

Venture (VMS SP)

Venturing into a 2H20 recovery

Earnings inflection in sight; upgrade to BUY

VMS' customers appear more positive towards 2020 than 2019, from both company specific factors (e.g. new products) and their assessment of end-markets. As such, we raise FY20-21E EPS by 6-8% (broadly in line with FactSet consensus), and raise ROE-g/COE-g TP to SGD18.23, now based on 2.0x FY20E P/B (prev: 1.8x). Referencing history, sustained improvement in macro conditions may present upside risk to consensus EPS estimates. VMS is trading at an undemanding 12.7x FY20E P/E and 4% yield.

Three themes driving improving sentiment

Improving sentiment among VMS' customers (see Fig 3 for details) are generally along the themes of i) robust product pipeline; ii) pent-up demand from delayed spending; and/ or iii) 5G roll-out. We see VMS as a beneficiary of these trends as, over the next 12 months, it will be supporting customers' key product introductions across multiple domains.

Two key drivers of positive consensus EPS revisions

2H06-07 and 2H16-17 were periods that consensus forward EPS were consistently revised higher. This coincided with a favourable macro environment for capex spending, as well as successful product launches by customers. This may repeat in 2020-21 if the improvement in macro conditions is sustained. Although customers are currently split between those observing strong vs. mixed end-markets, they are largely in agreement in signalling better 2020 prospects than 2019. Outlook for customers appears to be stabilizing, with consensus revisions for customer 2020 revenue negligible since 4Q19. This contrasts to 9M19 when there were frequent downward revisions as the US-China trade war escalated.

Valuations are undemanding

If our thesis plays out, we believe VMS may see YoY earnings growth in 2H2O, assuming 1H:2H seasonality of 46:54. During 2006-07 and 2016-17, VMS' forward P/Es were typically between mean and +1SD above mean. Key risk is if the cautious environment persists, resulting in i) weaker than expected volumes; or ii) delays in new product introductions. We see potential headwinds from trade, US elections and/or general manufacturing related issues. The ongoing earnings season may be pivotal as more customers introduce 2020 outlooks, and VMS' comments on prospects. VMS reports 4Q19 earnings on 27 Feb, and we expect 4Q19 PATMI of SGD83m.

FYE Dec (SGD m)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	4,005	3,485	3,589	3,769	3,995
EBITDA	459	456	440	465	494
Core net profit	360	369	353	371	395
Core FDEPS (cts)	125.7	127.4	121.5	127.5	135.9
Core FDEPS growth(%)	95.2	1.4	(4.6)	5.0	6.5
Net DPS (cts)	60.0	70.0	70.0	70.0	70.0
Core FD P/E (x)	16.3	10.9	13.1	12.5	11.7
P/BV (x)	2.7	1.7	1.8	1.7	1.6
Net dividend yield (%)	2.9	5.0	4.4	4.4	4.4
ROAE (%)	18.0	16.3	14.6	14.3	14.3
ROAA (%)	12.2	11.6	10.9	11.0	11.0
EV/EBITDA (x)	11.0	7.2	8.4	7.7	7.0
Net gearing (%) (incl perps)	net cash				
Consensus net profit	-	-	364	381	395
MKE vs. Consensus (%)	-	-	(2.9)	(2.7)	0.0

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BUY

[Prior:HOLD]

Share Price SGD 15.90

12m Price Target SGD 18.23 (+19%)

Previous Price Target SGD 16.91

Company Description

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

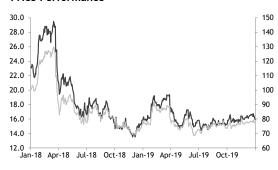
Statistics

52w high/low (SGD)	19.39/14.37
3m avg turnover (USDm)	12.6
Free float (%)	91.0
Issued shares (m)	290
Market capitalisation	SGD4.6B
	USD3.4B
Major shareholders:	

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	(2)	4	0
Relative to index (%)	(3)	2	(1)

Source: FactSet

Signs of stabilisation; Eyeing 2H20 recovery

We believe VMS may return to YoY earnings growth in 2H20, underpinned by i) robust pipeline of key product launches for customers; and ii) improving customer sentiment. Additionally, consensus' 2020 revenue forecast for VMS' customers have been broadly unchanged through 4Q19 as trade tensions subsided. This contrasts with the frequent downward revisions through 9M19 as trade tensions escalated. This suggests that VMS' customer base is showing signs of operational stabilisation.

