



# Venture Corporation Limited

## As weak as during the pandemic

### SINGAPORE | TECHNOLOGY (MANUFACTURING) | 3Q23 UPDATE

6 November 2023

#### NEUTRAL (Maintained)

CLOSING PRICE	SGD 12.19
FORECAST DIV	SGD 0.75
TARGET PRICE	SGD 12.50
TOTAL RETURN	8.7%

#### COMPANY DATA

BLOOMBERG CODE:	VMS SP
O/S SHARES (MN):	291
MARKET CAP (USD mn / SGD mn):	2616 / 3541
52 - WK HI/LO (SGD):	18.75 / 11.36
3M Average Daily T/O (mn):	2.10

#### MAJOR SHAREHOLDERS

Wong Ngit Liong	7.1%
Schroders PLC	6.0%
BlackRock Inc	5.1%

#### PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	1.2	(13.7)	(24.9)
STTF	(1.4)	(3.3)	1.1

#### PRICE VS. STTF



Source: Bloomberg, PSR

#### KEY FINANCIALS

Y/E Dec, SGD mn	FY21	FY22	FY23e	FY24e
Revenue	3,107	3,864	3,052	3,174
EBITDA	387.7	471.0	345.0	357.1
Net Profit	312.1	369.6	272.9	281.2
P/E (X)	11.4	9.6	13.0	12.7
Dividend Yield	6.2%	6.2%	6.2%	6.6%
ROE	11.5%	13.0%	9.4%	9.5%
ROA	8.6%	9.9%	7.1%	7.2%

Source: Company, PSR

#### VALUATION METHOD

13x PE Multiple FY24e

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- 3Q23 PAT was down 35% YoY to S\$63mn. The results were below expectations. 9M23 revenue and PAT were 70%/69% of our FY23e forecast. Soft demand and inventory adjustment continue to weigh down on revenue and earnings.
- The pace of decline should narrow in 4Q23e as contributions from new product introductions and supply chains transition from China to SE Asia.
- We cut our FY23e revenue and PATMI by 7% and 8%, respectively. We maintain our NEUTRAL recommendation. Our target price is lowered to S\$12.50 (prev. S\$15.20) due to our cut in earnings and a reduction in our PE ratio to 13x (prev. 15x). Venture's valuation continued to de-rate as growth has stuttered over the past five years. The dividend yield of 6% is attractive and sustainable with its cash hoard of S\$956mn.

#### Results at a glance

SGDmn	3Q23	3Q22	YoY	Comments
Revenue	706.3	1,022.6	-30.9%	
PBT	78.3	118.9	-34.1%	Weakness in gross margins.
PBT margin	11.1%	11.6%	-0.5%	Despite higher interest income.
Net profit	63.0	97.4	-35.3%	
Net margin	8.9%	9.5%	-0.6%	
Net cash	956.5	700.7	36.5%	

Source: Company, PSR #Note – Only selected financials are provided in the 3Q23 update.

#### The Positive

**+ Recovery in net cash.** Net cash recovered by S\$255mn YoY in 3Q23 to S\$956mn. Inventory declined by S\$304mn YoY to a still elevated S\$949mn. Inventory is high compared to pre-pandemic levels of around S\$700mn.

#### The Negatives

**- Weakness in margins.** There was no disclosure of gross margins this quarter. But assuming interest income was similar to prior quarters, operating margins declined by at least 1% point. This was despite staff costs declining around 9% YoY.

**- Revenue slump.** Revenue growth remains problematic for Venture. 3Q23 revenue of S\$706mn is trending around supply chain pandemic levels.

#### Outlook

We expect another quarter of earnings contraction of 23% YoY in 4Q23e. New product launches in life science, wellness, consumer payment, power control and semi-conductor segments will support future quarters. However, the visibility of a volume ramp by customers is unclear. Replenishment in inventory will also be a tailwind.

