

COMPANY RESULTS

Venture Corporation (VMS SP)

1H22: Results Slightly Above Expectations; Demand Remains Resilient

VMS' 1H22 earnings of S\$174m (+24% yoy) exceeded our expectation by 3%. All of its seven domains recorded growth due to strong customer demand aided by VMS' ability to overcome supply-side challenges including supply chain constraints and the tight labour situation. The company anticipates demand to remain resilient in 2H22 across various technology domains and expects to end the year well. We raise our 2022 EPS and target price by 3% to S\$23.54. Maintain BUY.

1Q22 RESULTS

Year to 31 Dec (\$m)	1H22	1H21	yoy % chg
Revenue	1,796.1	1,432.2	25.4
PBT	212.8	161.7	31.6
PBT margin (%)	11.8	11.3	0.5ppt
Net profit	174.3	140.4	24.1
Net margin (%)	9.7	9.8	(0.1ppt)

Source: VMS, UOB Kay Hian

RESULTS

- Results above expectations due to growth across all seven domains and continued ability to overcome supply-side challenges.** Venture Corporation's (VMS) 1H22 earnings of S\$174m (+24% yoy) exceeded our expectation by 3%. The strong growth was due to growth across all the domains and its ability to overcome supply-side challenges including global supply chain constraints, rising inflationary pressures and a tight labour situation. Net margin remained stable at 9.7%, which is a testament of VMS' differentiating capabilities and pricing power.
- Anticipates a resilient demand outlook.** Overall, VMS expects to end 2022 well. Based on its customers' orders and forecasts, it expects demand to remain unabated in 2H22. VMS sees resilient demand across its diversified customer base, especially in the life science & genomics, healthcare & wellness, networking & communications, test & measurement instrumentation and process & test equipment in the semiconductor technology domains.
- Proactive management and differentiating capabilities help VMS to stand out.** Several initiatives undertaken by VMS to overcome supply chain disruptions include: a) redesigning the products to reduce dependency on parts that are in shortages, b) working with customers to obtain a longer order forecast for better procurement and production planning, and c) increasing stockpiling of inventories and sharing the working capital burden with customers. Combined with the strong design and R&D capabilities of VMS, the company is able to provide unique solutions to win market share and clients that are of high quality amid this uncertain environment.

KEY FINANCIALS

Year to 31 Dec (\$m)	2020	2021	2022F	2023F	2024F
Net turnover	3,013	3,107	3,574	3,824	4,152
EBITDA	375	388	440	463	501
Operating profit	334	351	405	430	470
Net profit (rep./act.)	297	312	351	373	406
Net profit (adj.)	297	312	351	373	406
EPS (S cent)	102.3	107.5	120.7	128.3	140.0
PE (x)	16.7	15.9	14.7	13.8	12.7
P/B (x)	1.9	1.8	1.8	1.7	1.6
EV/EBITDA (x)	10.4	10.1	9.4	8.9	8.3
Dividend yield (%)	4.4	4.4	4.5	4.5	4.5
Net margin (%)	9.9	10.0	9.8	9.7	9.8
Net debt/(cash) to equity (%)	(35.9)	(29.7)	(36.1)	(36.4)	(36.5)
ROE (%)	11.7	11.8	12.6	12.8	13.3
Consensus net profit	-	-	353	377	404
UOBKH/Consensus (x)	-	-	0.99	0.99	1.00

Source: VMS, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$17.73
Target Price	S\$23.54
Upside	+32.8%
(Previous TP)	S\$22.80)

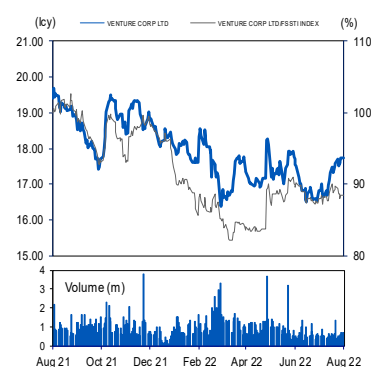
COMPANY DESCRIPTION

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 (\$m):	5,159.7				
Market cap (US\$m):	3,749.7				
3-mth avg daily t'over (US\$m):	10.1				
Price Performance (%)					
52-week high/low					S\$19.69/S\$16.38
1mth	3mth	6mth	1yr	YTD	
6.8	(2.9)	0.7	(8.3)	(3.2)	
Major Shareholders					%
Wong Ngit Liong					7.1
-					-
-					-
FY22 NAV/Share (\$S)					9.76
FY22 Net Cash/Share (\$S)					3.53

