

Venture Corp (VMS SP)

Technology - Electronics

Market Cap: USD1,622m

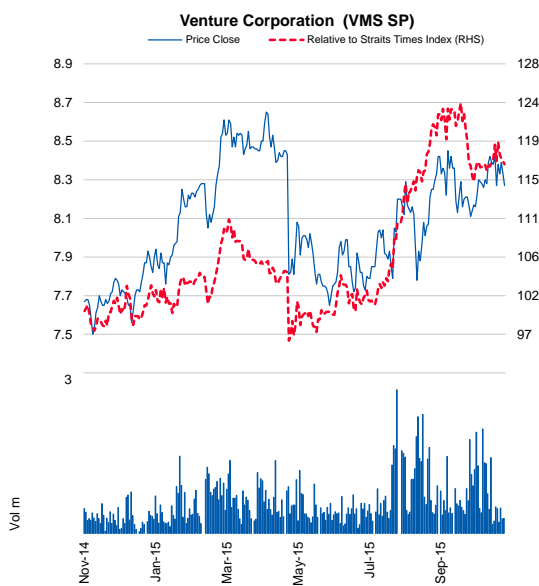
Buy (from Neutral)

 Target Price: **SGD9.20**

 Price: **SGD8.27**

Value Creation Boosts Margins

- Macro ◆
- Risks ◆
- Growth ◆
- Value ◆



Source: Bloomberg

Avg Turnover (SGD/USD)	5.98m/4.26m
Cons. Upside (%)	10.2
Upside (%)	11.2
52-wk Price low/high (SGD)	7.50 - 8.65
Free float (%)	90
Share outstanding (m)	277
Shareholders (%)	
Aberdeen Asset Management	26.0
Sprucegrove Investment	8.0
Ngit Liong Wong	7.0

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	5.1	0.7	0.9	5.8	8.8
Relative	15.6	(3.2)	6.7	18.8	17.3

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3Q15 revenue/NPAT rose 15.7%/12.2% YoY to SGD692.9m/SGD40.6m, exceeding our estimates despite a higher 15.6% effective tax rate, driven partially by a gain in market share among existing customers, and the strengthening of the USD. Upgrade to BUY as we roll over our TP to SGD9.20 (from SGD8.03, 11.2% upside), based on 14.8x FY16 P/E. We continue to expect a strong 4Q for Venture – especially with the USD staying strong – and lift our FY15 NPAT estimate by 2.7%.

- ◆ **An excellent 3Q15.** Venture reported a positive set of results, with 3Q15 revenue and NPAT rising 15.7% and 12.2% respectively on the back of a higher effective tax rate of 15.6% vs 11.7% a year ago, which was due to less government grants given. PBT actually rose more significantly by 17.4% YoY to SGD48m from SGD40.9m, driven partially by a SGD3m FX gain with the strengthening of the USD.
- ◆ **Aim to create more value per dollar of revenue.** The strategy going forward for Venture will be to aim for value creation, ie more value per dollar of revenue. It will also continue to grow its market share among existing customers by being involved with more products and projects.
- ◆ **All segments growing except printing and imaging.** High material content and the low selling prices of printers limits the value creation of electronics manufacturing services (EMS) players like Venture. As a result, it will be focusing less on growth in this segment as the large capex, time and effort involved does not justify the value that was created. Going forward, management will be focusing on higher-margin segments like its test & measurement and medical & life sciences divisions, which account for the largest portions of its topline.
- ◆ **Upgrade to BUY with a higher SGD9.20 TP.** Due to the set of positive results driven partially by a gain in market share among existing customers, as well as USD strengthening and the SGD90m increase of inventory, which points to more robust business activities going forward, we continue to expect a strong 4Q15 for Venture and lift our FY15 and FY16 NPAT estimates by 2.7% and 8.2% respectively. We upgrade our call to BUY as we roll over our TP to SGD9.20, based on 14.8x FY16 P/E.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (SGDm)	2,330	2,465	2,594	2,689	2,727
Reported net profit (SGDm)	131	140	153	171	182
Recurring net profit (SGDm)	131	140	153	171	182
Recurring net profit growth (%)	(6.1)	6.6	9.5	11.5	6.9
Recurring EPS (SGD)	0.48	0.51	0.56	0.62	0.66
DPS (SGD)	0.50	0.50	0.50	0.50	0.50
Recurring P/E (x)	17.3	16.3	14.9	13.3	12.5
P/B (x)	1.24	1.22	1.22	1.21	1.18
P/CF (x)	21.2	13.3	13.4	11.8	11.3
Dividend Yield (%)	6.0	6.0	6.0	6.0	6.0
EV/EBITDA (x)	10.9	10.0	9.0	8.2	8.3
Return on average equity (%)	7.2	7.6	8.2	9.1	9.6
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			0.0	0.0	0.0

