

Venture (VMS SP)

One for the late cycle play

BUY

Share Price	SGD 17.15
12m Price Target	SGD 21.00 (+27%)
Previous Price Target	SGD 21.00

Riding a post-Covid recovery; BUY

1Q22 PATMI of SGD84m (+28.6% YoY) beat our and consensus estimates, accounting for c.24% of our full year forecast (1Q historically accounts for c20-22%), driven by broad-based growth. Maintain BUY with unchanged TP of SGD21.00 (17.2x FY22E P/E) as we see earnings recovery this year towards pre-Covid levels (2019: SGD363m) as a catalyst, as this narrative contrasts other tech plays globally where demand slowdown is a key concern.

Broad-based growth drives strong momentum

Revenue grew 29.5% YoY to SGD889.3m on the back of broad-based growth (6 out of 7 domains registered growth). Despite inflationary pressures, PBT margin was healthy at 11.5% (+0.6ppt QoQ, -0.6ppt YoY), which was attributed to Venture's differentiating capabilities versus competitors and cost control, among others. Effective tax rate rose from 12.9% to 18.0%, primarily due to lower incentives in Singapore after the global minimum tax rate agreement. Within growth domains, advanced payments and healthcare & wellness stood out in 1Q22, largely catalysed by the reinvention of retail and hospitality sectors globally amid re-openings.

Living with challenges

Venture expects the near-term operating environment to remain uncertain. Amid a still strong demand backdrop, some ways to mitigate supply-side challenges include holding higher levels of inventory to ensure availability of components, and component redesign. For the latter, enabling factors are i) having design content within an extensive range of products, and ii) customers' trust and close working relationship over many years.

Bright demand outlook

Customers' orders and forecasts continue to point towards a robust and steady outlook across multiple domains, such as wellness, life science, instrumentation, test and measurement and advanced industrial. In our view, the key risks remain the material worsening of supply chain issues and inflation.

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	14.1	12.9	11.9
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	12.7	13.2	13.5
ROAA (%)	9.1	9.0	9.8	10.3	10.5
EV/EBITDA (x)	12.4	11.6	9.1	8.3	7.5
Net gearing (%) (incl perps)	net cash				
Consensus net profit	-	-	346	379	411
MKE vs. Consensus (%)	-	-	2.6	2.4	2.4

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Company Description

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

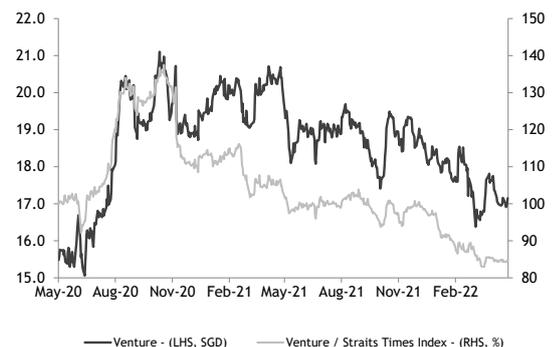
Statistics

52w high/low (SGD)	20.15/16.38
3m avg turnover (USDm)	15.2
Free float (%)	91.0
Issued shares (m)	290
Market capitalisation	SGD5.0B USD3.6B

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 (%)	(3)	(3)	(16)
Relative to index (%)	(1)	(6)	(19)

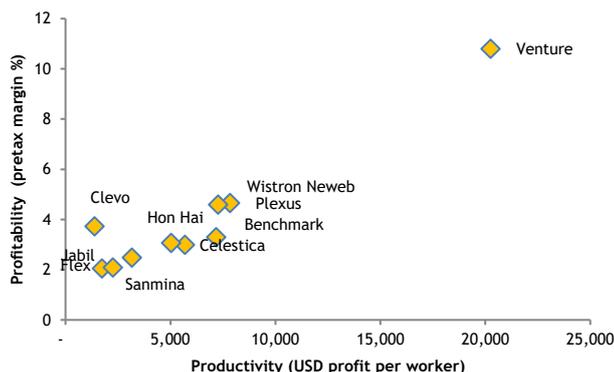
Source: FactSet

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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



