

COMPANY UPDATE

Venture Corporation (VMS SP)

2Q24 Results Preview: Expect A Sequential Improvement

VMS will be reporting its 2Q24 results on 6 Aug 24. We are expecting 2Q24 earnings of S\$68m (+2% yoy, +13% qoq). We believe the demand from VMS' customers should improve and we expect it to deliver positive earnings growth of 4% for 2024. In its latest guidance, VMS is targeting for revenue to improve qoq in 2Q24 and hoh in 2H24. Also, most of VMS' customers expect to record revenue growth in the coming quarter/year. Maintain BUY and target price of S\$16.37.

WHAT'S NEW

- Expect 2Q24 earnings to recover, with marginal earnings growth of 4% in 2024.** Venture Corporation (VMS) is expected to release its 2Q24 results on 6 Aug 24, after the close of trading. We expect VMS to report 2Q24 earnings of S\$68m (+2% yoy, +13% qoq), its first yoy growth after five 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 ASEAN. In VMS' latest outlook released in its 1Q24 results, it highlighted that it is starting to see demand strengthening in several technology domains for the rest of 2024. Also, VMS is onboarding new customers in the EMS++, Precision Engineering and Ventech Group businesses, including customers in the medtech and lifestyle sectors, as well as promising technology domains. On the other hand, VMS anticipates new businesses from supporting customers through geopolitical risk mitigation strategies.
- Healthy outlook for most customers.** Based on the latest outlook statements of VMS' key customers, majority of them continued to guide for healthy forward growth: a) Broadcom: FY24 revenue to grow 42% yoy, b) Agilent: FY24 revenue to decline 4% yoy, c) Fortive: FY24 revenue to grow 3% yoy, d) Keysight: 3QFY24 revenue to decline 1% yoy, e) Thermo Fisher: 2024 core revenue to grow 1% yoy, f) Waters: 2024 revenue to grow 1% yoy, g) Illumina: 2024 revenue growth to be flat, h) Medtronic: FY24 revenue to grow 4% yoy, and i) Philip Morris: FY24 shipment volume growth of 1% yoy and revenue growth of 8% yoy. These healthy outlook statements are consistent with VMS' latest outlook statement where it expects a sequential recovery in revenue.
- Consistent share buyback and buying by substantial shareholders are positive signs.** On 30 Nov 23, VMS announced a share buyback plan to purchase up to 10m shares (around 3.4% of its total shares). Since the announcement of the new plan in Dec 23, VMS has bought back shares more frequently. In addition, two substantial shareholders of VMS - Silchester International Investors LLP and Ameriprise Financial - have been increasing their stakes in VMS in a meaningful way in 2024.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	3,864	3,025	3,116	3,209	3,306
EBITDA	471	330	340	350	361
Operating profit	438	298	310	322	334
Net profit (rep./act.)	370	270	280	290	300
Net profit (adj.)	370	270	280	290	300
EPS (S\$ cent)	127.3	92.8	96.1	99.6	103.0
PE (x)	11.7	16.1	15.6	15.0	14.5
P/B (x)	1.5	1.5	1.5	1.5	1.4
EV/EBITDA (x)	6.6	9.4	9.2	8.9	8.6
Dividend yield (%)	5.0	5.0	5.0	5.0	5.0
Net margin (%)	9.6	8.9	9.0	9.0	9.1
Net debt/(cash) to equity (%)	(28.6)	(37.3)	(42.4)	(42.6)	(44.2)
ROE (%)	13.3	9.5	9.8	9.9	9.8
Consensus net profit	-	-	290	314	332
UOBKH/Consensus (x)	-	-	0.97	0.92	0.90

Source: VMS, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$14.96
Target Price	S\$16.37
Upside	+9.4%

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):	290.1
Market cap (S\$m):	4,340.1
Market cap (US\$m):	3,229.7
3-mth avg daily t'over (US\$m):	8.7

Price Performance (%)

