

20 July 2023

Technology | Electronics

## Venture Corp (VMS SP)

**Buy** (Maintained)

### 2Q Likely Weak, But Outlook Is Positive; Keep BUY

Target Price (Return): SGD18.26 (22.2%)  
 Price (Market Cap): SGD14.90 (USD3,280m)  
 ESG score: 3.0 (out of 4)  
 Avg Daily Turnover (SGD/USD) 16.5m/12.3m

- **Keep BUY, new SGD18.26 TP from SGD19.40, 22% upside with c.5% FY23F yield.** We remain positive on Venture Corp even though we anticipate a tough 2Q23 earnings as valuations remain compelling at -1SD (c.13x forward P/E) of its historical mean P/E (16x forward P/E). We expect 2Q23 to remain weak for VMS, on weak macroeconomic environment and slow demand from its customers. Nonetheless, we maintain BUY for the stock, in view of an upcoming global recovery and muted valuations.
- **We anticipate 2Q23 to be weak for VMS.** 1Q23 has seen softer overall demand on a weaker customer outlook, with most domains seen declining. We do not expect 2Q23 to be much improved and believe overall customer demand remains weak. US GDP growth for 2Q23, based on consensus expectation, is only a slight uptick at 2% from 1.8% in 1Q23. Similarly, S&P 500's earnings per share for 2Q23 based on Bloomberg data is USD53.51 (-2% QoQ, -1% YoY). Both indicators are likely to suggest that demand from large international corporate clients may have remained largely comparable from 1Q23.
- **Cut FY23-25F earnings by 8% each.** In reflection of a weaker-than-expected 2Q23 demand, we lower our revenue forecasts by 8% while maintaining our margin assumptions. We do not expect margins to be under significant pressure as customer programmes remain largely high value with minimal change in profitability. This results in an 8% earnings cut overall. While FY23F earnings decline is now 12% YoY, we still expect net profit to grow 5% YoY in each of FY24F-25F. Our TP is correspondingly reduced by 6% from SGD19.40 as we roll over our earnings base from 16x FY23F P/E to blended FY23-24F P/E.
- **Still a BUY.** We continue to be positive on the stock in anticipation of global economic recovery and compelling valuations. Based on our economics desks' view, US and global growth are at the cusp of recovery and we expect US and global growth will recover by summer 2023. US inventories-to-shipment ratios are stabilising, suggesting early stages of recovery. The US housing market is already recovering and will likely strengthen further in 2H23. The US consumer market will remain resilient in 2H23 as labour market conditions will remain well-supported, household balance sheets will remain strong, and robust wealth effects from rising US stocks and residential housing prices will offset potential declines in household savings rates. We like VMS for its superior margins, net cash position (SGD2.78 per share), attractive dividend yield, muted valuation (at -1SD of its historical mean), and strategy of offering differentiating and high-value solutions to customers.
- **Downside risks to our forecasts** include a softer and/or later-than-expected global recovery, and decelerating global demand. As VMS' ESG score is 3 out of 4 – on par with our country median – we apply a 0% discount or premium to its intrinsic value to derive our TP.

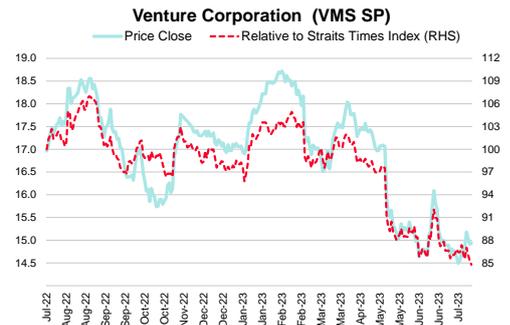
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(12.4)	(5.5)	(15.0)	(17.2)	(10.5)
Relative	(13.1)	(6.6)	(13.5)	(17.2)	(15.6)
52-wk Price low/high (SGD)	14.5 – 18.7				



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 47 MWh/SGD'000 and 28 tCO<sub>2</sub>e/SG\$'000 respectively, despite revenue and profit growth. In addition, total water withdrawal intensity by revenue fell from 0.28 to 0.26 m<sup>3</sup>/SG\$'000 over the same period.

