



Venture Corporation Limited

Some stability creeping up

SINGAPORE | TECHNOLOGY (MANUFACTURING) | 1H24 RESULTS

- 1H24 results were below expectations. Both revenue and PATMI were 44%/43% respectively of our FY24e forecasts. 2Q24 net profit declined 4.3% YoY to S\$63.8mn, with revenue contracting 6% to S\$717mn. The pace of revenue contraction is the slowest after six quarters.
- Venture is guiding revenue to be stronger in 2H24 compared to 1H24. We believe some of the growth domains the company is pursuing include optical transceivers for data centres and consumer lifestyle products.
- We lower our FY24e revenue and PATMI by 4% and 5% respectively. We maintain our NEUTRAL recommendation. We are nudging up our target price from S\$12.75 to S\$13.00 as we push up valuation to 14x from the 2-year historical PE ratio of 13x. There are some positive takeaways. The pace of revenue decline is slowing, fixed cost (staff and depreciation) is stabilising and several growth products were highlighted. If these new programmes were to ramp-up, we expect significant operational leverage. The dividend yield of 5.8% is attractive and well backed by record net cash of S\$1.19bn.

Results at a glance

SGDmn	2Q24	2Q23	YoY	Comments
Revenue	717.5	760.5	-5.7%	
Net profit	63.8	66.7	-4.3%	
Net margin	8.9%	8.8%	0.1%	
Net cash	1,190.8	704.3	69.1%	Record net cash.

Source: Company, PSR

The Positive

+ Healthy free cash-flows. Despite the weaker earnings, Venture continues to generate impressive free cash flows of S\$254.7mn in 1H24 (1H23: S\$224mn). Net cash has grown 69% YoY to S\$1.19bn. The company has started to buy back S\$6.1mn more shares (1H23: S\$0.7mn) with its cash pile.

The Negative

- Earnings and revenue still contracting. Revenue and earnings have contracted for the past six quarters. Net profit run-rate is now trending at S\$60mn-70mn per quarter. This is significantly lower than the S\$90mn average net profit pre-pandemic.

Outlook

Venture is guiding revenue to be stronger in 2H24 compared to 1H24. Historically, there is typically a seasonal lift in the second half. We believe some of the identifiable growth products include optical transceivers that will improve connectivity inside and between data centres. Product demand will grow as customers shift more production into SE Asia and the continuous build-up of more data centres globally. Consumer lifestyle is another attraction area where any jump in volume is dependent on FDA approval. With fixed costs declining, such as lower headcount and depreciation, we believe there is significant operational leverage once these products start to ramp-up.

Maintain NEUTRAL with a higher TP of S\$13.00 (prev. S\$12.75)

We lower our FY24e revenue and PATMI by 4% and 5% respectively.

8 August 2024

NEUTRAL (Maintained)

CLOSING PRICE	SGD 13.76
FORECAST DIV	SGD 0.80
TARGET PRICE	SGD 13.00
TOTAL RETURN	0.3%

COMPANY DATA

BLOOMBERG CODE:	VMS SP
O/S SHARES (MN):	290
MARKET CAP (USD mn / SGD mn):	3006 / 3992
52 - WK HI/LO (SGD):	15.64 / 11.36
3M Average Daily T/O (mn):	0.82

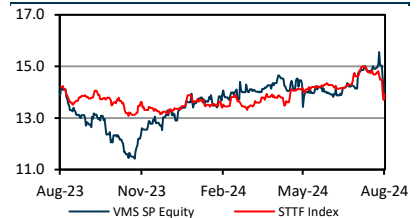
MAJOR SHAREHOLDERS

Wong Ngit Liong	7.1%
Ameriprise Financial	7.0%
Silchester International	5.1%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	1.8	4.8	9.7
STTF	(5.8)	(1.7)	1.9