52-week high/low S\$15.01/S\$11.42

1mth	3mth	6mth	1yr	YTD
5.2	3.0	10.7	1.0	9.9

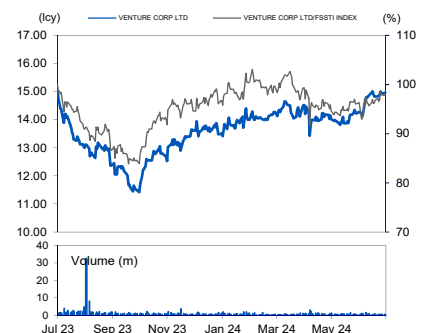
Major Shareholders

	%
Wong Ngit Liong	7.1

FY24 NAV/Share (S\$) 9.97

FY24 Net Cash/Share (S\$) 4.23

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Growing with customers, onboarding of new customers and new businesses from customers seeking geopolitical risk mitigation.** VMS is growing with its customers through transformational and innovative capabilities in manufacturing, research and design, to enlarge and deepen its market share. It is also onboarding new customers in the EMS++ (enterprise manufacturing services) and Precision Engineering sectors, as well as customers in the medtech and lifestyle sectors and promising technology domains. In addition, VMS also anticipates new businesses from supporting customers through geopolitical risk mitigation strategies.
- 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-1Q24, VMS had net cash of S\$1,190m (accounting for around 30% of its current market cap) and led the pack of US-listed peers which were mostly in net debt positions. Also, VMS continues to issue the same amount of dividends or better than that of preceding years.

EARNINGS REVISION/RISK

- We maintain our financial estimates.

VALUATION/RECOMMENDATION

- Maintain BUY and target price of S\$16.37**, pegged to 0.5SD above its long-term mean PE of 17x 2024F earnings to capture the potential earnings recovery in 2024 and upcycle beyond that. Currently, VMS is trading at around 15x 2024F PE (10x ex-cash 2024 PE) and offers a decent dividend yield of around 5%.

BREAKDOWN OF PORTFOLIO 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

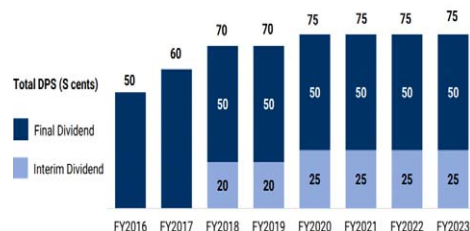
Source: VMS

PEER COMPARISON OF VMS' CLIENTS

Company	Ticker	Trading Curr (lcy)	Price @ 29 Jul 24 (lcy)	Market Cap (US\$m)	PE		P/B		Yield 2024 (%)	ROE 2024 (%)
					2024 (x)	2025 (x)	2024 (x)	2025 (x)		
Broadcom	AVGO US	US\$	150.22	699,257	31.2	24.4	10.3	8.7	1.7	38.4
Agilent Tech	A US	US\$	137.38	40,082	26.4	24.2	6.4	5.6	0.7	24.0
Keysight Tech	KEYS US	US\$	137.31	23,966	23.1	19.6	4.7	4.3	0.0	17.8
Thermo Fisher	TMO US	US\$	604.12	230,602	27.8	25.1	4.7	4.3	0.2	16.9
Fortive	FTV US	US\$	71.3	24,979	18.7	17.3	2.3	2.2	0.4	11.4
Illumina	ILMN US	US\$	121.56	19,365	91.4	31.4	4.5	3.8	0.0	4.7
Medtronic	MDT US	US\$	80	102,582	14.7	13.8	2.0	2.0	3.4	14.0
Trimble	TRMB US	US\$	55	13,431	20.2	18.0	3.2	2.9	n.a.	19.2
Philip Morris	PM US	US\$	114.4	177,869	18.1	16.5	n.a.	n.a.	4.6	(95.3)
Average					30.2	21.1	4.8	4.2	1.4	5.7
Venture	VMS SP	S\$	14.96	3,228	15.6	15.0	1.5	1.5	5.0	9.8