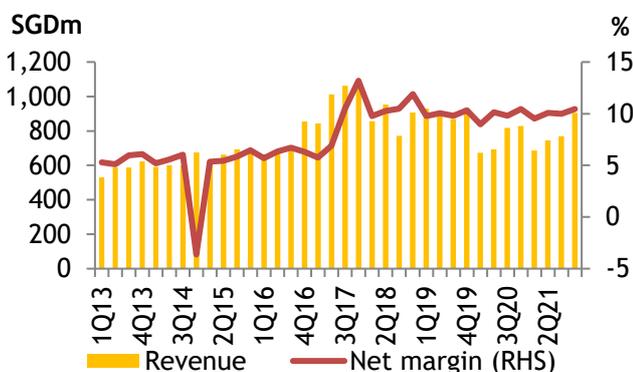
Source: Company, FactSet, Maybank IBG Research

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% 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 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.

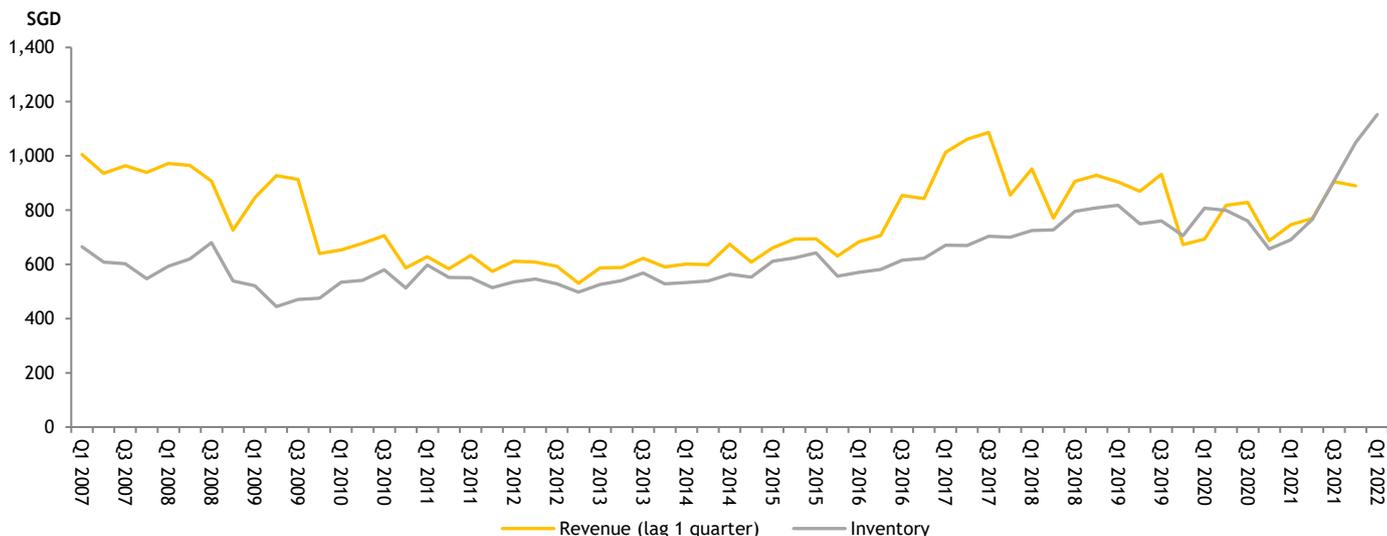
Key G metrics and issues

- The board consist 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).

Fig 1: Revenue vs inventory

As demand remains robust, Venture is holding elevated inventory to ensure ability to meet delivery expectations. According to Venture, inventory largely comprises non-finished items (i.e. inputs) and remains very current.



