

4 May 2022

Technology | Electronics

Venture Corp (VMS SP)

Buy (Maintained)

A Superb 1Q22; Maintain BUY

Target Price (Return): SGD22.80 (+33%)
 Price (Market Cap): SGD17.20 (USD3,598m)
 ESG score: 3.00 (out of 4)
 Avg Daily Turnover (SGD/USD) 20.0m/14.7m

- **Maintain BUY and SGD22.80 TP, 33% upside, with c.4% yield.** Venture Corp reported a strong 1Q22, with revenue surging by 29.5% YoY to SGD889.3m and NPAT up 28.6% YoY to SGD84m – slightly above our expectations. Going forward, management anticipates steady demand across its various technology domains. We expect Venture to enjoy a positive FY22 despite supply chain challenges, as the group has shown that it can mitigate these disruptions.

- **Steady demand.** Venture expects demand to be steady, based on customers' orders and forecasts across its various technology domains – Lifestyle & Wellness, Life Sciences, Instrumentation, Test & Measurement Technology, and Advanced Industrial. Several new products were also introduced in 1Q22, and were well received by end-customers. Going forward, we expect further new product introductions in the remaining quarters, from existing and new customers.

- **Supply chain not a major issue.** While there is still a shortage of some components, such as the Field Programmable Gate Arrays or FPGA, the shortage of other components is easing. Overall, management believes that while it is not completely out of the woods yet, it sees the situation improving. Its R&D lab team has also managed to redesign products to reduce the usage of some of these components which are facing shortages, and expanded the group's capabilities to fulfil more orders. Although uncertainties in the operating environment will continue in the near term, we are confident that management will proactively monitor the situation and be ready to resolve these challenges as and when they arise – just as it was done in FY21 and 1Q22.

- **On track for a positive FY22F.** With strong demand across the majority of its domains, we expect margins to remain strong. However, key component shortages may continue to hamper Venture's ability to complete these orders. Nevertheless, as it was able to deliver a strong 1Q22 despite such shortages, we remain confident of Venture enjoying a strong rebound, while component shortages should also begin to ease through the course of 2022. The group has also shown that it is able to maintain its margins despite this inflationary period, which highlights the strong relationships it has with its customers. As a result, we maintain our BUY rating and TP of SGD22.80, pegged to 19x FY22F P/E. Using our in-house proprietary methodology, we derived an ESG score of 3.0, which is the median score for our Singapore coverage universe. As a result, we apply a 0% premium/discount to our TP.

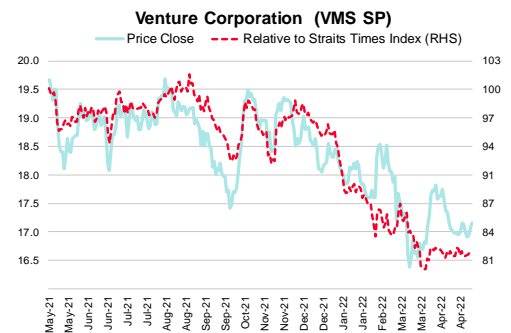
Analyst

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Share Performance (%)

| | YTD | 1m | 3m | 6m | 12m |
|----------------------------|-------------|-------|-------|--------|--------|
| Absolute | (6.3) | (3.2) | (3.1) | (8.8) | (16.0) |
| Relative | (13.8) | (0.9) | (6.5) | (13.8) | (20.2) |
| 52-wk Price low/high (SGD) | 16.4 – 20.2 | | | | |



Source: Bloomberg

Overall ESG Score: 3.00 (out of 4)

E: GOOD

Venture's energy consumption intensity by revenue decreased from 37.5 MWh/SGD'000 in 2018 to 36.9 MWh/SGD'000 in 2019. It has also implemented energy efficiency initiatives including the upgrading of air conditioners to inverters, and fluorescent lights to LED.

S: GOOD

The company's current material sustainability factors were determined via a materiality assessment process in 2017. The process of defining and reviewing its material factors was largely based on GRI's Principles for Defining Report Content, guided by the four-step approach: Identification, prioritisation, validation, and review.

