

6 May 2024

Technology | Electronics

Venture Corp (VMS SP)

NEUTRAL (Maintained)

Customer Destocking Still Evident

Target Price (Return): SGD14.20 (-1.8%)
 Price (Market Cap): SGD14.50 (USD3,104m)
 ESG score: 3.0 (out of 4)
 Avg Daily Turnover (SGD/USD) 8.62m/6.39m

- **Maintain NEUTRAL, new SGD14.20 TP from SGD13.90, 2% downside.** We retain our view on Venture Corp on the continued customer destocking situation, albeit a tapering trend. Although there is no earnings change post VMS' 1Q24 results, we raise our TP slightly, rolling over our P/E valuation from 14x FY24F to a blended FY24F-25F earnings base. We believe the stock is still pricing in its immediate term prospects despite expecting earnings improvement in 2H24. We look to a more pronounced earnings recovery before turning positive.
- **1Q24 in line.** VMS reported 1Q24 revenue of SGD667m (-19% YoY) and earnings of SGD60m (-18% YoY). Revenue continued to be affected by customer destocking headwinds (especially in the life sciences sector and certain segments of the network & communications market), which are currently tapering off. Revenue and earnings were also lower QoQ at -9% YoY from SGD737m and -10% YoY from SGD67m. Cash flow generation remained strong, with net cash improving to SGD1.2bn as at 31 Mar. This is also due to continued proactive working capital management and optimisation. VMS has guided for revenue to improve sequentially, with 2Q24's topline to be better than 1Q24 and 2H24's revenue to be higher than 1H24. We already have sequential revenue and earnings improvement baked into our forecasts.
- **Outlook priced in.** As 1Q24's net profit is largely in line with our expectations, we have left our estimates unchanged. Besides, our existing forecast already reflects management's guidance of a stronger 2H24. Hence, we believe the stock's immediate-term earnings outlook is already well accounted for. We hold the view of continued subdued customer demand going into 1H24, before orders increase. Meanwhile, ongoing rollout of new product introduction or NPI programmes and strengthening of demand in some domains (based on customer feedback) will support growth, in our view. Our earnings growth for FY24 - led by a 2H24 recovery - is forecasted at 9% YoY. We expect longer term growth to be driven by: i) New customers in the EMS++, precision engineering, and Ventech Group businesses, including customers in the medical technology of MedTech and lifestyle sectors, and promising technology domains; ii) new businesses (as customers relocate to VMS' operating locations to mitigate geopolitical risks); and iii) offering differentiating and high-value solutions with transformational and innovative capabilities in manufacturing and R&D.
- **Risks to our forecasts** include earnings downside on a weaker-/later-than expected recovery in customer orders and demand. A better-than-expected earnings recovery would conversely represent the upside risk.
- **ESG.** As VMS's ESG score is 3.0 out of 4 - below our 3.1 country median - we apply a 2% discount to its intrinsic value to derive our TP.

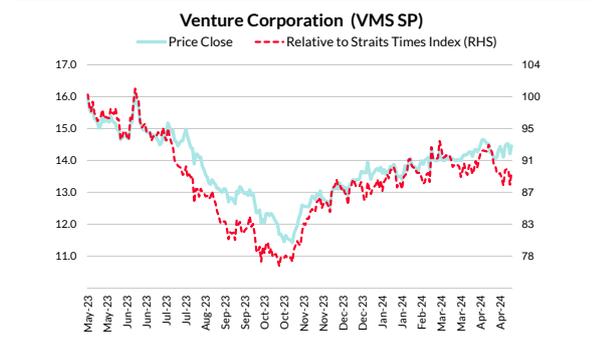
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	6.2	0.8	4.5	18.6	(15.3)
Relative	4.6	(1.4)	0.9	13.9	(16.2)
52-wk Price low/high (SGD)	11.4 - 17.1				



