

Company update

Venture Corporation

Research Team
Singapore | Information Technology

 Rating BUY (as at 2 March 2021)
 Last Close SGD 19.30
 Fair Value SGD 22.25

New year, new hopes

- **FY20 net profit in-line; good cost control for the year**
- **Looking forward to growth in its Life Science Technologies domain; potential opportunities in Battery Electric Vehicles**
- **FV of SGD22.25 (previously SGD22.30)**

Investment thesis

Venture Corporation Ltd's (Venture) 4Q20 net profit came in at SGD87m, with FY20 net profit coming in at SGD297m, broadly in-line with consensus. Looking forward, we believe new products introductions are on track for launch in 2Q21 and through 2H21. Venture has highlighted that expected demand for genomics-related products and solutions and advanced equipment for analysis/diagnostic use in biological systems will drive growth in its Life Science Technologies domain. Venture is also optimistic about opportunities in adjacent domains, such as the Battery Electric Vehicle industry. Venture possesses a strong balance sheet, with net cash of SGD929m despite an increase in total dividends paid in FY20 vs. FY19. This should give the group ample dry powder especially as it ventures into new growth areas, and gives support to our FY21 dividend yield forecast of ~4.0% (as at 1 Mar 2021 close).

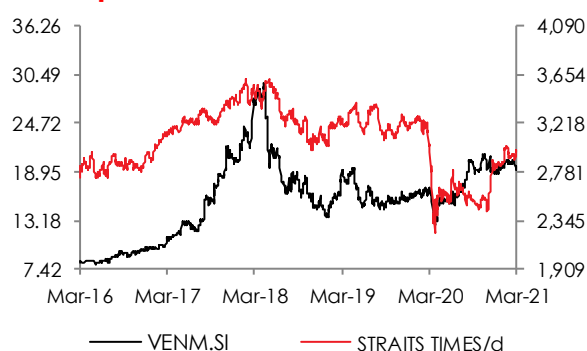
Investment summary

- **Capping the year off with robust 4Q20 NPM** – Venture Corporation Ltd's (Venture) 4Q20 revenue fell 11% YoY to SGD829m, while increasing 1% QoQ. FY20 saw Venture keeping a lid on costs, with employee benefits expense down ~10%, and other operating expenses down ~12%. 4Q20 net profit came in at SGD87m, with FY20 net profit coming in at SGD297m, broadly in-line with consensus. 4Q20 net profit margin came in at 10.5%, which we understand is on the back of a combination of higher R&D value capture, improvement in sales and a lower effective tax rate. Venture has declared a full-year DPS of 75 S-cents (2019: 70 S-cents).
- **New areas of growth** – Looking forward, we believe new products introductions are on track for launch

Security information

Ticker	VENM.SI
Market Cap (USD b)	4.2
Daily turnover (SGD m)	1.0
Free Float	92%
Shares Outstanding (m)	290
Top Shareholder	Wong (Ngit Liong) 7.0%

Price performance chart



Financial summary

SGD m	FY20	FY21E	FY22E
Revenue	3,012.9	3,525.8	3,759.4
EBITDA	378.7	432.4	474.2
PATMI	297.3	354.6	392.6
EPS (\$-cents)	102.2	122.3	135.4
DPS (\$-cents)	75.0	77.5	80.0

Key ratios

	FY20	FY21E	FY22E
Net margin (%)	9.9	10.1	10.4
ROE (%)	11.7	13.4	14.0
Dividend yield (%)	3.9	4.0	4.1

Source: Refinitiv, Company, Internal estimates

in 2Q21 and through 2H21. Venture has highlighted that expected demand for genomics-related products and solutions and advanced equipment for analysis/diagnostic use in biological systems will drive growth in its Life Science Technologies domain. We note that Covid-19 has presented opportunities in the development of pandemic-related testing and diagnostic products and solutions. Venture notes that it will increase its participation and tap into the growth of Robotics, Automation and Artificial Intelligence, and Advanced Semiconductor-related Equipment domains. Venture is also optimistic about opportunities in adjacent domains, such as the Battery Electric Vehicle industry. Still, we believe that one potential form of near-term downside risks could come from product delays arising from the ongoing chip shortage.

- **FV of SGD22.25** – Venture possesses a strong balance sheet, with net cash of SGD929m despite an increase in total dividends paid in FY20 vs. FY19. This should give the group ample dry powder especially as it ventures into new growth areas, and gives support to our FY21 dividend yield forecast of ~4.0% (as at 1 Mar 2021 close). Working capital has also dropped YoY (~SGD153m), on the back of lower receivables and inventories. Following adjustments to our assumptions, and our target P/E of 18.2x (2 S.D. above the 5-year mean), we derive a FV of SGD22.25 (previously SGD22.30).