##### S: GOOD

The company's current material sustainability factors were determined through a materiality assessment process in 2017. The process of defining and reviewing our material factors is largely based on GRI's Principles for Defining Report Content, guided by its four-step approach which involves 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 the Singapore Governance and Transparency Index, from 81st in 2019 to 43rd in 2022.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (SGDm)	3,107	3,864	3,615	3,796	3,985
Recurring net profit (SGDm)	312	370	325	342	359
Recurring net profit growth (%)	5.0	18.4	(12.2)	5.3	4.9
Recurring P/E (x)	13.95	11.79	13.44	12.76	12.16
P/B (x)	1.6	1.5	1.5	1.4	1.4
P/CF (x)	45.87	15.89	9.88	13.82	13.17
Dividend Yield (%)	5.0	5.0	5.0	5.0	5.0
EV/EBITDA (x)	9.04	7.41	7.77	7.28	6.77
Return on average equity (%)	11.8	13.3	11.2	11.4	11.4
Net debt to equity (%)	net cash				

Source: Company data, RHB

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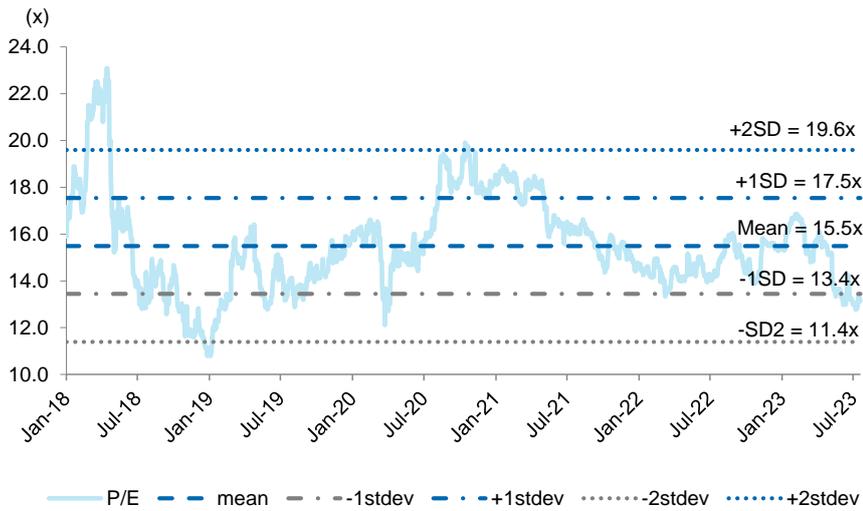
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## Financial Exhibits