Customers are mainly more positive on 2020 than 2019 due to three key company/ industry specific reasons: i) robust product pipeline (e.g. Agilent, HP); ii) pent-up demand from delayed spending (Waters, HP); and iii) 5G roll-out (Keysight, Broadcom, Marvell, Lumentum).

On the back of a more sanguine outlook, we raise FY20-21E EPS by 6-8%, now in line with FactSet consensus. Our ROE-g/COE-g TP rises to SGD18.23, now based on 2.0x FY20E P/B (from 1.8x previously). This is in turn based on an average FY20-22E ROE of 13.9%, and LTG of 2%. Our TP infers FY20E P/E of 14.2x, in line with its own historical mean. During periods of recovery, VMS has typically traded between mean (13.8x P/E) and +1SD above mean forward P/E (16.3x), in instances even higher.

VMS' earnings typically outperforms consensus expectations during periods characterised by i) strong or improving macro outlook, ii) successful launches of new products, and iii) absence of negative company specific factors, such as disruptions caused by major customers' M&As. As VMS has indicated that it will support customers for key product launches in the next 12 months, we do not rule out consensus earnings upgrades through 2020 if the macro economy improves.

We believe a key risk to our view is if the cautious environment persists, for instance due to headwinds that are trade, US elections and/or general manufacturing related. However, we note that certain key customers such as Agilent, Thermo Fisher and Honeywell view that the macro economy has bottomed, and expect 2020 to be better than 2019. ABB, which recently noted an improving economy at the World Economic Forum, is prepared to invest countercyclically to entrench its long-term position as soon as clarity emerges on Phase 2 of the US-China trade agreement.

Fig 1: Earnings revisions for VMS

		FY19E			FY20E			FY21E	
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (SGDm)	3,589.1	3,589.1	0.0	3,768.6	3,660.9	2.9	3,994.7	3,880.6	2.9
Gross profit (SGDm)	890.1	890.1	0.0	934.6	907.9	2.9	998.7	962.4	3.8
EBIT (SGDm)	403.3	403.3	0.0	426.7	402.2	6.1	455.2	421.9	7.9
EBITDA (SGDm)	440.2	440.2	0.0	464.8	440.2	5.6	494.2	460.8	7.3
Core net profit (SGDm)	353.1	353.1	0.0	371.0	350.1	6.0	395.2	366.9	7.7
EPS (SGD)	1.22	1.22	0.0	1.28	1.20	6.0	1.36	1.26	7.7
			Chg (ppt)			Chg (ppt)			Chg (ppt)
Gross material margin	24.8%	24.8%	0.0	24.8%	24.8%	0.0	25.0%	24.8%	0.2
SGA as % of sales	9.1%	9.1%	0.0	9.0%	9.1%	-0.1	9.2%	9.3%	-0.1

Source: Maybank Kim Eng



Fig 2: Expected earnings seasonality for FY20

Items	1Q20E	2Q20E	3Q20E	4Q20E	Notes
PATMI (SGDm)	81.6	89.0	96.5	103.9	
As a % of full year	22%	24%	26%	28%	Assuming 1H:2H seasonality of 46:54, in line with traditional seasonality of 45:55.
YoY growth	-10%	-6%	13%	26%	•