#### Maintain NEUTRAL with a lower TP of S\$12.50 (prev. S\$15.20)

Our FY23e earnings are lowered by 8% as we cut our revenue estimates by 7%.

## Financials

### Income Statement

Y/E Dec, SGD '000	FY20	FY21	FY22	FY23e	FY24e
<b>Revenue</b>	<b>3,012,894</b>	<b>3,107,457</b>	<b>3,863,721</b>	<b>3,052,340</b>	<b>3,174,433</b>
Gross profit	796,450	811,973	942,153	758,480	785,585
<b>EBITDA</b>	<b>375,384</b>	<b>387,711</b>	<b>470,960</b>	<b>345,031</b>	<b>357,124</b>
Depreciation & Amortisation	-41,607	-36,879	-32,851	-33,996	-36,650
<b>EBIT</b>	<b>333,777</b>	<b>350,832</b>	<b>438,109</b>	<b>311,035</b>	<b>320,474</b>
Net Finance Inc/(Exp)	5,760	6,346	8,715	20,766	19,047
Profit before tax	342,830	359,588	448,896	333,301	341,020
Taxation	-45,426	-47,266	-78,782	-59,994	-59,679
<b>PATMI</b>	<b>297,325</b>	<b>312,051</b>	<b>369,617</b>	<b>272,907</b>	<b>281,192</b>

### Per share data (SGD Cents)

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
EPS, reported	102.5	107.0	126.6	93.5	96.3
DPS	75.0	75.0	75.0	75.0	80.0
BVPS	8.9	9.4	9.8	10.0	10.2

### Cash Flow

Y/E Dec, SGD '000	FY20	FY21	FY22	FY23e	FY24e
<b>CFO</b>					
<b>Profit before tax</b>	<b>342,830</b>	<b>359,588</b>	<b>448,896</b>	<b>333,301</b>	<b>341,020</b>
Adjustments	40,938	40,141	24,326	13,472	18,269
WC changes	114,872	-241,543	-152,566	461,792	-39,070
Cash generated from ops	498,640	158,186	320,656	808,566	320,219
Tax paid	-45,020	-55,928	-51,054	-59,994	-59,679
Others	-470	-423	-517	0	0
<b>Cashflow from ops</b>	<b>453,150</b>	<b>101,835</b>	<b>269,085</b>	<b>748,572</b>	<b>260,541</b>
<b>CFI</b>					
CAPEX, net	-27,768	-10,793	-32,724	-25,000	-28,000
Others	7,880	8,704	7,846	21,166	18,847
<b>Cashflow from investments</b>	<b>-19,888</b>	<b>-2,089</b>	<b>-24,878</b>	<b>-3,834</b>	<b>-9,153</b>
<b>CFE</b>					
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
<b>Cashflow from financing</b>	<b>-214,252</b>	<b>-225,721</b>	<b>-226,728</b>	<b>-218,676</b>	<b>-218,676</b>
Net change in cash	219,010	-125,975	17,479	526,063	32,712
<b>CCE, end</b>	<b>928,740</b>	<b>807,934</b>	<b>812,593</b>	<b>1,338,656</b>	<b>1,371,367</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

