

Venture (VMS SP)

Overcoming components shortages

1H21 in line on softer seasonality assumptions

We deem 1H21 PATMI of SGD140.4m (+7.5% YoY) to be in line as we were expecting softer 1H21 seasonality than in previous years amid components shortages. However, as we see risks that VMS may not be able to fully fulfil customers' demand in 2H21, we have trimmed FY21E EPS by 4.5%. We largely maintain FY22E EPS as the demand outlook remains robust. We increase TP to SGD25.13, as we roll forward to 18.5x FY22E P/E. Buy.

Well set up to mitigate most challenges

1H21 revenue rose 4.9% to SGD1.43b, on the back of strong customers' orders. However, due to shortage of components, unfulfilled orders are pushed out into 2H21. Net margin inched up 0.2ppt to 9.8%. VMS believes it is well set up to mitigate most challenges precipitated by Covid-19 as it has set up working task forces that are working closely with stakeholders (e.g. customers, suppliers and governments) to overcome this.

Demand outlook strong...

Key bright areas include i) liquid chromatography and mass spectrometry (on Pharma demand as a result of vaccine efforts), and ii) genomics (VMS is involved with developing/ manufacturing breakthrough technology next generation sequencing and diagnostics). VMS is also set to launch a new platform of consumer electronics products - which we believe refers to Philip Morris' IQOS ILUMA. Other bright spots include test & measurement, networking & communications, advanced industrials and semiconductor equipment.

... but components availability is bottleneck

VMS has multiple strategies to improve access to raw materials and improve assurance of supply. One such strategy is by redesigning the circuitry of products to use alternative components. However, full fulfilment remains contingent on the availability of components, notwithstanding the strong end-market demand. In Malaysia, VMS aims to have >80% of employees to receive their first vaccination dose by 3Q21. Management also highlighted that VMS' SOPs are even more stringent than local requirements, which we find assuring as this reduces our concern of risks of forced shutdowns as a result of flouting local rules and laws.

FYE Dec (SGD m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	3,633	3,013	3,284	3,744	3,931
EBITDA	448	379	405	481	517
Core net profit	362	305	329	395	425
Core FDEPS (cts)	124.9	105.0	112.8	135.1	145.5
Core FDEPS growth(%)	(2.0)	(16.0)	7.5	19.8	7.6
Net DPS (cts)	70.0	75.0	75.0	75.0	75.0
Core FD P/E (x)	13.0	18.5	17.2	14.4	13.3
P/BV (x)	1.9	2.2	2.1	2.0	1.8
Net dividend yield (%)	4.3	3.9	3.9	3.9	3.9
ROAE (%)	14.9	12.0	12.5	14.2	14.3
ROAA (%)	11.2	9.4	9.9	11.3	11.4
EV/EBITDA (x)	8.8	12.4	11.3	9.7	8.3
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	338	368	389
MKE vs. Consensus (%)	-	-	(2.5)	7.1	9.3

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BUY

Share Price	SGD 19.40
12m Price Target	SGD 25.13 (+33%)
Previous Price Target	SGD 22.00

Company Description

Venture is an EMS and ODM provider with manufacturing facilities in Singapore, Malaysia, and China.

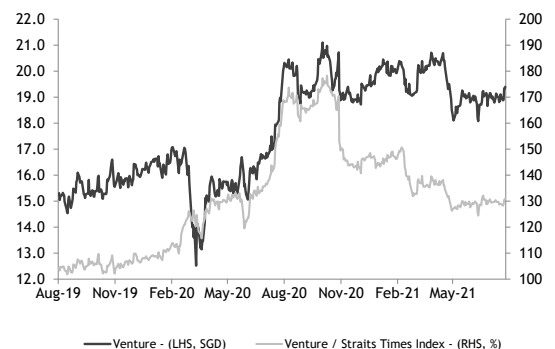
Statistics

52w high/low (SGD)	21.10/18.08
3m avg turnover (USDm)	15.3
Free float (%)	91.0
Issued shares (m)	290
Market capitalisation	SGD5.6B
	USD4.1B

