



Venture Corporation Limited

Paid to gaze at the horizon

SINGAPORE | TECHNOLOGY (MANUFACTURING) | 3Q24 UPDATE

11 November 2024

- 9M24 results were below expectations. Revenue and PATMI were 69%/68%, respectively, of our FY24e forecasts. 3Q24 net profit declined 3.8% YoY to S\$60.6mn as revenue declined 2% YoY. Earnings are expected to contract to 7-year lows in FY24e.
- Venture has lowered its 2H24 revenue guidance from stronger to relatively stable compared to 1H24. The company said that good opportunities from life science and AI data centres are on the horizon. However, we are not clear how far this horizon is.
- We lower our FY24e revenue and PATMI by 5% and 6%, respectively. Our NEUTRAL recommendation is unchanged. We have maintained our S\$13.00 as we roll over to an FY25e PE ratio of 14x, a slight premium to the 2-year average of 13x. We believe earnings have stabilised, but growth is dependent on a pick-up in customer orders from consumer lifestyle, life science, and AI data centres. We find the dividend yield of 5.9% attractive, supported by a net cash hoard of S\$1.19bn.

Results at a glance

| SGDmn | 3Q24 | 3Q23 | YoY | Comments |
|------------|---------|-------|-------|------------------|
| Revenue | 689.7 | 706.3 | -2.3% | |
| Net profit | 60.6 | 63.0 | -3.8% | |
| Net margin | 8.8% | 8.9% | -0.1% | |
| Net cash | 1,190.0 | 956.5 | 24.4% | Record net cash. |

Source: Company, PSR #Note – Only selected financials are provided in the 3Q24 update.

The Positive

+ Ample cash flow. Free cash flow (FCF) continues to pile up, rising to S\$393.8mn for 9M24, adding another S\$139mn this quarter. There were no comparable figures a -year ago. The annual FCF of around S\$400mn is more than sufficient to cover the current dividends of S\$218mn. It does not even impact the current S\$1.19bn cash pile. There is ample room for Venture to return more cash to shareholders.

The Negative

- Lack of momentum. Revenue has contracted on a YoY basis for the seventh consecutive quarter. Despite new customer programmes, the expected volume ramp-up has not materialised. From peak earnings in FY17, Venture's revenue and PATMI are expected to decline 29% and 31% in FY24e respectively. This includes investment or interest income jumping 8x fold by FY24e.

Outlook

The guidance of revenue for 2H24 to be relatively stable compared to 1H24 implies a flat YoY growth in revenue for 2H24. Our estimate is for a 1% YoY growth in 2H24. Venture provided some details of their key growth product, including (i) Data centre: ML/AI accelerator cards, security encryption cards, and network interface cards. Customers include hyperscalers; (ii) Life Science: PCR systems, syringe pumps, multi-controllers, ventilators, and chiller/thermal/optical/VIO modules. Some of the modules are patented.; (iii) Consumer lifestyle: heated products.

Maintain NEUTRAL with an unchanged TP of S\$13.00

We lower our FY24e revenue and PATMI by 5% and 6%, respectively.

NEUTRAL (Maintained)

| | |
|---------------|-----------|
| CLOSING PRICE | SGD 13.65 |
| FORECAST DIV | SGD 0.80 |
| TARGET PRICE | SGD 13.00 |
| TOTAL RETURN | 1.1% |

COMPANY DATA

| | |
|--------------------------------|--------------|
| BLOOMBERG CODE: | VMS SP |
| O/S SHARES (MN) : | 290 |
| MARKET CAP (USD mn / SGD mn) : | 2991 / 3952 |
| 52 - WK HI/LO (SGD) : | 15.64 / 12.4 |
| 3M Average Daily T/O (mn) : | 0.52 |

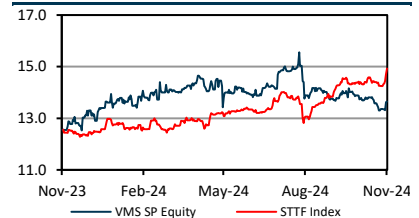
MAJOR SHAREHOLDERS

| | |
|--------------------------|------|
| Wong Ngit Liong | 7.2% |
| Silchester International | 7.1% |
| Ameriprise Financial | 7.0% |

