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Venture Corporation Limited

Disrupted quarter

SINGAPORE | TECHNOLOGY MANUFACTURING| 3Q21 UPDATE

- Results were below forecast. 3Q21 PATMI declined 4% YoY to S$77mn. YTD21 Revenue and PATMI were 66% and 63% respectively.
- Fulfilment of customer orders disrupted by global components shortages and the Extended Movement Control Order (or factory closures) in Malaysia.
- We are lowering our FY21e revenue and PATMI by 6% and 10% respectively. Recovery this quarter has been stalled due to production disruptions. The company mentioned that demand is healthy and broad-based demand. In addition, the workforce in Malaysia is almost fully vaccinated, which should allow manufacturing activities to resume as normal. We expect some spill-over of orders into 4Q21. We maintain our NEUTRAL recommendation. Our target price is rolled over to 16x PE FY22e, its 5-year average. Re-opening and removal of lockdown should ease pressure on the supply chain in FY22e. The share price is currently supported by dividend yields of 4.5%, 11% ROEs and S$853mn net cash.

Results at a glance

SGDmn	3Q21	3Q20	YoY	Comments
Revenue	769.9	818.4	-5.9%	Revenue hurt by lockdowns and shortages.
PBT	88.2	92.9	-5.1%	
PBT margin	11.5%	11.4%	0.1%	
Net profiit	77.0	80.2	-4.0%	
Net margin	10.0%	9.8%	0.2%	
Net cash	852.7	829.7	2.8%	Inventory was up S$154mn YoY to S$908mn.

Source: Company, PSR # 3Q21 update only provides the above income statement snapshot.

The Positive

+ Healthy balance sheet and margins. Net margins improved marginally to 10%. We assume the high-value low mix projects have been sustaining margins despite the weaker revenue and loss of operating leverage. Net cash was S$853mn at 3Q21. There was a spike in inventory by S$154mn YoY to S$908mn. We believe there is buffer inventory to cope with the unpredictability in component supply.

The Negative

- Another weak quarter in revenue. Pre-pandemic, the quarterly run-rate in revenue was around S$900mn. This has dropped to S$700m this year. Venture has struggled to keep revenues to pre-pandemic levels these past two years despite the global resurgence in electronics demand. The pivot to life science and consequent long timeline to ramp up is a factor, in our opinion. We expect revenue to rebound in 4Q21e to S$916mn, an 11% YoY rise.

Outlook

Venture commented that new product introductions are expected to flow to mass production over the next 12 months.

Maintain NEUTRAL with unchanged TP of S$19.20

Our FY21e and FY22e PATMI is lowered by 10% and 11% respectively

5 November 2021

NEUTRAL (Maintained)

CLOSING PRICE	SGD 18.95
FORECAST DIV	SGD 0.85
TARGET PRICE	SGD 19.20
TOTAL RETURN	5.8%

COMPANY DATA

BLOOMBERG CODE:	VMS SP
O/S SHARES (MN) :	291
MARKET CAP (USD mn / SGD mn) :	4080 / 5506
52 - WK HI/LO (SGD) :	21.05 / 17.37
3M Average Daily T/O (mn) :	1.06

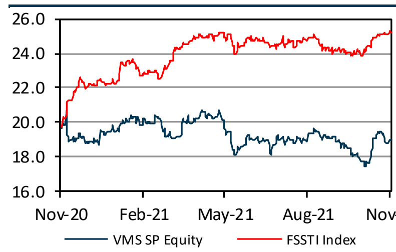
MAJOR SHAREHOLDERS

Wong Ngit Liong	7.1%
Schroders PLC	7.0%
BlackRock Inc	6.2%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	7.1	1.6	1.5
STI RETURN	5.6	3.5	16.5

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD mn	FY19	FY20	FY21e	FY22e
Revenue	3,633	3,013	3,118	3,399
EBITDA	447.5	375.4	396.0	447.0
Net Profit	363.1	297.3	311.9	348.4
P/E (X)	15.1	18.5	17.7	15.8
Dividend Yield	3.7%	4.0%	4.5%	5.0%
ROE	14.5%	11.5%	11.6%	12.5%
ROA	11.1%	9.2%	9.2%	9.9%

Source: Company, PSR

VALUATION METHOD

16x PE Multiple FY22e

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Financials

Income Statement

Y/E Dec, SGD '000	FY18	FY19	FY20	FY21e	FY22e
Revenue	**3,484,603**	**3,633,431**	**3,012,894**	**3,118,345**	**3,398,996**
Gross profit	955,307	907,505	796,450	818,806	888,138
EBITDA	**453,926**	**447,488**	**375,384**	**396,030**	**446,968**
Depreciation & Amortisation	(30,726)	(38,692)	(41,607)	(41,818)	(44,763)
EBIT	**423,200**	**408,796**	**333,777**	**354,212**	**402,205**
Net Finance Inc/(Exp)	(982)	(523)	(470)	(800)	(1,600)
Profit before tax	432,968	420,024	342,830	361,985	410,028
Taxation	(62,885)	(56,643)	(45,426)	(49,954)	(61,504)
PATMI	**370,062**	**363,130**	**297,325**	**311,931**	**348,373**

Per share data (SGD Cents)

Y/E Dec	FY18	FY19	FY20	FY21e	FY22e
EPS, reported	127.7	125.3	102.5	107.4	119.9
DPS	70.0	70.0	75.0	85.0	95.0
BVPS	8.1	8.6	8.9	9.3	9.6

