

15 April 2020

Technology | Electronics

## Venture Corp (VMS SP)

**Buy** (Maintained)

### Impacted By Global Lockdown; Still BUY

- **Maintain BUY, new SGD16.60 TP** from SGD19.30, 6% upside with 4.5% FY20F yield. With regards to the COVID-19 pandemic and countries going into lockdown, Venture has been significantly impacted. Its production is mainly in Malaysia, where a government-mandated Movement Control Order has been in effect. Although its Singapore and China units have resumed operations, the temporary halt in production at some of its factories compels us to cut FY20F PATMI by 13%, which leads to a lower TP.
- **Supply chain likely impacted.** With the global supply chain disrupted due to the COVID-19 pandemic, Venture swiftly implemented corrective action to stabilise its assured supply. Previously, it expected to fulfil most, if not all, orders – inclusive of any backlog in 1Q20, and starting from 2Q20. However, with a global pandemic in effect and many countries in a lockdown, the global supply chain is impacted. This will eventually negatively affect Venture, unless the company takes further action.
- **Stronger 2H20F ahead.** Management expects its outlook to improve in 2H20, supported by traction with new and existing partners. This will also be supported by several product introductions by existing partners across multiple technology domains like life sciences, healthcare & wellness, instrumentation & networking, and communications. It also expects to gain momentum with several new partners in life sciences and genomics, as well as healthcare & wellness – and contributions from these partnerships should improve after 2020.
- **FY19 dividend level (SGD0.70) likely to be maintained for FY20F.** Management declared a total DPS of SGD0.70 for FY19, implying a 56% payout of NPAT. Venture also guided that it is looking to pay out sustainable dividends, so we expect FY20 DPS to be likely the same or higher than of FY19, resulting in a FY20F yield of at least 4.7% despite the pandemic
- **Still a BUY despite earnings cut.** We cut FY20F earnings by 13%, which results in a lower TP of SGD16.60, pegged to 15x FY20F P/E. With its net cash balance sheet and decent dividend yield, we believe that Venture will likely survive this crisis and come out stronger despite a temporary earnings blip in FY20F. Maintain BUY, as total upside (with dividends) is still more than 10%.
- **Key risks** are decelerating economic growth, a worsening of the US-China trade war, and deteriorating conditions due to the COVID-19 pandemic.

Target Price (Return): SGD16.60 (+6%)  
 Price: SGD15.58  
 Market Cap: USD3,177m  
 Avg Daily Turnover (SGD/USD): 26.8m/19.1m

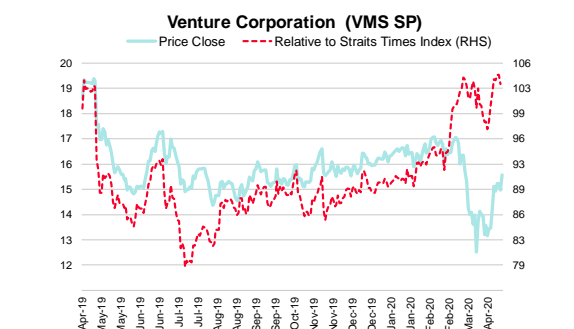
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(3.8)	1.8	(6.2)	1.3	(16.5)
Relative	16.6	4.3	15.3	19.1	6.5
52-wk Price low/high (SGD)				12.5 – 19.4	



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	3,485	3,488	3,279	3,410	3,478
Recurring net profit (SGDm)	370	365	318	340	349
Recurring net profit growth (%)	(0.7)	(1.4)	(12.8)	6.8	2.8
Recurring P/E (x)	12.08	12.34	14.15	13.25	12.91
P/B (x)	1.9	1.8	1.7	1.6	1.5
P/CF (x)	17.00	6.36	11.34	12.36	11.76
Dividend Yield (%)	4.5	4.5	4.5	4.5	4.5
EV/EBITDA (x)	8.21	7.02	7.60	7.02	6.48
Return on average equity (%)	16.4	15.0	12.4	12.6	12.3
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

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## Financial Exhibits

<b>Asia</b>	<b>Financial summary (SGD)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
Singapore	Recurring EPS	1.29	1.26	1.10	1.18	1.21
Technology	DPS	0.70	0.70	0.70	0.70	0.70
<b>Venture Corp</b>	BVPS	8.13	8.70	9.11	9.59	10.08
VMS SP	Return on average equity (%)	16.4	15.0	12.4	12.6	12.3
Buy						
	<b>Valuation metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
<b>Valuation basis</b>	Recurring P/E (x)	12.08	12.34	14.15	13.25	12.91
15x FY20F P/E	P/B (x)	1.9	1.8	1.7	1.6	1.5
	FCF Yield (%)	4.6	14.6	7.7	7.0	8.5
<b>Key drivers</b>	Dividend Yield (%)	4.5	4.5	4.5	4.5	4.5
Value creation and margin improvement	EV/EBITDA (x)	8.21	7.02	7.60	7.02	6.48
	EV/EBIT (x)	8.80	7.72	8.49	7.77	7.14
<b>Key risks</b>						
Economic slowdown						
<b>Company Profile</b>	<b>Income statement (SGDm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
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	3,279	3,410	3,478
	Gross profit	954	936	857	891	909
	EBITDA	454	470	415	434	444
	Depreciation and amortisation	(31)	(43)	(43)	(42)	(41)
	Operating profit	423	427	372	392	403
	Net interest	8	2	2	3	3
	Pre-tax profit	433	430	375	399	408
	Taxation	(63)	(65)	(57)	(60)	(60)
	Reported net profit	370	365	318	340	349
	Recurring net profit	370	365	318	340	349
	<b>Cash flow (SGDm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Change in working capital	(147)	298	34	(20)	(11)
	Cash flow from operations	263	707	397	364	384
	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	1,313	1,427
	Net change in cash	(13)	455	145	113	183
	Ending balance cash	713	1,168	1,313	1,427	1,612
	<b>Balance sheet (SGDm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Total cash and equivalents	713	1,168	1,313	1,427	1,612
	Tangible fixed assets	231	238	244	252	211
	Total investments	24	24	24	24	24
	Total assets	3,185	3,365	3,445	3,615	3,785
	Short-term debt	2	2	2	2	2
	Total liabilities	778	795	757	785	800
	Total equity	2,406	2,571	2,688	2,830	2,985
	Total liabilities & equity	3,185	3,365	3,445	3,615	3,785
	<b>Key metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Revenue growth (%)	(13.3)	0.1	(6.0)	4.0	2.0
	Recurrent EPS growth (%)	(2.4)	(2.1)	(12.8)	6.8	2.6
	Gross margin (%)	27.4	26.8	26.1	26.1	26.1
	Operating EBITDA margin (%)	13.0	13.5	12.7	12.7	12.8
	Net profit margin (%)	10.6	10.5	9.7	10.0	10.0
	Dividend payout ratio (%)	62.2	55.4	63.6	59.5	58.0
	Capex/sales (%)	1.7	1.4	1.5	1.5	0.0
	Interest cover (x)	431	316	275	290	298

Source: Company data, RHB

Recommendation Chart



Date	Recommendation	Target Price	Price
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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Analyst	Company
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