

25 July 2024

Technology | Electronics

Venture Corp (VMS SP)

Buy (from Neutral)

Expect Recovery Into FY25; Upgrade To BUY

Target Price (Return): SGD16.50 (+11%)
 Price (Market Cap): SGD14.90 (USD3,212m)
 ESG score: 3.0 (out of 4)
 Avg Daily Turnover (SGD/USD) 11.1m/8.26m

- **Upgrade to BUY from Neutral, new SGD16.50 TP from SGD14.20, 11% upside.** We upgrade our call as we think Venture Corp is seeing the tail-end of its customers' destocking phase, and anticipate its recovery moving into FY25. Our rating downgrade (done on 25 Feb) was due to the continued customer destocking situation, but we have maintained that its recovery will commence in 2H24. We raise our TP post lifting our earnings estimates and P/E (to 16x, from 14x) on blended FY24-25F earnings – on a recovery in FY25F.
- **Expect customer destocking to ease from 2H24.** Earnings for VMS in 4Q23 and 1Q24 were dismal, led by weak customer orders as inventory levels accumulated, which stemmed from destocking activities. In 1Q24, customer destocking remained evident – albeit tapered – and we continued to expect customer demand to remain subdued going into 1H24, before a recovery takes place in 2H24. Some of VMS' peers have also experienced similar customer inventory situations earlier on – they were also optimistic on sequential improvement, with customers in certain sectors seeing inventory bottoming out. Hence, we expect improving customer orders as inventory levels in the supply chain ease going into 2H24 and FY25.
- **Raise FY25-26F earnings by 3%.** As we anticipate a recovery moving into FY25, we raise our earnings forecasts by a further 3%. Prior to this, we had already priced in some recovery and now impute earnings growth of 5-7% YoY for FY25-26F. We now believe the recovery will be stronger going into FY25, as we expect the customer destocking situation to ease in 2H24, and restocking to commence going into FY25. VMS' peers currently trade at 17x forward P/E, while its current mean P/E is at 16x. Since we have turned more positive on VMS' earnings prospects, we now peg our valuation at 16x blended FY24F-25F P/E (from 14x). This results in a higher TP of SGD16.50. The 16x target P/E is also more in line with the peer average. The stock is trading at an attractive -1SD from the forward P/E mean.
- **A positive longer-term outlook.** We expect longer-term growth to be driven by: i) New customers in the EMS++, precision engineering, and Ventech Group businesses (including customers in medical technology and lifestyle sectors, and promising technology domains); ii) new businesses (as customers relocate closer 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.
- **Downside risks to our forecasts** include earnings downside on a weaker- or later-than expected recovery in customer orders and demand. 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.

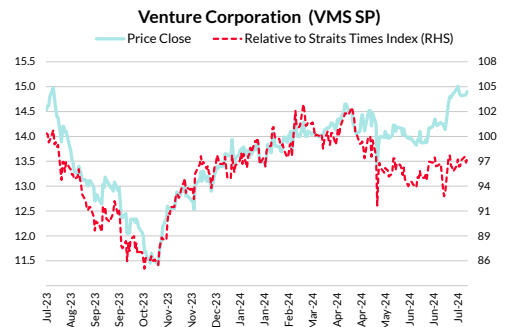
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	9.5	5.0	3.2	7.3	3.0
Relative	2.7	0.6	(1.9)	(2.5)	(3.0)
52-wk Price low/high (SGD)	11.4 – 15.0				



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	3,585	3,764
Recurring net profit (SGDm)	370	270	294	316	331
Recurring net profit growth (%)	18.4	(26.9)	8.9	7.5	4.7
Recurring P/E (x)	11.76	16.07	14.71	13.69	13.07
P/B (x)	1.5	1.5	1.5	1.4	1.4
P/CF (x)	15.85	7.98	18.79	16.72	14.11
Dividend Yield (%)	5.0	5.0	5.0	5.0	5.0
EV/EBITDA (x)	7.38	9.64	8.80	8.11	7.59
Return on average equity (%)	13.3	9.5	10.2	10.7	10.8
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