TOTAL PERFORMANCE (%)

| | 1MTH | 3MTH | YTD |
|---------|-------|------|------|
| COMPANY | (1.7) | 0.8 | 5.7 |
| STTF | 2.2 | 15.0 | 19.1 |

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

| Y/E Dec, SGD mn | FY22 | FY23 | FY24e | FY25e |
|-----------------|-------|-------|-------|-------|
| Revenue | 3,864 | 3,025 | 2,844 | 2,986 |
| EBITDA | 471.0 | 330.1 | 311.9 | 343.7 |
| Net Profit | 369.6 | 270.0 | 255.8 | 269.6 |
| P/E (X) | 10.8 | 14.8 | 15.6 | 14.8 |
| Dividend Yield | 5.5% | 5.5% | 5.9% | 5.9% |
| ROE | 13.0% | 9.5% | 8.9% | 9.3% |
| ROA | 9.9% | 7.6% | 6.9% | 7.1% |

Source: Company, PSR

VALUATION METHOD

14x PE Multiple FY25e

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Financials

Income Statement

| Y/E Dec, SGD '000 | FY21 | FY22 | FY23 | FY24e | FY25e |
|-----------------------------|------------------|------------------|------------------|------------------|------------------|
| Revenue | 3,107,457 | 3,863,721 | 3,025,028 | 2,843,526 | 2,985,703 |
| Gross profit | 811,973 | 942,153 | 774,758 | 732,786 | 763,654 |
| EBITDA | 387,711 | 470,960 | 330,061 | 311,935 | 343,656 |
| Depreciation & Amortisation | (36,879) | (32,851) | (31,481) | (32,591) | (34,943) |
| EBIT | 350,832 | 438,109 | 298,580 | 279,345 | 308,713 |
| Net Finance Inc/(Exp) | 6,346 | 8,715 | 27,436 | 30,801 | 17,914 |
| Profit before tax | 359,588 | 448,896 | 330,761 | 312,146 | 328,927 |
| Taxation | (47,266) | (78,782) | (60,034) | (56,186) | (59,207) |
| PATMI | 312,051 | 369,617 | 270,017 | 255,809 | 269,570 |

Per share data (SGD Cents)

| Y/E Dec | FY21 | FY22 | FY23 | FY24e | FY25e |
|---------------|-------|-------|------|-------|-------|
| EPS, reported | 107.0 | 126.6 | 92.5 | 87.6 | 92.3 |
| DPS | 75.0 | 75.0 | 75.0 | 80.0 | 80.0 |
| BVPS | 9.4 | 9.8 | 9.8 | 9.9 | 10.0 |

Cash Flow

| Y/E Dec, SGD '000 | FY21 | FY22 | FY23 | FY24e | FY25e |
|----------------------------------|------------------|------------------|------------------|------------------|------------------|
| CFQ | | | | | |
| Profit before tax | 359,588 | 448,896 | 330,761 | 312,146 | 328,927 |
| Adjustments | 40,141 | 24,326 | 642 | 1,717 | 17,360 |
| WC changes | (241,543) | (152,566) | 263,357 | 141,944 | (48,340) |
| Cash generated from ops | 158,186 | 320,656 | 594,760 | 455,807 | 297,947 |
| Tax paid | (55,928) | (51,054) | (72,618) | (56,186) | (59,207) |
| Others | (423) | (517) | (724) | 0 | 0 |
| Cashflow from ops | 101,835 | 269,085 | 521,418 | 399,621 | 238,740 |
| CFI | | | | | |
| CAPEX, net | (10,793) | (32,724) | (47,527) | (35,000) | (35,000) |
| Others | 8,704 | 7,846 | 24,883 | 31,079 | 17,714 |
| Cashflow from investments | (2,089) | (24,878) | (22,644) | (3,921) | (17,286) |
| CFF | | | | | |
| 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 | 177,024 | (11,800) |
| CCE, end | 807,934 | 812,593 | 1,056,303 | 1,233,327 | 1,221,527 |

