

Venture (VMS SP)

Risk reward improves

U/G to BUY as FY22E growth accelerates

VMS' 2H21 PATMI of SGD171.7m (+3% YoY, +22.3% HoH) met the street's expectations and beat ours. We raise our FY22-23E PATMI by 10% as supply side bottlenecks are easing faster than we expected. This, coupled with a robust demand outlook, should catalyse an acceleration in earnings growth and help the stock re-rate higher. We U/G to BUY from HOLD, and our TP is 9% higher at SGD21.00 (17.2x P/E, implying 0.5SD above LT mean).

Sequential recovery in output

4Q21 revenue grew 9.2% YoY/ 17.6% QoQ to SGD905.4m. Recovery of production rates drove quarterly growth as i) VMS enjoyed full worker capacity in 4Q21 in Malaysia, aided by ii) easing components shortages. It is noteworthy that 4Q21 net margin was maintained YoY at 10.5% (FY21: 10.0%), underscoring VMS' ability to manage cost and seek productivity gains despite an inflationary environment.

Robust demand outlook

VMS expects the demand outlook to be robust. Demand strength is seen in life science, instrumentation, test & measurement, networking & communications, advanced industrials as well as lifestyle and wellness. Several of these domains are also expected to see new product introductions in the year. VMS' R&D labs are engaged in products in growing trends in next-gen sequencing and other breakthrough technologies. That said, chip shortages remain an impediment in FY22E and could limit VMS' growth, in our view.

Risk reward has turned positive

VMS fell only 4% YTD, outperforming some in our tech stock coverage which fell 15-20% amid the global tech sell-off. Coupled with a 4% yield and accelerating earnings growth in FY22E, we believe the stock has bottomed and risk reward has now turned positive. Chairman Mr. Wong bought 200,000 shares on 8-Nov at an average of SGD18.73, which we interpret as a signal of confidence in VMS' prospects. In our view, key risks include i) worsening of supply side problems due to Covid-19 or geopolitical tensions; and/or ii) slowdown in global growth that might impact the demand outlook.

FYE Dec (SGD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	3,013	3,107	3,543	3,790	4,056
EBITDA	379	390	446	486	525
Core net profit	296	311	355	388	420
Core FDEPS (cts)	101.9	106.7	121.7	133.1	144.2
Core FDEPS growth(%)	(18.5)	4.7	14.1	9.4	8.3
Net DPS (cts)	75.0	75.0	75.0	75.0	75.0
Core FD P/E (x)	19.1	17.2	14.5	13.3	12.3
P/BV (x)	2.2	2.0	1.8	1.7	1.6
Net dividend yield (%)	3.9	4.1	4.2	4.2	4.2
ROAE (%)	11.7	11.7	12.7	13.2	13.5
ROAA (%)	9.1	9.0	9.8	10.3	10.5
EV/EBITDA (x)	12.4	11.6	9.4	8.6	7.8
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	333	370	na
MKE vs. Consensus (%)	-	-	6.6	4.9	na

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BUY

[Prior:HOLD]

Share Price	SGD 17.68
12m Price Target	SGD 21.00 (+23%)
Previous Price Target	SGD 19.18

Company Description

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

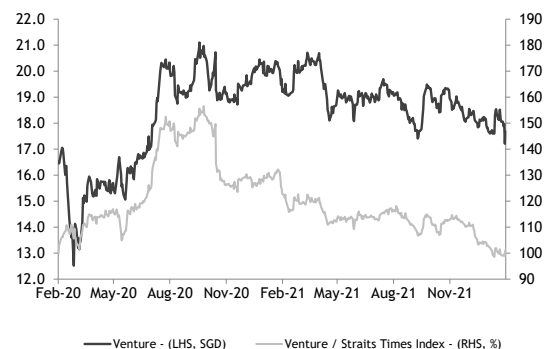
Statistics

52w high/low (SGD)	20.71/17.21
3m avg turnover (USDm)	12.3
Free float (%)	91.0
Issued shares (m)	290
Market capitalisation	SGD5.1B
	USD3.8B

Major shareholders:

WONG NGIT LIONG	7.1%
Schroder Investment Management (Singapore)	3.9%
Columbia Management Investment Advisers	3.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	(8)	(10)
Relative to index (%)	(3)	(10)	(19)

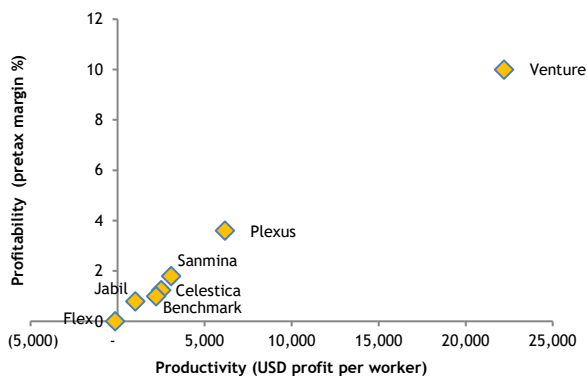
Source: FactSet

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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.

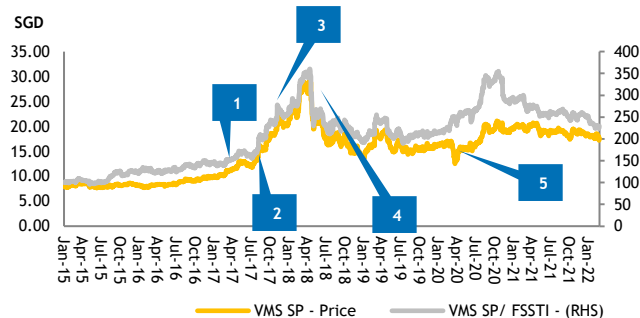
Industry-leading profitability and productivity



Source: Bloomberg, Companies

Price Drivers

Historical share price trend



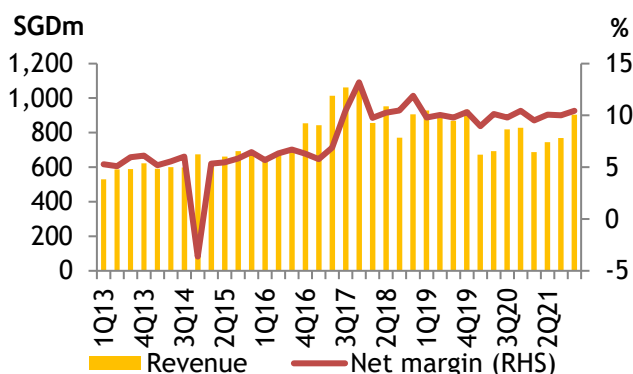
Source: Company, FactSet, Maybank IBG Research

- 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 14% YoY in FY22 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

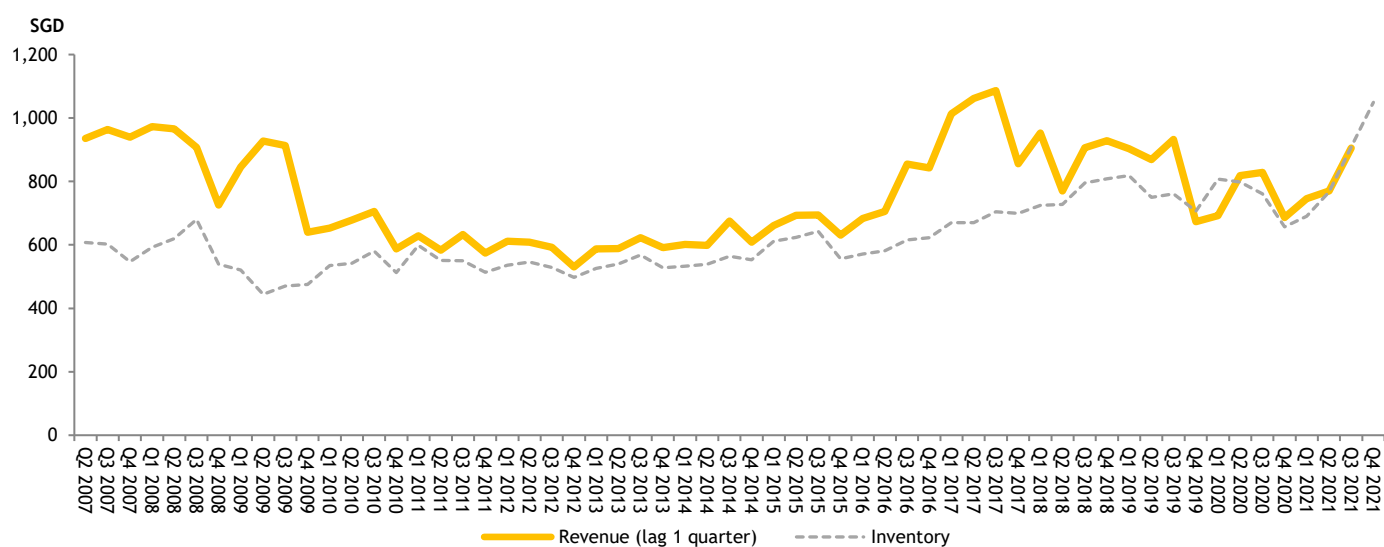
- As at 31 Dec-20, Venture employed over 12,000 employees. 41.7% of the workforce is male, and 58.3% are female.
- Venture is an equal-opportunities employer. There remain high risks for worker exploitation by third-party suppliers. Venture bans all forms of labour exploitation, and has put in place 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).