Major shareholders:

WONG NGIT LIONG	7.0%
Schroder Investment Management (Singapore)	4.9%
The Vanguard Group, Inc.	2.5%

Price Performance



	-1M	-3M	-12M
Absolute (%)	1	(1)	2
Relative to index (%)	2	(1)	(18)

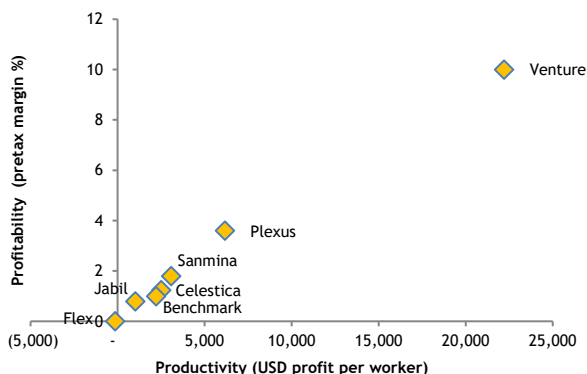
Source: FactSet

ESG@MKE
Tear Sheet Insert

Value Proposition

- VMS is an EMS company that has been consistently creating value for its customers. Able to design complex industrial products and reduce time-to-market.
- Facing pricing pressure and increased competition. However, margins are still industry leading.
- Good diversification with >100 active customers, many of them blue chips.
- Good exposure to test & measurement, and life-science customers, still largely underpenetrated due to regulatory requirements and high specs.

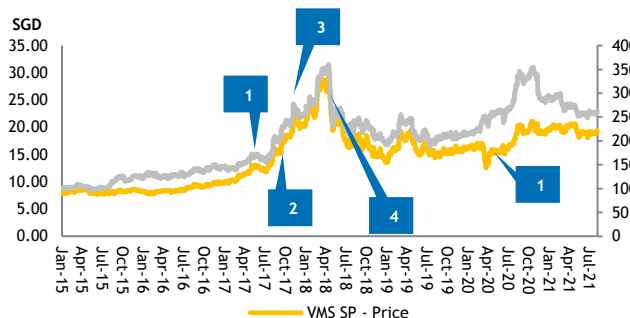
Industry-leading profitability and productivity



Source: Bloomberg, Companies

Price Drivers

Historical share price trend



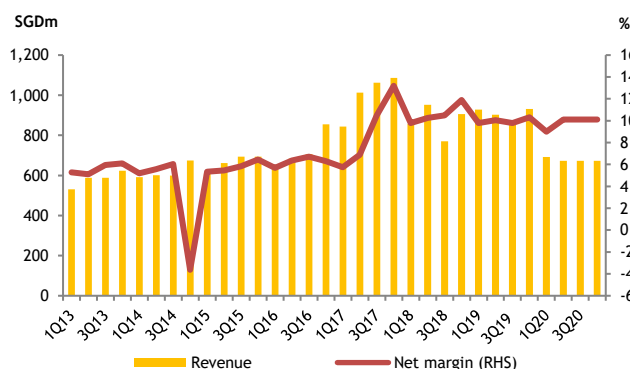
Source: Company, FactSet, Maybank Kim Eng

- Strong 2Q17. Increasing market familiarity with the potential of VMS emanating from Illumina and cloud / 5G network spending.
- CEO Wong Ngit Liong bought 400,000 shares at SGD15.26.
- Strong 3Q17; management raised net-margin guidance.
- Short-seller report alleging weaker-than-expected Philip Morris IQOS device growth would have knock-on effects on VMS.
- VMS rallied from Apr-Oct 2020 due to its relative earnings resilience as compared to many other industries that are affected by Covid-19.

Financial Metrics

- We are expecting earnings to grow 11% YoY in FY21 as multiple end-markets recover from Covid-19 effects.
- Operating margins should be steady from more products with higher R&D content and cost control.
- Net cash since 2008. Healthy FCF levels in FY20-22E could provide dividend support.