Source: Bloomberg

Overall ESG Score: 3.0 (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 28tCO2e/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-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (SGDm)	3,864	3,025	3,311	3,476	3,650
Recurring net profit (SGDm)	370	270	294	307	322
Recurring net profit growth (%)	18.4	(26.9)	8.9	4.5	4.9
Recurring P/E (x)	11.41	15.59	14.28	13.67	13.03
P/B (x)	1.5	1.5	1.4	1.4	1.4
P/CF (x)	15.38	7.74	18.23	14.77	14.07
Dividend Yield (%)	5.2	5.2	5.2	5.2	5.2
EV/EBITDA (x)	7.11	9.26	8.46	7.97	7.47
Return on average equity (%)	13.3	9.5	10.2	10.4	10.6
Net debt to equity (%)	net cash				

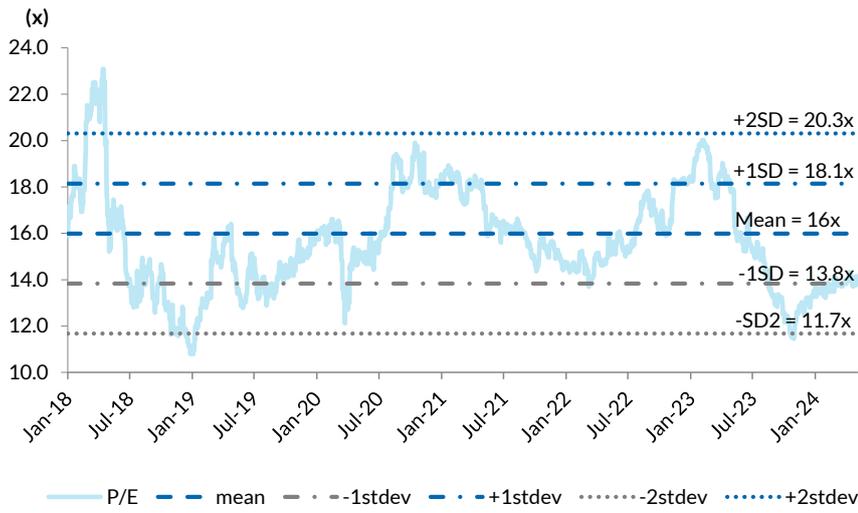
Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (SGD)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	Recurring EPS	1.27	0.93	1.01	1.06	1.11
Technology	DPS	0.75	0.75	0.75	0.75	0.75
Venture Corp	BVPS	9.73	9.76	10.02	10.33	10.69
VMS SP	Return on average equity (%)	13.3	9.5	10.2	10.4	10.6
NEUTRAL						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	11.41	15.59	14.28	13.67	13.03
Pegged to blended 14x FY24-25F P/E	P/B (x)	1.5	1.5	1.4	1.4	1.4
	FCF Yield (%)	5.7	11.8	4.7	5.9	6.3
	Dividend Yield (%)	5.2	5.2	5.2	5.2	5.2
Key drivers	EV/EBITDA (x)	7.11	9.26	8.46	7.97	7.47
i. Value creation;	EV/EBIT (x)	7.65	10.23	9.34	8.80	8.25
ii. Margin improvement.						
	Income statement (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key risks	Total turnover	3,864	3,025	3,311	3,476	3,650
i. Component shortage;	Gross profit	940	770	844	886	931
ii. Decelerating global demand;	EBITDA	469	332	365	383	403
iii. Softer- and/or later-than-expected global recovery.	Depreciation and amortisation	(33)	(31)	(34)	(36)	(38)
	Operating profit	436	301	331	347	365
	Net interest	9	27	26	26	27
The converse represents the upside risks.	Pre-tax profit	449	331	360	376	394
	Taxation	(79)	(60)	(65)	(68)	(71)
	Reported net profit	370	270	294	307	322
	Recurring net profit	370	270	294	307	322
Company Profile						
Venture Corp is a leading global electronics services and integrated solution provider with a diversified portfolio of customers worldwide.	Cash flow (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	(153)	263	(93)	(54)	(57)
	Cash flow from operations	274	544	230	284	298
	Capex	(33)	(48)	(35)	(35)	(35)
	Cash flow from investing activities	(25)	(23)	(8)	(8)	(7)
	Dividends paid	(218)	(218)	(218)	(218)	(218)
	Cash flow from financing activities	(218)	(219)	(218)	(218)	(218)
	Cash at beginning of period	808	813	1,056	1,039	1,076
	Net change in cash	31	302	5	58	73
	Ending balance cash	839	1,115	1,061	1,097	1,149
	Balance sheet (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	813	1,056	1,039	1,076	1,126
	Tangible fixed assets	225	248	248	247	244
	Total investments	49	52	53	53	54
	Total assets	3,751	3,555	3,683	3,803	3,940
	Total liabilities	909	717	768	798	829
	Total equity	2,843	2,838	2,915	3,005	3,110
	Total liabilities & equity	3,751	3,555	3,683	3,803	3,940
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	24.3	(21.7)	9.4	5.0	5.0
	Recurrent EPS growth (%)	18.3	(26.8)	9.2	4.5	4.9
	Gross margin (%)	24.3	25.5	25.5	25.5	25.5
	Operating EBITDA margin (%)	12.1	11.0	11.0	11.0	11.0
	Net profit margin (%)	9.6	8.9	8.9	8.8	8.8
	Dividend payout ratio (%)	59.0	80.8	74.1	70.9	67.6
	Capex/sales (%)	0.8	1.6	1.1	1.0	1.0
	Interest cover (x)	844	415	457	480	504