Fig 1: Inventory vs revenue (lag 1 quarter)



Source: Company, Maybank IBG Research

Fig 2: Forecast changes

	FY22E			FY23E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (SGDm)	3,542.5	3,256.0	8.8	3,790.5	3,484.0	8.8
Gross profit (SGDm)	899.8	827.0	8.8	966.6	888.4	8.8
EBIT (SGDm)	400.1	362.6	10.3	438.5	397.4	10.3
EBITDA (SGDm)	446.3	403.9	10.5	485.8	440.1	10.4
Core net profit (SGDm)	354.9	322.0	10.2	388.2	352.1	10.2
EPS (SGD)	1.22	1.11	10.2	1.34	1.21	10.2
			Chg (ppt)			Chg (ppt)
Gross material margin	25.4%	25.4%	0.0	25.5%	25.5%	0.0
Staff cost as % of sales	9.5%	9.5%	0.0	9.5%	9.5%	0.0

Source: Maybank IBG Research

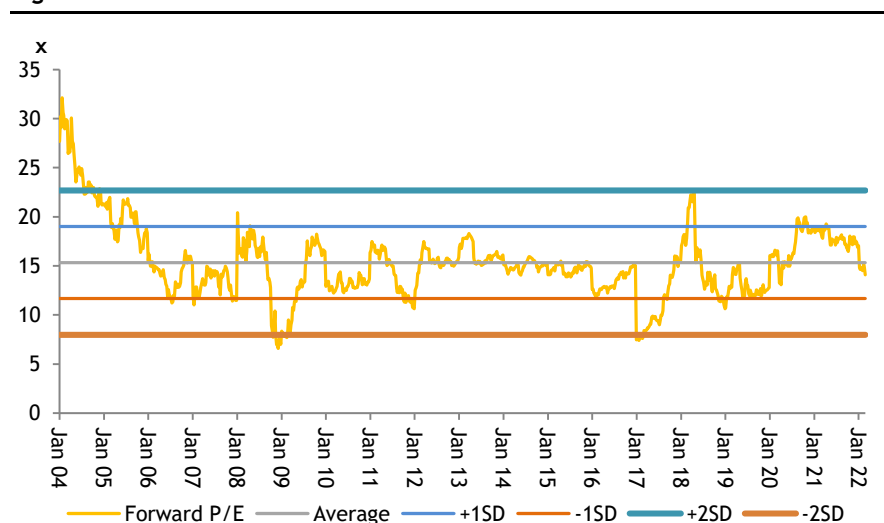
Fig 3: 2H21 summary

FYE Dec	2H21 (SGD m)	2H20 (SGD m)	1H21 (SGD m)	YoY Chg (%)	HoH Chg (%)	FYE SGDm	FYA vs FYE
Revenue	1,675.3	1,647.2	1,432.2	1.7	17.0	3,043.0	102.1
COGS	(1,243.4)	(1,217.5)	(1,054.5)	2.1	17.9	(2,267.1)	101.4
Gross profit	431.8	429.7	377.7	0.5	14.3	776.0	104.3
Total SGA	(170.4)	(155.6)	(156.9)	9.5	8.6	(295.2)	110.9
R&D expenses	(9.3)	(19.9)	(10.0)	-53.1	-6.9	(34.1)	56.7
Other op. income	3.0	0.4	3.6	707.8	-17.8	3.6	66.9
Other op. exp	(42.2)	(44.8)	(37.4)	-5.7	13.1	(75.0)	100.5
EBIT	195.0	189.6	158.0	2.8	23.4	335.3	105.3
EBITDA	212.9	209.9	177.1	1.4	20.2	375.3	103.9
Investment rev	2.9	2.3	3.9	22.4	-26.9	9.5	71.3
Fianance cost	(0.2)	(0.2)	(0.2)	-5.9	-17.7	(0.5)	84.6
Associates	0.2	(0.0)	0.0	-721.9	nm	0.0	nm
Exceptionals	0.0	0.0	0.0	nm	nm	0.0	nm
Pretax profit	197.9	191.7	161.7	3.2	22.4	344.3	104.4
Taxation	(25.9)	(24.9)	(21.3)	4.0	21.4	(45.8)	103.2
Net profit	172.0	166.8	140.4	3.1	22.5	298.5	104.6
Minority interest	0.3	(0.0)	(0.0)	nm	-1074.2	0.2	135.5
PATMI	171.7	166.8	140.4	2.9	22.3	298.3	104.6
