

Venture (VMS SP)

Brighter FY24E

Maintain BUY with a 10% higher TP of SGD15.40

Management revealed recently production of some NPIs (new product introductions) is likely to start in 4Q23E and more are slated for FY24E. In addition, customers' inventory is depleted and more orders are likely in 2024. Through our channel checks, we are also more bullish FY24E will be stronger for Venture as higher utilisation rate and operating leverage lead to better margins. As a result, we raise our FY24/25 PATMI forecasts by 7.1% and 9.8%, and increase our PE target from 14.5 to 15.0x due to a brighter outlook. This raises our TP by 10% to SGD15.40. Accompanied by an attractive prospective yield of 5.8%, we maintain BUY.

Demand likely to increase in FY24E

Mass production of several NPIs is likely to start in 4Q23, with more slated for FY24 with existing and new customers. In addition, management sees signs of inventory depletion among its customers and expects orders to pick up in 4Q23. We expect more orders in FY24E, which is likely to lead to a higher operating margin due to higher operating leverage. As a result, we are now more confident 3Q23 was the bottom for Venture and expect revenue and PATMI growth in FY24.

Attractive 5.8% yield

Management has always emphasised sustainable dividends in both good and bad times. With SGD956.5m of net cash and no bank borrowings, we expect dividends to be maintained at SGD0.75/sh annually, representing a yield of 5.8% for FY23E. There is also potential to increase dividends if FY24E performance is good due to its positive cash flow and strong balance sheet with no immediate huge capex plans.

Time for rebound in the share price

We also feel that the share price has over-corrected over the course of 2023 and, with a brighter outlook, we believe Venture is undervalued at current levels trading below its historical 10 year P/E of 16x. Venture has also conducted several share buy-backs, especially in Oct'23, which add conviction to our call that 3Q23 was likely the bottom for Venture.

FYE Dec (SGD m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	3,107	3,864	3,246	3,408	3,578
EBITDA	390	473	369	407	431
Core net profit	311	370	270	300	319
Core FDEPS (cts)	106.7	126.8	92.6	102.9	109.5
Core FDEPS growth(%)	4.7	18.8	(26.9)	11.2	6.3
Net DPS (cts)	75.0	75.0	75.0	75.0	75.0
Core FD P/E (x)	17.2	13.5	13.9	12.5	11.8
P/BV (x)	2.0	1.7	1.3	1.3	1.2
Net dividend yield (%)	4.1	4.4	5.8	5.8	5.8
ROAE (%)	11.7	13.3	9.4	10.2	10.6
ROAA (%)	9.0	10.0	7.2	8.0	8.2
EV/EBITDA (x)	11.6	8.8	6.4	7.4	5.3
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	272	301	323
MIBG vs. Consensus (%)	-	-	(0.7)	(0.3)	(1.1)

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BUY

Share Price	SGD 12.89
12m Price Target	SGD 15.40 (+25%)
Previous Price Target	SGD 14.00

Company Description

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

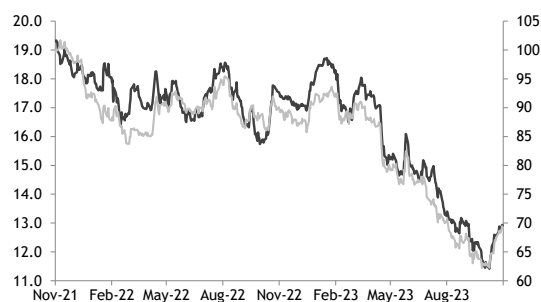
Statistics

52w high/low (SGD)	18.72/11.42
3m avg turnover (USDm)	18.2
Free float (%)	91.0
Issued shares (m)	290
Market capitalisation	SGD3.7B
	USD2.8B

Major shareholders:

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

Price Performance



— Venture - (LHS, SGD) — Venture / Straits Times Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	11	(3)	(26)
Relative to index (%)	10	(1)	(23)

