

5 August 2020

Technology | Electronics

## Venture Corp (VMS SP)

### Awaiting Confirmation On Outlook; UNDER REVIEW

## Under Review (from Neutral)

Target Price (Return):	SGD15.10 (-17%)
Price:	SGD18.14
Market Cap:	USD3,792m
Avg Daily Turnover (SGD/USD)	20.4m/14.6m

• **We place this stock UNDER REVIEW, while we await confirmation on the company's outlook.** Venture is due to report its 2Q20 results on 7 Aug, and we expect its performance to be relatively weak, due to the closure of its factories in Malaysia caused by the Movement Control Order (MCO), as well as social distancing regulations which slowed down production in Singapore. However, our channel checks indicate that the most of its factories have since ramped up production, and orders remain strong.

• **Improvement in the quarters ahead.** Venture is looking ahead post lifting of the lockdowns in: countries where its global supply chain is at, as well as in places where it has operations – China, Malaysia, Singapore, Spain, and the US. By end-April, most – if not all – of its operating entities received exemptions to operate without constraints on the number of employees on duty or limits on working hours. As such, the supply side of its businesses has resumed operations, while these units continue to comply with safety and precautionary measures applied for on-site employees. We expect its April data to remain weak, but Venture's performance should improve in the quarters ahead.

• **A stronger 2H20F.** Management also expects to record stronger 2H20 numbers, supported by traction with new and existing partners. There will also be support for the production of several new items from its partners across multiple technology domains like life sciences, healthcare & wellness, instrumentation, and networking & communications. Venture also expects to gain momentum with several new partners in the life sciences, genomics, healthcare & wellness industries. Contributions from these new partners are expected to increase post 2020.

• **Net cash balance sheet and attractive dividends.** As of 1Q20, Venture has a net cash position of SGD852.5m, and will likely be able to sustain its dividends – just like it did during the last financial crisis, even though revenue and profits fell. We expect a 3.9% dividend yield for FY20. 1Q20 and part of 2Q20F will likely be marked by a short-term blip caused by COVID-19. We anticipate the company's results to rebound in the next few quarters, and for it to emerge stronger than its competitors – due to its sturdy balance sheet, as well as the implementation of key initiatives.

• **Key downside risks to its outlook** are decelerating economic growth, and the US-China trade war worsening.

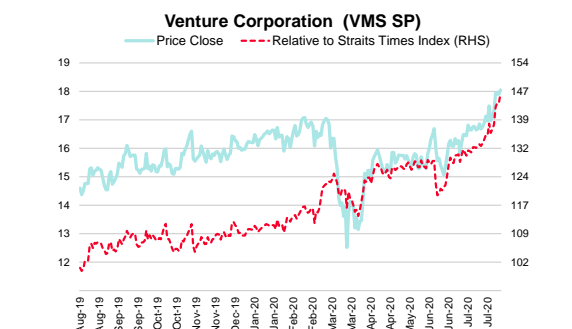
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	11.4	9.8	13.9	12.7	20.3
Relative	34.3	16.1	19.2	33.0	44.1
52-wk Price low/high (SGD)				12.5 – 18.1	



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)	13.99	14.29	17.87	16.70	16.26
P/B (x)	2.2	2.1	2.0	1.9	1.8
P/CF (x)	19.69	7.37	12.94	15.43	14.67
Dividend Yield (%)	3.9	3.9	3.9	3.9	3.9
EV/EBITDA (x)	9.76	8.53	10.05	9.39	8.84
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

<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	1.01	1.08	1.11
Technology	DPS	0.70	0.70	0.70	0.70	0.70
<b>Venture Corp</b>	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
Under Review						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
15x FY20F P/E	Recurring P/E (x)	13.99	14.29	17.87	16.70	16.26
	P/B (x)	2.2	2.1	2.0	1.9	1.8
	FCF Yield (%)	3.9	12.6	6.8	5.5	6.8
<b>Key drivers</b>	Dividend Yield (%)	3.9	3.9	3.9	3.9	3.9
Value creation and margin improvement	EV/EBITDA (x)	9.76	8.53	10.05	9.39	8.84
	EV/EBIT (x)	10.47	9.39	11.32	10.49	9.82
<b>Key risks</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>
Economic slowdown	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
<b>Company Profile</b>	<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>
Venture Corp is a leading global electronics services and integrated solutions provider, with a diversified portfolio of customers worldwide.	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
	<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	1,319	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
	<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	(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

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## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-05-10	Neutral	15.1	15.7
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
2018-08-06	Buy	na	18.6
2018-08-05	Buy	22.2	16.9

Source: RHB, Bloomberg

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