Source: Company, FactSet

Fig 2: 6 out of 7 domains registered growth in 1Q22

Broad-Based YoY Growth Across Domains

Portfolio A

1. Life Science, Genomics, Molecular Diagnostics and Related Materials Technology	Growth
2. Medical Devices and Equipment	Growth
3. Healthcare & Wellness Technology, Lifestyle Consumer Tech, Health Improvement Products and Others	Growth
Overall Portfolio A Performance	Growth

Portfolio B

4. Instrumentation, Test & Measurement Technology	Growth
5. Networking & Communications, Security & Safety, Building Automation, Industrial IOT	Flat
6. Advanced Payment Systems	Growth
7. Computing & Productivity Systems, Advanced Industrial Technology, Printing & Imaging, Related Components Technology and Others	Growth
Overall Portfolio B Performance	Growth

Diversified across more than 100 customers

Source: Company

Fig 3: 1Q22 summary

FYE Dec	1Q21	1Q20	4Q21	YoY Chg	QoQ Chg	FYE	1Q22 vs FYE
	SGDm	SGDm	SGDm	(%)	(%)	SGDm	(%)
Revenue	889.3	686.7	905.4	29.5	-1.8	3,542.5	25.1
Pretax profit	102.6	75.0	109.7	36.8	-6.5	409.1	25.1
PATMI	84.0	65.3	94.7	28.6	-11.3	354.9	23.7
Core PATMI	84.0	65.3	94.7	28.6	-11.3	354.9	23.7
PBT margin	11.5%	10.9%	12.1%				
Net margin	9.5%	9.5%	10.5%				

Source: Company, Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	17.1	17.9	14.0	12.8	11.9
Core P/E (x)	19.0	17.1	14.0	12.8	11.9
Core FD P/E (x)	19.1	17.2	14.1	12.9	11.9
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	6.9	5.3	6.2
EV/EBITDA (x)	12.4	11.6	9.1	8.3	7.5
EV/EBIT (x)	14.0	12.8	10.1	9.2	8.2

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 gearing (%) (excl. perps)	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 IBG Research

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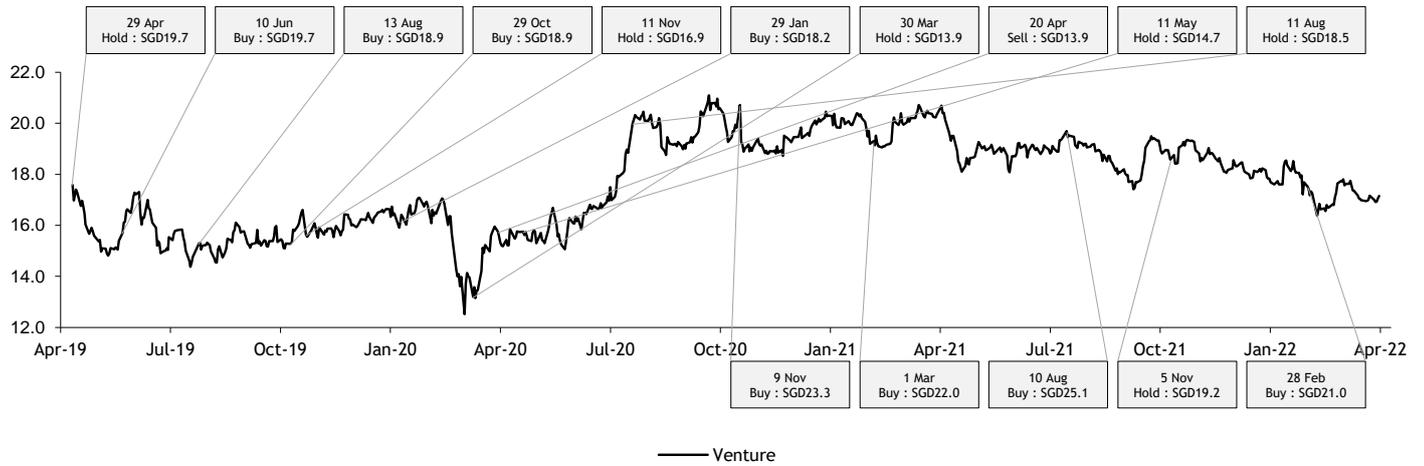
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