

21 October 2020

Technology | Electronics

Venture Corp (VMS SP)

Buy (from Neutral)

Positive Outlook Ahead; U/G To BUY

Target Price (Return): SGD22.60 (+9%)
 Price: SGD20.65
 Market Cap: USD4,411m
 Avg Daily Turnover (SGD/USD) 23.5m/17.3m

- **Upgrade to BUY from Neutral, new SGD22.60 TP from SGD20.60, 9% upside with c.4% FY20F yield.** Venture should chart a steady recovery in 2H20, on a brighter outlook. The company is now fulfilling its backlog of orders, while its research & development laboratory plans to release some new products for the manufacturing segment in early 2021. On its resilience during this COVID-19 pandemic, we upgrade our call and lift our TP, which is pegged to 19x FY21F P/E.

- **Trying hard to maintain margins despite lower revenues.** Venture continues to work with its customers, implementing further cost controls and improving production efficiency. ASP pressure should align its rates to match end-market demand. Meanwhile, non-essential market segments may see some pressure, given their slower rate of recovery due to COVID-19.

- **Production unlikely to return to high levels.** We do not expect production to rebound to pre-pandemic levels, due to social distancing measures. Venture's main aim, for now, is to meet customer demand, and balance its orders and deliveries. The company's top 10 customers now account for 45-55% of revenue, vs 50-60% previously – due to the growing diversification of customers.

- **Growth in several segments.** Customers that have seen increased orders are largely from the life sciences, medical devices & equipment, networking & communications, and semiconductor-related equipment industries. Venture also gained meaningful traction with new customers (in YoY and QoQ terms) – which also include an existing semiconductor partner.

- **Improving outlook.** We peg this stock to a higher FY21F P/E of 19x from 17x, to reflect Venture's comparatively more resilient margins and stability (over peers). This leads to a higher TP of SGD22.60. On rewarding shareholders, it prefers to give long-term stable and sustainable dividends. The company declared a higher interim DPS of SGD0.25, compared with SGD0.20 in 1H19. Assuming the final dividend remains unchanged YoY, its FY20F dividend will likely be raised to SGD0.75 from SGD0.70, representing a 3.6% FY20F yield. We think this is highly sustainable, and investors should continue enjoying higher dividends ahead, if the company's performance continues to improve. As such, we upgrade our call to BUY.

- **Key risks** are decelerating economic growth, and a worsening of the US-China trade war.

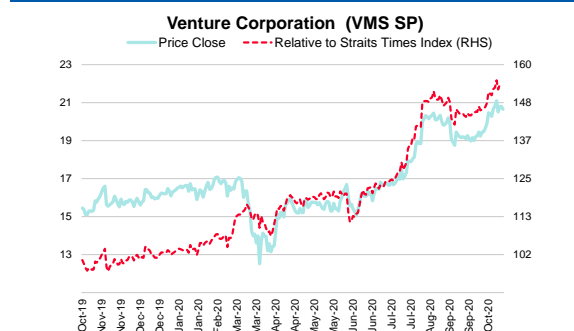
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	27.5	7.2	22.2	31.1	34.5
Relative	48.6	5.4	25.0	33.2	52.8
52-wk Price low/high (SGD)				12.5 – 21.1	



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	3,485	3,488	3,048	3,265	3,330
Recurring net profit (SGDm)	370	365	306	343	353
Recurring net profit growth (%)	(0.7)	(1.4)	(16.1)	12.0	2.8
Recurring P/E (x)	16.01	16.35	19.48	17.39	16.92
P/B (x)	2.5	2.4	2.3	2.2	2.1
P/CF (x)	22.53	8.44	14.22	16.86	15.41
Dividend Yield (%)	3.4	3.4	3.6	3.6	3.6
EV/EBITDA (x)	11.37	10.10	11.45	10.29	9.69
Return on average equity (%)	16.4	15.0	12.0	12.9	12.6
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Singapore	Recurring EPS	1.29	1.26	1.06	1.19	1.22
Technology	DPS	0.70	0.70	0.75	0.75	0.75
Venture Corp	BVPS	8.13	8.70	9.01	9.46	9.94
VMS SP	Return on average equity (%)	16.4	15.0	12.0	12.9	12.6
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	16.01	16.35	19.48	17.39	16.92
19x FY21F P/E	P/B (x)	2.5	2.4	2.3	2.2	2.1
	FCF Yield (%)	3.5	11.0	6.2	5.1	6.5
Key drivers	Dividend Yield (%)	3.4	3.4	3.6	3.6	3.6
Value creation and margin improvement	EV/EBITDA (x)	11.37	10.10	11.45	10.29	9.69
	EV/EBIT (x)	12.20	11.12	12.83	11.39	10.67
Key risks						
Economic slowdown						
Company Profile	Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Venture is a leading global electronics services and integrated solution provider, with a diversified portfolio of customers worldwide.	Total turnover	3,485	3,488	3,048	3,265	3,330
	Gross profit	954	936	817	878	896
	EBITDA	454	470	401	438	448
	Depreciation and amortisation	(31)	(43)	(43)	(42)	(41)
	Operating profit	423	427	358	396	407
	Net interest	8	2	2	3	3
	Pre-tax profit	433	430	362	403	412
	Taxation	(63)	(65)	(55)	(61)	(61)
	Reported net profit	370	365	306	343	353
	Recurring net profit	370	365	306	343	353
	Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	(147)	298	68	(34)	(10)
	Cash flow from operations	263	707	420	354	387
	Capex	(58)	(50)	(50)	(50)	0
	Cash flow from investing activities	(57)	(50)	(50)	(50)	0
	Dividends paid	(230)	(202)	(217)	(217)	(217)
	Cash flow from financing activities	(219)	(202)	(217)	(216)	(215)
	Cash at beginning of period	752	713	1,168	1,321	1,410
	Net change in cash	(13)	455	153	88	173
	Ending balance cash	713	1,168	1,321	1,410	1,585
	Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	713	1,168	1,321	1,410	1,585
	Tangible fixed assets	231	238	244	252	211
	Total investments	24	24	24	24	24
	Total assets	3,185	3,365	3,362	3,539	3,696
	Short-term debt	2	2	2	2	2
	Total liabilities	778	795	700	746	760
	Total equity	2,406	2,571	2,662	2,793	2,937
	Total liabilities & equity	3,185	3,365	3,362	3,539	3,696
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	(13.3)	0.1	(12.6)	7.1	2.0
	Recurrent EPS growth (%)	(2.4)	(2.1)	(16.1)	12.0	2.8
	Gross margin (%)	27.4	26.8	26.8	26.9	26.9
	Operating EBITDA margin (%)	13.0	13.5	13.2	13.4	13.5
	Net profit margin (%)	10.6	10.5	10.1	10.5	10.6
	Dividend payout ratio (%)	62.2	55.4	70.7	63.2	61.4
	Capex/sales (%)	1.7	1.4	1.6	1.5	0.0
	Interest cover (x)	431	316	265	293	302

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2018-11-05	Buy	19.0	14.8
2018-08-06	Buy	na	18.6
2018-08-05	Buy	22.2	16.9

Source: RHB, Bloomberg

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