

Venture (VMS SP)

A beacon of light

One of the last bastions

Venture remains one of the bright spots among Singapore tech stocks amid a challenging environment. Management anticipates demand to remain unabated in 2H22. However, we conservatively expect margins to come under pressure when new orders are negotiated. As a result, we revise down our FY22 & 23E earnings by 3% each and reduce our TP to SGD19.55 from SGD22.90, based on a lower 16x (from 19x) FY22E PE, as tech stocks around the world have been de-rated in recent few months and valuations have come off sharply. We also transfer coverage to Jarick Seet.

Demand still robust, but margins might be reduced

With the economic environment becoming more challenging week by week, we expect margins to come slightly under pressure as new orders are being negotiated, especially if a recession hits. Venture still sees strong demand for the rest of 2022 across its customer base, especially in the life science & genomics, healthcare & wellness, networking & communications and process & test equipment in the semiconductor space.

Attractive yield of 4.4%

Management declared a 1H22 dividend of SGD0.25/share; we expect the final dividend to be SGD0.50/share, same as previous years, representing an attractive yield of 4.4% for FY22E.

Moving into higher-margin products

Venture will be aiming to move towards higher-margin products, focusing on several technology domains of the future that would yield higher margins than its existing products. It also aims to ramp up business in these areas over the next 5-10 years. Despite expecting margins to be under pressure amid rising costs, Venture has shown it has ridden these challenges well, which also highlights its strong customer ties as it can pass on higher costs to clients and remain one of our top picks in the Singapore Tech space.

FYE Dec (SGD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	3,013	3,107	3,480	3,724	3,985
EBITDA	379	390	448	487	527
Core net profit	296	311	356	389	422
Core FDEPS (cts)	101.9	106.7	122.1	133.5	144.6
Core FDEPS growth(%)	(18.5)	4.7	14.4	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	13.9	12.7	11.7
P/BV (x)	2.2	2.0	1.7	1.6	1.5
Net dividend yield (%)	3.9	4.1	4.4	4.4	4.4
ROAE (%)	11.7	11.7	12.8	13.2	13.5
ROAA (%)	9.1	9.0	9.9	10.4	10.5
EV/EBITDA (x)	12.4	11.6	9.1	8.0	7.3
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	354	386	416
MKE vs. Consensus (%)	-	-	0.4	1.0	1.3

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BUY

Share Price	SGD 16.91
12m Price Target	SGD 19.55 (+20%)
Previous Price Target	SGD 22.90

Company Description

Venture is an electronics manufacturing services and ODM provider with production facilities in Singapore, Malaysia, and China.

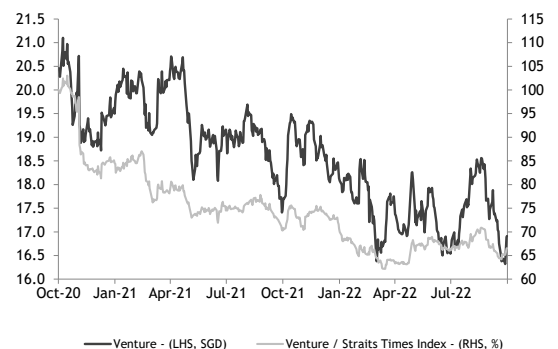
Statistics

52w high/low (SGD)	19.49/16.32
3m avg turnover (USDm)	8.3
Free float (%)	91.0
Issued shares (m)	290
Market capitalisation	SGD4.9B USD3.4B

Major shareholders:

WONG NGIT LIONG	7.1%
Columbia Management Investment Advisers	3.7%
Schroder Investment Management (Singapore)	3.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(4)	2	(3)
Relative to index (%)	(1)	1	(5)

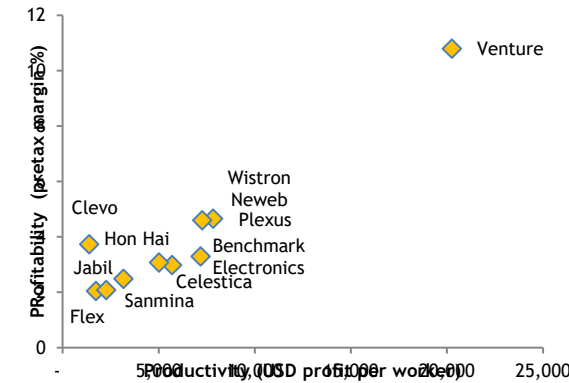
Source: FactSet

ESG@MAYBANK IBG
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 are blue chips.
- Good exposure to test & measurement, and life-science customers, still largely underpenetrated due to regulatory requirements and high specs