G: GOOD

The company maintains a strong corporate governance framework that guides, drives, and oversees the organisation towards greater heights of excellence. Venture moved up 49 places on the Singapore Governance and Transparency Index, from 81st in 2019 to 32nd in 2020.

| Forecasts and Valuation | Dec-19 | Dec-20 | Dec-21 | Dec-22F | Dec-23F |
|---------------------------------|----------|----------|----------|----------|----------|
| Total turnover (SGDm) | 3,633 | 3,013 | 3,107 | 3,418 | 3,760 |
| Recurring net profit (SGDm) | 363 | 298 | 312 | 346 | 393 |
| Recurring net profit growth (%) | (1.8) | (18.1) | 4.9 | 10.8 | 13.7 |
| Recurring P/E (x) | 13.64 | 16.66 | 15.88 | 14.33 | 12.61 |
| P/B (x) | 2.0 | 1.9 | 1.8 | 1.7 | 1.6 |
| P/CF (x) | 17.63 | 11.95 | 50.02 | 17.66 | 16.05 |
| Dividend Yield (%) | 4.1 | 4.4 | 4.4 | 4.4 | 4.4 |
| EV/EBITDA (x) | 9.22 | 10.40 | 10.46 | 8.96 | 7.88 |
| Return on average equity (%) | 15.0 | 11.8 | 11.8 | 12.4 | 13.4 |
| Net debt to equity (%) | net cash | net cash | net cash | net cash | net cash |

Source: Company data, RHB

4 May 2022

Technology | Electronics

Financial Exhibits

| Asia | Financial summary (SGD) | Dec-19 | Dec-20 | Dec-21 | Dec-22F | Dec-23F |
|---------------------|-------------------------------------|--------|--------|--------|---------|---------|
| Singapore | Recurring EPS | 1.26 | 1.03 | 1.08 | 1.20 | 1.36 |
| Technology | DPS | 0.70 | 0.75 | 0.75 | 0.75 | 0.75 |
| Venture Corp | BVPS | 8.64 | 8.86 | 9.40 | 9.85 | 10.47 |
| VMS SP | Return on average equity (%) | 15.0 | 11.8 | 11.8 | 12.4 | 13.4 |
| Buy | | | | | | |
| | Valuation metrics | Dec-19 | Dec-20 | Dec-21 | Dec-22F | Dec-23F |
| | Recurring P/E (x) | 13.64 | 16.66 | 15.88 | 14.33 | 12.61 |
| | P/B (x) | 2.0 | 1.9 | 1.8 | 1.7 | 1.6 |
| | FCF Yield (%) | 5.0 | 7.8 | 1.8 | 5.4 | 6.0 |
| | Dividend Yield (%) | 4.1 | 4.4 | 4.4 | 4.4 | 4.4 |
| | EV/EBITDA (x) | 9.22 | 10.40 | 10.46 | 8.96 | 7.88 |
| | EV/EBIT (x) | 10.09 | 11.68 | 11.56 | 10.08 | 8.65 |
| | Income statement (SGDm) | Dec-19 | Dec-20 | Dec-21 | Dec-22F | Dec-23F |
| | Total turnover | 3,633 | 3,013 | 3,107 | 3,418 | 3,760 |
| | Gross profit | 907 | 793 | 810 | 885 | 974 |
| | EBITDA | 448 | 379 | 390 | 449 | 500 |
| | Depreciation and amortisation | (39) | (42) | (37) | (50) | (44) |
| | Operating profit | 410 | 337 | 353 | 399 | 455 |
| | Net interest | 10 | 6 | 6 | 4 | 4 |
| | Pre-tax profit | 420 | 343 | 360 | 407 | 462 |
| | Taxation | (57) | (45) | (47) | (61) | (69) |
| | Reported net profit | 363 | 298 | 312 | 346 | 393 |
| | Recurring net profit | 363 | 298 | 312 | 346 | 393 |
| | Cash flow (SGDm) | Dec-19 | Dec-20 | Dec-21 | Dec-22F | Dec-23F |
| | Change in working capital | (123) | 115 | (242) | (112) | (122) |
| | Cash flow from operations | 281 | 415 | 99 | 281 | 309 |
| | Capex | (35) | (28) | (11) | (11) | (11) |
| | Cash flow from investing activities | (35) | (28) | (2) | (5) | (6) |
| | Dividends paid | (202) | (217) | (218) | (217) | (217) |
| | Cash flow from financing activities | (202) | (218) | (218) | (217) | (217) |
| | Cash at beginning of period | 713 | 714 | 929 | 808 | 867 |
| | Net change in cash | 44 | 169 | (121) | 59 | 86 |
| | Ending balance cash | 715 | 928 | 808 | 867 | 953 |
| | Balance sheet (SGDm) | Dec-19 | Dec-20 | Dec-21 | Dec-22F | Dec-23F |
| | Total cash and equivalents | 714 | 929 | 808 | 867 | 956 |
| | Tangible fixed assets | 232 | 227 | 215 | 176 | 142 |
| | Total investments | 53 | 46 | 39 | 39 | 39 |
| | Total assets | 3,266 | 3,223 | 3,635 | 3,848 | 4,115 |
| | Short-term debt | 1 | 0 | 0 | 0 | 0 |
| | Total liabilities | 716 | 604 | 916 | 998 | 1,086 |
| | Total equity | 2,550 | 2,619 | 2,719 | 2,850 | 3,029 |
| | Total liabilities & equity | 3,266 | 3,223 | 3,635 | 3,848 | 4,115 |
| | Key metrics | Dec-19 | Dec-20 | Dec-21 | Dec-22F | Dec-23F |
| | Revenue growth (%) | 4.3 | (17.1) | 3.1 | 10.0 | 10.0 |
| | Recurrent EPS growth (%) | (2.5) | (18.1) | 4.9 | 10.8 | 13.7 |
| | Gross margin (%) | 25.0 | 26.3 | 26.1 | 25.9 | 25.9 |
| | Operating EBITDA margin (%) | 12.3 | 12.6 | 12.5 | 13.1 | 13.3 |
| | Net profit margin (%) | 10.0 | 9.9 | 10.0 | 10.1 | 10.5 |
| | Dividend payout ratio (%) | 55.7 | 72.9 | 69.8 | 62.7 | 55.1 |
| | Capex/sales (%) | 1.0 | 0.9 | 0.3 | 0.3 | 0.3 |
| | Interest cover (x) | 783 | 718 | 835 | 296 | 337 |

