

SHARIAH GEMS VIRTUAL CONFERENCE TAKEAWAYS

Venture Corporation (VMS SP)

Remains On Track For Growth

VMS continues to see healthy near-term demand from majority of its customers and has an experienced task force to manage the recurring component shortages. Also, its strong R&D capabilities have enabled it to redesign products to reduce dependency on parts that are in shortage. Despite the higher inflationary environment, VMS strives to maintain its net margin in the historical range of 9-10%. Maintain BUY and target price of S\$22.80 (pegged to +1SD, 19.5x 2022F PE).

WHAT'S NEW

- Continues to see healthy near-term demand from customers.** Venture Corporation (VMS) continues to see healthy demand from most of its customers recently. Despite the increasingly uncertain environment, VMS should be able to deliver relatively resilient performance given its highly diversified customer base across seven technology domains. In addition, most of VMS' customers are in industrial segments such as life science, medical and testing, which are less sensitive to consumer sentiment. Customers are still looking to launch new products to capture more market share. However, in the longer term, some of its customers are turning more cautious due to the increasingly uncertain macro environment.
- Proactive management and differentiating capabilities help VMS overcome supply chain disruptions.** VMS continues to see component shortages and expects these shortages to ease in 2023. However, VMS does not expect any major disruptions to its production as it has several initiatives to overcome supply chain disruptions, which include: a) redesigning products to reduce dependency on parts that are in shortage, b) working with customers to obtain a longer order forecast for better procurement and production planning, and c) increasing stockpiles of inventories and sharing the working capital burden with customers. Combined with its strong design and R&D capabilities, VMS is able to provide unique solutions to win market share and clients that are of high quality amid this uncertain environment. In addition, VMS is sourcing its components globally and has recently started to see an improvement in the supply of semiconductor chips in China as more local manufacturers are manufacturing their own chips to overcome the supply shortage issues, risk of sanctions and tariffs by the US.
- Targets to maintain net margin.** Despite the inflationary environment of rising cost of labour and raw materials, VMS aims to maintain a net margin of 9-10%, consistent with its historical trend as it is confident in its ability to manage costs, negotiate higher prices with customers and provide strong value-add to its customers. In addition, VMS is able to source labour from a diversified range of countries given its established presence in Malaysia.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	3,013	3,107	3,404	3,718	4,037
EBITDA	375	388	419	451	487
Operating profit	334	351	384	417	455
Net profit (rep./act.)	297	312	339	369	402
Net profit (adj.)	297	312	339	369	402
EPS (S cent)	102.3	107.5	116.9	127.0	138.4
PE (x)	16.3	15.5	14.2	13.1	12.0
P/B (x)	1.9	1.8	1.7	1.6	1.5
EV/EBITDA (x)	10.1	9.7	9.0	8.4	7.8
Dividend yield (%)	4.5	4.5	4.8	4.8	4.8
Net margin (%)	9.9	10.0	10.0	9.9	10.0
Net debt/(cash) to equity (%)	(35.9)	(29.7)	(37.8)	(37.2)	(37.3)
ROE (%)	11.7	11.8	12.3	12.7	13.2
Consensus net profit	-	-	352	377	404
UOBKH/Consensus (x)	-	-	0.96	0.98	0.99

Source: VMS, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$16.63
Target Price	S\$22.80
Upside	+37.1%

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):	291.0
Market cap (S\$m):	4,839.5
Market cap (US\$m):	3,479.4
3-mth avg daily t'over (US\$m):	11.7

Price Performance (%)

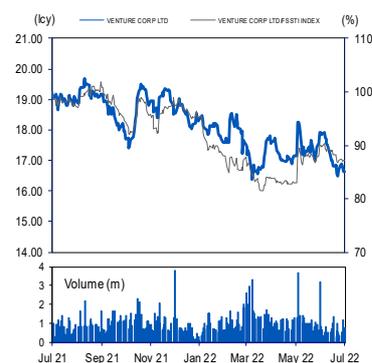
52-week high/low S\$19.69/S\$16.38

1mth	3mth	6mth	1yr	YTD
(7.2)	(5.4)	(9.2)	(13.4)	(9.2)

Major Shareholders

Major Shareholders	%
Wong Ngit Liong	7.1
-	-
-	-
FY22 NAV/Share (S\$)	9.73
FY22 Net Cash/Share (S\$)	3.67

PRICE CHART



Source: Bloomberg

ANALYST(S)

John Cheong
 +65 6590 6623
 johncheong@uobkayhian.com

STOCK IMPACT

- **VMS remains positive on its long-term growth** as it continues to engage and collaborate with successful and innovative customers in various high-growth, fast expanding market segments.
- **Positive signal from recent share purchases of Executive Chairman.** On 8 Nov 21, Mr Wong Ngit Leong, the Executive Chairman and largest shareholder of VMS, acquired 200,000 shares at S\$18.73/share. Previously, his acquisition of 566,300 shares at an average price of S\$14.45/share from Jul-Sep 17 turned out to be a strong positive signal as VMS' share price hit an all-time high of S\$29.50 in Apr 18.
- **Limited share price downside due to strong balance sheet and good dividends.** As of end-1Q22, VMS had net cash of S\$815m (accounting for about 15% of its current market cap) and led the pack of US-listed peers which were mostly in net debt positions. More importantly, VMS has consistently paid the same amount of dividends or better than that in the preceding years.
- **Positive guidance of key customers:**
 - Broadcom: Expects 1Q22 revenue growth of 14% yoy.
 - NCR: 2022 guidance of 12-15% yoy revenue growth and 27-39% yoy EPS growth.
 - Agilent: 2022 guidance of 7% yoy revenue and EPS growth.
 - Fortive: Expects 2022 revenue growth of 7% yoy.
 - Keysight: Expects 2022 revenue growth of 5% yoy.
 - Illumina: Expects 2022 revenue growth of 14-16% yoy.
 - Waters: Expects 2022 revenue growth of 6% yoy.
 - Philip Morris: Expects 2022 revenue growth of 4-6% yoy and EPS growth of 8-11%.

