

## COMPANY UPDATE

### Venture Corporation (VMS SP)

Outlook For Customers Remains Promising; Expect Resilient Growth

We expect VMS to report a robust 2022 earnings growth of 17% yoy (\$364m) and we think our 4Q22 earnings estimate of \$92m (-3% yoy/-5% qoq) is conservative. The majority of VMS' customers, which are US-listed MNCs, have continued to guide for healthy growth in their latest outlook statements. VMS' increased frequency of share buybacks after it reported its 3Q22 results is also a positive signal for the stock. Maintain BUY and target price of \$20.06.

#### WHAT'S NEW

- **Expect robust earnings growth for 2022.** We expect Venture Corporation (VMS) to report \$364m earnings for 2022, up 17% yoy. This will be largely driven by solid growth across all the domains thanks to VMS' differentiating capabilities in redesigning products and various measures taken to mitigate the impact of supply chain issues. On the other hand, we believe consensus' and our 4Q22 earnings estimate of \$92m (-3% yoy/-5% qoq) is conservative as 4Q is typically the seasonally best quarter for VMS due to customers frontloading their orders at the end of the year ahead of the upcoming Chinese New Year. To recap, 3Q22 earnings of \$97m (+26% yoy) exceeded our expectation by around 10%, and net margin remained stable at 9.5%, which is an indication of VMS' core competencies and pricing power.
- **Outlook for customers remains promising, matching VMS' expectations.** Based on the latest outlook statements of VMS' key customers, most of them continued to guide for healthy forward growth: a) Broadcom - 1QFY23 revenue growth of 16% yoy, b) Agilent - FY23 revenue growth of 5.8% yoy and EPS growth of 8.2% yoy, c) Fortive - raised 2022 adjusted EPS growth by 4ppt to 13.5% yoy, d) Keysight - 1QFY23 revenue growth of 9.6% yoy, e) Thermo Fisher - raised 2022 revenue guidance by 1.5ppt to 12% yoy growth, f) Waters - 2022 revenue growth of 12% yoy at constant currency, g) Illumina - 2022 revenue growth of 0.5% yoy, h) Medtronic - 2HFY23 revenue growth of 3.8% yoy, and i) Philip Morris - 2022 shipment volume growth of 2.5% yoy and revenue growth of 7.3% yoy. These healthy outlook statements are consistent with VMS' latest outlook statement where it expects to continue producing resilient results in the coming quarter. Based on its customers' orders and forecasts, VMS expects demand to remain healthy. 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.
- **Increased frequency of share buybacks is a positive signal.** VMS has bought back shares more frequently after it reported its 3Q22 results. It has repurchased 111,000 shares from 24-30 Nov 22 at an average price of around \$17.30/share. This is equivalent to around \$2m in dollar value.

#### KEY FINANCIALS

Year to 31 Dec (\$m)	2020	2021	2022F	2023F	2024F
Net turnover	3,013	3,107	3,643	3,862	4,193
EBITDA	375	388	456	472	511
Operating profit	334	351	421	439	479
Net profit (rep./act.)	297	312	364	380	414
Net profit (adj.)	297	312	364	380	414
EPS (\$ cent)	102.3	107.5	125.4	130.8	142.7
PE (x)	17.4	16.5	14.2	13.6	12.5
P/B (x)	2.0	1.9	1.8	1.7	1.6
EV/EBITDA (x)	10.9	10.6	9.0	8.7	8.0
Dividend yield (%)	4.2	4.2	4.5	4.5	4.5
Net margin (%)	9.9	10.0	10.0	9.8	9.9
Net debt/(cash) to equity (%)	(35.9)	(29.7)	(35.7)	(36.4)	(36.7)
ROE (%)	11.7	11.8	13.1	13.0	13.4
Consensus net profit	-	-	369	382	403
UOBKH/Consensus (x)	-	-	0.99	1.00	1.03

Source: VMS, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	\$17.79
Target Price	\$20.06
Upside	+12.8%

#### 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):	291.1
Market cap (\$m):	4,695.7
Market cap (US\$m):	3,315.9
3-mth avg daily t'over (US\$m):	8.8

