV/EBITDA (x)	16.9	8.5	7.5	7.0	6.2
	EV/EBIT (x)	20.7	9.1	8.2	7.6	6.7
Company Profile	Income statement (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Venture Corp is a leading global electronics services and integrated solution provider with a diversified portfolio of customers worldwide.	Total turnover	2,877	4,018	4,153	4,307	4,468
	Gross profit	705	979	1,125	1,159	1,210
	EBITDA	251	470	523	540	572
	Depreciation and amortisation	(46)	(31)	(43)	(43)	(43)
	Operating profit	205	439	480	497	529
	Net interest	2	3	2	2	2
	Income from associates & JVs	3	2	1	1	1
	Pre-tax profit	216	444	483	500	533
	Taxation	(35)	(71)	(72)	(73)	(76)
	Minority interests	0	0	0	0	0
	Recurring net profit	181	373	411	427	456
	Cash flow (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
	Change in working capital	(8)	14	(75)	(25)	(27)
	Cash flow from operations	234	455	380	447	474
	Capex	(34)	(37)	(50)	(50)	(50)
	Cash flow from investing activities	(33)	(20)	(40)	(50)	(50)
	Proceeds from issue of shares	18	46	0	0	0
	Dividends paid	(138)	(141)	(199)	(199)	(199)
	Cash flow from financing activities	(146)	(151)	(199)	(199)	(199)
	Cash at beginning of period	459	500	752	863	1,030
	Net change in cash	55	284	141	198	225
	Ending balance cash	500	752	863	1,030	1,225
	Balance sheet (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
	Total cash and equivalents	500	752	863	1,030	1,225
	Tangible fixed assets	203	198	251	298	339
	Intangible assets	641	640	634	637	638
	Total investments	28	26	26	26	26
	Total other assets	8	4	4	4	4
	Total assets	2,754	3,143	3,309	3,585	3,879
	Short-term debt	93	31	31	31	31
	Other liabilities	2	2	2	2	2
	Total liabilities	796	976	926	977	1,025
	Shareholders' equity	1,987	2,166	2,379	2,608	2,867
	Minority interests	2	2	2	2	2
	Total equity	1,958	2,167	2,383	2,608	2,854
	Net debt	(407)	(722)	(832)	(999)	(1,194)
	Total liabilities & equity	2,754	3,143	3,309	3,585	3,879
	Key metrics	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
	Revenue growth (%)	8.3	39.7	3.4	3.7	3.7
	Recurrent EPS growth (%)	17.2	104.2	9.1	4.0	6.9
	Gross margin (%)	24.5	24.4	27.1	26.9	27.1
	Operating EBITDA margin (%)	8.7	11.7	12.6	12.5	12.8
	Net profit margin (%)	6.3	9.3	9.9	9.9	10.2
	Dividend payout ratio (%)	76.6	37.7	37.7	37.7	37.7
	Capex/sales (%)	1.2	0.9	1.2	1.2	1.1
	Interest cover (x)	229	434	355	368	392

Source: Company data, RHB

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2018-04-26	Buy	26.0	22.2
2018-02-28	Buy	30.5	27.6
2017-11-06	Buy	24.1	22.0
2017-09-25	Buy	19.7	17.3
2017-08-06	Buy	14.7	13.9
2017-05-02	Buy	14.1	12.9
2017-02-27	Buy	11.2	10.4
2016-08-08	Buy	9.9	9.0
2016-02-29	Buy	9.1	8.2
2015-11-09	Buy	9.2	8.5

Source: RHB, Bloomberg

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