

COMPANY UPDATE

Venture Corporation (VMS SP)

Expect Earnings Recovery In 4Q23 And 2024; Raise Target Price By 16% To S\$16.37

We expect VMS to report 4Q23 earnings of S\$65m (-34% yoy/+3% qoq), its first qoq growth after three consecutive quarters of decline since 1Q23. Earnings growth in 2024 will be driven by customers' inventory restocking, new product launches and relocation of manufacturing facilities to the ASEAN region. Also, most of VMS' customers expect to record revenue growth in the coming quarter/year. We raise our target price by 16% to S\$16.37 after raising our valuation multiple to +0.5SD above mean. Maintain BUY.

WHAT'S NEW

- **Expect qoq recovery in earnings in 4Q23 and marginal earnings growth of 5% in 2024.** Venture Corporation (VMS) is expected to release its 2023 results on 22 Feb 24, after the close of trading. We expect VMS to report 4Q23 earnings of S\$65m (-34% yoy /+3% qoq), its first qoq growth after three consecutive quarters of decline since 1Q23. Earnings growth in 2024 will be driven by customers' inventory restocking, new product launches and relocation of manufacturing facilities to the ASEAN region. In VMS' latest outlook, it expects the extent of decline in demand from customers to ease as inventory destocking is entering the final stages. VMS is also hopeful that new product launches from its customers and more relocation of manufacturing activities to the ASEAN region could improve demand for its manufacturing facilities.
- **Outlook for most customers are healthy.** Based on the latest outlook statements of VMS' key customers, two-thirds of them continued to guide for healthy forward growth. These healthy outlook statements are consistent with VMS' latest outlook statement where it expects sequential recovery in revenue.
 - a) Broadcom: 4QFY23 revenue growth of 4% yoy and qoq
 - b) Agilent: FY24 revenue growth of 1% yoy and EPS growth of 30% yoy
 - c) Fortive: 1QFY24 revenue growth of 5% yoy and 7% qoq
 - d) Keysight: 1QFY24 revenue decline of 8% yoy
 - e) Thermo Fisher: 2023 core revenue growth of 1% yoy
 - f) Waters: 2023 revenue growth to be flat,
 - g) Illumina: 2023 revenue decline of 3% yoy)
 - h) Medtronic: FY24 revenue growth of 5% yoy
 - i) Philip Morris: 2023 shipment volume growth of 16% yoy and revenue growth of 8% yoy.
- **New share buyback plan and increased frequency of share buybacks are more positive signals.** On 30 Nov 23, VMS announced a share buyback plan to purchase up to 10m shares (around 3.4% of its total shares). This new share buyback plan is different from VMS' existing plan as shares purchased previously are only meant for employees' share options. In addition, shares purchased under the new 10m share buyback plan will be cancelled immediately. More importantly, VMS has bought back shares more frequently after the announcement of the new plan in Dec 23. It has repurchased 257,100 shares in two months alone from Dec 23 to Jan 24 at a price range of S\$12.80-13.61 vs 500,000 at S\$11.71-13.92 in six months from Jun-Nov 23. We believe this is a more positive signal from VMS on the outlook of the company.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	3,107	3,864	3,001	3,091	3,184
EBITDA	388	471	345	356	366
Operating profit	351	438	312	324	336
Net profit (rep./act.)	312	370	268	281	291
Net profit (adj.)	312	370	268	281	291
EPS (S\$ cent)	107.5	127.3	92.4	96.6	100.1
PE (x)	12.5	10.6	14.6	13.9	13.5
P/B (x)	1.4	1.4	1.4	1.3	1.3
EV/EBITDA (x)	6.6	5.4	7.4	7.2	7.0
Dividend yield (%)	5.6	5.6	5.6	5.6	5.6
Net margin (%)	10.0	9.6	8.9	9.1	9.1
Net debt/(cash) to equity (%)	(29.7)	(28.6)	(46.4)	(46.5)	(46.6)
ROE (%)	11.8	13.3	9.4	9.6	9.7
Consensus net profit	-	-	272	302	329
UOBKH/Consensus (x)	-	-	0.99	0.93	0.88

Source: VMS, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$13.48
Target Price	S\$16.37
Upside	+21.4%
(Previous TP)	S\$14.06

COMPANY DESCRIPTION

Venture Corporation is a leading global electronics services provider. It provides technology solutions, products and services over a diversified range of high-mix, high-value and complex products.