Source: Company data, RHB

Figure 1: VMS' historical average P/E



Source: Bloomberg

Emissions And ESG

Trend analysis

The environmental data is based on 11 sites for 2022 and 2023. Reporting scope has been expanded to include five additional sites across Singapore, Malaysia, China, and the US, up from six sites previously, which is more representative of the group's revenue.

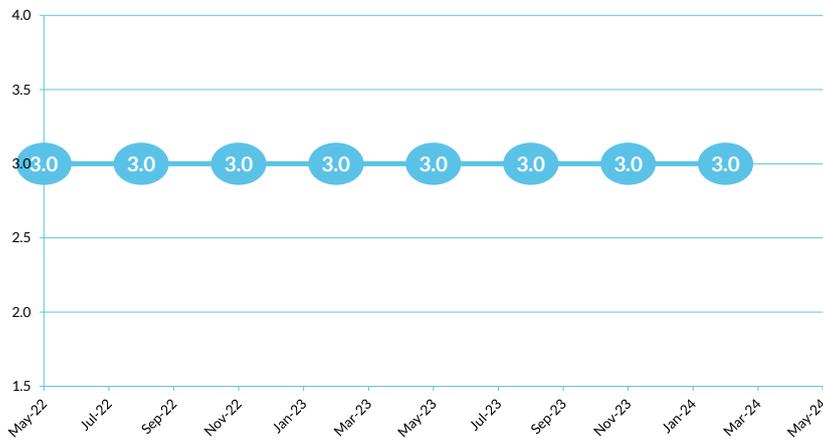
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	-	2,894	2,659
Scope 2	66,158	184,700	161,054
Scope 3	na	na	na
Total emissions	66,158	187,594	163,713

Source: Company data, RHB

Latest ESG-Related Developments

- VMS has, since 2019, published its greenhouse gas emissions and energy consumption data.
- Its sites have started implementing a range of energy-saving initiatives including energy-efficient air conditioning systems, use of renewable energy, stringent air conditioning operating hours, replacing halogen street lighting with LED lighting, and use of inverter air compressors.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-02-25	Neutral	13.9	13.7
2023-11-06	Buy	14.7	12.3
2023-08-08	Neutral	14.4	14.2
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

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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