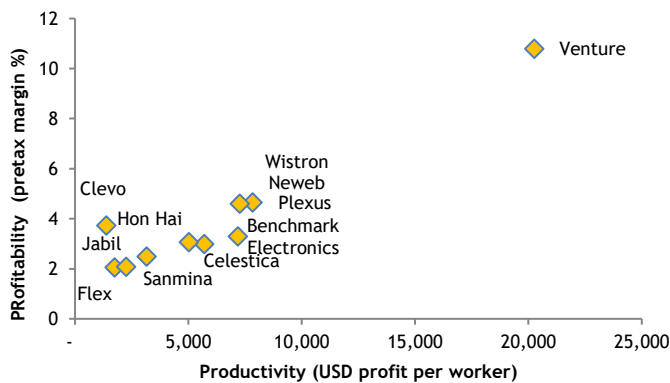
Source: FactSet

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Tear Sheet Insert

Value Proposition

- VMS is an electronics manufacturing services company that has consistently created 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.

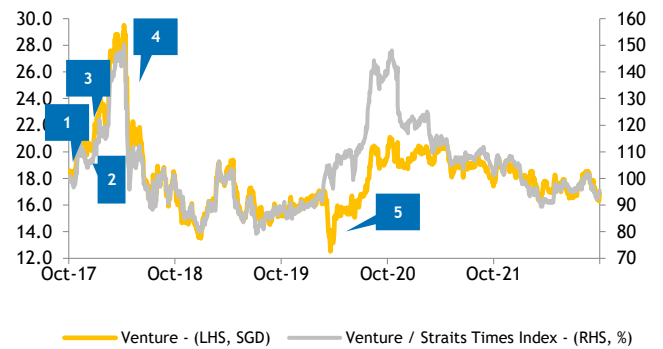
Industry leading profitability and productivity



Source: Company

Price Drivers

Historical share price trend



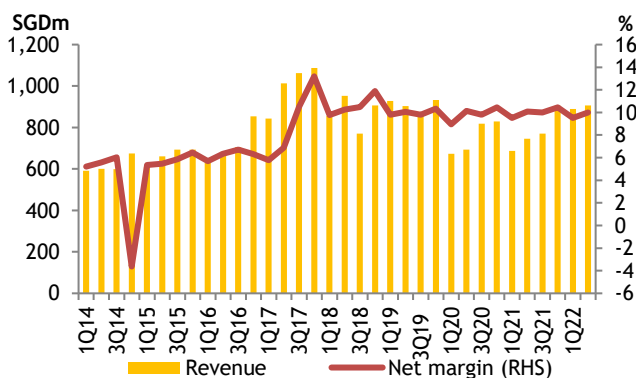
Source: Company, Maybank IBG Research

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 has knock-on effect 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

- Earnings grew 18% YoY in FY22 as multiple end-markets recovered 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 FY20-23 provided dividend support.

Revenue and net margin



Source: Company

Swing Factors

Upside

- Better-than-expected reception of 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 inventory 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	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 remains high risk of 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 the 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).

Quantitative Parameters (Score: 44)						
	Particulars	Unit	2019	2020	2021	FRKN SP (2021)
E	Scope 1 emissions	tCO2e	66,080	65,192	68,061	NA
	Scope 2 emissions	tCO2e	NA	NA	NA	NA
	Total	tCO2e	66,080	65,192	68,061	NA
	Scope 3 emissions (operational)	tCO2e	NA	NA	NA	NA
	Total	tCO2e	66,080	65,192	68,061	NA
	GHG intensity (Scope 1 and 2)	kg CO2e/emp	23.7	28.5	28.4	NA
	Energy consumption	kWh/unit of sales	39.2	47.2	47.7	4.4%
	Water consumption	m2/unit of sales	0.23	0.28	0.26	0.11%
	Recycled waste generated	metric tonnes	NA	NA	NA	17
S	% of women in workforce	%	51.1%	50.0%	55.1%	34.0%
	Average training hours per female executive	%	178	126.43	51.1	6.3
	Economic value generated and distributed	SGD'000	363,381	297,404	312,322	71,924
	New employees hired by gender (women)	%	47.9%	46.5%	54.0%	NA
	Total training hours	%	1826585	1220496	437922	11499
	Key operations assessed for risks related to corruption	%	100%	100%	100%	100%
G	MD/CEO salary as % of reported net profit	%	2.39%	2.77%	2.41%	2.98%
	Estimated board salary as % of reported net profit	%	0.24%	0.29%	0.27%	1.70%
	Independent directors on the Board	%	88%	89%	75%	60%
	Female directors on the Board	%	25%	33%	38%	0%