Source: Maybank Kim Eng

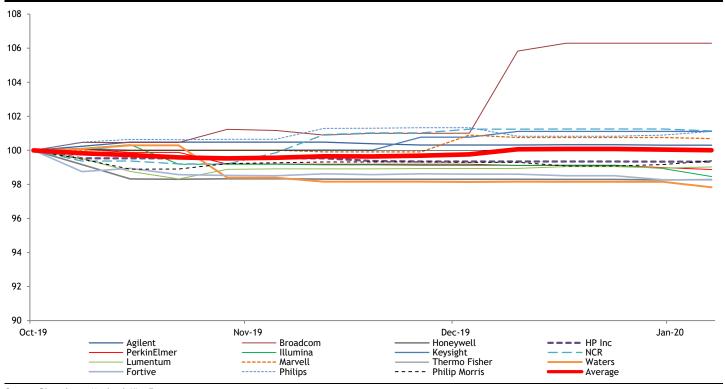
Fig 3: Key takeaways from customers

Ecosystem domain	E.g. customers	Outlook from latest available earnings/ conference transcripts	Tone
		Life science/ Med tech/ Health care • Agilent:	Cautiously positive
		 Thermo Fisher: Expects strong end-markets in 2020. Notes fewer talks of recessions. 	Positive
Life Science & nstrumentation Medical	Agilent, Thermo Fisher,	• Illumina: guiding for lower NovaSeq shipments YoY in 2020.	Negative
Technology & Healthcare Test & Test & Test & Test & Test	Illumina, Perkin Elmer, Keysight, Fortive	 Waters: Challenging 2019 as pharmaceutical companies delay spending amid cautious outlook Waters believes 2020 may be a stronger beneficiary of 2019 new product launches, although this depends on 4Q19 performance. 	Mixed
		Test & measurement • Keysight: → Notes 5G adoption is gaining scale → Cites headwinds as being trade, election and general manufacturing related → Expects to outgrow end-market demand, which is estimated to be low-to-mid single digit.	Cautiously positive
		 Broadcom: Optimistic of prospects with industry leading portfolio. Expects cloud spending to remain strong in 2020. Enterprise spending, which has recently paused, should pick up in 2H20. 	Positive
RF & Communication	Broadcom, Marvell, Lumentum	 Marvell: Believes its growth from 5G roll-outs is still in early innings. Expects strong 5G-related revenue in 2H20 from roll-out initiatives in Korea, Japan and US. 	Positive
		• Lumentum: Expects datacom and telecom businesses to do well in 2020 from strong demand from data centre interconnects and 5G deployment in China.	Positive
Financial echnology	NCR, Ingenico	 NCR: Raised FY19 revenue guidance, noting broad-based strength. In 2020, a potential booster is Windows 10 related upgrades as around 2/3 of install base are still on Windows 7. 	Positive
Consumer / Lifestyle	Philip Morris	• Philip Morris: Now has 12.4m IQOS users (+10% QoQ, +41% YoY). Global launch of IQOS 3 Duo is underway, and next major product update is in late 2020.	Positive
• Advanced		 HP: Expects industry CPU shortage to persist in 1H20. Confident of business driven upgrades in 2H20 as around a-third of customers are still on Windows 7, and "a large base" of PCs are more than four years old. 	Mixed
ndustrial Safety & ecurity Others	ABB, Honeywell, HP Inc	• Honeywell: In an Oct-19 interview, CEO notes a strong global environment, emphasizing that 3Q19 backlog was "up high single digits" and "double digit booking gains" in places like China and the Middle East". Guidance reaffirmed in Nov-19.	Positive
		 ABB: At WEF in Jan-20, Chairman notes economy is behaving better than a few months ago. ABB is prepared to take countercyclical measures to cement long-term prospects as soon as clarity emerges on regulatory and legal framework of Phase 2 US-China trade agreement. 	Cautiously positive