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 | 775,018 | 811,984 |
| Cash | 807,934 | 812,593 | 1,056,303 | 1,233,327 | 1,221,527 |
| Inventories | 1,049,429 | 1,065,300 | 822,895 | 739,317 | 776,283 |
| Others | 20,033 | 10,735 | 12,904 | 12,904 | 12,904 |
| Total current assets | 2,737,521 | 2,832,906 | 2,605,228 | 2,760,566 | 2,822,698 |
| Total Assets | 3,635,261 | 3,751,403 | 3,554,783 | 3,712,324 | 3,774,383 |

LIABILITIES

| | | | | | |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Accounts payables | 799,952 | 706,561 | 546,197 | 666,455 | 692,046 |
| 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 | 816,972 | 842,563 |
| 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 | 837,187 | 862,778 |

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 | 2,871,241 | 2,907,557 |

Valuation Ratios

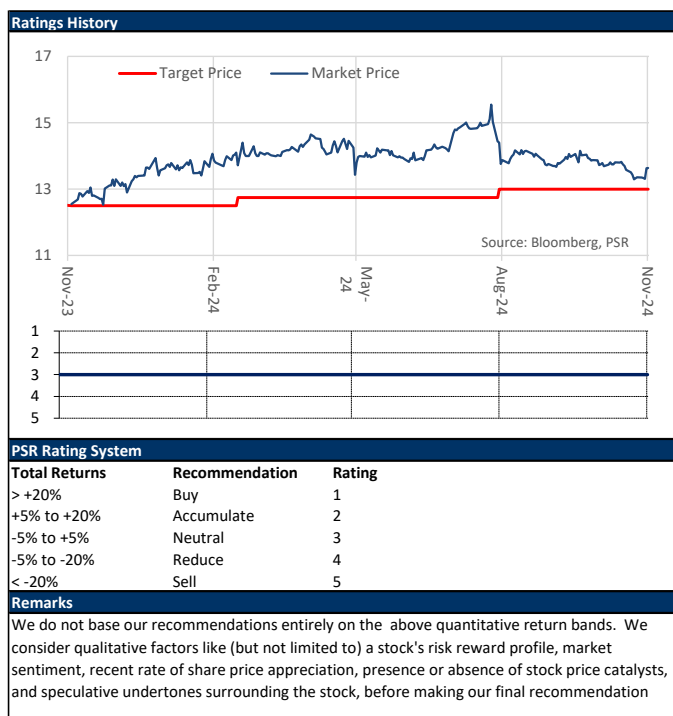
| Y/E Dec | FY21 | FY22 | FY23 | FY24e | FY25e |
|---------------|------|------|------|-------|-------|
| P/E (X) | 12.8 | 10.8 | 14.8 | 15.6 | 14.8 |
| P/B (X) | 1.5 | 1.4 | 1.4 | 1.4 | 1.4 |
| EV/EBITDA (X) | 8.1 | 6.7 | 8.8 | 8.7 | 8.0 |

Growth & Margins

| | | | | | |
|-------------------|-------|-------|--------|-------|-------|
| Growth | | | | | |
| Revenue | 3.1% | 24.3% | -21.7% | -6.0% | 5.0% |
| EBITDA | 3.3% | 21.5% | -29.9% | -5.5% | 10.2% |
| EBIT | 5.1% | 24.9% | -31.8% | -6.4% | 10.5% |
| PATMI | 5.0% | 18.4% | -26.9% | -5.3% | 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% | 9.8% | 10.3% |
| Net profit margin | 10.0% | 9.6% | 8.9% | 9.0% | 9.0% |

Key Ratios

| | | | | | |
|-----------------------|-------|-------|-------|-------|-------|
| ROE | 11.5% | 13.0% | 9.5% | 8.9% | 9.3% |
| ROA | 8.6% | 9.9% | 7.6% | 6.9% | 7.1% |
| Dividend Yield | 5.5% | 5.5% | 5.5% | 5.9% | 5.9% |
| Dividend Payout Ratio | 70.1% | 59.2% | 81.1% | 91.3% | 86.6% |



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