Qualitative Parameters (Score: 83)	
Is there an ESG policy in place and is there a standalone ESG committee or is it part of the risk committee?	<i>Yes. The board of directors has oversight of the governance structure relevant to Venture's ESG performance and guides its sustainability strategy through the Sustainability Steering Committee, which comprises senior leaders from across its operations that meet annually to review their sustainability plans.</i>
Is senior management salaries linked to fulfilling ESG targets?	<i>Yes. The BSC KPIs are accessed on an annual basis during management review meetings.</i>
Does the company follow the task force of climate related disclosures (framework for ESG reporting)?	<i>Yes</i>
Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	<i>No</i>
What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>Venture complies with the Restriction of Hazardous Substances directive in all of its facilities and uses only RoHS certified materials in its operations. At its Penang site, it conducts daily inspections for main pipe supply leakage, urinal water supply and flush systems. The Penang site continues to conduct monthly water consumption review, and it uses auto-taps and replaced diameter flexible hoses with pressurised nozzles in all toilets.</i>
Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>Yes</i>

Target (Score: 50)			
Particulars		Target	Achieved
Reduce GHG Emissions		NA	NA
Reduce water usage		NA	NA
Zero cases of corruption		0.0	0.0
Maintain zero fatalities across all sites		0.0	0.0
Impact			
NA			
Overall Score: 55			
As per our ESG matrix, Venture Corporation (VMS SP) has an overall score of 55.			

ESG score	Weights	Scores	Final Score
Quantitative	50%	44	22
Qualitative	25%	83	21
Target	25%	50	13
Total			55

As per our ESG assessment, Venture has an established framework, internal policies but needs to make headway in improving its quantitative "E" metrics as well as including more tangible targets. Venture's overall ESG score is 55, which makes its ESG rating above average in our view (average ESG rating = 50).

Fig 1: Changes in our FY23-25 forecasts

	FY23E			FY24E			FY25E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (SGDm)	3,245.5	3,245.5	0.0	3,407.8	3,342.9	1.9	3,578.2	3,443.2	3.9
Gross profit (SGDm)	782.2	782.2	0.0	836.6	805.6	3.8	878.4	829.8	5.9
EBIT (SGDm)	320.6	320.6	0.0	357.3	333.0	7.3	380.5	345.8	10.0
EBITDA (SGDm)	368.9	368.9	0.0	406.6	382.3	6.4	430.9	396.2	8.8
Core net profit (SGDm)	270.0	270.0	0.0	300.2	280.2	7.1	319.2	290.8	9.8
EPS (SGD)	0.93	0.93	0.0	1.03	0.96	7.1	1.10	1.00	9.8
			Chg (ppt)			Chg (ppt)			Chg (ppt)
Gross Margin	24.1%	24.1%	0.0	24.6%	24.1%	0.5	24.6%	24.1%	0.5
Net Margin	8.3%	8.3%	0.0	8.8%	8.4%	0.4	8.9%	8.4%	0.5