New level of profitability



Source: Company

Swing Factors

Upside

- Better-than-expected reception for high-growth products.
- Stronger US / global economy.
- Moderate USD strength as the revenue of VMS is entirely in USD.

Downside

- M&A among customers, and acquisitions of customers by competitors could disrupt orders.
- Excessive USD strength may erode customers' competitiveness. Excessive USD weakness may weaken its SGD earnings.
- Holding more inventories at its major hubs due to higher customer demand. This would tie up working capital.

Risk Rating & Score ¹	10 (Low)
Score Momentum ²	-0.7
Last Updated	19 May 2021
Controversy Score ³ (Updated: 17 May 2018)	0 - No Reported Incident

Business Model & Industry Issues

- Venture's business in electronics manufacturing exposes it to risks including labour (fair employment, labour exploitation), conflict of interest, and environmental within the organisation and along the supply chain. Venture has not faced any significant fines, non-monetary sanctions or reports regarding these key exposures in 2020.
- Venture sees economic performance as a key material factor of sustainability. This is in turn driven by constant empowering of employees, pursuit for excellence with customers, and commitment towards environmental and social responsibility.
- Venture is consistently recognised by suppliers for its solid execution, e.g. through awards. Venture also has policies in place such as ban on conflict minerals, anti-bribery and corruption, and whistle-blower protection.

Material E issues

- Venture's environmental exposure is mainly through power, water and materials. Venture has had zero significant fines or non-monetary sanctions related to environmental laws in 2020.
- All of its operational sites are also certified to ISO14001 for Environmental Management Systems.
- Total carbon emissions decreased 1.3% in 2020.
- To manage and mitigate emissions of harmful substances, Venture complies with the Restriction of Hazardous Substances (RoHS) directive, and only uses RoHS-certified equipment.
- All operational sites have management systems to prevent pollution from hazardous effluents, air impurities, wastewater discharge and noise.

Material S issues

- As at 31 Dec-20, Venture employed over 12,000 employees. 41.7% of the workforce is male, and 58.3% are female.
- Venture is an equal-opportunities employer. There remain high risks for worker exploitation by third-party suppliers. Venture bans all forms of labour exploitation, and has put in place safeguards against this.
- In 2019, each employee benefitted from an average of 126.7 hours of formal training. Topics span across technical and non-technical skills.
- Zero reported incidents of significant non-compliance with health or safety laws and regulations in 2020.
- Venture has a stance against conflict minerals. Venture's Conflict Minerals Policy is modelled after the Responsible Business Alliance against the use of conflict minerals. There were no incidences of non-compliance of Venture's policy in 2019. No contracts or suppliers were terminated due to the presence of conflict minerals in their supply chain.

Key G metrics and issues

- The board consist of nine directors, of which one is an executive chairman and CEO (Founder, Mr. Wong Ngit Liong). The remaining directors are all independent and non-executive (88%).
- The audit, nominating and remuneration committees are all chaired by independent directors.
- Three independent directors have served more than nine years from date of appointments. The Board concurred with the Nominating Committee's views that these three directors continue to be independent.
- Professional background of independent directors includes accounting, engineering and technology.
- Key management (incl. directors) compensation accounted for 6.1% of total employee compensation in 2020. (2019: 5.7%).
- Auditors are Deloitte & Touche LLP, appointed in 2015.
- Venture has zero-tolerance towards fraud and corruption, and has policies on anti-bribery and corruption and whistle-blower protection. There are no public legal cases regarding corruption/ termination of contracts, business partners or suppliers relating to corruption in 2020.
- Venture's IT department regularly improves infrastructure and systems to safeguard confidential information. In 2019, there was a data compartmentalisation project to segregate confidential data and a test was done to find potential vulnerabilities. In 2020, there were no substantiated complaints concerning breaches of customer privacy or loss of customer data.
- In recognition of its execution excellence, Venture frequently won awards from customers. In 2019, some awards include "Best Performance Supplier Award", "Platinum Supplier Award" and "Preferred Supplier Award".
- Implemented ISO27001 Information Security Management at the corporate level (received in Jan '21), and aiming to achieve this for key global sites.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Aside redesigning parts and components, VMS is also securing customers' confirmed orders for advance inventory procurement, as well as reaffirming suppliers' delivery commitment by rallying support from customers.