Source: Company data, RHB

Recommendation Chart

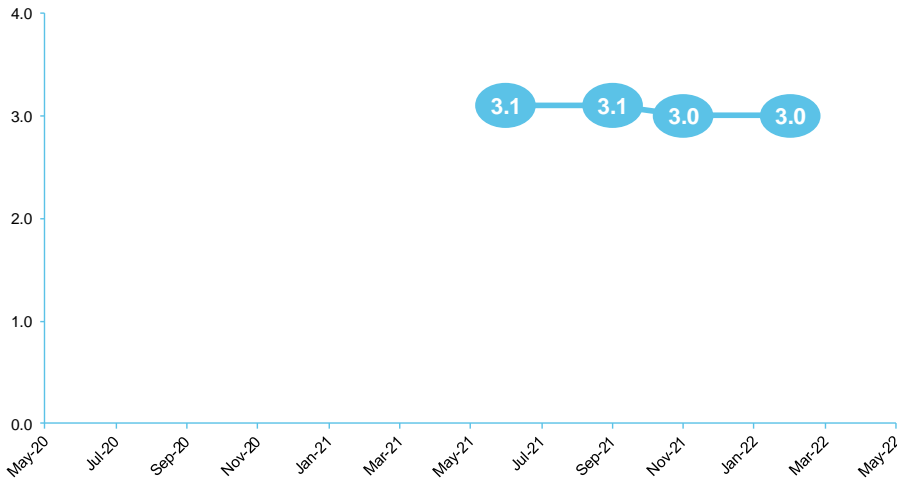


Source: RHB, Bloomberg

| Date | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 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 |
| 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 |

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

RHB Guide to Investment Ratings

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

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(1) they do not have any financial interest in the securities or other capital market products of the subject companies mentioned in this report, except for:

| Analyst | Company |
|---------|---------|
| - | - |

(2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.



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