#### Price Performance (%)

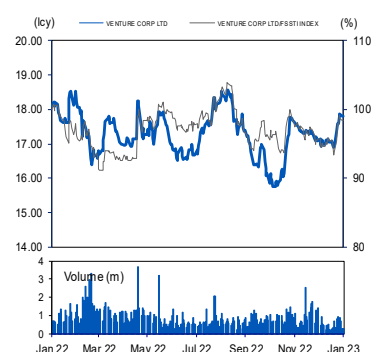
52-week high/low \$19.35/\$15.74

1mth	3mth	6mth	1yr	YTD
(2.9)	(8.1)	(11.6)	(14.9)	(11.9)

#### Major Shareholders

	%
Wong Ngit Liong	7.1
FY23 NAV/Share (\$)	10.32
FY23 Net Cash/Share (\$)	3.76

#### PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- **Enhancement and creation of differentiating capabilities help VMS to stand out.** VMS persistently initiates ways to stay afloat amid macroeconomic headwinds, including: a) redesigning its products to reduce dependency on parts that are experiencing shortages, 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. These, along with its R&D capabilities, allow VMS to continue attracting strong customer demand.
- **Superior long-term growth potential remains.** This is on the back of VMS maintaining its sharp focus on its corporate sustainability plans and strategic direction. With planned investments into the development of new differentiating technologies and capabilities, VMS will be focusing on making decisive moves to enhance its network of Clusters of Excellence.
- **Healthy balance sheet and consistent dividends provide limited share price downside.** As of end-3Q22, VMS had net cash of S\$701m (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 continues to issue the same amount of dividends or better than that of preceding years.

### EARNINGS REVISION/RISK

- We maintain our earnings forecasts.

### VALUATION/RECOMMENDATION

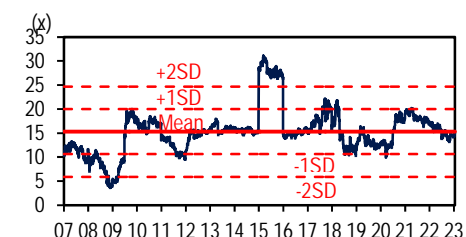
- **Maintain BUY and target price of S\$20.06**, pegged to its long-term forward mean PE of 16x 2023F earnings. Currently, VMS offers an attractive dividend yield of 4.5%.

### PEER COMPARISON

Company	Ticker	Price @ 16 Jan 23 (1cy)	Market Cap (US\$m)	PE		P/B		Yield 2023 (%)	ROE 2023 (%)	Net Gearing (%)	Price Performance (%)			
				2023 (x)	2024 (x)	2023 (x)	2024 (x)				1W	1M	YTD	52wk High
Broadcom Inc	AVGO US	579	241,956	14.2	13.3	11.0	8.6	3.2	75.5	121.4	(1.6)	0.8	3.6	(10.3)
Agilent Technologies Inc	A US	156.92	46,460	27.7	25.0	7.7	6.8	0.6	29.0	35.2	6.3	1.4	4.9	(2.1)
Keysight Technologies Inc	KEYS US	180.61	32,292	22.5	21.0	6.5	5.5	0.0	30.8	(0.6)	3.0	(1.3)	5.6	(4.7)
Thermo Fisher Scientific	TMO US	583.84	228,979	25.2	22.3	4.8	4.4	0.2	19.2	60.0	9.1	2.9	6.0	(5.6)
Fortive Corp	FTV US	67.43	23,857	20.1	18.2	2.3	2.2	0.4	12.1	30.4	2.9	0.9	4.9	(7.9)
Illumina Inc	ILMN US	201.11	31,635	72.0	47.5	3.3	2.8	0.0	6.1	22.7	(0.4)	(4.2)	(0.5)	(50.0)
Medtronic Plc	MDT US	80.59	107,199	14.8	13.7	2.0	1.9	3.4	12.2	29.2	(0.3)	2.3	3.7	(29.5)
Trimble Inc	TRMB US	54.51	13,444	18.8	17.1	3.0	2.6	n.a.	11.8	36.0	5.8	(0.1)	7.8	(28.7)
Philip Morris International	PM US	101.7	157,656	17.6	16.0	n.a.	n.a.	5.0	(86.8)	n.a.	(1.7)	(0.7)	0.5	(9.6)
<b>Average</b>				<b>25.9</b>	<b>21.6</b>	<b>5.1</b>	<b>4.4</b>	<b>1.6</b>	<b>12.2</b>	<b>41.8</b>				
Venture Corp Ltd	VMS SP	17.79	3,917	13.6	12.5	1.7	1.6	4.5	13.0	(25.1)	2.5	4.2	4.3	(4.6)

