

22 December 2020

Technology | Electronics

Venture Corp (VMS SP)

A Clearer Path Ahead; Maintain BUY

Buy (Maintained)

Target Price (Return): SGD22.60 (+17%)
 Price: SGD19.30
 Market Cap: USD4,186m
 Avg Daily Turnover (SGD/USD) 22.3m/16.5m

- **Maintain BUY and SGD22.60 TP, 17% upside and c.4% yield.** Venture Corp has continued its recovery trajectory (NPAT: +14.2% YoY), in line with our estimates. Management expects to deliver a stronger 2H20 vs 1H20 – provided COVID-19-induced lockdowns and disruptions do not deteriorate further. The group is currently fulfilling its backlog of existing orders while its research & development (R&D) labs have plans to subsequently release a number of newly developed products into manufacturing early 2021.
- **Trying hard to maintain margins despite lower revenue.** VMS continues to work with its customers, implementing further cost controls and improving production efficiency. ASP pressures will align to end-market demand, in our view. Non-essential market segments may see some pressure, though, given the slower rate of recovery.
- **Production is unlikely to return to high levels.** Production will unlikely to go back to pre-COVID-19 levels due to social distancing, with VMS' main aim is to meeting customer demand, as well as how to balance orders and deliver such orders to clients. Top 10 customers now form 45-55% of revenue vs 50-60% previously, given the increasing client diversification.
- **Growth seen in several segments.** New products/solutions engineered and developed in VMS' R&D labs are scheduled for release into end markets during 1H21 and 2H21 by partners and customers in several technology domains. These include fast-growing domains and ecosystems such as life science & genomics, healthcare & wellness, as well as COVID-19-related detection, testing, and diagnostic products and solutions. Demand for medical devices & equipment, networking & communications, and semiconductor correlated modules & equipment also appear unabated.
- **A clearer path ahead.** We peg VMS to a higher multiple of 19x to reflect its resilient margins and stability vis-à-vis peers. On the dividend front, the company prefers to give long-term stable and sustainable dividends. It declared a higher interim dividend of 25 SG cents (1H19: 20 SG cents). Assuming the final dividend remains unchanged, FY20F dividend will likely be raised to 75 SG cents, which represents a 3.9% yield. We think this is highly sustainable and shareholders are likely to continue enjoying higher dividends if the group's performance continues to improve. As a result, we maintain our BUY call.
- **Key risks** are slowing economic growth and a worsening of the US-China trade war.

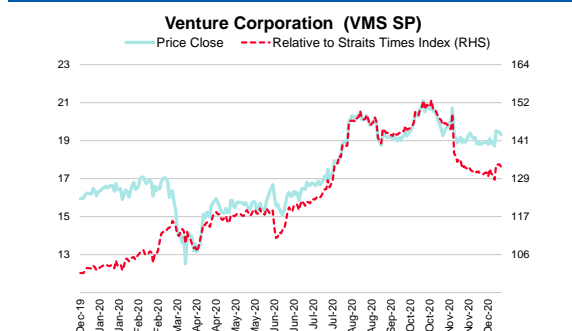
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	19.2	1.3	1.1	18.6	20.5
Relative	30.9	0.1	(13.4)	10.6	31.9
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)	14.97	15.29	18.21	16.26	15.82
P/B (x)	2.4	2.2	2.1	2.0	1.9
P/CF (x)	21.07	7.89	13.30	15.77	14.41
Dividend Yield (%)	3.6	3.6	3.9	3.9	3.9
EV/EBITDA (x)	10.53	9.28	10.49	9.41	8.82
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

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 basis	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
19x FY21F P/E.	Recurring P/E (x)	14.97	15.29	18.21	16.26	15.82
	P/B (x)	2.4	2.2	2.1	2.0	1.9
	FCF Yield (%)	3.7	11.8	6.6	5.4	6.9
Key drivers	Dividend Yield (%)	3.6	3.6	3.9	3.9	3.9
Value creation and margin improvement.	EV/EBITDA (x)	10.53	9.28	10.49	9.41	8.82
	EV/EBIT (x)	11.29	10.21	11.75	10.41	9.72
Key risks	Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Economic slowdown.	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
Company Profile	Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Venture Corp is a leading global electronics services and integrated solution provider with a diversified portfolio of customers worldwide.	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
2020-10-20	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
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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