

11 May 2020

Technology | Electronics

Venture Corp (VMS SP)

Neutral (from Buy)

Hit By Supply Chain Disruptions; D/G To NEUTRAL

Target Price (Return): SGD15.10 (-4%)
 Price: SGD15.74
 Market Cap: USD3,215m
 Avg Daily Turnover (SGD/USD) 27.3m/19.3m

• **Downgrade to NEUTRAL from Buy, new SGD15.10 TP from SGD16.60, 4% downside with c.4% FY20F yield.** Venture's 1Q20 PATMI plunged by 34% YoY – as revenue fell from disruptions in global supply chains, and lockdowns in China, Spain, the US and Malaysia mainly impacted the latter half of 1Q20. We cut FY20F PATMI by 8% to reflect the lower revenues and margins – which leads to a lower TP that is pegged to 15x FY20F P/E.

• **Involved in products to deal with COVID-19.** Venture's products are being used to help those infected by COVID-19. Products include ventilators, and high-throughput equipment for testing, monitoring and automating workflow processes. Processes include those used for sample preparation, library preparation, next-generation sequencing, and the related supply chains – which are in strong demand.

• **Brighter outlook.** Venture is looking beyond the lifting of the lockdowns in countries where its supply chain is located. It is also looking past the easing of measures affecting its operating entities in China, Malaysia, Singapore, Spain, and the US. By end-April, most if not all of its operating entities received exemptions to operate without headcount or working hour constraints. As such, the supply side of its businesses has resumed operations, while continuing to comply with all safety and precautionary measures for on-site workers. We expect the company's April numbers to remain weak, but this should improve in the quarters ahead.

• **Stronger 2H20F.** Management also expects a stronger 2H20, underpinned by traction with partners both existing and new. This will be further bolstered by some new production introductions by existing partners across multiple selected technology domains such as life sciences, healthcare & wellness, instrumentation & networking, and communications. It also expects to gain momentum with several new partners in life sciences & genomics, as well as healthcare & wellness – where contributions should grow post 2020.

• **NEUTRAL now, due to net cash balance sheet and attractive dividends.** As of 1Q20, Venture had a net cash position of SGD852.5m. It will likely be able to sustain dividends – like what it did during the last financial crisis, even though revenue and profits declined then. We expect a c.4% FY20 dividend yield. 1Q20 and part of 2Q20F will likely represent a short-term blip caused by the COVID-19 pandemic. As such, Venture will likely rebound strongly in the next few quarters and come out stronger than its competitors, due to its strong balance sheet as well as key initiatives being implemented.

• **Key risks** are decelerating economic growth, and the worsening of the US-China trade war

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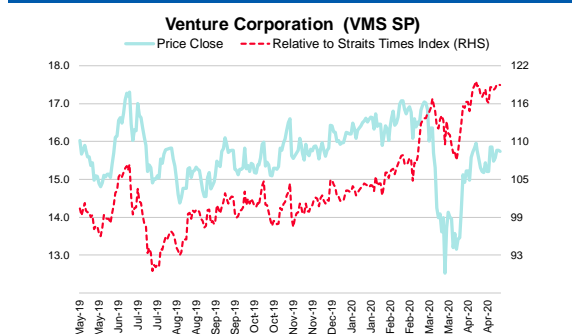


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(2.8)	5.5	(4.2)	(5.2)	(5.9)
Relative	16.8	3.4	14.3	15.4	15.2
52-wk Price low/high (SGD)				12.5 – 17.3	