Source: Company data, RHB

Figure 1: 3Q15 results summary

FYE Dec (SGDm)	2Q15	3Q14	3Q15	QoQ (%)	YoY (%)	Comments
Revenue	661.0	598.7	692.9	4.8	15.7	Revenue growth was driven by market share gains among existing customers, contributions from new customers and favourable exchange rate movements.
EBITDA	53.3	51.4	59.1	11.0	15.0	
<i>EBITDA margin</i>	<i>8%</i>	<i>9%</i>	<i>9%</i>			
Depreciation and amortisation	(10.8)	(10.3)	(10.8)	0.6	5.7	
EBIT	42.5	41.2	48.3	13.7	17.3	
<i>EBIT margin</i>	<i>6.4%</i>	<i>6.9%</i>	<i>7.0%</i>			
Net finance cost	(0.2)	(0.2)	(0.3)	13.2	3.6	
Pretax profit	42.3	40.9	48.0	13.7	17.4	
<i>Pretax margin</i>	<i>6%</i>	<i>7%</i>	<i>7%</i>			
Tax	(6.2)	(4.8)	(7.5)	21.2	56.2	Higher income tax expense of SGD7.5m was based on tax incentives granted and the sales mix for the quarter.
<i>Effective tax rate (%)</i>	<i>-15%</i>	<i>-12%</i>	<i>-16%</i>			
Net profit	36.1	36.1	40.6	12.4	12.2	
<i>Net margin</i>	<i>5%</i>	<i>6%</i>	<i>6%</i>			

Source: RHB

Financial Exhibits

Profit & Loss (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover	2,330	2,465	2,594	2,689	2,727
Cost of sales	(1,793)	(1,894)	(1,970)	(2,034)	(2,059)
Gross profit	537	572	624	655	667
Gen & admin expenses	(70)	(72)	(79)	(79)	(60)
Selling expenses	(247)	(256)	(280)	(290)	(300)
Other operating costs	(88)	(93)	(98)	(98)	(105)
Operating profit	131	150	167	187	202
Operating EBITDA	177	194	215	234	230
Depreciation of fixed assets	(46)	(44)	(48)	(47)	(27)
Operating EBIT	131	150	167	187	202
Net income from investments	4	5	1	1	1
Interest income	1	3	2	2	2
Interest expense	(1)	(1)	(2)	(2)	(2)
Exchange gains	4	1	-	-	-
Pre-tax profit	140	156	169	189	204
Taxation	(9)	(17)	(16)	(18)	(22)
Minority interests	0	-	-	-	-
Profit after tax & minorities	131	140	153	171	182
Reported net profit	131	140	153	171	182
Recurring net profit	131	140	153	171	182

Source: Company data, RHB

Cash flow (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Operating profit	131	150	167	187	202
Depreciation & amortisation	46	44	48	47	27
Change in working capital	(61)	(11)	(33)	(26)	(10)
Other operating cash flow	5	3	3	3	3
Operating cash flow	120	186	185	210	222
Interest received	1	2	2	2	2
Interest paid	(1)	(1)	(2)	(2)	(2)
Dividends received	2	1	-	-	-
Tax paid	(15)	(17)	(16)	(18)	(22)
Cash flow from operations	107	171	169	193	201
Capex	(35)	(57)	(35)	(35)	(35)
Other new investments	(1)	(1)	-	-	-
Other investing cash flow	1	17	0	0	0
Cash flow from investing activities	(34)	(41)	(35)	(35)	(35)
Dividends paid	(137)	(137)	(151)	(151)	(151)
Shares repurchased	(2)	-	-	-	-
Proceeds from issue of shares	5	0	-	-	-
Increase in debt	(11)	2	-	-	-
Other financing cash flow	(0)	(0)	-	-	-
Cash flow from financing activities	(145)	(135)	(151)	(151)	(151)
Cash at beginning of period	453	391	393	384	398
Total cash generated	(72)	(5)	(16)	7	15
Forex effects	10	7	7	7	7
Implied cash at end of period	391	393	384	398	421