Source: Bloomberg, UOB Kay Hian

### 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	3,643.3	3,861.9	4,193.2
EBITDA	387.5	456.0	471.9	510.7
Deprec. & amort.	36.9	35.0	33.3	31.7
EBIT	350.6	420.9	438.6	479.1
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
<b>Pre-tax profit</b>	<b>359.6</b>	<b>428.5</b>	<b>447.2</b>	<b>487.6</b>
Tax	(47.3)	(64.3)	(67.1)	(73.1)
Minorities	(0.3)	(0.3)	(0.3)	(0.3)
<b>Net profit</b>	<b>312.1</b>	<b>363.9</b>	<b>379.8</b>	<b>414.2</b>
Net profit (adj.)	312.1	363.9	379.8	414.2

### CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>101.8</b>	<b>468.2</b>	<b>336.3</b>	<b>333.9</b>
Pre-tax profit	359.6	428.5	447.2	487.6
Tax	(55.9)	(64.3)	(67.1)	(73.1)
Deprec. & amort.	36.9	35.0	33.3	31.7
Associates	(0.2)	(0.2)	(0.2)	(0.2)
Working capital changes	(241.5)	75.9	(70.2)	(105.2)
Non-cash items	(0.5)	0.0	0.0	0.0
Other operating cashflows	3.6	(6.8)	(6.8)	(6.8)
<b>Investing</b>	<b>(2.1)</b>	<b>(28.2)</b>	<b>(28.2)</b>	<b>(28.2)</b>
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
<b>Financing</b>	<b>(225.7)</b>	<b>(232.2)</b>	<b>(232.2)</b>	<b>(232.2)</b>
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
<b>Net cash inflow (outflow)</b>	<b>(126.0)</b>	<b>207.7</b>	<b>75.8</b>	<b>73.5</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>928.7</b>	<b>807.9</b>	<b>1,015.6</b>	<b>1,091.4</b>
Changes due to forex impact	5.2	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>807.9</b>	<b>1,015.6</b>	<b>1,091.4</b>	<b>1,164.9</b>

### 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	1,015.6	1,091.4	1,164.9
Other current assets	1,929.6	1,738.0	1,841.1	1,994.0
<b>Total assets</b>	<b>3,635.3</b>	<b>3,651.5</b>	<b>3,832.3</b>	<b>4,062.2</b>
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	907.5	791.8	824.7	872.3
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	2,848.1	2,995.6	3,177.6
Minority interest	3.1	3.4	3.6	3.9
<b>Total liabilities &amp; equity</b>	<b>3,635.3</b>	<b>3,651.5</b>	<b>3,832.3</b>	<b>4,062.2</b>

### KEY METRICS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	12.5	12.5	12.2	12.2
Pre-tax margin	11.6	11.8	11.6	11.6
Net margin	10.0	10.0	9.8	9.9
ROA	9.1	10.0	10.2	10.5
ROE	11.8	13.1	13.0	13.4
<b>Growth</b>				
Turnover	3.1	17.2	6.0	8.6
EBITDA	3.2	17.7	3.5	8.2
Pre-tax profit	4.9	19.2	4.4	9.1
Net profit	5.0	16.6	4.4	9.1
Net profit (adj.)	5.0	16.6	4.4	9.1
EPS	5.1	16.6	4.4	9.1
<b>Leverage</b>				
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)	(35.7)	(36.4)	(36.7)

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