Singapore Results Review

11 November 2019

Technology | Electronics

Venture Corp (VMS SP)

Neutral (From Buy)

Decent 3Q19 But Murky Outlook Ahead

Target Price (Return)	SGD16.30 (-2%)
Price:	SGD16.60
Market Cap:	USD3,521m
Avg Daily Turnover (SGD/USD)	18.8m/13.8m

- **Downgrade to NEUTRAL from Buy with TP maintained at SGD16.30, 2% downside**. Despite the US-China trade war still ongoing, Venture has managed to deliver decent 3Q19 results with PATMI rising 5.7% YoY, in line with our estimates. However, we expect a weaker 4Q19 vs 4Q18. With its share price reaching above our TP, we downgrade Venture's call but keep TP at SGD16.30, pegged to 13x FY19F P/E while awaiting for a clearer outlook for FY20F.
- **Decent 3Q19 but weaker 4Q19F YoY expected.** Venture Corp enjoyed a strong 3Q19 YoY mainly due to a weaker 3Q18. Going forward, management guided that uncertainties in the business and geopolitical environment may remain unabated and it will continue to support several partners in their new and key product launches over the next 12 months. However, as it enjoyed a strong 4Q18, we are expecting a weaker 4Q19 due to the current macroeconomic environment and uncertainties resulting from the trade war.
- **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 in the years ahead. 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 SG cents likely maintained.** Management declared a total DPS of 70 SG cents for FY18, implying 55% payout of its NPAT. Management guided that it is looking to pay out sustainable dividends and we expect FY19F dividends to be likely the same or higher than of FY18, that should result in a FY19F yield of at least 4.7%. It declared the same interim dividend of SGD0.20 for 1H19 vs 1H18.
- **Outlook still challenging and does not warrant upside rerating.** 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 2019F but that could be impacted negatively by the ongoing US-China trade dispute. With macroeconomic uncertainties and headwinds still ongoing despite some positive news from the trade war recently, we believe that outlook will remain challenging and does not warrant upside rerating.
- **Key risks** – slowing economic growth, and the US-China trade war worsening.

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)	12.9	13.0	13.4	13.1	12.6
P/BV (x)	2.2	2.0	1.9	1.8	1.7
P/CF (x)	9.6	15.4	6.2	10.3	10.1
Dividend Yield (%)	3.0	4.2	4.2	4.2	4.2
EV/EBITDA (x)	8.7	9.0	7.9	7.4	6.9
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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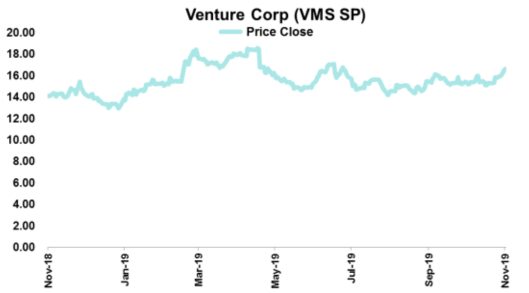
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	19.0	7.9	12.5	(0.8)	12.9
Relative	12.7	3.0	9.5	(0.1)	7.5

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



Source: Bloomberg

Financial Exhibits

Asia
Singapore
Technology
Electronics

Major shareholders (%)

Wong Ngit Liong	7.0
Schroders	6.0
Blackrock	6.0

Valuation basis

13x FY19F P/E

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 Corp 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)	12.9	13.0	13.4	13.1	12.6
P/B (x)	2.2	2.0	1.9	1.8	1.7
Dividend yield (%)	3.0	4.2	4.2	4.2	4.2
EV/EBITDA (x)	8.7	9.0	7.9	7.4	6.9

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	3748

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 3Q19 results summary

SGDm	3Q19	3Q18	+/- %	9M19	9M18	+/- %
Revenue	869.1	770.4	12.8%	2,701.4	2,578.7	4.8%
Profit before tax	98.6	94.7	4.1%	310.2	308.5	0.5%
Income tax expense	-13.2	-13.9	-5.0%	-43.1	-46.1	-6.5%
Profit for the period	85.4	80.8	5.7%	267.1	262.4	1.8%
PATMI	85.2	80.8	5.5%	266.9	262.4	1.7%
Net profit margin	9.8%	10.5%		9.9%	10.2%	

Source: Company data

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Buy:	Share price may exceed 10% over the next 12 months
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Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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