Source: Companies, Maybank Kim Eng

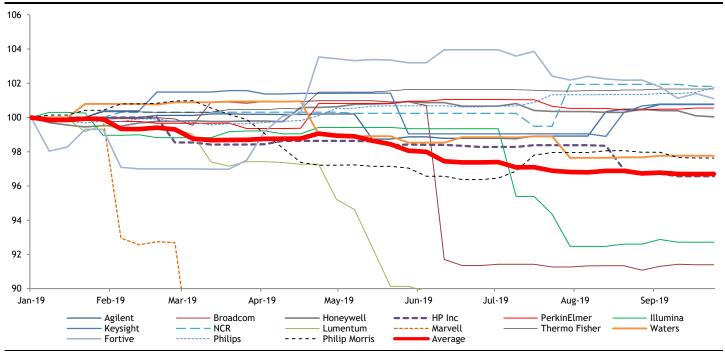
January 29, 2020

Fig 4: Consensus' expectations for VMS' customers' 2020 revenue appears to have stabilised in 4Q19 through now...



Source: Bloomberg, Maybank Kim Eng

Fig 5: As compared to frequent downward revisions that occurred throughout 9M19 as trade tensions escalated



Source: Bloomberg, Maybank Kim Eng

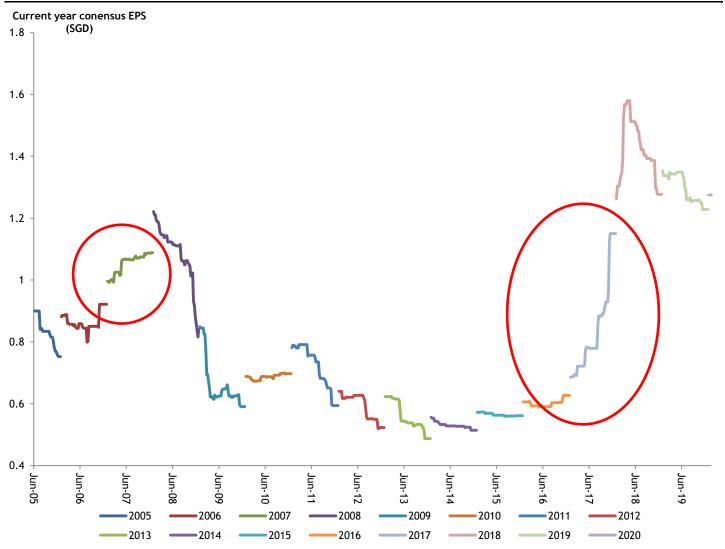
Fig 6: Consensus continues to expect VMS' customers to deliver revenue growth in 2020.

Wtil ill 2020.					
		Sales gro	wth (%)		
	CY19E	CY2	20E	CY21E	
Venture (consensus)	1	%	3%		4%
ABB	1	%	1%		3%
Agilent	4	%	8%		6%
Broadcom	8	%	11%		5%
Honeywell	-12	%	4%		3%
Fortive	13	%	6%		3%
HP Inc	(%	-1%		-1%
Illumina	•	%	12%		14%
Keysight	10	96	7%		6%
NCR	•	%	1%		3%
Marvell	(96	-6%		14%
Lumentum	-1	%	13%		11%
Thermo Fisher		%	6%		6%
Waters	.	%	4%		4%
Philip Morris	1	%	5%		5%
Royal Philips	8	%	5%		5%
PerkinElmer	<u> </u>	%	7%		6%
Medtronic	(%	3%		5%
Average ex-VMS	3	%	5%		6%

Source: Bloomberg, Maybank Kim Eng

Fig 7: Consensus EPS is typically revised higher during periods of improving macro and customers' successful product introductions (e.g. 2H06-07, 2H16-17)

In years 2011-2014, downward EPS revisions were generally due to customer M&As and challenging business outlook.



