

8 August 2023

Technology | Electronics

## Venture Corp (VMS SP)

## Neutral (from Buy)

### Poor Near-Term Visibility; D/G To NEUTRAL

Target Price (Return): SGD14.40 (+4%)  
 Price (Market Cap): SGD13.90 (USD3,012m)  
 ESG score: 3.00 (out of 4)  
 Avg Daily Turnover (SGD/USD) 19.3m/14.0m

- Downgrade to NEUTRAL from Buy, with new SGD14.40 TP from SGD18.26, 4% upside.** Our downgrade is premised on disappointing 1H23 earnings from weak demand and lower operating margin, followed by a further FY23F-25F earnings cut of 9-11%. Although valuation is compelling, at -1SD of its historical mean, visibility of customer demand and earnings outlook remain weak. Given the soft outlook, we now peg our TP to 14x blended FY23-24F from 16x. Along with the earnings cut, our TP is reduced by a further 21%.
- 1H23 earnings below expectations.** 1H23 revenue of SGD1,582m (-12% YoY) and earnings of SGD140m (-20% YoY) were weaker than anticipated. Revenue disappointed on softer-than-expected demand and customer inventory destocking, as portfolios A and B declined by 15% and 9% YoY. While gross margin held stable at 25%, operating margin of 10.1% missed our 10.7% expectations due to higher energy costs and staff costs as a percentage of sales. Earnings as a result met 43% of our full year forecasts. Net cash however, grew from SGD2.78 to SGD3.08/share. An interim dividend of 25 SG cents amounting to a payout ratio of 52% was declared, in line with expectations.
- Cut FY23F-25F earnings by another 9-11%.** As 1H23 trailed our full year estimates, we lower our FY24F-25F revenue by 9-10% while largely maintaining our margin assumptions, which result in a 9-11% earnings cut. FY24F-25F earnings are also lowered to 3-5% vs 5% previously.
- Anticipate soft near term outlook.** VMS continued to miss our 1H23 estimates despite our earlier earnings cut, with the key driver being weak customer demand. 2H22 benefitted from strong customer pent up demand which eased in 1H23 as companies destocked their inventories. We do not envisage 2H23 to be exciting as companies continue to destock, which will continue to dampen VMS's revenue. Our FY24F earnings are only 3%, if customer demand recovers, but FY24F would have further downside risks if demand does not. Growth drivers would stem from: i) New customer wins from de-risking its manufacturing base from higher risk Asian countries into South-East Asia; ii) technological demand for products in new segments such as the life sciences and electric vehicle or EV market; iii) improving value capture and margins via strong engineering and design capabilities; iv) new product introduction. Its balance sheet remains strong with higher net cash of SGD3.08/share. VMS declares dividends based on a sustainable DPS (75 SG cents for the past three years) – we believe it is well supported by its balance sheet and has minimal downside.
- Risks to our forecasts** include earnings upside on a stronger and/or earlier-than-expected global recovery, and accelerating global demand. The converse represents the downside risks. We also apply a 0% discount/premium to its intrinsic value to derive our TP.

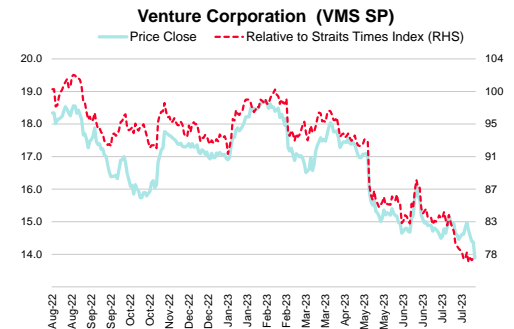
#### Analyst

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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(18.6)	(4.2)	(18.6)	(25.8)	(21.7)
Relative	(19.9)	(9.1)	(19.4)	(23.2)	(22.0)
52-wk Price low/high (SGD)	13.9 – 18.7				



Source: Bloomberg

#### Overall ESG Score: 3.00 (out of 4)

##### E: GOOD

VMS aims to be resource efficient in all its operations, to sustain not only economic growth, but also conserve finite environmental resources. From 2021 to 2022, both total electricity consumption and carbon emissions intensity by revenue held steady at 47MWh/SGD'000 and 28tCO<sub>2</sub>e/SGD'000 despite revenue and profit growth. In addition, total water withdrawal intensity by revenue fell from 0.28 to 0.26cu m/SGD'000 over the same period.

##### S: GOOD

VMS' current material sustainability factors were determined through a materiality assessment process in 2017. The process of defining and reviewing its material factors is largely based on GRI's Principles for Defining Report Content, guided by the company's 4-step approach, which involves identification, prioritisation, validation, and review.

