

28 February 2020

Technology | Electronics

Venture Corp (VMS SP)

Buy (Maintained)

After a Superb 4Q19, a Brighter Outlook; BUY

Target Price (Return): SGD19.3 (+17%)
 Price: SGD16.51
 Market Cap: USD3,409m
 Avg Daily Turnover (SGD/USD) 16.9m/12.2m

- Maintain BUY, SGD19.30 TP implies 17% upside with c.4% FY20F yield.** As expected, Venture delivered sturdy 4Q19 numbers, with a PATMI of SGD96.3m (+13% QoQ). It expects to record a strong 2H20, and anticipates most – if not all – orders to be fulfilled, having implemented corrective measures to stabilise supply. Note that the majority of its production capacity is still outside of China.
- Minimal impact to supply chain despite COVID-19 outbreak.** With the global supply chain disrupted due to the outbreak, especially in China, Venture swiftly implemented a corrective action plan to stabilise its assured supply. As the majority of its manufacturing capacity remains outside of China, operations have not been impacted. Management expects to fulfil most, if not all, orders. This is inclusive of any backlog in 1Q20, and will start from 2Q20 onwards.
- Stronger 2H20 ahead.** Management also expects to chart a stronger 2H20 performance, supported by traction with new and existing partners. There will also be support for new production, from its partners across multiple selected technology domains such as life sciences, healthcare & wellness, instrumentation, and networking & communications. It also expects to gain momentum with several new partners in life sciences and genomics, as well as healthcare & wellness – and anticipates contributions from these partnerships to grow post FY20.
- Beneficiary of COVID-19 outbreak.** While competitors with the majority of their footprint and supply chains in China are severely impacted, Venture – having its supply chain and production capacity mostly outside of China – will likely be the biggest beneficiary of the outbreak. Customers that used to rely on China for manufacturing due to lower costs are now seeking options to have a second source outside of China, especially in the light of the trade war and the outbreak. Some customers have also increased orders despite the relatively higher cost, and transferred some products to be manufactured by Venture instead of the latter's competitor.
- FY19 DPS of SGD0.70 maintained.** Management declared a total DPS of SGD0.70 for FY19, implying a 56% payout of NPAT. Management also guided that it is looking to pay out sustainable dividends, and we expect FY20F dividends to be likely the same or higher than that of FY19, resulting in a FY20F yield of at least 4.2%.
- Key risks** are decelerating economic growth and the US-China trade war worsening.

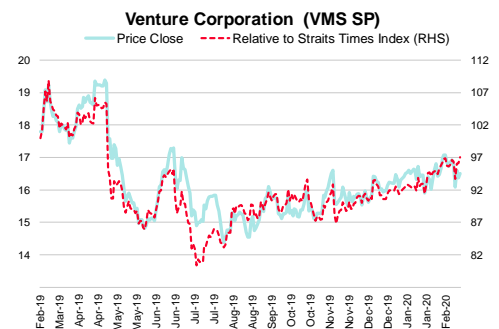
Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	1.9	0.3	4.5	13.5	(7.3)
Relative	5.4	4.1	7.7	12.1	(3.0)
52-wk Price low/high (SGD)	14.4 – 19.4				



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	3,485	3,633	3,661	3,734	3,808
Recurring net profit (SGDm)	370	363	372	384	389
Recurring net profit growth (%)	(0.7)	(1.9)	2.4	3.3	1.3
Recurring P/E (x)	12.80	13.13	12.81	12.40	12.24
P/B (x)	2.0	1.9	1.8	1.7	1.6
P/CF (x)	18.01	24.11	11.60	11.65	11.00
Dividend Yield (%)	4.2	4.2	4.2	4.2	4.2
EV/EBITDA (x)	8.78	9.07	8.10	7.61	7.08
Return on average equity (%)	16.4	15.0	14.4	13.9	13.2
Net debt to equity (%)	(30.2)	(28.2)	(32.3)	(35.8)	(39.6)

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	1.29	1.33	1.35
Technology	DPS	0.70	0.70	0.70	0.70	0.70
Venture Corp	BVPS	8.13	8.65	9.25	9.88	10.54
VMS SP	Return on average equity (%)	16.4	15.0	14.4	13.9	13.2
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	12.80	13.13	12.81	12.40	12.24
15x FY20F P/E	P/B (x)	2.0	1.9	1.8	1.7	1.6
	FCF Yield (%)	4.3	3.4	7.6	7.5	8.0
Key drivers	Dividend Yield (%)	4.2	4.2	4.2	4.2	4.2
i. Value creation;	EV/EBITDA (x)	8.78	9.07	8.10	7.61	7.08
ii. Margin improvement	EV/EBIT (x)	9.42	9.93	8.91	8.33	7.73
Key risks	Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Economic slowdown	Total turnover	3,485	3,633	3,661	3,734	3,808
	Gross profit	954	907	962	982	1,001
	EBITDA	454	444	477	488	499
	Depreciation and amortisation	(31)	(39)	(43)	(42)	(42)
	Operating profit	423	405	434	446	457
	Net interest	8	10	2	3	0
	Pre-tax profit	433	420	437	451	457
	Taxation	(63)	(57)	(66)	(67)	(67)
	Reported net profit	370	363	372	384	389
	Recurring net profit	370	363	372	384	389
	Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	(147)	(157)	(6)	(19)	0
	Cash flow from operations	263	198	411	409	433
	Capex	(58)	(35)	(50)	(50)	(50)
	Cash flow from investing activities	(57)	(36)	(50)	(50)	(50)
	Dividends paid	(230)	(202)	(202)	(202)	(202)
	Cash flow from financing activities	(219)	(203)	(202)	(202)	(202)
	Cash at beginning of period	752	713	714	873	1,030
	Net change in cash	(13)	(41)	159	157	181
	Ending balance cash	713	673	873	1,030	1,211
	Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	713	714	873	1,030	1,211
	Tangible fixed assets	231	232	239	246	254
	Total investments	24	26	26	26	26
	Total assets	3,204	3,247	3,399	3,596	3,785
	Short-term debt	2	1	1	1	1
	Total long-term debt	0	17	17	17	17
	Total liabilities	852	776	757	770	770
	Total equity	2,352	2,471	2,642	2,826	3,015
	Total liabilities & equity	3,204	3,247	3,399	3,596	3,785
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	(13.3)	4.3	0.7	2.0	2.0
	Recurrent EPS growth (%)	(2.4)	(2.5)	2.5	3.3	1.3
	Gross margin (%)	27.4	25.0	26.3	26.3	26.3
	Operating EBITDA margin (%)	13.0	12.2	13.0	13.1	13.1
	Net profit margin (%)	10.6	10.0	10.2	10.3	10.2
	Dividend payout ratio (%)	62.2	55.5	54.3	52.6	51.9
	Capex/sales (%)	1.7	1.0	1.4	1.3	1.3
	Interest cover (x)	431	775	321	330	

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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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