



Venture Corporation Limited

Another type of disruption

SINGAPORE | TECHNOLOGY MANUFACTURING | 1Q21 UPDATE

- 1Q21 revenue and PATMI rose 2% and 8% YoY respectively. Profit growth is below our forecast of +17%. Net cash was a record S\$989mn.
- We had expected a stronger rebound from last year's low base caused by pandemic disruptions.
- Order pipeline is strong but fulfilment is affected by short supply of parts and components.
- Maintain NEUTRAL. Our target price is unchanged at 16x FY21e P/E, its 5-year average P/E. We are leaving forecasts intact, optimistic that order momentum will build up in the rest of the year, notably for life science, medtech devices and consumer wellness.

Results at a glance

SGDmn	1Q21	1Q20	YoY	Comments
Revenue	686.7	673.0	2.0%	1Q20 was down 27% YoY due to pandemic in China.
PBT	75.0	69.9	7.3%	
PBT margin	10.9%	10.4%	0.5%	
Net profit	65.3	60.3	8.3%	
Net margin	9.5%	9.0%	0.5%	
Net cash	989.6	928.7	6.6%	Record level of cash.

Source: Company, PSR

The Positives

+ Stellar balance sheet, record net cash. Net cash as at end-March 2021 was S\$989mn. A record for VMS. Operating cash flow built up from higher earnings and stable working capital. We expect higher dividends from its large cash hoard and improving operating environment.

+ Margins expanded despite sluggish sales growth. 1Q21 PBT margin of 10.9% was an improvement over 1Q20's 10.4% and above 2015-16 margins of 8% when revenue was at similar levels. VMS' shift to more sophisticated and leading-edge products was a major contributing factor, in our opinion.

The Negative

- Revenue growth sluggish. 1Q21 revenue only expanded 2% YoY. This was paltry considering 1Q20 revenue had collapsed 27.5% YoY under severe disruptions of supply chains in China and Malaysia. VMS attributed this year's weakness to shortages of parts and components.

Outlook

Company has guided for: 1) QoQ improvement in 2Q21 earnings; a 2) a stronger 1H21 YoY; 3) broad-based strength across domains; 4) strength in leading-edge healthcare products; and 5) an impending launch of new semiconductor and networking products.

Maintain NEUTRAL with unchanged TP of S\$19.20

Our forecasts are unchanged as we expect stronger revenue momentum in the coming quarters.

#Note – There was no results briefing or detailed financials for 1Q21. Only an executive summary and general comments were furnished.

2 May 2021

NEUTRAL (Maintained)

CLOSING PRICE	SGD 20.15
FORECAST DIV	SGD 0.85
TARGET PRICE	SGD 19.20
TOTAL RETURN	-0.5%

COMPANY DATA

BLOOMBERG CODE:	VMS SP
O/S SHARES (MN):	290
MARKET CAP (USD mn / SGD mn):	4398 / 5851
52 - WK HI/LO (SGD):	21.21 / 15.01
3M Average Daily T/O (mn):	1.03

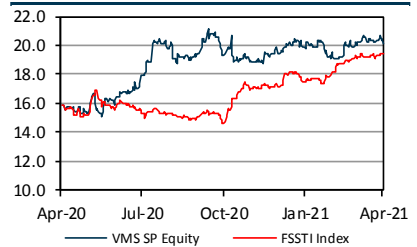
MAJOR SHAREHOLDERS

Wong Ngit Liong	7.0%
Schroders PLC	7.0%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	0.4	1.6	3.8
STI RETURN	2.0	11.6	14.0

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD mn	FY19	FY20	FY21e	FY22e
Revenue	3,633	3,013	3,314	3,712
EBITDA	447.5	375.4	437.5	490.0
Net Profit	363.1	297.3	347.3	391.0
P/E (X)	16.1	19.7	16.8	14.9
Dividend Yield	3.5%	3.7%	4.2%	4.7%
ROE	14.5%	11.5%	12.8%	13.7%
ROA	11.1%	9.2%	10.1%	10.7%

Source: Company, PSR

VALUATION METHOD

16x PE Multiple FY21e

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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	3,314,183	3,711,885
Gross profit	955,307	907,505	796,450	862,688	969,802
EBITDA	453,926	447,488	375,384	437,472	489,969
Depreciation & Amortisation	(30,726)	(38,692)	(41,607)	(41,818)	(44,763)
EBIT	423,200	408,796	333,777	395,654	445,206
Net Finance Inc/(Exp)	(982)	(523)	(470)	(800)	(1,600)
Profit before tax	432,968	420,024	342,830	403,053	453,804
Taxation	(62,885)	(56,643)	(45,426)	(55,621)	(62,625)
Net profit, reported	370,062	363,130	297,325	347,332	391,029

Per share data (SGD Cents)

Y/E Dec	FY18	FY19	FY20	FY21e	FY22e
EPS, reported	127.7	125.3	102.5	119.8	134.8
DPS	70.0	70.0	75.0	85.0	95.0
BVPS	8.1	8.6	8.9	9.4	9.9