VMS highlighted that an emerging life science technology where it has established an industry-leading position is in single cell analysis, and VMS is keen to expand into adjacent domains through M&A. VMS is still a key partner of customers whose products are still highly sought after in the battle against Covid-19 and other diseases.

Fig 1: Forecast changes

	FY21E			FY22E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (SGDm)	3,284.1	3,404.6	-3.5	3,743.8	3,745.0	0.0
Gross profit (SGDm)	837.4	868.2	-3.5	954.7	955.0	0.0
EBIT (SGDm)	371.1	389.0	-4.6	446.3	446.4	0.0
EBITDA (SGDm)	404.7	422.6	-4.2	481.0	481.2	0.0
Core net profit (SGDm)	329.4	344.9	-4.5	394.5	394.6	0.0
EPS (SGD)	1.13	1.18	-4.5	1.36	1.36	-0.2
			Chg (ppt)			Chg (ppt)
Gross material margin	25.5%	25.5%	0.0	25.5%	25.5%	0.0
Staff cost as % of sales	9.5%	9.5%	0.0	9.3%	9.3%	0.0

Source: Maybank Kim Eng

Fig 2: 1H21 performance summary

FYE Dec	1H21 (SGD m)	1H20 (SGD m)	2H20 (SGD m)	YoY Chg (%)	HoH Chg (%)	FYE SGDm	1H21 vs FYE
Revenue	1,432.2	1,365.7	1,647.2	4.9	-13.1	3,404.6	42.1
COGS	(1,054.5)	(1,002.3)	(1,217.5)	5.2	-13.4	(2,536.4)	41.6
Gross profit	377.7	363.4	429.7	3.9	-12.1	868.2	43.5
Total SGA	(156.9)	(145.7)	(155.6)	7.7	0.9	(323.4)	48.5
R&D expenses	(10.0)	(16.2)	(19.9)	-38.2	-49.6	(38.1)	26.2
Other op. income	3.6	6.0	0.4	-39.4	882.7	1.0	363.6
Other op. exp	(37.4)	(38.7)	(44.8)	-3.6	-16.6	(85.0)	43.9
EBIT	158.0	147.5	189.6	7.2	-16.7	389.0	40.6
EBITDA	177.1	168.8	209.9	4.9	-15.6	422.6	41.9
Investment rev	3.9	3.9	2.3	0.4	67.4	9.0	43.4
Fianance cost	(0.2)	(0.3)	(0.2)	-13.1	14.3	0.0	nm
Associates	0.0	0.0	(0.0)	nm	-100.0	0.0	nm
Exceptionals	0.0	0.0	0.0	nm	nm	0.0	nm
Pretax profit	161.7	151.1	191.7	7.0	-15.7	398.0	40.6
Taxation	(21.3)	(20.5)	(24.9)	4.1	-14.3	(52.9)	40.3
Net profit	140.4	130.6	166.8	7.5	-15.9	345.1	40.7
Minority interest	(0.0)	0.1	(0.0)	nm	520.0	0.2	-15.5
PATMI	140.4	130.5	166.8	7.6	-15.8	344.9	40.7
Core PATMI	140.4	130.5	166.8	7.6	-15.8	344.9	40.7
Change (ppt)							
Gross material margin	26.4%	26.6%	26.1%	-0.2	0.3		
EBIT margin	11.0%	10.8%	11.5%	0.2	-0.5		
Core net margin	9.8%	9.6%	10.1%	0.2	-0.3		