##### G: GOOD

VMS maintains a strong corporate governance framework that guides, drives, and oversees the organisation towards greater heights of excellence. VMS has moved up the Singapore Governance and Transparency Index, from 81st in 2019 to 53rd in 2023.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (SGDm)	3,107	3,864	3,284	3,383	3,552
Recurring net profit (SGDm)	312	370	296	306	321
Recurring net profit growth (%)	5.0	18.4	(20.0)	3.4	5.0
Recurring P/E (x)	12.97	10.96	13.72	13.27	12.64
P/B (x)	1.5	1.4	1.4	1.4	1.3
P/CF (x)	42.64	14.78	7.79	13.39	13.69
Dividend Yield (%)	5.4	5.4	5.4	5.4	5.4
EV/EBITDA (x)	8.26	6.76	7.56	7.24	6.79
Return on average equity (%)	11.8	13.3	10.3	10.3	10.5
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-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Singapore	Recurring EPS	1.07	1.27	1.01	1.05	1.10
Technology	DPS	0.75	0.75	0.75	0.75	0.75
<b>Venture Corp</b>	BVPS	9.32	9.73	9.99	10.29	10.63
VMS SP	Return on average equity (%)	11.8	13.3	10.3	10.3	10.5
NEUTRAL						
	<b>Valuation metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Recurring P/E (x)	12.97	10.96	13.72	13.27	12.64
	P/B (x)	1.5	1.4	1.4	1.4	1.3
	FCF Yield (%)	2.1	6.0	12.0	6.6	6.4
	Dividend Yield (%)	5.4	5.4	5.4	5.4	5.4
	EV/EBITDA (x)	8.26	6.76	7.56	7.24	6.79
	EV/EBIT (x)	9.13	7.27	8.27	7.91	7.42
	<b>Income statement (SGDm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Total turnover	3,107	3,864	3,284	3,383	3,552
	Gross profit	810	940	799	822	863
	EBITDA	386	469	384	395	415
	Depreciation and amortisation	(37)	(33)	(33)	(34)	(36)
	Operating profit	349	436	352	361	379
	Net interest	6	9	9	12	12
	Pre-tax profit	360	449	361	373	392
	Taxation	(47)	(79)	(65)	(67)	(71)
	Reported net profit	312	370	296	306	321
	Recurring net profit	312	370	296	306	321
	<b>Cash flow (SGDm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Change in working capital	(242)	(153)	195	(33)	(57)
	Cash flow from operations	95	274	521	303	296
	Capex	(11)	(33)	(35)	(35)	(35)
	Cash flow from investing activities	(2)	(25)	(26)	(23)	(22)
	Dividends paid	(218)	(218)	(219)	(219)	(219)
	Cash flow from financing activities	(218)	(218)	(219)	(219)	(219)
	Cash at beginning of period	929	808	813	1,082	1,135
	Net change in cash	(125)	31	276	61	55
	Ending balance cash	804	839	1,089	1,144	1,190
	<b>Balance sheet (SGDm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Total cash and equivalents	808	813	1,082	1,135	1,180
	Tangible fixed assets	215	225	227	228	228
	Total investments	39	49	49	50	50
	Total assets	3,635	3,751	3,722	3,828	3,961
	Total liabilities	916	909	803	821	852
	Total equity	2,719	2,843	2,920	3,007	3,109
	Total liabilities & equity	3,635	3,751	3,722	3,828	3,961
	<b>Key metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Revenue growth (%)	3.1	24.3	(15.0)	3.0	5.0
	Recurrent EPS growth (%)	4.6	18.3	(20.1)	3.4	5.0
	Gross margin (%)	26.1	24.3	24.3	24.3	24.3
	Operating EBITDA margin (%)	12.4	12.1	11.7	11.7	11.7
	Net profit margin (%)	10.0	9.6	9.0	9.0	9.0
	Dividend payout ratio (%)	69.8	59.0	74.1	71.7	68.2
	Capex/sales (%)	0.3	0.8	1.1	1.0	1.0
	Interest cover (x)	825	844	680	698	733