STOCK DATA

GICS sector	Information Technology
Bloomberg ticker:	VMS SP
Shares issued (m):	290.3
Market cap (S\$m):	3,912.6
Market cap (US\$m):	2,919.4
3-mth avg daily t'over (US\$m):	8.7

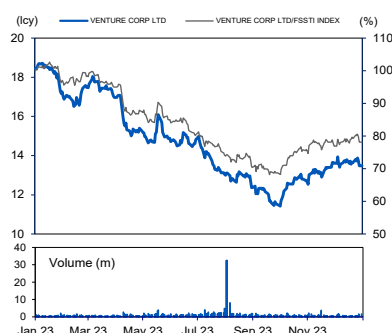
Price Performance (%)

52-week high/low	S\$18.72/S\$11.42
1mth	0.5
3mth	17.0
6mth	(7.7)
1yr	(27.0)
YTD	(1.0)

Major Shareholders

Wong Ngit Liong	7.1
FY24 NAV/Share (S\$)	10.13
FY24 Net Cash/Share (S\$)	4.71

PRICE CHART



Source: Bloomberg

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- Potential dividend increase in 2024.** Given VMS' strong cash balance of S\$957m that is more than three years' equivalent of earnings as well as management's willingness to improve its capital management, evidenced in the recent 10m share buyback plan, we think there is an increased possibility of a dividend increase in 2024. Typically, VMS will raise its interim dividend by 5 S cents in its 1H results. To recap, the last dividend increase was done four years ago in 2020. Assuming a full-year dividend payout of 80 S cents in 2024, this will translate into a payout ratio of 83%, which is still a very comfortable level.

STOCK IMPACT

- VMS intends to expand its participation in new high-growth technology domains.** VMS will continue to capitalise on its core strengths of excellence and innovation to deliver long-term sustainable growth and greater value for its shareholders.
- Healthy balance sheet and consistent dividends.** As of end-3Q23, VMS had net cash of S\$957m (accounting for around 25% of its current market cap) and led the pack of US-listed peers which were mostly in net debt positions. VMS also continues to issue the same amount of dividends or better than that of preceding years.

EARNINGS REVISION/RISK

- We maintain our financial forecasts.

VALUATION/RECOMMENDATION

- Maintain BUY with a 16% higher target price of S\$16.37**, pegged to 0.5SD above its long-term mean PE of 17x 2024F earnings, up from its mean PE of 14.6x previously to capture the potential earnings recovery in 2024 and upcycle beyond that. Currently, VMS is trading at 13.9x 2024F PE (9x ex-cash 2024F PE), which is still below its long-term PE mean and offers an attractive dividend yield of 5.6%.

BREAKDOWN OF PORTFOLIOS A AND B

Portfolio A	
1. Life Science, Genomics, Molecular Diagnostics and Related Materials Technology	
2. Medical Devices and Equipment	
3. Healthcare & Wellness Technology, Lifestyle Consumer Tech, Health Improvement Products and Others	
Portfolio B	
4. Instrumentation, Test & Measurement Technology	
5. Networking & Communications, Security & Safety, Building Automation, Industrial IOT	
6. Advanced Payment Systems	
7. Advanced Industrial Technology, Computing & Productivity Systems, Printing & Imaging, Related Components Technology and Others	

Source: VMS

PEER COMPARISON OF VMS' CLIENTS

Company	Ticker	Trading Curr (lcy)	Price @ 26-Jan-24 (lcy)	Market Cap (US\$m)	PE		P/B		Yield 2023 (%)	ROE 2023 (%)
					2023 (x)	2024 (x)	2023 (x)	2024 (x)		
Broadcom Inc	AVGO US	US\$	630.12	262,712	15.2	14.4	11.5	9.3	2.9	70.6
Agilent Technologies Inc	A US	US\$	133.3	39,417	23.4	21.2	6.2	5.6	0.7	28.2
Keysight Technologies In	KEYS US	US\$	143.66	25,591	18.0	16.9	5.2	4.4	0.0	29.6
Thermo Fisher Scientific Inc	TMO US	US\$	546.38	210,750	23.0	20.6	4.4	4.1	0.2	19.0
Fortive Corp	FTV US	US\$	64.72	22,882	19.3	17.6	2.2	2.1	0.4	12.0
Illumina Inc	ILMN US	US\$	199.66	31,566	149.0	63.1	4.5	3.7	0.0	2.5
Medtronic Plc	MDT US	US\$	90.06	119,818	17.2	15.9	2.3	2.2	3.0	12.4
Trimble Inc	TRMB US	US\$	48.05	11,904	18.3	16.8	2.6	2.3	n.a.	17.9
Phillip Morris International	PM US	US\$	95.56	148,328	15.3	14.1	n.a.	n.a.	5.4	(112.0)
Average					33.2	22.3	4.9	4.2	1.6	8.9
Venture Corp	VMS SP	S\$	13.48	3,912	14.6	13.9	1.4	1.3	5.6	9.4