PRICE CHART



Source: Bloomberg

ANALYST(S)

John Cheong
+65 6590 6623
johncheong@uobkayhian.com

STOCK IMPACT

- **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.
- **Maintains a sharp focus on its business sustainability goals and strategic direction over the long term.** With planned investments into the expansion of its human capital, development of new differentiating technologies and capabilities, and new manufacturing capacity, VMS will be focusing on the execution of its transformational journey to propel the group's network of Clusters of Excellence to the next level.
- **Strong balance sheet and good dividends provide limited share price downside.** As of 1H22, VMS recorded net cash of S\$704m (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:**
 - 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% yoy.

EARNINGS REVISION/RISK

- We raised our 2022/23/24 revenue by 5%/3%/3% to account for the better-than-expected revenue in 1H22 and VMS' guidance for a resilient customers' demand for 2H22. We expect 2H22 revenue to be largely similar to 1H22. As a result, our 2022/23/24 earnings increased by 3%/1%/1%. We are expecting a mild reduction of margin by 0.2ppt in 2022 as we increased our tax rate assumption by 2ppt to 15% from 2023-24 to reflect lower government tax incentives.

VALUATION/RECOMMENDATION

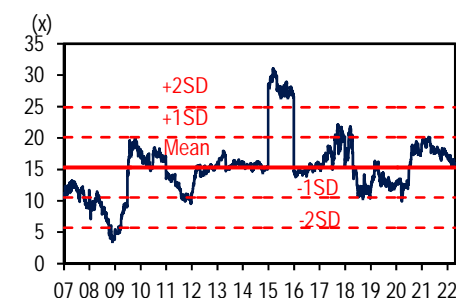
- **Maintain BUY and raised our target price by 3% to S\$23.54**, pegged to +1SD above its forward mean PE, of 19.5x on 2022 earnings. Currently, VMS offers an attractive dividend yield of 4.7%.

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	Growth
6. Advanced Payment Systems	Growth
7. Advanced Industrial Technology, Computing & Productivity Systems, 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	3,573.6	3,823.7	4,152.0
EBITDA	387.5	440.2	463.3	501.5
Deprec. & amort.	36.9	35.0	33.3	31.7
EBIT	350.6	405.1	430.0	469.8
Total other non-operating income	2.4	1.0	2.0	2.0
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	412.7	438.6	478.4
Tax	(47.3)	(61.9)	(65.8)	(71.8)
Minorities	(0.3)	(0.3)	(0.3)	(0.3)
Net profit	312.1	350.5	372.5	406.3
Net profit (adj.)	312.1	350.5	372.5	406.3

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	101.8	476.3	319.2	327.0
Pre-tax profit	359.6	412.7	438.6	478.4
Tax	(55.9)	(61.9)	(65.8)	(71.8)
Deprec. & amort.	36.9	35.0	33.3	31.7
Associates	(0.2)	(0.2)	(0.2)	(0.2)
Working capital changes	(241.5)	97.4	(79.9)	(104.3)
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)	215.8	58.8	66.5
Beginning cash & cash equivalent	928.7	807.9	1,023.7	1,082.5
Changes due to forex impact	5.2	0.0	0.0	0.0
Ending cash & cash equivalent	807.9	1,023.7	1,082.5	1,149.0

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	1,023.7	1,082.5	1,149.0
Other current assets	1,929.6	1,707.6	1,824.5	1,976.0
Total assets	3,635.3	3,629.3	3,806.7	4,028.4
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	907.5	783.0	819.9	867.1
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	2,834.6	2,974.9	3,149.0
Minority interest	3.1	3.4	3.6	3.9
Total liabilities & equity	3,635.3	3,629.3	3,806.7	4,028.4

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	11.5	11.5
Net margin	10.0	9.8	9.7	9.8
ROA	9.1	9.6	10.0	10.4
ROE	11.8	12.6	12.8	13.3
Growth				
Turnover	3.1	15.0	7.0	8.6
EBITDA	3.2	13.6	5.3	8.2
Pre-tax profit	4.9	14.8	6.3	9.1
Net profit	5.0	12.3	6.3	9.1
Net profit (adj.)	5.0	12.3	6.3	9.1
EPS	5.1	12.3	6.3	9.1
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)	(36.1)	(36.4)	(36.5)

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