Singapore Results Review

13 August 2019

Technology | Electronics

Venture Corp (VMS SP)

Buy (From Neutral)

New Product Ramp-Up In 4Q19; U/G To BUY

Target Price (Return)	SGD16.30 (+10%)
Price:	SGD14.76
Market Cap:	USD3,080m
Avg Daily Turnover (SGD/USD)	23.1m/16.7m

- **Upgrade to BUY from Neutral, TP maintained at SGD16.30, 10% upside with 4.7% FY19F yield**. Despite worsening tensions between the US and China, Venture Corp delivered flat YoY earnings in 1H19 – in spite of its weaker 2Q19 numbers. Management guided that there will be a few NPIs that should kick in by end-3Q19, and a ramp-up in production will likely happen in 4Q19, which should benefit margins in 2H. Our TP is pegged to 13x FY19F P/E.
- **Weak 2Q19 expected but better outlook ahead.** We note that Venture's global peers have been impacted by the trade war, and their financials have softened. As such, we expect profitability to be negatively impacted in the coming quarters, especially in 2Q19. Meanwhile, management expects the volatile economic environment to persist, but has several initiatives in place to help Venture weather related near-term challenges. This, together with a few new product introductions scheduled for 3Q-4Q, leads us to expect a better outlook for the company ahead.
- **Long-term strategy still intact.** Venture will focus on enhancing its globally-linked clusters of excellence. It aims to develop several dynamic ecosystems, as well as serve new markets in selected technology domains. Management believes this will broaden its value creation along multiple pathways to chart future growth. It is also looking to focus on working with customers over the long term, rather than on an *ad hoc* basis.
- **FY19F DPS of 70 cents likely to be maintained.** Management declared a total DPS of 70 cents for FY19, implying a 55% payout ratio of its NPAT. Management also guided that it is looking to pay out sustainable dividends and we expect FY19 dividends to be likely the same or higher than of FY18 – resulting in a FY19F yield of at least 4.7%. It also declared an unchanged interim DPS of 20 cents for 1H19.
- **Upgrade to BUY on brighter skies.** Venture will continue to focus on its long-term strategy and build its ecosystem to foster long-term growth. Contributions from new customers won in past years are also expected to grow YoY in 2019, but this could be impacted negatively by the ongoing trade dispute between China and the US. With NPIs from new customers and existing customers in 2H19, coupled with the recent sizeable share price correction to its current levels, we upgrade Venture to BUY with an unchanged TP of SGD16.30.
- **Key risks** are slowing economic growth and a worsening of the US-China trade war.

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (SGDm)	4,018.2	3,484.6	3,447.7	3,516.7	3,587.0
Recurring net profit (SGDm)	372.8	370.1	357.3	366.9	381.2
Recurring net profit growth	106.3	(0.7)	(3.5)	2.7	3.9
Recurring P/E (x)	11.4	11.5	11.9	11.6	11.2
P/BV (x)	2.2	1.8	1.9	1.8	1.7
P/CF (x)	8.5	13.7	5.6	9.2	8.9
Dividend Yield (%)	3.4	4.7	4.7	4.7	4.7
EV/EBITDA (x)	7.5	7.8	6.7	6.3	5.8
ROE (%)	17.2	15.7	14.3	13.7	13.3
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Interest coverage (x)	434.1	430.8	309.5	317.3	326.0

Source: Company data, RHB

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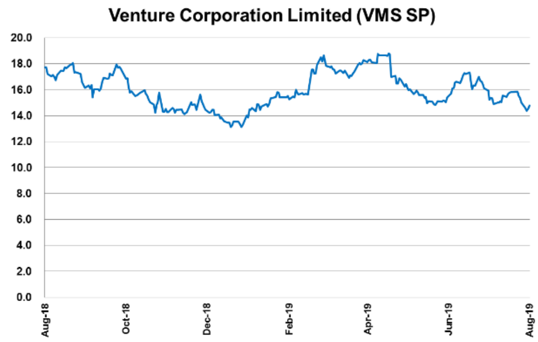
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	5.8	(7.2)	(11.8)	(6.1)	(20.1)
Relative	2.5	(2.2)	(8.3)	(5.1)	(15.4)

52-wk Price low/high (SGD) 13.2 – 19.56



Source: Bloomberg

Financial Exhibits

Financial model updated on: 2019-08-08

Asia
Singapore
Technology
Electronics

Major shareholders (%)

Wong Ngit Liong	7.0
Schroders	6.0
Blackrock	6.0

Valuation basis

Our DCF assumptions include:
i. WACC of 7%;
ii. Terminal growth of 1%.