Source: Company, Maybank Kim Eng

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	12.8	16.5	17.1	14.3	13.3
Core P/E (x)	12.9	18.4	17.1	14.3	13.3
Core FD P/E (x)	13.0	18.5	17.2	14.4	13.3
P/BV (x)	1.9	2.2	2.1	2.0	1.8
P/NTA (x)	1.9	2.2	2.1	2.0	1.8
Net dividend yield (%)	4.3	3.9	3.9	3.9	3.9
FCF yield (%)	5.0	7.7	6.4	2.7	10.6
EV/EBITDA (x)	8.8	12.4	11.3	9.7	8.3
EV/EBIT (x)	9.7	13.6	12.3	10.4	8.9
INCOME STATEMENT (SGD m)					
Revenue	3,633.4	3,012.9	3,284.1	3,743.8	3,931.0
EBITDA	448.2	378.7	404.7	481.0	517.1
Depreciation	(38.7)	(32.5)	(32.5)	(33.8)	(35.1)
Amortisation	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
EBIT	408.5	345.2	371.1	446.3	481.0
Net interest income / (exp)	10.5	5.8	9.0	9.0	9.0
Associates & JV	0.0	(0.0)	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	419.0	350.9	380.1	455.3	490.0
Income tax	(56.6)	(45.4)	(50.6)	(60.5)	(65.2)
Minorities	(0.3)	(0.1)	(0.2)	(0.2)	(0.2)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	362.1	305.4	329.4	394.5	424.7
Core net profit	362.1	305.4	329.4	394.5	424.7
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	714.5	928.7	1,057.7	989.8	1,369.5
Accounts receivable	898.9	702.7	736.9	863.2	816.9
Inventory	706.2	656.5	684.2	813.6	756.9
Property, Plant & Equip (net)	231.7	226.7	223.7	223.9	225.4
Intangible assets	667.5	660.1	660.1	660.1	660.1
Investment in Associates & JVs	0.8	0.7	0.7	0.7	0.7
Other assets	54.7	64.1	47.4	47.4	47.4
Total assets	3,274.2	3,239.6	3,410.7	3,598.7	3,877.0
ST interest bearing debt	1.1	0.0	0.0	0.0	0.0
Accounts payable	490.3	397.5	514.1	525.2	596.6
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	284.0	253.0	196.0	196.0	196.0
Total Liabilities	775.7	650.4	709.9	721.0	792.4
Shareholders Equity	2,496.2	2,586.5	2,698.0	2,874.6	3,081.5
Minority Interest	2.4	2.7	2.9	3.1	3.1
Total shareholder equity	2,498.6	2,589.1	2,700.9	2,877.7	3,084.5
Total liabilities and equity	3,274.2	3,239.6	3,410.7	3,598.7	3,877.0
CASH FLOW (SGD m)					
Pretax profit	419.0	350.9	380.1	455.3	490.0
Depreciation & amortisation	39.7	33.5	33.5	34.8	36.1
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(125.8)	118.4	25.1	(244.6)	174.4
Cash taxes paid	(61.7)	(45.1)	(50.6)	(60.5)	(65.2)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	271.1	457.7	388.2	184.9	635.3
Capex	(39.7)	(27.5)	(29.5)	(34.0)	(36.6)
Free cash flow	231.4	430.2	358.7	150.9	598.7
Dividends paid	(201.7)	(216.9)	(217.8)	(217.8)	(217.8)
Equity raised / (purchased)	7.9	15.9	0.0	0.0	0.0
Change in Debt	(0.7)	(1.1)	0.0	0.0	0.0
Other invest/financing cash flow	(36.2)	(5.8)	(11.8)	(1.0)	(1.2)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	0.6	222.3	129.0	(68.0)	379.7