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD mn	FY22	FY23	FY24e	FY25e
Revenue	3,864	3,025	2,995	3,145
EBITDA	471.0	330.1	328.4	361.9
Net Profit	369.6	270.0	270.7	285.3
P/E (X)	10.9	14.9	14.8	14.1
Dividend Yield	5.5%	5.5%	5.8%	5.8%
ROE	13.0%	9.5%	9.4%	9.7%
ROA	9.9%	7.6%	7.2%	7.4%

Source: Company, PSR

VALUATION METHOD

14x PE Multiple FY24e

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Figure 1: Snapshot of 1H24 results

SGD '000	1H24	1H23	YoY	Comments
Revenue	1,384,216	1,582,220	-12.5%	
Gross profit	354,016	396,699	-10.8%	
R&D expense	(9,382)	(12,344)	-24.0%	
Employee exp.	(152,365)	(162,972)	-6.5%	Lowered headcount.
EBIT	136,040	158,379	-14.1%	
PATMI	123,658	140,006	-11.7%	
GP margin	25.6%	25.1%	0.5%	
DPS - Interim (cents)	25.0	25.0	0.0%	59% payout ratio.

Source: Company, PSR

Financials

Income Statement

Y/E Dec, SGD '000	FY21	FY22	FY23	FY24e	FY25e
Revenue	3,107,457	3,863,721	3,025,028	2,994,778	3,144,517
Gross profit	811,973	942,153	774,758	771,658	804,152
EBITDA	387,711	470,960	330,061	328,422	361,919
Depreciation & Amortisation	-36,879	-32,851	-31,481	-32,591	-34,943
EBIT	350,832	438,109	298,580	295,831	326,977
Net Finance Inc/(Exp)	6,346	8,715	27,436	32,465	18,867
Profit before tax	359,588	448,896	330,761	330,296	348,144
Taxation	-47,266	-78,782	-60,034	-59,453	-62,666
PATMI	312,051	369,617	270,017	270,693	285,328

Per share data (SGD Cents)

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
EPS, reported	107.0	126.6	92.5	92.7	97.7
DPS	75.0	75.0	75.0	80.0	80.0
BVPS	9.4	9.8	9.8	10.0	10.1

Cash Flow

Y/E Dec, SGD '000	FY21	FY22	FY23	FY24e	FY25e
CFQ					
Profit before tax	359,588	448,896	330,761	330,296	348,144
Adjustments	40,141	24,326	642	54	16,407
WC changes	-241,543	-152,566	263,357	90,519	-50,911
Cash generated from ops	158,186	320,656	594,760	420,868	313,640
Tax paid	-55,928	-51,054	-72,618	-59,453	-62,666
Others	-423	-517	-724	0	0
Cashflow from ops	101,835	269,085	521,418	361,415	250,974
CFI					
CAPEX, net	-10,793	-32,724	-47,527	-35,000	-35,000
Others	8,704	7,846	24,883	32,743	18,667
Cashflow from investments	-2,089	-24,878	-22,644	-2,257	-16,333
CFE					
Share issuance, net	5,724	5,320	776	0	0
Loans, net of repayments	0	0	0	0	0
Dividends	-217,822	-218,115	-218,233	-218,676	-233,254
Others	-13,623	-13,933	-19,013	0	0
Cashflow from financing	-225,721	-226,728	-236,470	-218,676	-233,254
Net change in cash	-125,975	17,479	262,304	140,482	1,387
CCE, end	807,934	812,593	1,056,303	1,196,785	1,198,171

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGD '000	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
PPE	215,169	224,934	247,502	249,519	249,260
Others	682,571	693,563	702,053	702,240	702,425
Total non-current assets	897,740	918,497	949,555	951,759	951,685
Receivables	860,125	944,278	713,126	814,343	853,275
Cash	807,934	812,593	1,056,303	1,196,785	1,198,171
Inventories	1,049,429	1,065,300	822,895	778,642	817,574
Others	20,033	10,735	12,904	12,904	12,904
Total current assets	2,737,521	2,832,906	2,605,228	2,802,674	2,881,925
Total Assets	3,635,261	3,751,403	3,554,783	3,754,433	3,833,610