Source: Bloomberg, UOB Kay Hian

GOOD DIVIDEND TRACK RECORD



Source: Bloomberg, UOB Kay Hian

LONG-TERM PE CHART



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Net turnover	3,025.0	3,115.8	3,209.3	3,305.5
EBITDA	329.8	339.6	350.5	361.0
Deprec. & amort.	31.5	29.7	28.2	26.8
EBIT	298.3	309.9	322.2	334.2
Total other non-operating income	4.7	5.0	5.0	5.0
Associate contributions	0.2	0.2	0.2	0.2
Net interest income/(expense)	27.4	27.4	27.4	27.4
Pre-tax profit	330.8	342.6	354.9	366.8
Tax	(60.0)	(62.2)	(64.4)	(66.6)
Minorities	(0.7)	(0.7)	(0.7)	(0.7)
Net profit	270.0	279.7	289.8	299.5
Net profit (adj.)	270.0	279.7	289.8	299.5

CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Operating	521.4	395.5	260.7	268.1
Pre-tax profit	330.8	342.6	354.9	366.8
Tax	(72.6)	(62.2)	(64.4)	(66.6)
Deprec. & amort.	31.5	29.7	28.2	26.8
Associates	(0.2)	(0.2)	(0.2)	(0.2)
Working capital changes	263.4	113.8	(29.6)	(30.6)
Non-cash items	(0.7)	0.0	0.0	0.0
Other operating cashflows	(30.7)	(28.2)	(28.2)	(28.2)
Investing	(22.6)	(6.8)	(6.8)	(6.8)
Capex (growth)	(47.5)	(35.0)	(35.0)	(35.0)
Investments	(0.4)	0.0	0.0	0.0
Proceeds from sale of assets	0.4	0.0	0.0	0.0
Others	24.9	28.2	28.2	28.2
Financing	(236.5)	(217.8)	(217.8)	(145.2)
Dividend payments	(218.2)	(217.8)	(217.8)	(145.2)
Issue of shares	(6.1)	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	(12.1)	0.0	0.0	0.0
Net cash inflow (outflow)	262.3	170.8	36.1	116.1
Beginning cash & cash equivalent	812.6	1,056.3	1,227.1	1,263.2
Changes due to forex impact	(18.6)	0.0	0.0	0.0
Ending cash & cash equivalent	1,056.3	1,227.1	1,263.2	1,379.2

BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Fixed assets	247.5	253.2	260.4	269.0
Other LT assets	702.1	701.9	701.7	701.5
Cash/ST investment	1,056.3	1,227.1	1,263.2	1,379.2
Other current assets	1,548.9	1,502.7	1,545.5	1,589.9
Total assets	3,554.8	3,684.9	3,770.8	3,939.7
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	696.7	764.2	777.5	791.3
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	20.2	20.2	20.2	20.2
Shareholders' equity	2,834.1	2,896.0	2,968.0	3,122.3
Minority interest	3.7	4.5	5.2	5.9
Total liabilities & equity	3,554.8	3,684.9	3,770.8	3,939.7

KEY METRICS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	10.9	10.9	10.9	10.9
Pre-tax margin	10.9	11.0	11.1	11.1
Net margin	8.9	9.0	9.0	9.1
ROA	7.4	7.7	7.8	7.8
ROE	9.5	9.8	9.9	9.8
Growth				
Turnover	(21.7)	3.0	3.0	3.0
EBITDA	(29.9)	3.0	3.2	3.0
Pre-tax profit	(26.3)	3.6	3.6	3.4
Net profit	(26.9)	3.6	3.6	3.4
Net profit (adj.)	(26.9)	3.6	3.6	3.4
EPS	(27.1)	3.6	3.6	3.4
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	(37.3)	(42.4)	(42.6)	(44.2)

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