Source: Maybank IBG Research

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	17.9	13.6	13.9	12.5	11.7
Core P/E (x)	17.1	13.4	13.9	12.5	11.7
Core FD P/E (x)	17.2	13.5	13.9	12.5	11.8
P/BV (x)	2.0	1.7	1.3	1.3	1.2
P/NTA (x)	2.0	1.7	1.3	1.3	1.2
Net dividend yield (%)	4.1	4.4	5.8	5.8	5.8
FCF yield (%)	1.1	5.3	21.4	nm	25.5
EV/EBITDA (x)	11.6	8.8	6.4	7.4	5.3
EV/EBIT (x)	12.8	9.4	7.4	8.5	6.0

INCOME STATEMENT (SGD m)

Revenue	3,107.5	3,863.7	3,245.5	3,407.8	3,578.2
EBITDA	389.9	472.7	368.9	406.6	430.9
Depreciation	(36.9)	(32.4)	(47.3)	(48.3)	(49.4)
Amortisation	(1.0)	(0.4)	(1.0)	(1.0)	(1.0)
EBIT	352.0	439.9	320.6	357.3	380.5
Net interest income / (exp)	6.3	8.7	9.0	9.0	9.0
Associates & JV	0.2	0.3	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	358.6	448.9	329.6	366.3	389.5
Income tax	(47.3)	(78.8)	(59.3)	(65.9)	(70.1)
Minorities	(0.3)	(0.5)	(0.2)	(0.2)	(0.2)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	311.1	369.6	270.0	300.2	319.2
Core net profit	311.1	369.6	270.0	300.2	319.2

BALANCE SHEET (SGD m)

Cash & Short Term Investments	807.9	812.6	1,382.1	728.8	1,466.2
Accounts receivable	829.2	906.4	694.2	1,079.8	782.9
Inventory	1,049.4	1,065.3	689.4	1,071.7	777.5
Property, Plant & Equip (net)	215.2	224.9	215.2	206.2	198.1
Intangible assets	652.8	663.5	663.5	663.5	663.5
Investment in Associates & JVs	0.6	0.8	0.8	0.8	0.8
Other assets	80.1	77.9	67.2	67.2	67.2
Total assets	3,635.3	3,751.4	3,712.3	3,817.9	3,956.1
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	643.6	533.1	587.2	610.4	647.1
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	272.0	375.0	230.0	230.0	230.0
Total Liabilities	915.8	908.5	817.1	840.2	876.9
Shareholders Equity	2,716.4	2,839.7	2,891.8	2,974.0	3,075.3
Minority Interest	3.1	3.2	3.4	3.6	3.8
Total shareholder equity	2,719.5	2,842.9	2,895.2	2,977.6	3,079.1
Total liabilities and equity	3,635.3	3,751.4	3,712.3	3,817.9	3,956.1

CASH FLOW (SGD m)

Pretax profit	358.6	448.9	329.6	366.3	389.5
Depreciation & amortisation	37.9	32.9	48.3	49.3	50.4
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(255.3)	(133.9)	520.9	(744.7)	627.8
Cash taxes paid	(55.6)	(51.7)	(59.3)	(65.9)	(70.1)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	85.3	295.8	839.4	(395.0)	997.6
Capex	(25.3)	(32.5)	(37.5)	(39.4)	(41.3)
Free cash flow	60.0	263.3	801.9	(434.4)	956.3
Dividends paid	(217.9)	(218.1)	(217.9)	(217.9)	(217.9)
Equity raised / (purchased)	5.8	5.5	0.0	0.0	0.0
Change in Debt	0.0	(11.1)	0.0	0.0	0.0
Other invest/financing cash flow	30.3	10.1	(14.5)	(1.0)	(1.0)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(121.8)	49.7	569.5	(653.3)	737.4