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	3,485	3,488	3,069	3,192	3,256
Recurring net profit (SGDm)	370	365	292	312	321
Recurring net profit growth (%)	(0.7)	(1.4)	(20.0)	7.0	2.9
Recurring P/E (x)	12.20	12.46	15.59	14.56	14.18
P/B (x)	1.9	1.8	1.7	1.7	1.6
P/CF (x)	17.17	6.43	11.28	13.46	12.80
Dividend Yield (%)	4.4	4.4	4.4	4.4	4.4
EV/EBITDA (x)	8.30	7.11	8.31	7.73	7.21
Return on average equity (%)	16.4	15.0	11.4	11.7	11.6
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Singapore	Recurring EPS	1.29	1.26	1.01	1.08	1.11
Technology	DPS	0.70	0.70	0.70	0.70	0.70
Venture Corp	BVPS	8.13	8.70	9.01	9.40	9.79
VMS SP	Return on average equity (%)	16.4	15.0	11.4	11.7	11.6
Neutral						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	12.20	12.46	15.59	14.56	14.18
Pegged to 15x FY20F P/E	P/B (x)	1.9	1.8	1.7	1.7	1.6
	FCF Yield (%)	4.5	14.5	7.8	6.3	7.8
Key drivers	Dividend Yield (%)	4.4	4.4	4.4	4.4	4.4
Value creation and margin improvement	EV/EBITDA (x)	8.30	7.11	8.31	7.73	7.21
	EV/EBIT (x)	8.91	7.83	9.36	8.63	8.01
Key risks						
Economic slowdown						
Company Profile	Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Venture Corp is a leading global electronics services and integrated solutions provider, with a diversified portfolio of customers worldwide.	Total turnover	3,485	3,488	3,069	3,192	3,256
	Gross profit	954	936	802	834	851
	EBITDA	454	470	384	402	412
	Depreciation and amortisation	(31)	(43)	(43)	(42)	(41)
	Operating profit	423	427	341	360	370
	Net interest	8	2	2	3	3
	Pre-tax profit	433	430	345	367	375
	Taxation	(63)	(65)	(53)	(55)	(56)
	Reported net profit	370	365	292	312	321
	Recurring net profit	370	365	292	312	321
	Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	(147)	298	67	(19)	(10)
	Cash flow from operations	263	707	403	338	356
	Capex	(58)	(50)	(50)	(50)	0
	Cash flow from investing activities	(57)	(50)	(50)	(50)	0
	Dividends paid	(230)	(202)	(202)	(202)	(203)
	Cash flow from financing activities	(219)	(202)	(202)	(201)	(201)
	Cash at beginning of period	752	713	1,168	1,319	1,407
	Net change in cash	(13)	455	151	87	155
	Ending balance cash	713	1,168	1,319	1,407	1,564
	Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	713	1,168	1,319	1,407	1,564
	Tangible fixed assets	231	238	244	252	211
	Total investments	24	24	24	24	24
	Total assets	3,185	3,365	3,373	3,514	3,654
	Short-term debt	2	2	2	2	2
	Total liabilities	778	795	711	738	752
	Total equity	2,406	2,571	2,662	2,777	2,903
	Total liabilities & equity	3,185	3,365	3,373	3,514	3,654
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	(13.3)	0.1	(12.0)	4.0	2.0
	Recurrent EPS growth (%)	(2.4)	(2.1)	(20.0)	7.0	2.7
	Gross margin (%)	27.4	26.8	26.1	26.1	26.1
	Operating EBITDA margin (%)	13.0	13.5	12.5	12.6	12.6
	Net profit margin (%)	10.6	10.5	9.5	9.8	9.9
	Dividend payout ratio (%)	62.2	55.4	69.3	64.8	63.1
	Capex/sales (%)	1.7	1.4	1.6	1.6	0.0
	Interest cover (x)	431	316	253	267	274

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-04-14	Buy	16.6	15.6
2020-02-27	Buy	19.3	16.5
2019-11-11	Neutral	16.3	15.6
2019-08-13	Buy	16.3	15.3
2019-06-26	Neutral	16.3	16.0
2019-04-26	Neutral	19.0	17.5
2019-02-25	Buy	19.0	18.1
2018-11-05	Buy	19.0	14.8
2018-08-06	Buy	na	18.6

Source: RHB, Bloomberg

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