Source: Bloomberg, Maybank Kim Eng

Fig 8: Forward P/E



Source: FactSet

Fig 9: Forward P/B



Source: FactSet

Fig 10: Peer comparisons

C	DDC.		MKE	Deiter	EVE			D. / =	. (-)		EV Div /EBITD yield	yield	ROE
Company	BBG	MKE	TP	Price	FYE	Мсар			(x)		A (x)	(%)	(%)
	Code	Rec	(LC)	(LC)	mm	USDm	Act	FY1	FY2	FY3	FY1	FY1	FY1
Venture Corp	VMS SP	Buy	18.23	15.90	12	3,530	12.6	13.1	12.7	12.1	8.4	4.4	14.6
Singapore listed EMS and precision engineering peers													
Valuetronics	VALUE SP	Buy	0.98	0.79	03	253	9.1	10.5	9.8	9.4	3.7	5.8	15.2
Sunningdale Tech	SUNN SP	NR	-	1.29	12	183	8.2	28.7	15.0	13.6	-	-	4.3
HI-P Int'l	HIP SP	Sell	1.34	1.45	12	952	11.6	13.4	11.4	10.8	4.4	2.1	16.0
Average							12.1	13.6	12.4	11.8	7.4	3.9	14.5
High mix low volume EMS peers													
Benchmark Elec	BHE US	NR	-	35.81	12	1,347	24.7	25.0	21.4	16.9	-	-	-
Plexus	PLXS US	NR	-	75.95	09	2,219	22.1	18.9	16.3	13.6	10.4	-	12.5
Average							23.1	21.2	18.2	14.8	10.4	0.0	12.5
Global EMS peers													
Hon Hai	2317 TT	NR	-	92.30	12	42,744	11.6	11.0	10.1	9.5	6.4	4.3	9.3
Flex	FLEX US	NR	-	12.83	03	6,522	11.3	10.5	9.1	7.9	5.2	0.0	21.3
Jabil	JBL US	NR	-	41.40	08	6,297	13.9	11.4	10.2	9.4	4.4	0.8	29.1
Pegatron	2938 TT	NR	-	68.00	12	5,931	16.0	10.9	11.1	10.9	4.8	5.8	9.8
SKP Resources	SKP MK	NR	-	1.55	03	477	19.9	18.1	14.4	12.3	-	2.8	19.0
V.S. Industry	VSI MK	NR	1.52	1.49	07	683	16.6	15.4	13.3	12.2	7.5	2.8	10.6
Sanmina	SANM	NR	-	32.66	09	2,307	9.6	10.6	9.6	10.0	-	0.0	-
FIH Mobile	2038 HK	NR	-	1.49	12	1,573	-	-	9.6	9.6	nm	-	-
Celestica	CLS CN	NR	-	11.50	12	958	8.2	17.2	11.3	8.9	5.1	0.0	-
Fabrinet	FN US	NR	-	65.55	06	2,426	17.2	17.5	15.4	13.9	12.3	nm	13.5
Average							12.4	11.4	10.3	9.7	6.2	4.1	12.7

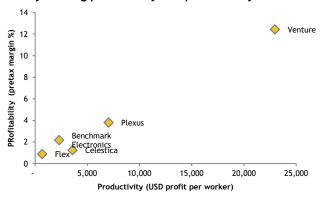
Source: Bloomberg, FactSet, Maybank Kim Eng



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

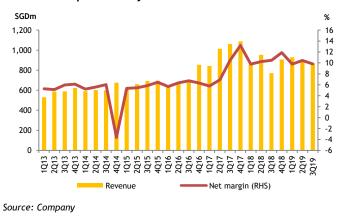


Source: Bloomberg, Companies

Financial Metrics

- We expect VMS' to resume YoY earnings growth in 2H20 as it ramps up production of new products for customers.
- Operating margins should be steady from more products with higher R&D content & cost control.
- Net cash since 2008. Healthy FCF levels in FY19-21E could provide upside for dividends.