Source: Bloomberg, UOB Kay Hian

STRONG DIVIDEND TRACK RECORD



Source: Bloomberg, UOB Kay Hian

LONG-TERM PE CHART



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Net turnover	3,863.7	3,000.9	3,090.9	3,183.6
EBITDA	470.6	345.2	355.5	366.2
Deprec. & amort.	32.9	33.3	31.7	30.1
EBIT	437.8	311.9	323.9	336.1
Total other non-operating income	2.1	5.0	8.0	8.0
Associate contributions	0.3	0.3	0.3	0.3
Net interest income/(expense)	8.7	8.7	8.7	8.7
Pre-tax profit	448.9	325.9	340.9	353.1
Tax	(78.8)	(57.2)	(59.8)	(62.0)
Minorities	(0.5)	(0.5)	(0.5)	(0.5)
Net profit	369.6	268.2	280.6	290.7
Net profit (adj.)	369.6	268.2	280.6	290.7

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	269.1	772.5	274.6	282.3
Pre-tax profit	448.9	325.9	340.9	353.1
Tax	(51.1)	(57.2)	(59.8)	(62.0)
Deprec. & amort.	32.9	33.3	31.7	30.1
Associates	(0.3)	(0.3)	(0.3)	(0.3)
Working capital changes	(152.6)	480.0	(28.5)	(29.4)
Non-cash items	(0.6)	0.0	0.0	0.0
Other operating cashflows	(8.1)	(9.2)	(9.2)	(9.2)
Investing	(24.9)	(25.8)	(25.8)	(25.8)
Capex (growth)	(32.7)	(35.0)	(35.0)	(35.0)
Investments	(2.2)	0.0	0.0	0.0
Proceeds from sale of assets	0.5	0.0	0.0	0.0
Others	9.6	9.2	9.2	9.2
Financing	(226.7)	(218.4)	(218.6)	(218.6)
Dividend payments	(218.1)	(218.4)	(218.6)	(218.6)
Issue of shares	2.5	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(11.1)	0.0	0.0	0.0
Net cash inflow (outflow)	17.5	528.3	30.3	38.0
Beginning cash & cash equivalent	807.9	812.6	1,340.9	1,371.2
Changes due to forex impact	(12.8)	0.0	0.0	0.0
Ending cash & cash equivalent	812.6	1,340.9	1,371.2	1,409.2

BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Fixed assets	224.9	226.9	230.5	235.6
Other LT assets	693.6	693.6	693.7	693.8
Cash/ST investment	812.6	1,340.9	1,371.2	1,409.2
Other current assets	2,020.3	1,449.9	1,491.2	1,533.9
Total assets	3,751.4	3,711.3	3,786.6	3,872.5
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	893.1	802.7	815.5	828.8
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	15.4	15.4	15.4	15.4
Shareholders' equity	2,839.7	2,889.5	2,951.5	3,023.6
Minority interest	3.2	3.7	4.2	4.7
Total liabilities & equity	3,751.4	3,711.3	3,786.6	3,872.5

KEY METRICS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	12.2	11.5	11.5	11.5
Pre-tax margin	11.6	10.9	11.0	11.1
Net margin	9.6	8.9	9.1	9.1
ROA	10.0	7.2	7.5	7.6
ROE	13.3	9.4	9.6	9.7
Growth				
Turnover	24.3	(22.3)	3.0	3.0
EBITDA	21.5	(26.7)	3.0	3.0
Pre-tax profit	24.8	(27.4)	4.6	3.6
Net profit	18.4	(27.4)	4.6	3.6
Net profit (adj.)	18.4	(27.4)	4.6	3.6
EPS	18.4	(27.4)	4.6	3.6
Leverage				
Debt to total capital	0.0	0.0	0.0	0.0
Debt to equity	0.0	0.0	0.0	0.0
Net debt/(cash) to equity	(28.6)	(46.4)	(46.5)	(46.6)

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