



Venture Corporation Limited

No recovery visible, only dividends

SINGAPORE | TECHNOLOGY (MANUFACTURING) | 1H23 RESULTS

- 2Q23 PAT was down 26% YoY to S\$66.7mn. Results were below expectations. Revenue and PAT were 44%/45% of our FY23e forecast. Medical devices demand is down post-pandemic and other electronic products face overstocking. Interim dividend is maintained at 25 cents.
- We expect the weakness in revenue to persist until year-end. Recovery will come from new products such as EV chargers, semiconductor equipment and data centres.
- We lower our FY23e PATMI by 5% to S\$296mn. Our revenue estimates are cut by 8% to S\$3.3bn. We maintain our NEUTRAL recommendation. Valuations and dividend yield of 5.2% have turned more attractive, but there is little visibility of a recovery in the near-term. The target price is lowered to S\$15.20 (prev. S\$17.10), 15x PE FY23e. Our target valuations have been lowered as current earnings have a higher composition of interest income (7% vs 2% historically).

Results at a glance

SGD '000	1H23	1H22	YoY	Comments
Revenue	1,582,220	1,796,121	-11.9%	
Gross profit	396,699	450,042	-11.9%	
R&D expense	(12,344)	(7,466)	65.3%	Larger number of NPI.
Employee exp.	(162,972)	(172,217)	-5.4%	More restructuring expected.
EBIT	158,379	209,220	-24.3%	
PATMI	140,286	174,496	-19.6%	
GP margin	25.1%	25.1%	0.0%	
DPS - Interim (cents)	25.0	25.0	0.0%	

Source: Company, PSR

The Positive

+ Stable gross margins and healthy net cash. Despite the weaker revenue, gross margins were stable at 25.1%. We believe the weaker ringgit, lower freight cost and reduced labour force were some of the drivers to stable margins. Net cash improved by S\$191mn YoY to S\$896mn. The cash hoard has turned interest income into an earnings growth driver. 1H23 interest income jumped 4-fold from S\$3.1mn to S\$12.5mn.

The Negative

- Inventory is still too high. Inventory in 1H23 declined by S\$248mn to S\$1,002mn. With the lower revenue run-rate, inventory remains a concern with the possibility of write-offs, in our opinion. Annualised inventory days are currently around 137 days vs the pre-pandemic average of 100 days. This implies an excess of almost S\$250mn of inventory compared to the historical average.

Outlook

We expect weakness to persist into the third quarter. The foundation of future growth for Venture stem from new programmes and customers looking to de-risk their supply chain out of North Asia into SE Asia. Malaysia is an attractive location for the deepening scale of the supply chain, skill sets, available space, and low-cost production. Singapore complements engineering expertise and oversight.

Maintain NEUTRAL with a lower TP of S\$15.20 (prev. S\$17.10)

Our FY23e earnings is lowered by 5% as we cut our revenue estimates by 8%.

6 August 2023

NEUTRAL (Maintained)

CLOSING PRICE	SGD 14.38
FORECAST DIV	SGD 0.75
TARGET PRICE	SGD 15.20
TOTAL RETURN	10.9%

COMPANY DATA

BLOOMBERG CODE:	VMS SP
O/S SHARES (MN):	291
MARKET CAP (USD mn / SGD mn):	3130 / 4185
52 - WK HI/LO (SGD):	18.75 / 14.32
3M Average Daily T/O (mn):	1.25

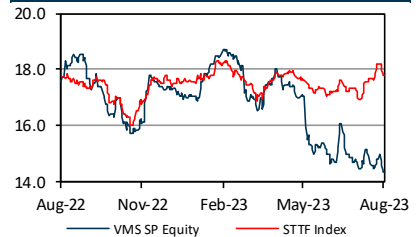
MAJOR SHAREHOLDERS

Wong Ngit Liong	7.1%
Schroders PLC	6.1%
BlackRock Inc	6.0%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(2.6)	(13.2)	(13.1)
STTF	3.4	2.4	4.5

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD mn	FY21	FY22	FY23e	FY24e
Revenue	3,107	3,864	3,284	3,416
EBITDA	387.7	471.0	371.2	384.2
Net Profit	312.1	369.6	295.7	304.8
P/E (X)	13.4	11.4	14.2	13.8
Dividend Yield	5.2%	5.2%	5.2%	5.6%
ROE	11.5%	13.0%	10.1%	10.1%
ROA	8.6%	9.9%	7.6%	7.6%

Source: Company, PSR

VALUATION METHOD

15x PE Multiple FY23e

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Financials

Income Statement

Y/E Dec, SGD '000	FY20	FY21	FY22	FY23e	FY24e
Revenue	3,012,894	3,107,457	3,863,721	3,284,163	3,415,529
Gross profit	796,450	811,973	942,153	815,972	845,136
EBITDA	375,384	387,711	470,960	371,227	384,247
Depreciation & Amortisation	-41,607	-36,879	-32,851	-33,996	-36,650
EBIT	333,777	350,832	438,109	337,231	347,597
Net Finance Inc/(Exp)	5,760	6,346	8,715	22,389	20,493
Profit before tax	342,830	359,588	448,896	361,120	369,590
Taxation	-45,426	-47,266	-78,782	-65,002	-64,678
PATMI	297,325	312,051	369,617	295,718	304,762

Per share data (SGD Cents)

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
EPS, reported	102.5	107.0	126.6	101.3	104.4
DPS	75.0	75.0	75.0	75.0	80.0
BVPS	8.9	9.4	9.8	10.1	10.4