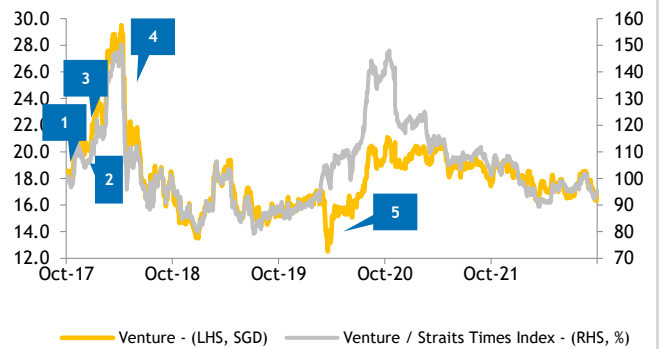
Industry-leading profitability and productivity



Source: Company

Price Drivers

Historical share price trend



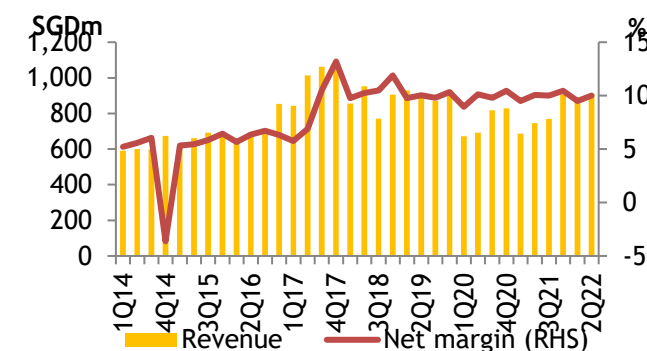
Source: Company, Maybank IBG Research

1. Strong 2Q17. Increasing market familiarity with the potential of VMS emanating from Illumina and cloud / 5G network spending.
2. CEO Wong Ngit Liong bought 400,000 shares at SGD15.26.
3. Strong 3Q17; management raised net-margin guidance.
4. Short-seller report alleging weaker-than-expected Philip Morris IQOS device growth would have knock-on effects on VMS.
5. VMS rallied from Apr-Oct 2020 due to its relative earnings resilience as compared to many other industries that are affected by Covid-19; VMS underperformed subsequently as lockdowns and components shortages curtailed 2021 earnings recovery.

Financial Metrics

- We are expecting earnings to grow 14.4% 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.

Chart Header



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 2021.
- 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 2021.
- All of its operational sites are also certified to ISO14001 for Environmental Management Systems.
- Carbon emissions intensity decreased 0.4% in 2021.
- 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-21, Venture employed over 12,000 employees. 42% of the workforce is male, and 58% 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 2021, male/female employees had an average of 51.1/45.2 hours of training (target: 40 hours). Topics span across technical and non-technical skills.
- Zero reported incidents of significant non-compliance with health or safety laws and regulations in 2021. Venture has revised their Conflict Minerals Policy to the current Responsible Minerals Policy, as aligned to the OECD. Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High Risk Areas, and the Responsible Business Alliance standards on responsible minerals.

Key G metrics and issues

- The board consists of nine directors, including founder Mr Wong Ngit Liong as chairman (Mr Wong relinquished CEO position at end FY21. All other directors are non-executive, and 7 out of 9 of the directors are independent.
- The audit, nominating and remuneration committees are chaired by independent directors.
- 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 2021.
- 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 2020-21, 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 2021, Venture won a Ramp Performance Award for outstanding support of customer needs. At the Securities Investors Association Singapore Diversity Awards, Venture was recognised for board diversity.
- 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).

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	17.1	17.9	13.8	12.6	11.7
Core P/E (x)	19.0	17.1	13.8	12.6	11.7
Core FD P/E (x)	19.1	17.2	13.9	12.7	11.7
P/BV (x)	2.2	2.0	1.7	1.6	1.5
P/NTA (x)	2.2	2.0	1.7	1.6	1.5
Net dividend yield (%)	3.9	4.1	4.4	4.4	4.4
FCF yield (%)	7.5	1.1	5.0	8.8	4.6
EV/EBITDA (x)	12.4	11.6	9.1	8.0	7.3
EV/EBIT (x)	14.0	12.8	10.2	8.8	8.1

INCOME STATEMENT (SGD m)

Revenue	3,012.9	3,107.5	3,480.4	3,724.0	3,984.7
EBITDA	378.7	389.9	447.5	487.0	526.7
Depreciation	(41.6)	(36.9)	(45.2)	(46.3)	(47.4)
Amortisation	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
EBIT	336.1	352.0	401.3	439.8	478.2
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	410.3	448.8	487.2
Income tax	(45.4)	(47.3)	(54.2)	(59.2)	(64.3)
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	356.0	389.3	421.7
Core net profit	296.3	311.1	356.0	389.3	421.7

BALANCE SHEET (SGD m)