Potential catalysts

- Stronger-than-expected margins expansion
- Significant revenue growth
- Higher-than-expected dividend payout

Investment risks

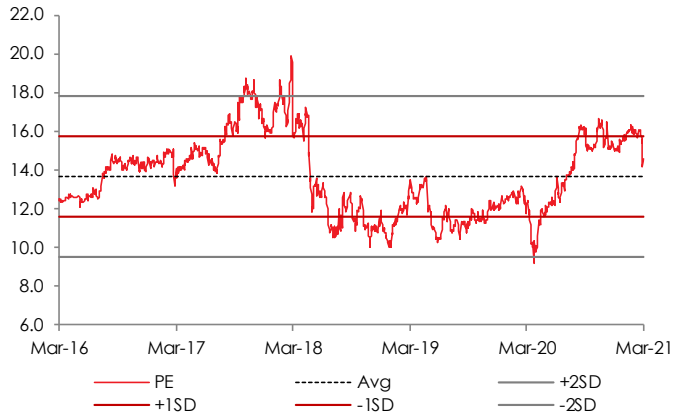
- Prolonged global economic downturn
- Customers consolidating leading to lower orders
- Slowdown in sales and/or fall in margins

Valuation analysis

	Price/Earnings		Price/Book		EV/EBITDA		Dividend Yield (%)		ROE (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
VENTURE CORPORATION LTD (VENM.SI)	15.7	14.6	2.1	1.9	10.6	9.9	4.1	4.1	13.3	13.7
FLEX LTD (FLEX.O)	13.2	12.2	2.9	2.4	7.4	6.9	0.0	0.0	24.0	21.1
JABIL INC (JBL.N)	9.8	9.2	3.2	2.6	4.4	4.2	0.8	0.8	38.3	31.2
SANMINA CORP (SANM.O)	10.2	9.8	N.A	N.A	5.0	4.8	0.0	0.0	14.5	N.A
HON HAI PRECISION INDUSTRY CO LTD (2317.TW)	14.4	11.9	1.2	1.1	7.7	6.4	3.6	4.1	8.2	9.7

Source: Refinitiv

Price/Earnings chart



Source: Refinitiv

Price/Book chart



Source: Refinitiv

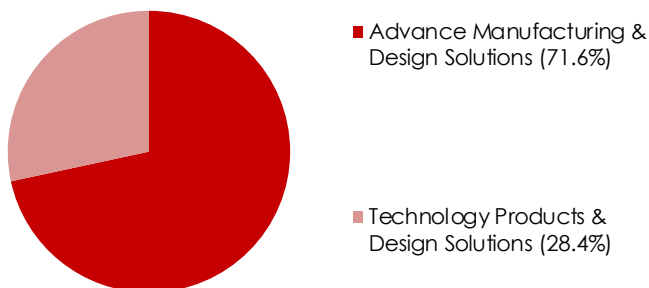
Company overview (as of 31 December 2019)

Company description

Venture Group was established in 1989 through the merger of three companies, as a start-up company to provide contract manufacturing services. Today, Venture has been transformed into a leading global provider of technology services, products and solutions with established capabilities spanning marketing research, design, research and development to develop a wide range of leading-edge products. Venture has built know-how and intellectual property with domain expertise in printing and imaging, networking and communications devices, handheld interactive scanning and computing products, advanced storage systems and devices, financial-related equipment and technology, industrial, power and energy-related products, test and measurement equipment and instrumentation, medical and healthcare devices and life science equipment. In its pursuit to create unparalleled enterprise excellence across design and engineering, manufacturing and distribution, Venture has forged numerous impactful partnerships and alliances. Headquartered in Singapore, the Group comprises more than 30 companies with global clusters in Southeast Asia, Northeast Asia, America and Europe and employs over 12,000 people worldwide.