EARNINGS REVISION/RISK

- We maintain our earnings forecasts.

VALUATION/RECOMMENDATION

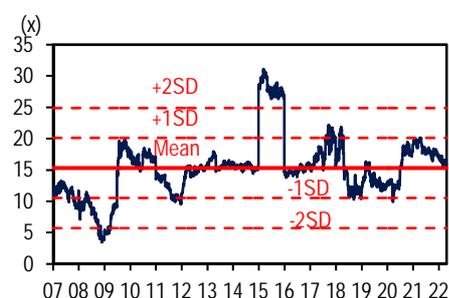
- **Maintain BUY and target price of S\$22.80**, pegged at +1SD above its forward mean PE, of 19.5x on 2022F earnings. Currently, VMS offers an attractive dividend yield of 4.7%.

BROAD-BASED YOY GROWTH ACROSS ALL DOMAINS DIVERSIFIED ACROSS >100 CUSTOMERS

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

Source: VMS

LONG-TERM PE CHART



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	3,107.5	3,404.0	3,717.6	4,036.9
EBITDA	387.5	418.9	450.7	487.1
Deprec. & amort.	36.9	35.0	33.3	31.7
EBIT	350.6	383.8	417.4	455.5
Total other non-operating income	2.4	0.8	0.8	0.8
Associate contributions	0.2	0.2	0.2	0.2
Net interest income/(expense)	6.3	6.3	6.3	6.3
Pre-tax profit	359.6	391.2	424.8	462.8
Tax	(47.3)	(51.4)	(55.8)	(60.8)
Minorities	(0.3)	(0.3)	(0.3)	(0.3)
Net profit	312.1	339.5	368.7	401.7
Net profit (adj.)	312.1	339.5	368.7	401.7

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	215.2	215.4	217.3	220.9
Other LT assets	682.6	682.5	682.5	682.4
Cash/ST investment	807.9	1,066.5	1,101.4	1,166.0
Other current assets	1,929.6	1,629.6	1,775.4	1,923.0
Total assets	3,635.3	3,594.0	3,776.5	3,992.3
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	907.5	758.7	804.6	850.6
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	8.3	8.3	8.3	8.3
Shareholders' equity	2,716.4	2,823.6	2,960.0	3,129.5
Minority interest	3.1	3.4	3.6	3.9
Total liabilities & equity	3,635.3	3,594.0	3,776.5	3,992.3

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	101.8	519.0	295.3	325.1
Pre-tax profit	359.6	391.2	424.8	462.8
Tax	(55.9)	(51.4)	(55.8)	(60.8)
Deprec. & amort.	36.9	35.0	33.3	31.7
Associates	(0.2)	(0.2)	(0.2)	(0.2)
Working capital changes	(241.5)	151.2	(100.0)	(101.5)
Non-cash items	(0.5)	0.0	0.0	0.0
Other operating cashflows	3.6	(6.8)	(6.8)	(6.8)
Investing	(2.1)	(28.2)	(28.2)	(28.2)
Capex (growth)	(10.8)	(35.0)	(35.0)	(35.0)
Investments	(0.6)	0.0	0.0	0.0
Proceeds from sale of assets	3.0	0.0	0.0	0.0
Others	6.3	6.8	6.8	6.8
Financing	(225.7)	(232.2)	(232.2)	(232.2)
Dividend payments	(217.8)	(232.2)	(232.2)	(232.2)
Issue of shares	(2.8)	0.0	0.0	0.0
Proceeds from borrowings	5.7	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(10.9)	0.0	0.0	0.0
Net cash inflow (outflow)	(126.0)	258.6	34.8	64.7
Beginning cash & cash equivalent	928.7	807.9	1,066.5	1,101.4
Changes due to forex impact	5.2	0.0	0.0	0.0
Ending cash & cash equivalent	807.9	1,066.5	1,101.4	1,166.0

KEY METRICS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	12.5	12.3	12.1	12.1
Pre-tax margin	11.6	11.5	11.4	11.5
Net margin	10.0	10.0	9.9	10.0
ROA	9.1	9.4	10.0	10.3
ROE	11.8	12.3	12.7	13.2
Growth				
Turnover	3.1	9.5	9.2	8.6
EBITDA	3.2	8.1	7.6	8.1
Pre-tax profit	4.9	8.8	8.6	9.0
Net profit	5.0	8.8	8.6	9.0
Net profit (adj.)	5.0	8.8	8.6	9.0
EPS	5.1	8.8	8.6	9.0
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	(29.7)	(37.8)	(37.2)	(37.3)

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