Cash Flow

Y/E Dec, SGD '000	FY18	FY19	FY20	FY21e	FY22e
CFO					
Profit before tax	**432,968**	**420,024**	**342,830**	**361,985**	**410,028**
Adjustments	25,920	28,504	40,938	36,094	38,250
WC changes	(147,351)	(156,795)	114,872	26,086	(84,195)
Cash generated from ops	311,537	291,733	498,640	424,166	364,082
Tax paid	(56,331)	(61,509)	(45,020)	(49,954)	(61,504)
Others	(982)	(523)	(470)	(800)	(1,600)
Cashflow from ops	**254,224**	**229,701**	**453,150**	**373,412**	**300,978**
CFI					
CAPEX, net	(58,480)	(35,071)	(27,768)	(35,000)	(35,000)
Others	9,924	10,329	7,880	6,573	8,222
Cashflow from investments	**(48,556)**	**(24,742)**	**(19,888)**	**(28,427)**	**(26,778)**
CFF					
Share issuance, net	40,555	7,698	15,554	0	0
Loans, net of repayments	(39,988)	(4,021)	(1,120)	(2,000)	(2,000)
Dividends	(230,021)	(201,694)	(216,900)	(217,904)	(246,957)
Others	(7,286)	(6,969)	(11,786)	4,000	4,000
Cashflow from financing	**(236,740)**	**(204,986)**	**(214,252)**	**(215,904)**	**(244,957)**
Net change in cash	(31,072)	(27)	219,010	129,082	29,243
CCE, end	**712,826**	**714,467**	**928,740**	**1,057,822**	**1,087,065**

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGD '000	FY18	FY19	FY20	FY21e	FY22e
ASSETS					
PPE	230,686	231,739	226,704	219,761	209,844
Others	667,755	697,170	689,533	689,608	689,653
Total non-current assets	**898,441**	**928,909**	**916,237**	**909,370**	**899,497**
Receivables	765,940	916,237	721,377	704,732	766,475
Cash	712,826	714,467	928,740	1,057,822	1,087,065
Inventories	808,166	706,150	656,453	686,036	747,779
Others	19,224	8,482	16,760	16,760	16,760
Total current assets	**2,306,156**	**2,345,336**	**2,323,330**	**2,465,350**	**2,618,080**
Total Assets	**3,204,597**	**3,274,245**	**3,239,567**	**3,374,719**	**3,517,577**
LIABILITIES					
Accounts payables	734,239	659,981	555,784	594,808	634,099
Tax payable	40,374	34,274	34,187	34,187	34,187
Bank loan	1,798	1,058	0	2,000	4,000
Others	74,029	49,380	36,152	36,152	36,152
Total current liabilities	**850,440**	**755,294**	**636,228**	**677,252**	**718,543**
Deferred tax liabilites	2,058	3,040	3,365	3,365	3,365
Total non-current liabilities	**2,058**	**20,358**	**14,210**	**14,210**	**14,210**
Total Liabilities	**852,498**	**775,652**	**650,438**	**691,462**	**732,753**
EQUITY					
Non-controlling Interests	2,233	2,395	2,679	2,779	2,929
Shareholder's Equity	2,349,866	2,496,198	2,586,450	2,680,478	2,781,894

Valuation Ratios

Y/E Dec	FY18	FY19	FY20	FY21e	FY22e
P/E (X)	14.8	15.1	18.5	17.7	15.8
P/B (X)	2.3	2.2	2.1	2.0	2.0
EV/EBITDA (X)	10.5	10.7	12.2	11.2	9.9

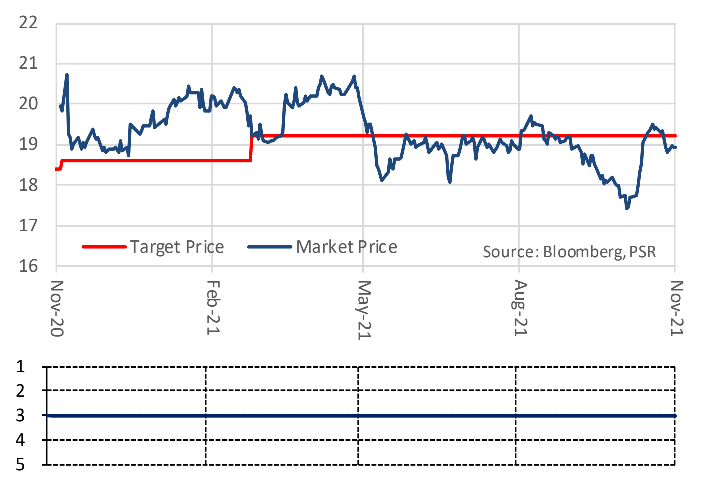
Growth & Margins

Growth					
Revenue	-13.0%	4.3%	-17.1%	3.5%	9.0%
EBITDA	-1.0%	-1.4%	-16.1%	5.5%	12.9%
EBIT	-1.0%	-3.4%	-18.4%	6.1%	13.5%
PATMI	-0.7%	-1.9%	-18.1%	4.9%	11.7%
Margins					
Gross margin	27.4%	25.0%	26.4%	26.3%	26.1%
EBITDA margin	13.0%	12.3%	12.5%	12.7%	13.2%
EBIT margin	12.1%	11.3%	11.1%	11.4%	11.8%
Net profit margin	10.6%	10.0%	9.9%	10.0%	10.2%

Key Ratios

ROE	15.7%	14.5%	11.5%	11.6%	12.5%
ROA	11.5%	11.1%	9.2%	9.2%	9.9%
Dividend Yield	3.7%	3.7%	4.0%	4.5%	5.0%
Dividend Payout Ratio	54.8%	55.8%	73.2%	79.2%	79.2%

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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