Core PATMI	171.7	166.8	140.4	2.9	22.3	298.3	104.6

					Change (ppt)	
Gross material margin	25.8%	26.1%	26.4%	-0.3	-0.6	
EBIT margin	11.6%	11.5%	11.0%	0.1	0.6	
Core net margin	10.2%	10.1%	9.8%	0.1	0.4	

Source: Company, Maybank IBG Research

Fig 4: VMS forward P/E band



Source: Company, FactSet, Maybank IBG Research

Fig 5: Peer comps

Company	BBG Code	MKE Rec	MKE TP (LC)	Price (LC)	Mcap USDm	P/E (x)				EV /EBITD A (x)	PBR (x)	Div yld (%)
						Act	FY1	FY2	FY3			
Venture Corp	VMS SP	Buy	19.18	17.68	3,810	16.5	14.5	13.3	12.3	9.4	1.8	4.2
Singapore listed EMS and precision engineering peers												
Valuetronics	VALUE SP	Sell	0.50	0.52	166	8.1	12.3	10.8	9.1	2.6	0.9	2.4
Aztech Global	AZTECH SP	Buy	1.13	0.94	537	9.4	8.3	6.2	6.2	4.6	2.3	3.6
Average						15.4	13.7	12.3	11.1	8.6	1.8	4.1
High mix low volume EMS peers												
Benchmark Elec	BHE US	NR	-	25.97	915	19.2	16.5	14.5	-	-	-	-
Plexus	PLXS US	NR	-	81.59	2,292	16.8	20.9	14.7	13.1	11.4	2.1	-
Average						17.5	19.7	14.6	13.1	11.4	2.1	0.0
Global EMS peers												
Hon Hai	2317 TT	NR	-	103.00	50,932	14.0	10.3	9.5	8.4	4.7	1.0	4.8
Flex	FLEX US	NR	-	16.76	7,888	10.7	8.9	8.4	7.8	5.8	2.2	0.0
Jabil	JBL US	NR	-	59.36	8,517	10.6	9.0	8.3	7.8	4.1	3.6	0.6
Pegatron	2938 TT	NR	-	69.10	6,579	8.9	10.2	10.6	9.9	5.5	1.1	6.5
SKP Resources	SKP MK	NR	-	1.56	580	19.0	15.1	12.2	10.9	9.7	3.1	3.3
V.S. Industry	VSI MK	Buy	1.73	1.17	1,066	18.0	15.8	14.3	13.3	7.9	-	3.7
Sanmina	SANM	NR	-	39.66	2,521	10.0	9.2	8.5	-	-	-	0.0
FIH Mobile	2038 HK	NR	-	1.17	1,198	-	74.9	18.7	13.6	2.4	-	0.0
Celestica	CLS CN	NR	-	15.36	1,279	9.3	7.7	6.8	-	4.6	-	0.0
Fabrinet	FN US	NR	-	101.10	3,740	21.6	16.8	15.7	13.8	12.6	2.8	-
Average						13.2	11.3	9.8	8.8	5.2	1.5	4.4