Cash & Short Term Investments	928.7	807.9	831.1	1,043.5	1,048.3
Accounts receivable	702.7	829.2	887.1	949.4	1,124.8
Inventory	656.5	1,049.4	942.3	1,034.0	999.3
Property, Plant & Equip (net)	226.7	215.2	206.6	199.2	193.1
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	3,580.5	3,939.5	4,079.0
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	397.5	643.6	537.2	724.6	658.1
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	722.8	910.2	844.7
Shareholders Equity	2,586.5	2,716.4	2,854.4	3,025.8	3,229.6
Minority Interest	2.7	3.1	3.3	3.5	4.7
Total shareholder equity	2,589.1	2,719.5	2,857.7	3,029.3	3,234.3
Total liabilities and equity	3,239.6	3,635.3	3,580.5	3,939.5	4,079.0

CASH FLOW (SGD m)

Pretax profit	341.8	358.6	410.3	448.8	487.2
Depreciation & amortisation	42.6	37.9	46.2	47.3	48.4
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	118.4	(255.3)	(118.8)	33.4	(206.2)
Cash taxes paid	(45.1)	(55.6)	(54.2)	(59.2)	(64.3)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	457.7	85.3	283.5	470.2	265.1
Capex	(36.6)	(25.3)	(36.6)	(38.9)	(41.4)
Free cash flow	421.2	60.0	246.9	431.3	223.8
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)	23.2	212.3	4.8

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(17.1)	3.1	12.0	7.0	7.0
EBITDA growth	(15.5)	3.0	14.8	8.8	8.1
EBIT growth	(17.7)	4.7	14.0	9.6	8.7
Pretax growth	(18.4)	4.9	14.4	9.4	8.6
Reported net profit growth	(18.2)	5.0	14.4	9.4	8.3
Core net profit growth	(18.2)	5.0	14.4	9.4	8.3
Profitability ratios (%)					
EBITDA margin	12.6	12.5	12.9	13.1	13.2
EBIT margin	11.2	11.3	11.5	11.8	12.0
Pretax profit margin	11.3	11.5	11.8	12.1	12.2
Payout ratio	73.2	70.0	61.2	56.0	51.7
DuPont analysis					
Net profit margin (%)	9.8	10.0	10.2	10.5	10.6
Revenue/Assets (x)	0.9	0.9	1.0	0.9	1.0
Assets/Equity (x)	1.3	1.3	1.3	1.3	1.3
ROAE (%)	11.7	11.7	12.8	13.2	13.5
ROAA (%)	9.1	9.0	9.9	10.4	10.5
Liquidity & Efficiency					
Cash conversion cycle	134.2	140.8	145.0	135.1	133.2
Days receivable outstanding	95.7	88.7	88.8	88.8	93.7
Days inventory outstanding	110.5	133.6	138.1	128.2	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	3.8
Leverage & Expense Analysis					
Asset/Liability (x)	5.0	4.0	5.0	4.3	4.8
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	1.1	1.0	1.0
Net debt/ (net cash)	(928.7)	(807.9)	(831.1)	(1,043.5)	(1,048.3)

Source: Company; Maybank IBG Research

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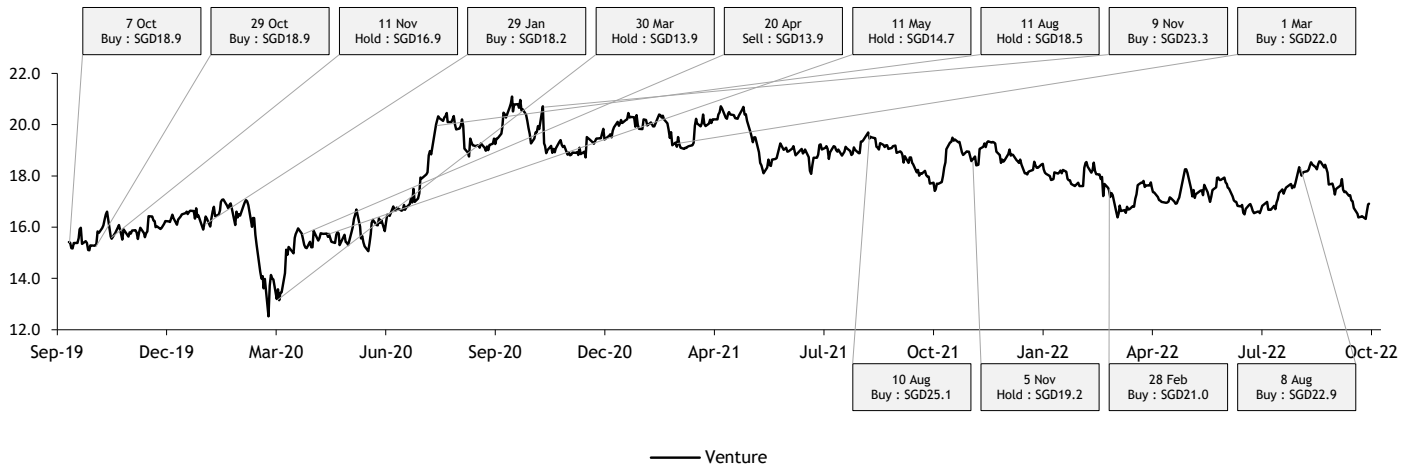
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