Asia	Financial summary (SGD)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Singapore	Recurring EPS	1.07	1.27	1.11	1.17	1.23
Technology	DPS	0.75	0.75	0.75	0.75	0.75
<b>Venture Corp</b>	BVPS	9.32	9.73	10.09	10.51	10.99
VMS SP	Return on average equity (%)	11.8	13.3	11.2	11.4	11.4
BUY						
	<b>Valuation metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
<b>Valuation basis</b>	Recurring P/E (x)	13.95	11.79	13.44	12.76	12.16
Pegged to a blended 16x FY23-24F P/E	P/B (x)	1.6	1.5	1.5	1.4	1.4
	FCF Yield (%)	1.9	5.5	9.3	6.4	6.8
	Dividend Yield (%)	5.0	5.0	5.0	5.0	5.0
<b>Key drivers</b>	EV/EBITDA (x)	9.04	7.41	7.77	7.28	6.77
Value creation and margin improvement	EV/EBIT (x)	9.99	7.96	8.50	7.97	7.40
	<b>Income statement (SGDm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
<b>Key risks</b>	Total turnover	3,107	3,864	3,615	3,796	3,985
Component shortage, decelerating global demand, and softer and/or later-than-expected global recovery.	Gross profit	810	940	880	922	968
	EBITDA	386	469	423	443	465
	Depreciation and amortisation	(37)	(33)	(36)	(38)	(40)
	Operating profit	349	436	387	405	425
	Net interest	6	9	9	12	12
	Pre-tax profit	360	449	396	417	438
	Taxation	(47)	(79)	(71)	(75)	(79)
	Reported net profit	312	370	325	342	359
	Recurring net profit	312	370	325	342	359
	<b>Cash flow (SGDm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Change in working capital	(242)	(153)	84	(61)	(64)
	Cash flow from operations	95	274	441	316	331
	Capex	(11)	(33)	(35)	(35)	(35)
	Cash flow from investing activities	(2)	(25)	(26)	(23)	(22)
	Dividends paid	(218)	(218)	(219)	(219)	(219)
	Cash flow from financing activities	(218)	(218)	(219)	(219)	(219)
	Cash at beginning of period	929	808	813	1,003	1,068
	Net change in cash	(125)	31	197	74	90
	Ending balance cash	804	839	1,010	1,077	1,158
	<b>Balance sheet (SGDm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Total cash and equivalents	808	813	1,003	1,068	1,148
	Tangible fixed assets	215	225	224	221	216
	Total investments	39	49	49	50	50
	Total assets	3,635	3,751	3,812	3,969	4,144
	Total liabilities	916	909	863	896	931
	Total equity	2,719	2,843	2,949	3,072	3,213
	Total liabilities & equity	3,635	3,751	3,812	3,969	4,144
	<b>Key metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Revenue growth (%)	3.1	24.3	(6.4)	5.0	5.0
	Recurrent EPS growth (%)	4.6	18.3	(12.2)	5.3	4.9
	Gross margin (%)	26.1	24.3	24.3	24.3	24.3
	Operating EBITDA margin (%)	12.4	12.1	11.7	11.7	11.7
	Net profit margin (%)	10.0	9.6	9.0	9.0	9.0
	Dividend payout ratio (%)	69.8	59.0	67.5	64.1	61.1
	Capex/sales (%)	0.3	0.8	1.0	0.9	0.9
	Interest cover (x)	825	844	748	784	823

Source: Company data, RHB

Figure 1: VMS's historical average P/E



Source: Bloomberg

### Recommendation Chart

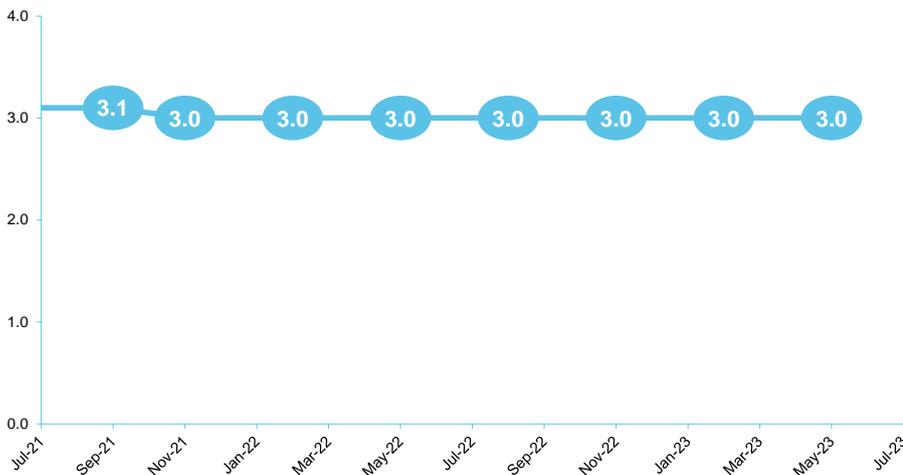


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
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

Source: RHB, Bloomberg

### ESG Rating History



Source: RHB

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<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
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<b>Not Rated:</b>	Stock is not within regular research coverage

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