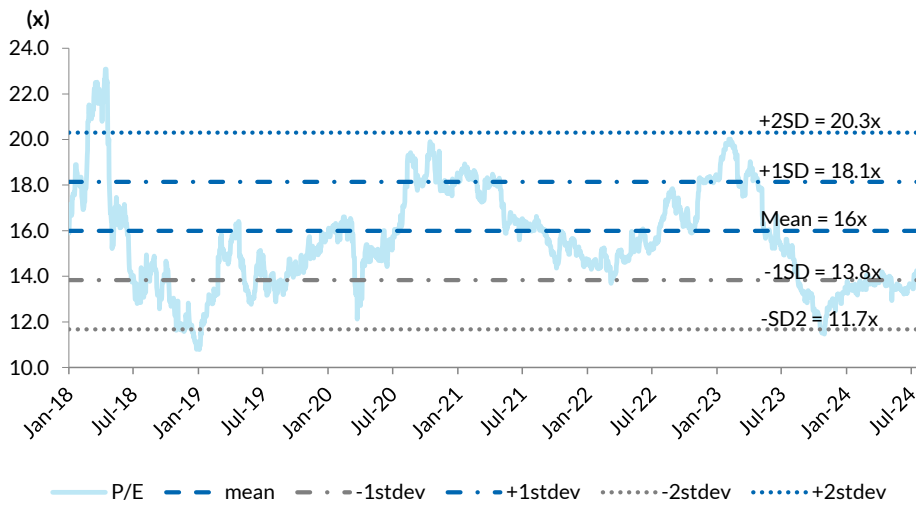
Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (SGD)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	Recurring EPS	1.27	0.93	1.01	1.09	1.14
Technology	DPS	0.75	0.75	0.75	0.75	0.75
Venture Corp	BVPS	9.73	9.76	10.02	10.36	10.75
VMS SP	Return on average equity (%)	13.3	9.5	10.2	10.7	10.8
BUY						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	11.76	16.07	14.71	13.69	13.07
Pegged to blended 16x FY24-25F P/E	P/B (x)	1.5	1.5	1.5	1.4	1.4
	FCF Yield (%)	5.6	11.4	4.5	5.2	6.3
Key drivers	Dividend Yield (%)	5.0	5.0	5.0	5.0	5.0
Value creation and margin improvement	EV/EBITDA (x)	7.38	9.64	8.80	8.11	7.59
	EV/EBIT (x)	7.94	10.65	9.72	8.95	8.38
Key risks						
i. Shortage in supply of components;						
ii. Decelerating global demand;						
iii. Softer and/or later-than-expected global economic recovery.						
	Income statement (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Company Profile	Total turnover	3,864	3,025	3,311	3,585	3,764
Venture is a leading global electronics services and integrated solution provider with a diversified portfolio of customers worldwide.	Gross profit	940	770	844	914	960
	EBITDA	469	332	365	395	415
	Depreciation and amortisation	(33)	(31)	(34)	(37)	(39)
	Operating profit	436	301	331	358	376
	Net interest	9	27	26	26	26
	Pre-tax profit	449	331	360	386	405
	Taxation	(79)	(60)	(65)	(70)	(73)
	Reported net profit	370	270	294	316	331
	Recurring net profit	370	270	294	316	331
	Cash flow (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	(153)	263	(93)	(90)	(59)
	Cash flow from operations	274	544	230	259	307
	Capex	(33)	(48)	(35)	(35)	(35)
	Cash flow from investing activities	(25)	(23)	(8)	(8)	(8)
	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	1,050
	Net change in cash	31	302	5	33	81
	Ending balance cash	839	1,115	1,061	1,072	1,131
	Balance sheet (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	813	1,056	1,039	1,050	1,109
	Tangible fixed assets	225	248	248	246	242
	Total investments	49	52	53	53	54
	Total assets	3,751	3,555	3,683	3,832	3,978
	Total liabilities	909	717	768	818	850
	Total equity	2,843	2,838	2,915	3,014	3,128
	Total liabilities & equity	3,751	3,555	3,683	3,832	3,978
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	24.3	(21.7)	9.4	8.3	5.0
	Recurrent EPS growth (%)	18.3	(26.8)	9.2	7.5	4.7
	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	68.9	65.8
	Capex/sales (%)	0.8	1.6	1.1	1.0	0.9
	Interest cover (x)	844	415	457	495	519

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 United States, vs six sites previously, which is more representative of the group's revenue.

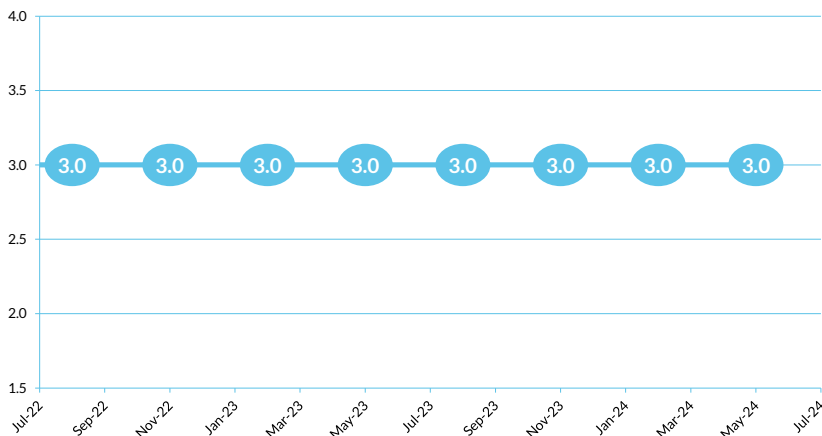
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	-	2,894	2,659
Scope 2	66,158	184,700	161,054
Scope 3	na	na	na
Total emissions	66,158	187,594	163,713

Source: Company data, RHB

Latest ESG-Related Developments

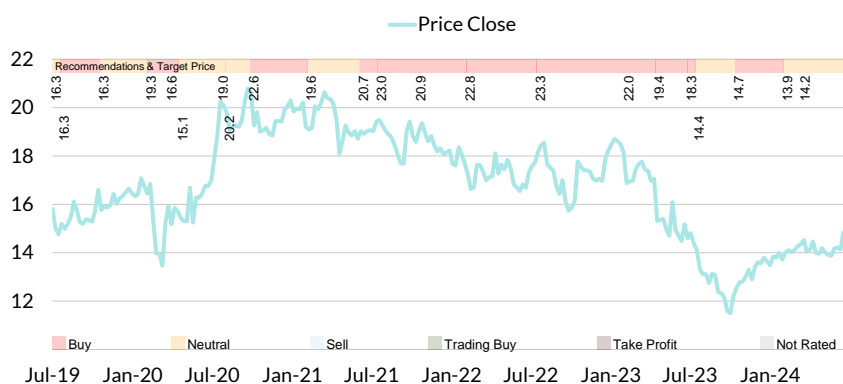
- VMS has, since 2019, published its greenhouse gas emissions and energy consumption data.
- Its sites have started implementing a range of energy-saving initiatives including energy-efficient air conditioning systems, use of renewable energy, stringent air conditioning operating hours, replacing halogen 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
2024-05-06	Neutral	14.2	14.3
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

Source: RHB, Bloomberg

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Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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