New level of profitability



Price Drivers

Historical share price trend



Source: Company, FactSet, Maybank Kim Eng

- 1. Street raised TPs for the first time in two years following strong 3Q/4Q16 earnings.
- 2. Strong 2Q17. Increasing market familiarity with the potential of VMS emanating from Illumina and cloud / 5G network spending.
- 3. CEO Wong Ngit Liong bought 400,000 shares at SGD15.26.
- 4. 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.

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.

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FYE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Key Metrics P/E (reported) (x)	10.9	15.5	13.0	12.4	11.6
Core P/E (x)	16.0	10.8	13.0	12.4	11.6
Core FD P/E (x)	16.3	10.9	13.1	12.5	11.7
P/BV (x)	2.7	1.7	1.8	1.7	1.6
P/NTA (x)	2.7	1.7	1.8	1.7	1.6
Net dividend yield (%)	2.9	5.0	4.4	4.4	4.4
FCF yield (%)	8.2	4.3	7.9	7.1	7.4
EV/EBITDA (x)	11.0	7.2	8.4	7.7	7.0
EV/EBIT (x)	11.8	7.8	9.2	8.4	7.6
INCOME STATEMENT (SGD m)					
Revenue	4,004.5	3,484.6	3,589.1	3,768.6	3,994.7
Gross profit	965.4	953.8	890.1	934.6	998.7
EBITDA	459.0	455.5	440.2	464.8	494.2
Depreciation	(31.1)	(30.7)	(35.9)	(37.0)	(38.0)
Amortisation	(1.1)	(1.1)	(1.0)	(1.0)	(1.0)
EBIT	426.9	423.7	403.3	426.7	455.2
Net interest income /(exp)	2.8	8.2	10.0	10.0	10.0
Associates & JV	1.7	(0.1)	0.0	0.0	0.0
Exceptionals	11.3	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	442.7	431.9	413.3	436.7	465.2
Income tax	(71.0)	(62.9)	(59.9)	(65.5)	(69.8)
Minorities	0.1	(0.2)	(0.2)	(0.2)	(0.2)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	371.7	368.8	353.1	371.0	395.2
Core net profit	360.4	368.8	353.1	371.0	395.2
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	752.4	712.8	873.7	997.7	1,134.1
Accounts receivable	765.7	735.9	719.4	767.4	808.6
Inventory	699.6	808.2	744.7	808.2	833.5
Property, Plant & Equip (net)	197.9	230.7	219.9	212.7	206.7
Intangible assets	640.6	639.9	639.9	639.9	639.9
Investment in Associates & JVs	0.8	0.7	0.7	0.7	0.7
Other assets	87.1	76.4	60.9	60.9	60.9
Total assets	3,144.2	3,204.6	3,259.3	3,487.6	3,684.4
ST interest bearing debt	30.8	1.8	1.8	1.8	1.8
Accounts payable	591.3	529.0	506.2	565.2	567.5
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	354.0	322.0	248.0	248.0	249.0
Total Liabilities Shareholders Equity	976.1 2,165.8	852.5 2,349.9	755.7 2,501.1	814.7	818.0
Minority Interest	2,165.6	2,349.9	2,501.1	2,670.3 2.6	2,863.6
Total shareholder equity	2,3 2,168.1	2,352.1	2,503.6	2,672.9	2.8 2,866.5
Total liabilities and equity	3,144.2	3,204.6	3,259.3	3,487.6	3,684.4
CASH ELOW (CCD)					
CASH FLOW (SGD m)	442.7	434.0	442.2	424 7	4/5.3
Pretax profit	442.7	431.9	413.3	436.7	465.2
Depreciation & amortisation	32.1	31.8	36.9	38.0	39.0
Adj net interest (income)/exp	0.0	(170.0)	0.0	0.0 (F2.F)	0.0
Change in working capital Cash taxes paid	76.8	(170.9)	(1.4)	(52.5) (65.5)	(63.3)
•	(51.2)	(56.3)	(59.9)	, ,	(69.8)
Other operating cash flow Cash flow from operations	0.0 498.7	0.0 236.6	0.0 388.9	0.0 356.7	0.0 371.2
Capex	(25.8)	(63.6)	(25.1)	(29.8)	(31.9)
Free cash flow	473.0	173.0	363.8	326.9	339.2
Dividends paid	(140.7)	(230.0)	(201.9)	(201.9)	(201.9)
Equity raised / (purchased)	48.0	(230.0) 41.5	0.0	0.0	0.0
	-0.0				
	(61 R)	779 M			
Change in Debt	(61.8) (55.5)	(29.0) 3.8	0.0 (1.0)	0.0 (1.0)	
Change in Debt Other invest/financing cash flow Effect of exch rate changes	(61.8) (55.5) (11.4)	(29.0) 3.8 0.0	(1.0) 0.0	(1.0) 0.0	0.0 (1.0) 0.0