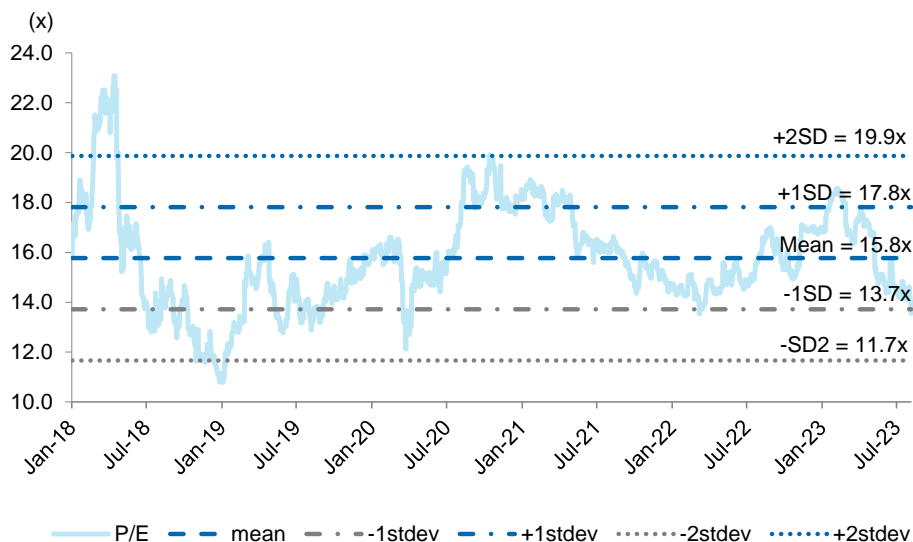
Source: Company data, RHB

Figure 1: VMS' results review

FYE Dec (SGDm)	1H22	1H23	YoY (%)	2023 % of est	Comments
Revenue	1,796	1,582	-12%	44%	Below expectations. Portfolios A and B declined by 15% and 9% YoY
Cost of sales	(1,346)	(1,186)	-12%	43%	
<b>Gross profit</b>	450	397	-12%	45%	
<b>Operating profit</b>	<b>207</b>	<b>159</b>	-23%	41%	Below. Includes higher utilities costs and absolute staff cost reduction
Forex	3	0	-95%	n/m	
Investment revenue	3	12	296%	132%	Higher interest income on better interest rates
Finance costs	(0)	(0)	159%	74%	
<b>Profit before tax</b>	<b>213</b>	<b>171</b>	-19%	43%	
Income tax	(38)	(31)	-19%	44%	Effective tax rate at 18.1%
Minority interest	(0)	(0)	29%	56%	
<b>Profit after tax</b>	<b>174</b>	<b>140</b>	-20%	43%	Below expectations
<b>Margins (%)</b>					
Gross margin	25.1	25.1	-	+0.7ppt	Gross margin remained firm
Operating margin	11.5	10.1	-1.5ppt	-0.6ppt	Lower operating margin includes higher energy and staff costs as % of sales
Net Margin	9.7	8.8	-0.9ppt	-0.2ppt	Within net margin guidance of 8-10%

Source: Company data, RHB

Figure 2: VMS' historical average P/E



Source: Bloomberg

### Recommendation Chart

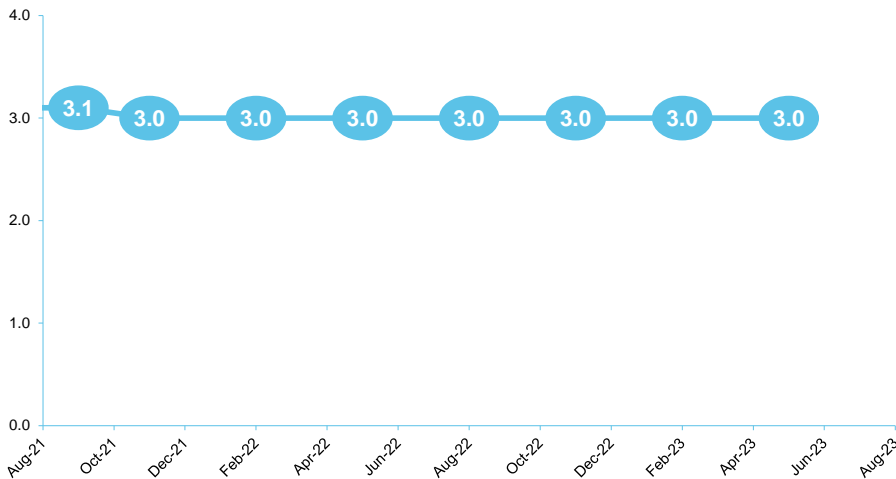


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-07-20	Buy	18.3	14.6
2023-05-07	Buy	19.4	17.1
2023-02-26	Buy	22.0	18.2
2022-08-07	Buy	23.3	17.7
2022-02-28	Buy	22.8	17.5
2021-11-07	Buy	20.9	18.6
2021-08-09	Buy	23.0	19.4
2021-06-28	Buy	20.7	18.7
2021-03-01	Neutral	19.6	19.3
2020-10-20	Buy	22.6	20.7
2020-08-26	Neutral	20.2	20.3
2020-08-11	Neutral	19.0	20.0
2020-05-10	Neutral	15.1	15.7
2020-04-14	Buy	16.6	15.6
2020-02-27	Buy	19.3	16.5

Source: RHB, Bloomberg

### ESG Rating History



Source: RHB

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<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
<b>Sell:</b>	Share price may fall by more than 10% over the next 12 months
<b>Not Rated:</b>	Stock is not within regular research coverage

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-	-

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