LIABILITIES

Accounts payables	799,952	706,561	546,197	693,680	720,633
Tax payable	25,764	54,567	46,805	46,805	46,805
Bank loan	0	0	0	0	0
Others	73,052	121,211	94,731	94,731	94,731
Total current liabilities	907,499	893,139	696,714	844,197	871,150
Deferred tax liabilities	3,512	1,888	1,670	1,670	1,670
Total non-current liabilities	8,312	15,373	20,215	20,215	20,215
Total Liabilities	915,811	908,512	716,929	864,412	891,365

EQUITY

Non-controlling Interests	3,098	3,207	3,747	3,897	4,047
Shareholder's Equity	2,716,352	2,839,684	2,834,107	2,886,124	2,938,198

Valuation Ratios

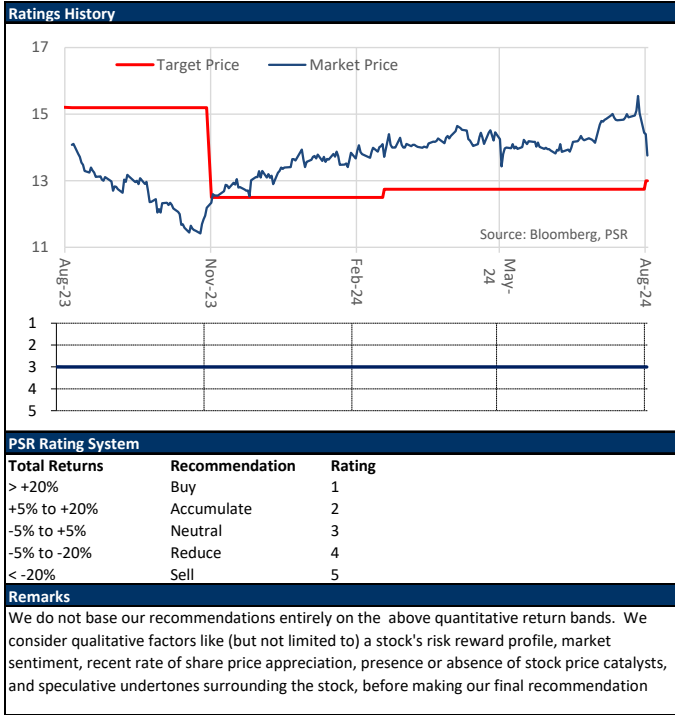
Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/E (X)	12.9	10.9	14.9	14.8	14.1
P/B (X)	1.5	1.4	1.4	1.4	1.4
EV/EBITDA (X)	8.2	6.7	8.9	8.5	7.7

Growth & Margins

Growth					
Revenue	3.1%	24.3%	-21.7%	-1.0%	5.0%
EBITDA	3.3%	21.5%	-29.9%	-0.5%	10.2%
EBIT	5.1%	24.9%	-31.8%	-0.9%	10.5%
PATMI	5.0%	18.4%	-26.9%	0.3%	5.4%
Margins					
Gross margin	26.1%	24.4%	25.6%	25.8%	25.6%
EBITDA margin	12.5%	12.2%	10.9%	11.0%	11.5%
EBIT margin	11.3%	11.3%	9.9%	9.9%	10.4%
Net profit margin	10.0%	9.6%	8.9%	9.0%	9.1%

Key Ratios

ROE	11.5%	13.0%	9.5%	9.4%	9.7%
ROA	8.6%	9.9%	7.6%	7.2%	7.4%
Dividend Yield	5.5%	5.5%	5.5%	5.8%	5.8%
Dividend Payout Ratio	70.1%	59.2%	81.1%	86.3%	81.8%



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