Key drivers

Our FY19 forecasts are most sensitive to changes in:
i. Demand for customers' products;
ii. NIM;
iii. FX gains or losses.

Key risks

i. Worsening trade war affecting consumer sentiment;
ii. Economic slowdown;
iii. Weaker demand for customers' products;
iv. FX fluctuation.

Company Profile

Venture provides technology solutions, products, and services in Singapore, other countries in the Asia-Pacific region, and internationally. The company operates through the advanced manufacturing & design and technology products & design solutions segments.

Financial summary	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Core EPS (SGD)	1.32	1.29	1.24	1.27	1.32
EPS (SGD)	1.32	1.29	1.24	1.27	1.32
DPS (SGD)	0.49	0.70	0.70	0.70	0.70
BVPS (SGD)	7.60	8.13	8.67	9.25	9.87
ROE (%)	17.2	15.7	14.3	13.7	13.3
ROA (%)	11.9	11.5	10.6	10.3	10.2

Valuation metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Core P/E (x)	11.4	11.5	11.9	11.6	11.2
P/B (x)	2.2	1.8	1.9	1.8	1.7
Dividend yield (%)	3.4	4.7	4.7	4.7	4.7
EV/EBITDA (x)	7.5	7.8	6.7	6.3	5.8

Income statement (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover	4018	3485	3448	3517	3587
Gross profit	979	954	922	941	959
EBITDA	470	454	461	472	482
Operating profit	439	423	418	428	440
Net interest	-1	-1	-1	-1	-1
Exceptional items	0	0	0	0	0
Pre-tax profit	444	433	421	432	447
Taxation	-71	-63	-64	-65	-67
Net profit	373	370	357	367	380
Core net profit	373	370	357	367	381

Cash flow (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Cash flow from operations	449	254	703	397	409
Capex	-37	-58	-50	-50	-50
Cash flow from investing activities	-14	-49	-47	-46	-44
Cash flow from financing activities	-126	-237	-202	-202	-201
Cash at beginning of period	475	752	713	1167	1315
Net change in cash	308	-31	454	149	164
Ending balance cash	752	713	1167	1315	1480

Balance sheet (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total cash and equivalents	752	713	1167	1315	1480
Tangible fixed assets	198	231	238	244	252
Intangible assets	640	640	640	640	640
Total investments	26	24	24	24	24
Total other assets	1528	1598	1302	1327	1353
Total assets	3144	3205	3369	3550	3749
Short-term debt	31	2	2	2	2
Total long-term debt	0	0	0	0	0
Total liabilities	976	852	861	876	891
Shareholders' equity	2166	2350	2506	2673	2854
Minority interests	2	2	2	2	3
Total equity	2168	2352	2509	2675	2857
Total liabilities & equity	3144	3205	3369	3550	3749

Key metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Revenue growth (%)	39.7	-13.3	-1.1	2.0	2.0
Core net profit growth (%)	106.3	-0.7	-3.5	2.7	3.9
Core EPS growth (%)	104.2	-2.4	-4.2	2.7	3.9
Gross margin (%)	0.2	0.3	0.3	0.3	0.3
Core net profit margin (%)	9.3	10.6	10.4	10.4	10.6
Dividend payout ratio (%)	37.4	54.3	56.6	55.1	53.1

Source: Company data, RHB

Figure 1: Venture's 2Q19 results summary

SGDm	2QFY19	2QFY18	+/- %	1HFY19	1HFY18	+/- %
Revenue	903.5	952.3	(5.1%)	1,832.2	1,808.3	1.3%
Profit before tax	105.4	115.2	(8.5%)	211.6	213.8	(1.0%)
Income tax expense	(14.5)	(17.3)	(16.1%)	(29.8)	(32.2)	(7.2%)
Profit for the period	90.9	97.9	(7.2%)	181.7	181.6	0.1%
PATMI	90.8	97.9	(7.3%)	181.7	181.6	0.1%
Net profit margin	10.1%	10.3%		9.9%	10.0%	

Source: Company data

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