FYE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Key Ratios					
Growth ratios (%)					
Revenue growth	39.3	(13.0)	3.0	5.0	6.0
EBITDA growth	79.4	(0.8)	(3.4)	5.6	6.3
EBIT growth	103.8	(0.7)	(4.8)	5.8	6.7
Pretax growth	106.3	(2.4)	(4.3)	5.7	6.5
Reported net profit growth	107.2	(0.8)	(4.3)	5.1	6.5
Core net profit growth	100.9	2.3	(4.3)	5.1	6.5
Profitability ratios (%)					
EBITDA margin	11.5	13.1	12.3	12.3	12.4
EBIT margin	10.7	12.2	11.2	11.3	11.4
Pretax profit margin	11.1	12.4	11.5	11.6	11.6
Payout ratio	45.5	54.4	57.1	54.4	51.1
DuPont analysis					
Net profit margin (%)	9.3	10.6	9.8	9.8	9.9
Revenue/Assets (x)	1.3	1.1	1.1	1.1	1.1
Assets/Equity (x)	1.5	1.4	1.3	1.3	1.3
ROAE (%)	18.0	16.3	14.6	14.3	14.3
ROAA (%)	12.2	11.6	10.9	11.0	11.0
Liquidity & Efficiency					
Cash conversion cycle	80.7	105.1	107.5	101.6	101.6
Days receivable outstanding	66.5	77.6	73.0	71.0	71.0
Days inventory outstanding	78.3	107.2	103.6	98.6	98.6
Days payables outstanding	64.1	79.7	69.0	68.1	68.1
Dividend cover (x)	2.2	1.8	1.8	1.8	2.0
Current ratio (x)	2.3	2.7	3.1	3.2	3.4
Leverage & Expense Analysis					
Asset/Liability (x)	3.2	3.8	4.3	4.3	4.5
Net gearing (%) (incl perps)	net cash				
Net gearing (%) (excl. perps)	net cash				
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.1	0.0	0.0	0.0	0.0
Capex/revenue (%)	0.6	1.8	0.7	0.8	0.8
Net debt/ (net cash)	(721.6)	(711.0)	(871.9)	(995.9)	(1,132.3)

Source: Company; Maybank

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Technical Analysis



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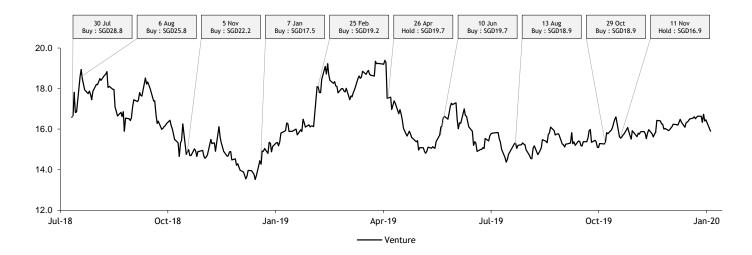
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