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	4.3	(17.1)	9.0	14.0	5.0
EBITDA growth	(1.6)	(15.5)	6.9	18.9	7.5
EBIT growth	(3.6)	(15.5)	7.5	20.2	7.8
Pretax growth	(3.0)	(16.3)	8.3	19.8	7.6
Reported net profit growth	(1.8)	(15.7)	7.9	19.8	7.6
Core net profit growth	(1.8)	(15.7)	7.9	19.8	7.6
Profitability ratios (%)					
EBITDA margin	12.3	12.6	12.3	12.8	13.2
EBIT margin	11.2	11.5	11.3	11.9	12.2
Pretax profit margin	11.5	11.6	11.6	12.2	12.5
Payout ratio	55.7	71.0	66.1	55.2	51.3
DuPont analysis					
Net profit margin (%)	10.0	10.1	10.0	10.5	10.8
Revenue/Assets (x)	1.1	0.9	1.0	1.0	1.0
Assets/Equity (x)	1.3	1.3	1.3	1.3	1.3
ROAE (%)	14.9	12.0	12.5	14.2	14.3
ROAA (%)	11.2	9.4	9.9	11.3	11.4
Liquidity & Efficiency					
Cash conversion cycle	113.7	134.2	110.5	106.5	104.5
Days receivable outstanding	81.0	95.7	78.9	76.9	76.9
Days inventory outstanding	100.0	110.5	98.6	96.7	96.7
Days payables outstanding	67.3	72.0	67.1	67.1	69.0
Dividend cover (x)	1.8	1.4	1.5	1.8	1.9
Current ratio (x)	3.1	3.7	3.5	3.7	3.8
Leverage & Expense Analysis					
Asset/Liability (x)	4.2	5.0	4.8	5.0	4.9
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Capex/revenue (%)	1.1	0.9	0.9	0.9	0.9
Net debt/ (net cash)	(713.4)	(928.7)	(1,057.7)	(989.8)	(1,369.5)

Source: Company; Maybank

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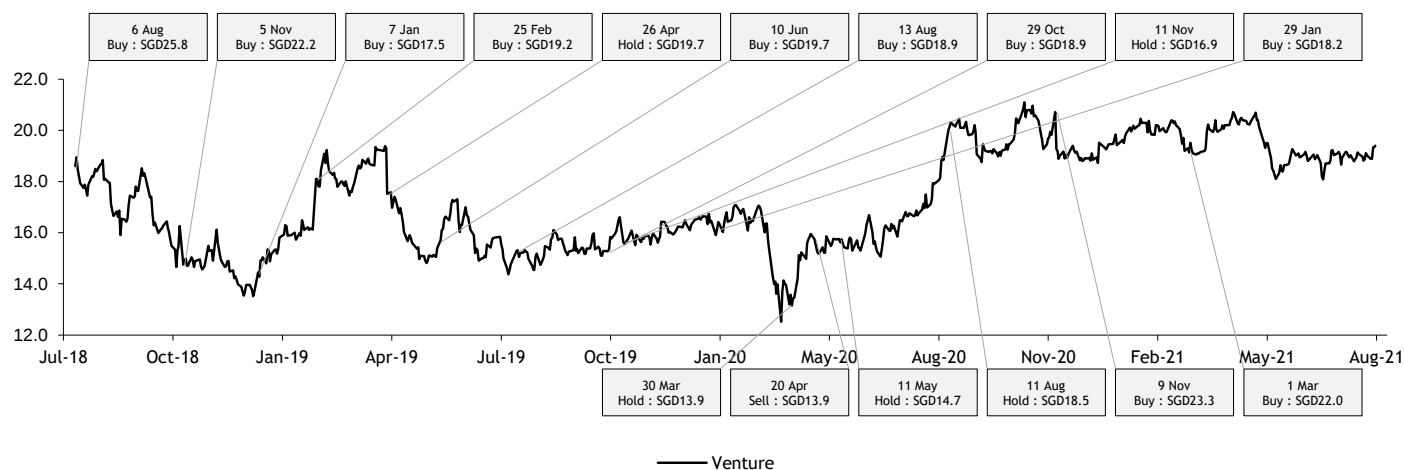
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