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	3.1	24.3	(16.0)	5.0	5.0
EBITDA growth	3.0	21.2	(22.0)	10.2	6.0
EBIT growth	4.7	24.9	(27.1)	11.5	6.5
Pretax growth	4.9	25.2	(26.6)	11.1	6.3
Reported net profit growth	5.0	18.8	(26.9)	11.2	6.3
Core net profit growth	5.0	18.8	(26.9)	11.2	6.3
Profitability ratios (%)					
EBITDA margin	12.5	12.2	11.4	11.9	12.0
EBIT margin	11.3	11.4	9.9	10.5	10.6
Pretax profit margin	11.5	11.6	10.2	10.7	10.9
Payout ratio	70.0	59.0	80.7	72.6	68.3
DuPont analysis					
Net profit margin (%)	10.0	9.6	8.3	8.8	8.9
Revenue/Assets (x)	0.9	1.0	0.9	0.9	0.9
Assets/Equity (x)	1.3	1.3	1.3	1.3	1.3
ROAE (%)	11.7	13.3	9.4	10.2	10.6
ROAA (%)	9.0	10.0	7.2	8.0	8.2
Liquidity & Efficiency					
Cash conversion cycle	140.8	138.6	135.1	133.2	133.2
Days receivable outstanding	88.7	80.9	88.8	93.7	93.7
Days inventory outstanding	133.6	130.2	128.2	123.3	123.3
Days payables outstanding	81.6	72.4	81.9	83.8	83.8
Dividend cover (x)	1.4	1.7	1.2	1.4	1.5
Current ratio (x)	3.0	3.2	3.4	3.5	3.5
Leverage & Expense Analysis					
Asset/Liability (x)	4.0	4.1	4.5	4.5	4.5
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 (%)	0.8	0.8	1.2	1.2	1.2
Net debt/ (net cash)	(807.9)	(812.6)	(1,382.1)	(728.8)	(1,466.2)

Source: Company; Maybank IBG Research

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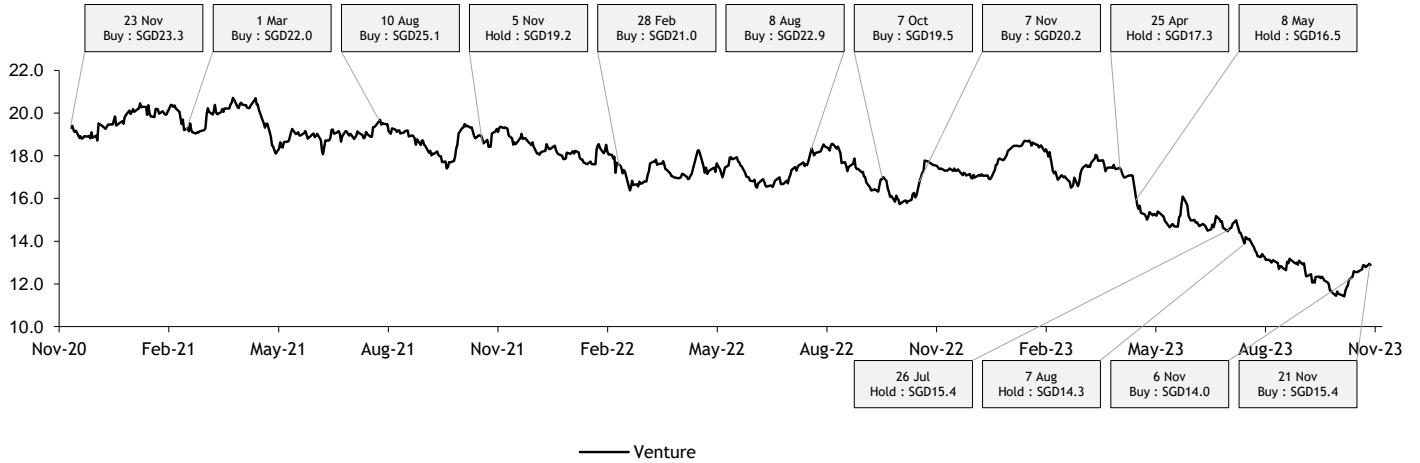
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