### Balance Sheet

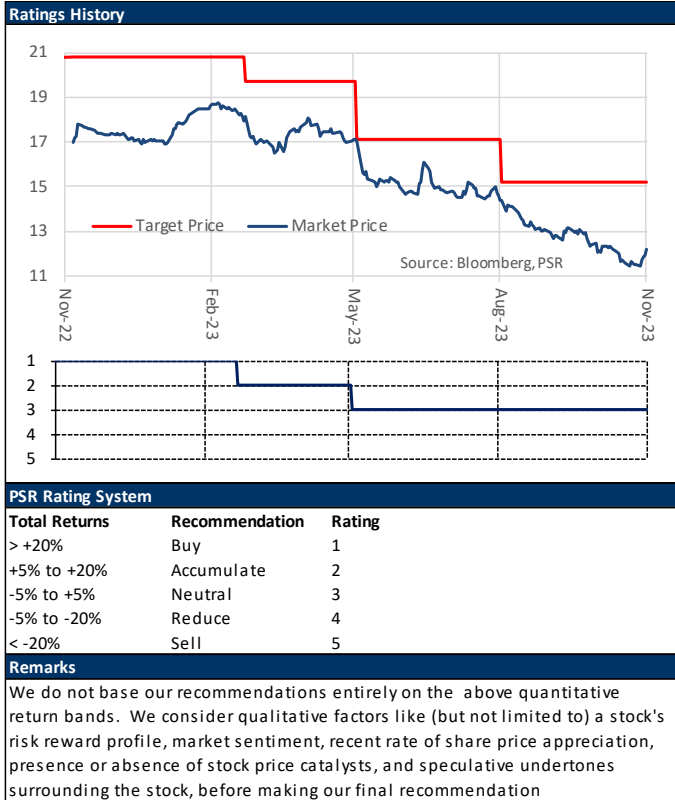
Y/E Dec, SGD '000	FY20	FY21	FY22	FY23e	FY24e
<b>ASSETS</b>					
PPE	226,704	215,169	224,934	215,516	206,534
Others	689,533	682,571	693,563	693,342	693,209
<b>Total non-current assets</b>	<b>916,237</b>	<b>897,740</b>	<b>918,497</b>	<b>908,858</b>	<b>899,743</b>
Receivables	721,377	860,125	944,278	800,985	831,508
Cash	928,740	807,934	812,593	1,338,656	1,371,367
Inventories	656,453	1,049,429	1,065,300	763,085	793,608
Others	16,760	20,033	10,735	10,735	10,735
<b>Total current assets</b>	<b>2,323,330</b>	<b>2,737,521</b>	<b>2,832,906</b>	<b>2,913,460</b>	<b>3,007,219</b>
<b>Total Assets</b>	<b>3,239,567</b>	<b>3,635,261</b>	<b>3,751,403</b>	<b>3,822,319</b>	<b>3,906,961</b>
<b>LIABILITIES</b>					
Accounts payables	555,784	799,952	706,561	722,845	744,822
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
<b>Total current liabilities</b>	<b>636,228</b>	<b>907,499</b>	<b>893,139</b>	<b>909,423</b>	<b>931,400</b>
Deferred tax liabilities	3,365	3,512	1,888	1,888	1,888
<b>Total non-current liabilities</b>	<b>14,210</b>	<b>8,312</b>	<b>15,373</b>	<b>15,373</b>	<b>15,373</b>
<b>Total Liabilities</b>	<b>650,438</b>	<b>915,811</b>	<b>908,512</b>	<b>924,796</b>	<b>946,773</b>
<b>EQUITY</b>					
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	2,893,915	2,956,431

### Valuation Ratios

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
P/E (X)	11.9	11.4	9.6	13.0	12.7
P/B (X)	1.4	1.3	1.2	1.2	1.2
EV/EBITDA (X)	6.9	7.0	5.8	6.4	6.0

### Growth & Margins

<b>Growth</b>					
Revenue	-17.1%	3.1%	24.3%	-21.0%	4.0%
EBITDA	-16.1%	3.3%	21.5%	-26.7%	3.5%
EBIT	-18.4%	5.1%	24.9%	-29.0%	3.0%
PATMI	-18.1%	5.0%	18.4%	-26.2%	3.0%
<b>Margins</b>					
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%	10.2%	10.1%
Net profit margin	9.9%	10.0%	9.6%	8.9%	8.9%
<b>Key Ratios</b>					
ROE	11.5%	11.5%	13.0%	9.4%	9.5%
ROA	9.2%	8.6%	9.9%	7.1%	7.2%
Dividend Yield	6.2%	6.2%	6.2%	6.2%	6.6%
Dividend Payout Ratio	73.2%	70.1%	59.2%	80.2%	83.1%



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