Cash Flow

Y/E Dec, SGD '000	FY18	FY19	FY20	FY21e	FY22e
CFO					
Profit before tax	432,968	420,024	342,830	403,053	453,804
Adjustments	25,920	28,504	40,938	35,669	37,475
WC changes	(147,351)	(156,795)	114,872	(32,665)	(119,311)
Cash generated from ops	311,537	291,733	498,640	406,057	371,968
Tax paid	(56,331)	(61,509)	(45,020)	(55,621)	(62,625)
Others	(982)	(523)	(470)	(800)	(1,600)
Cashflow from ops	254,224	229,701	453,150	349,635	307,743
CFI					
CAPEX, net	(58,480)	(35,071)	(27,768)	(35,000)	(35,000)
Others	9,924	10,329	7,880	6,999	8,998
Cashflow from investments	(48,556)	(24,742)	(19,888)	(28,001)	(26,002)
CFE					
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)	(217,524)	(246,528)
Others	(7,286)	(6,969)	(11,786)	4,000	4,000
Cashflow from financing	(236,740)	(204,986)	(214,252)	(215,524)	(244,528)
Net change in cash	(31,072)	(27)	219,010	106,110	37,213
CCE, end	712,826	714,467	928,740	1,034,850	1,072,063

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

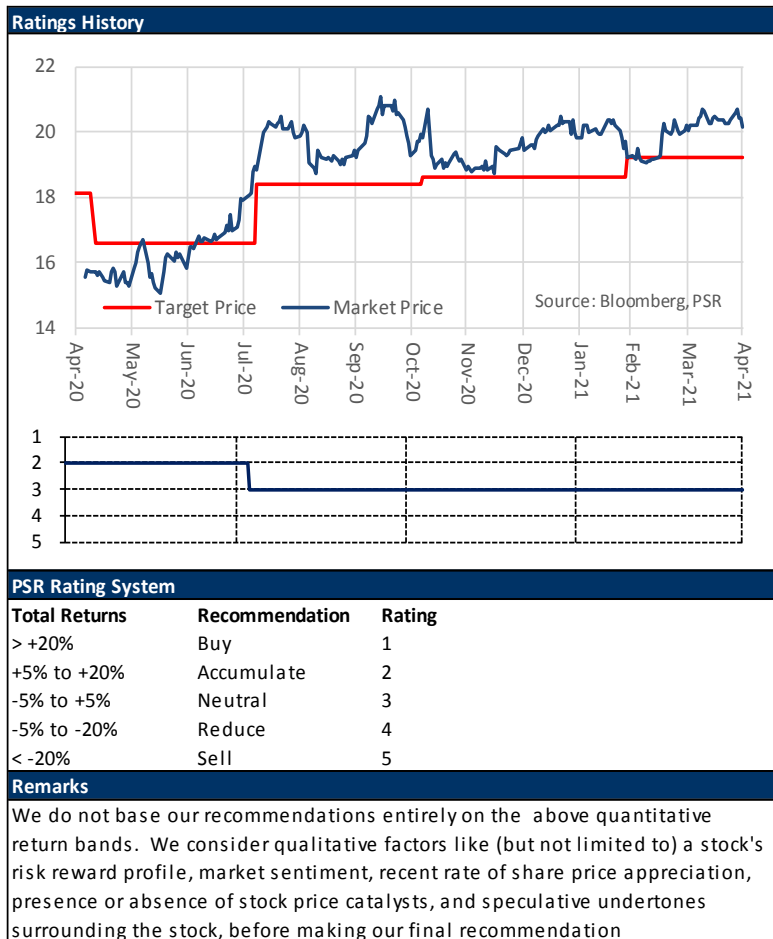
Y/E Dec, SGD '000	FY18	FY19	FY20	FY21e	FY22e
ASSETS					
PPE	230,686	231,739	226,704	219,761	209,844
Others	667,755	697,170	689,533	689,608	689,653
Total non-current assets	898,441	928,909	916,237	909,370	899,497
Receivables	765,940	916,237	721,377	747,816	835,311
Cash	712,826	714,467	928,740	1,034,850	1,072,063
Inventories	808,166	706,150	656,453	729,120	816,615
Others	19,224	8,482	16,760	16,760	16,760
Total current assets	2,306,156	2,345,336	2,323,330	2,528,547	2,740,748
Total Assets	3,204,597	3,274,245	3,239,567	3,437,916	3,640,245
LIABILITIES					
Accounts payables	734,239	659,981	555,784	622,226	677,904
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	704,670	762,348
Deferred tax liabilities	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	718,880	776,558
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	2,716,257	2,860,759

Valuation Ratios

Y/E Dec	FY18	FY19	FY20	FY21e	FY22e
P/E (X)	15.8	16.1	19.7	16.8	14.9
P/B (X)	2.5	2.3	2.3	2.1	2.0
EV/EBITDA (X)	11.3	11.5	13.1	11.0	9.7

Growth & Margins

Growth					
Revenue	-13.0%	4.3%	-17.1%	10.0%	12.0%
EBITDA	-1.0%	-1.4%	-16.1%	16.5%	12.0%
EBIT	-1.0%	-3.4%	-18.4%	18.5%	12.5%
Net profit, adj.	-0.7%	-1.9%	-18.1%	16.8%	12.6%
Margins					
Gross margin	27.4%	25.0%	26.4%	26.0%	26.1%
EBITDA margin	13.0%	12.3%	12.5%	13.2%	13.2%
EBIT margin	12.1%	11.3%	11.1%	11.9%	12.0%
Net profit margin	10.6%	10.0%	9.9%	10.5%	10.5%
Key Ratios					
ROE	15.7%	14.5%	11.5%	12.8%	13.7%
ROA	11.5%	11.1%	9.2%	10.1%	10.7%
Dividend Yield	3.5%	3.5%	3.7%	4.2%	4.7%
Dividend Payout Ratio	54.8%	55.8%	73.2%	71.0%	70.5%



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