Source: FactSet, Bloomberg, Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	17.1	17.9	14.5	13.2	12.2
Core P/E (x)	19.0	17.1	14.5	13.2	12.2
Core FD P/E (x)	19.1	17.2	14.5	13.3	12.3
P/BV (x)	2.2	2.0	1.8	1.7	1.6
P/NTA (x)	2.2	2.0	1.8	1.7	1.6
Net dividend yield (%)	3.9	4.1	4.2	4.2	4.2
FCF yield (%)	7.5	1.1	6.7	5.1	6.0
EV/EBITDA (x)	12.4	11.6	9.4	8.6	7.8
EV/EBIT (x)	14.0	12.8	10.5	9.5	8.6

INCOME STATEMENT (SGD m)

Revenue	3,012.9	3,107.5	3,542.5	3,790.5	4,055.8
EBITDA	378.7	389.9	446.3	485.8	525.3
Depreciation	(41.6)	(36.9)	(45.2)	(46.3)	(47.5)
Amortisation	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
EBIT	336.1	352.0	400.1	438.5	476.8
Net interest income / (exp)	5.8	6.3	9.0	9.0	9.0
Associates & JV	(0.0)	0.2	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	341.8	358.6	409.1	447.5	485.8
Income tax	(45.4)	(47.3)	(54.0)	(59.1)	(64.1)
Minorities	(0.1)	(0.3)	(0.2)	(0.2)	(1.2)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	296.3	311.1	354.9	388.2	420.5
Core net profit	296.3	311.1	354.9	388.2	420.5

BALANCE SHEET (SGD m)

Cash & Short Term Investments	928.7	807.9	929.4	972.8	1,063.1
Accounts receivable	702.7	829.2	917.7	951.5	1,159.7
Inventory	656.5	1,049.4	833.0	1,101.1	968.4
Property, Plant & Equip (net)	226.7	215.2	206.9	199.8	194.1
Intangible assets	660.1	652.8	652.8	652.8	652.8
Investment in Associates & JVs	0.7	0.6	0.6	0.6	0.6
Other assets	64.1	80.1	60.0	60.0	60.0
Total assets	3,239.6	3,635.3	3,600.5	3,938.7	4,098.8
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	397.5	643.6	558.3	726.0	681.3
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	253.0	272.0	186.0	186.0	187.0
Total Liabilities	650.4	915.8	743.9	911.6	867.9
Shareholders Equity	2,586.5	2,716.4	2,853.3	3,023.6	3,226.1
Minority Interest	2.7	3.1	3.3	3.5	4.7
Total shareholder equity	2,589.1	2,719.5	2,856.6	3,027.1	3,230.8
Total liabilities and equity	3,239.6	3,635.3	3,600.5	3,938.7	4,098.8

CASH FLOW (SGD m)

Pretax profit	341.8	358.6	409.1	447.5	485.8
Depreciation & amortisation	42.6	37.9	46.2	47.3	48.5
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	118.4	(255.3)	(19.2)	(134.2)	(119.2)
Cash taxes paid	(45.1)	(55.6)	(54.0)	(59.1)	(64.1)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	457.7	85.3	382.1	301.5	351.0
Capex	(36.6)	(25.3)	(36.9)	(39.3)	(41.8)
Free cash flow	421.2	60.0	345.2	262.3	309.2
Dividends paid	(216.9)	(217.9)	(217.9)	(217.9)	(217.9)
Equity raised / (purchased)	15.9	5.8	0.0	0.0	0.0
Change in Debt	(1.1)	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(5.8)	30.3	(5.8)	(1.0)	(1.0)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	213.3	(121.8)	121.5	43.3	90.3