Cash Flow

Y/E Dec, SGD '000	FY20	FY21	FY22	FY23e	FY24e
CFO					
Profit before tax	342,830	359,588	448,896	361,120	369,590
Adjustments	40,938	40,141	24,326	11,850	16,822
WC changes	114,872	-241,543	-152,566	387,609	-42,037
Cash generated from ops	498,640	158,186	320,656	760,579	344,375
Tax paid	-45,020	-55,928	-51,054	-65,002	-64,678
Others	-470	-423	-517	0	0
Cashflow from ops	453,150	101,835	269,085	695,577	279,697
CFI					
CAPEX, net	-27,768	-10,793	-32,724	-25,000	-28,000
Others	7,880	8,704	7,846	22,789	20,293
Cashflow from investments	-19,888	-2,089	-24,878	-2,211	-7,707
CFE					
Share issuance, net	15,554	5,724	5,320	0	0
Loans, net of repayments	-1,120	0	0	0	0
Dividends	-216,900	-217,822	-218,115	-218,676	-218,676
Others	-11,786	-13,623	-13,933	0	0
Cashflow from financing	-214,252	-225,721	-226,728	-218,676	-218,676
Net change in cash	219,010	-125,975	17,479	474,691	53,314
CCE, end	928,740	807,934	812,593	1,287,284	1,340,598

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

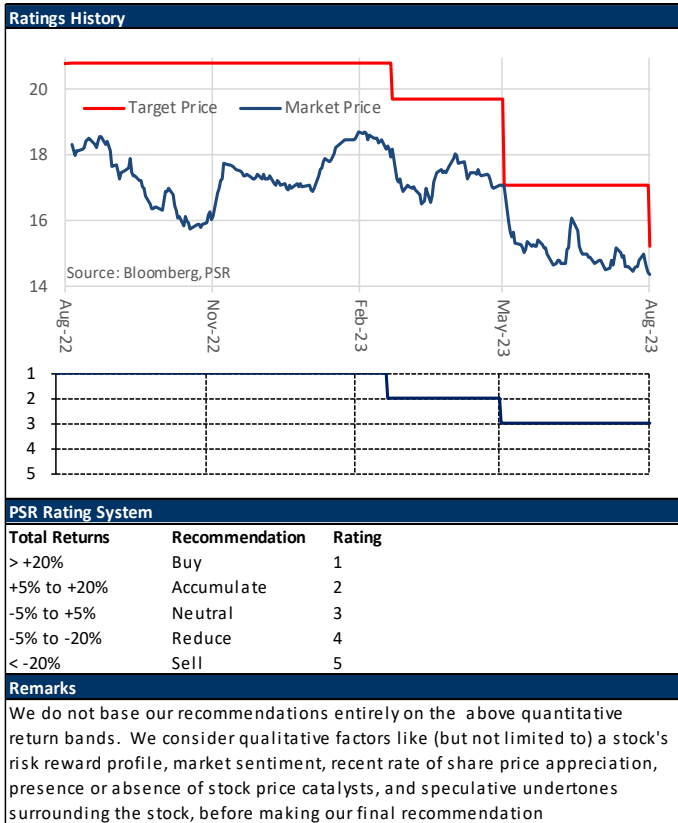
Y/E Dec, SGD '000	FY20	FY21	FY22	FY23e	FY24e
ASSETS					
PPE	226,704	215,169	224,934	215,516	206,534
Others	689,533	682,571	693,563	693,342	693,209
Total non-current assets	916,237	897,740	918,497	908,858	899,743
Receivables	721,377	860,125	944,278	858,941	891,782
Cash	928,740	807,934	812,593	1,287,284	1,340,598
Inventories	656,453	1,049,429	1,065,300	821,041	853,882
Others	16,760	20,033	10,735	10,735	10,735
Total current assets	2,323,330	2,737,521	2,832,906	2,978,000	3,096,998
Total Assets	3,239,567	3,635,261	3,751,403	3,886,858	3,996,740
LIABILITIES					
Accounts payables	555,784	799,952	706,561	764,573	788,219
Tax payable	34,187	25,764	54,567	54,567	54,567
Bank loan	0	0	0	0	0
Others	36,152	73,052	121,211	121,211	121,211
Total current liabilities	636,228	907,499	893,139	951,151	974,797
Deferred tax liabilities	3,365	3,512	1,888	1,888	1,888
Total non-current liabilities	14,210	8,312	15,373	15,373	15,373
Total Liabilities	650,438	915,811	908,512	966,524	990,170
EQUITY					
Non-controlling Interests	2,679	3,098	3,207	3,607	3,757
Shareholder's Equity	2,586,450	2,716,352	2,839,684	2,916,727	3,002,813

Valuation Ratios

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
P/E (X)	14.0	13.4	11.4	14.2	13.8
P/B (X)	1.6	1.5	1.5	1.4	1.4
EV/EBITDA (X)	8.6	8.7	7.1	7.8	7.4

Growth & Margins

Growth					
Revenue	-17.1%	3.1%	24.3%	-15.0%	4.0%
EBITDA	-16.1%	3.3%	21.5%	-21.2%	3.5%
EBIT	-18.4%	5.1%	24.9%	-23.0%	3.1%
PATMI	-18.1%	5.0%	18.4%	-20.0%	3.1%
Margins					
Gross margin	26.4%	26.1%	24.4%	24.8%	24.7%
EBITDA margin	12.5%	12.5%	12.2%	11.3%	11.3%
EBIT margin	11.1%	11.3%	11.3%	10.3%	10.2%
Net profit margin	9.9%	10.0%	9.6%	9.0%	8.9%
Key Ratios					
ROE	11.5%	11.5%	13.0%	10.1%	10.1%
ROA	9.2%	8.6%	9.9%	7.6%	7.6%
Dividend Yield	5.2%	5.2%	5.2%	5.2%	5.6%
Dividend Payout Ratio	73.2%	70.1%	59.2%	74.0%	76.6%



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