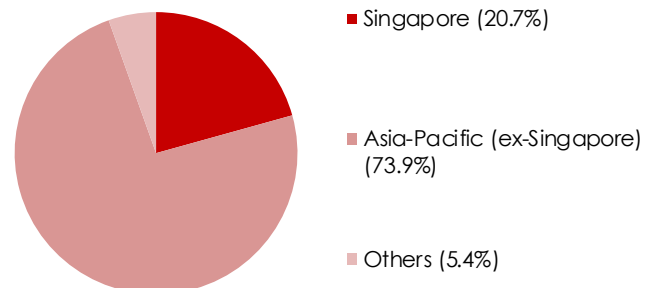
FY20 Revenue breakdown

By segment



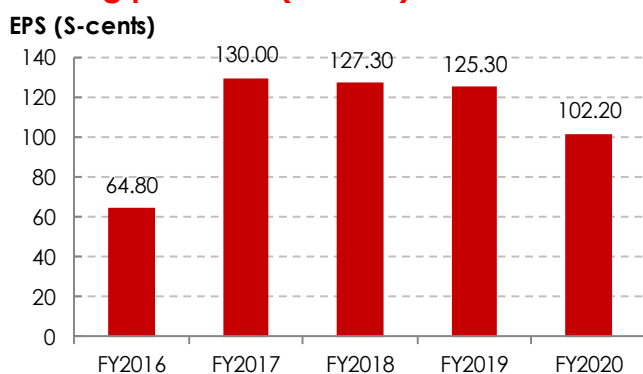
Source: Company, Internal estimates

By geography



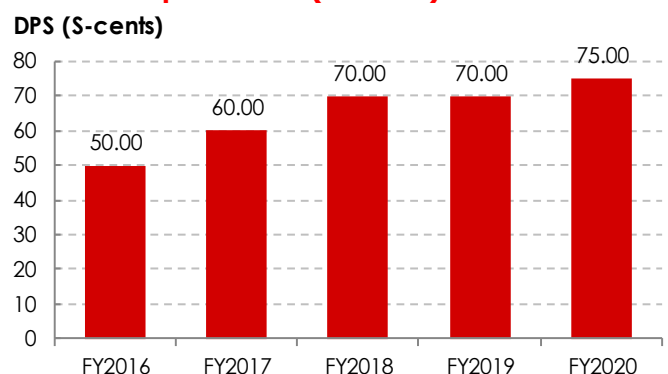
Source: Company, Internal estimates

Earning per share (S-cents)



Source: Company, Internal estimates

Dividends per share (S-cents)



Source: Company, Internal estimates

Company financials

Income Statement

In Millions of SGD except Per Share 12 Months Ending	FY2016 31/12/2016	FY2017 31/12/2017	FY2018 31/12/2018	FY2019 31/12/2019	FY2020 31/12/2020
Revenue	2,874.2	4,004.5	3,484.6	3,633.4	3,012.9
- Cost of Revenue	2,457.3	3,383.5	2,846.7	3,058.2	2,521.0
Gross Profit	416.9	621.0	637.9	575.2	491.9
+ Other Operating Income	--	--	--	--	--
- Operating Expenses	200.2	176.3	213.1	165.7	154.8
Operating Income or Losses	216.8	444.8	424.8	409.5	337.1
- Interest Expense	0.9	1.0	1.0	0.5	0.5
- Foreign Exchange Losses (Gains)	--	--	--	--	--
- Net Non-Operating Losses (Gains)	--	--	-9.2	-11.0	-6.2
Pretax Income	215.9	443.7	433.0	420.0	342.8
- Income Tax Expense (Benefit)	35.2	71.0	62.9	56.6	45.4
Income Before XO Items	180.7	372.7	370.1	363.4	297.4
- Extraordinary Loss Net of Tax	--	--	--	--	--
- Minority/Non Controlling Interests (Credits)	0.0	-0.1	0.0	0.3	0.1
Net Income/Net Profit (Losses)	180.7	372.8	370.1	363.1	297.3
Net Inc Avail to Common Shareholders	180.7	372.8	370.1	363.1	297.3
Abnormal Losses (Gains)	--	--	--	--	--
Tax Effect on Abnormal Items	--	--	--	--	--
Normalized Income	186.0	363.3	370.0	363.5	299.1
Basic Earnings per Share	0.7	1.3	1.3	1.3	1.0
Basic Weighted Avg Shares	277.3	282.0	287.4	288.2	289.2
Diluted EPS Before Abnormal Items	0.6	1.3	1.3	1.3	1.0
Diluted EPS Before XO Items	0.6	1.3	1.3	1.3	1.0
Diluted EPS	0.6	1.3	1.3	1.3	1.0
Diluted Weighted Avg Shares	278.6	286.8	290.6	289.9	290.9

Profitability Ratios

12 Months Ending	FY2016 31/12/2016	FY2017 31/12/2017	FY2018 31/12/2018	FY2019 31/12/2019	FY2020 31/12/2020
Returns					
Return on Common Equity	9.38	18.07	16.39	14.99	11.70
Return on Assets	6.84	12.63	11.66	11.22	9.13
Return on Capital	14.56	13.98	13.06	12.19	11.58
Return on Invested Capital	18.93	19.48	18.84	16.93	16.81
Margins					
Operating Margin	7.51	11.08	12.19	11.27	11.19
Incremental Operating Margin	1.10	1.48	1.10	0.92	0.99
Pretax Margin	7.51	11.08	12.43	11.56	11.38
Income before XO Margin	6.29	9.31	10.62	9.99	9.87
Net Income Margin	6.29	9.31	10.62	9.99	9.87
Net Income to Common Margin	6.29	9.31	10.62	9.99	9.87
Additional					
Effective Tax Rate	16.29	16.01	14.52	13.49	13.25
Divid Payout Ratio	77.11	46.15	54.97	55.89	73.39
Sustainable Growth Rate	9.31	17.99	16.30	14.90	11.61

Credit Ratios

12 Months Ending	FY2016 31/12/2016	FY2017 31/12/2017	FY2018 31/12/2018	FY2019 31/12/2019	FY2020 31/12/2020
Total Debt/EBIT	0.44	0.07	0.00	0.07	0.06
Net Debt/EBIT	-1.81	-1.69	-1.68	-1.69	-2.69
EBIT to Interest Expense	235.67	422.99	430.72	774.71	717.25
Long-Term Debt/Total Assets	0.00	0.00	0.00	0.53	0.33
Net Debt/Equity	-0.19	-0.33	-0.30	-0.27	-0.35

Source: Refinitiv

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