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(17.1)	3.1	14.0	7.0	7.0
EBITDA growth	(15.5)	3.0	14.5	8.8	8.1
EBIT growth	(17.7)	4.7	13.6	9.6	8.7
Pretax growth	(18.4)	4.9	14.1	9.4	8.6
Reported net profit growth	(18.2)	5.0	14.1	9.4	8.3
Core net profit growth	(18.2)	5.0	14.1	9.4	8.3
Profitability ratios (%)					
EBITDA margin	12.6	12.5	12.6	12.8	13.0
EBIT margin	11.2	11.3	11.3	11.6	11.8
Pretax profit margin	11.3	11.5	11.5	11.8	12.0
Payout ratio	73.2	70.0	61.4	56.1	51.8
DuPont analysis					
Net profit margin (%)	9.8	10.0	10.0	10.2	10.4
Revenue/Assets (x)	0.9	0.9	1.0	1.0	1.0
Assets/Equity (x)	1.3	1.3	1.3	1.3	1.3
ROAE (%)	11.7	11.7	12.7	13.2	13.5
ROAA (%)	9.1	9.0	9.8	10.3	10.5
Liquidity & Efficiency					
Cash conversion cycle	134.2	140.8	135.1	130.2	133.2
Days receivable outstanding	95.7	88.7	88.8	88.8	93.7
Days inventory outstanding	110.5	133.6	128.2	123.3	123.3
Days payables outstanding	72.0	81.6	81.9	81.9	83.8
Dividend cover (x)	1.4	1.4	1.6	1.8	1.9
Current ratio (x)	3.7	3.0	3.7	3.4	3.7
Leverage & Expense Analysis					
Asset/Liability (x)	5.0	4.0	4.8	4.3	4.7
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 (%)	1.2	0.8	1.0	1.0	1.0
Net debt/ (net cash)	(928.7)	(807.9)	(929.4)	(972.8)	(1,063.1)

Source: Company; Maybank

Research Offices

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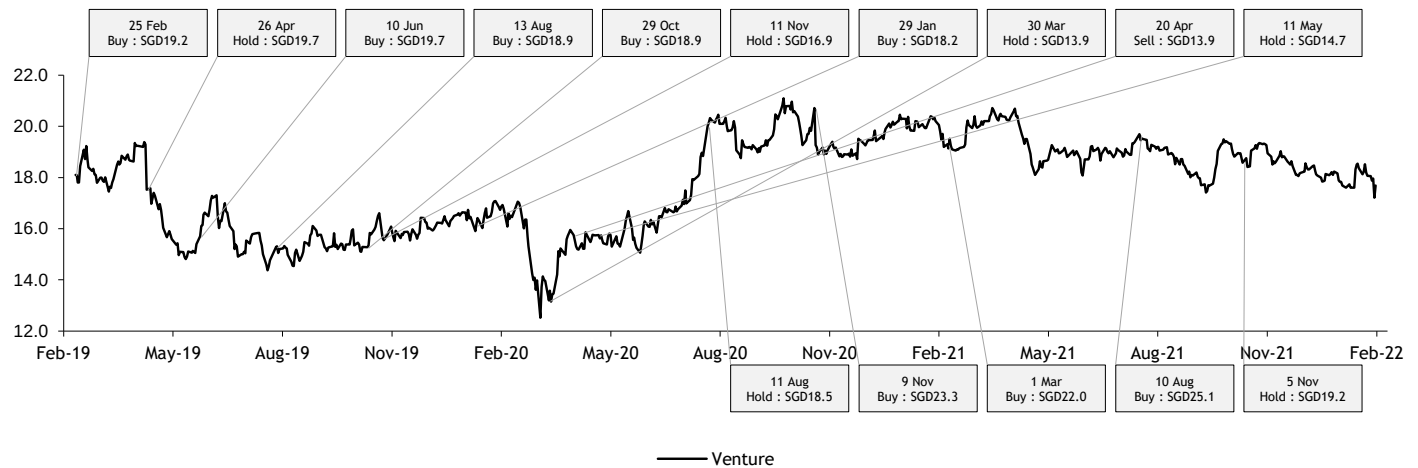
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