Source: Company data, RHB

Financial Exhibits

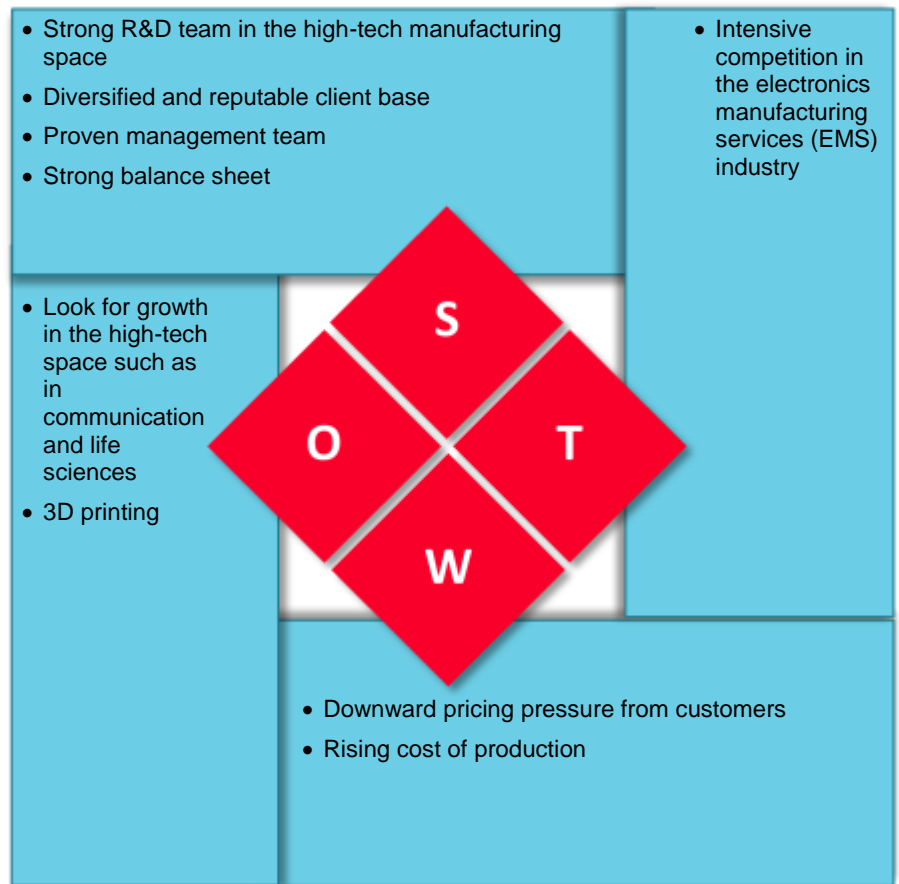
Balance Sheet (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	391	393	384	398	421
Inventories	528	553	580	599	606
Accounts receivable	520	557	579	601	609
Other current assets	42	36	46	48	49
Total current assets	1,481	1,539	1,590	1,646	1,685
Total investments	101	93	93	93	93
Tangible fixed assets	153	188	195	201	210
Intangible assets	701	681	667	642	640
Total other assets	7	27	7	7	7
Total non-current assets	961	989	962	943	950
Total assets	2,442	2,528	2,552	2,588	2,635
Short-term debt	162	169	162	162	162
Accounts payable	335	386	368	380	385
Other current liabilities	106	102	147	150	159
Total current liabilities	603	657	677	692	706
Other liabilities	10	6	6	6	6
Total non-current liabilities	10	6	6	6	6
Total liabilities	613	663	683	699	712
Share capital	678	679	679	679	679
Retained earnings reserve	1,394	1,397	1,399	1,419	1,451
Other reserves	(245)	(213)	(212)	(210)	(209)
Shareholders' equity	1,827	1,862	1,866	1,887	1,921
Minority interests	2	2	2	2	2
Other equity	(0)	(0)	(0)	(0)	(0)
Total equity	1,829	1,865	1,869	1,890	1,923
Total liabilities & equity	2,442	2,528	2,552	2,588	2,635

Source: Company data, RHB

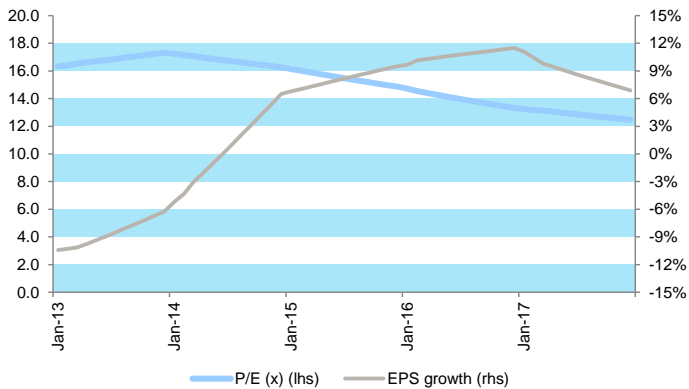
Key Ratios (SGD)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	(2.4)	5.8	5.2	3.7	1.4
Operating profit growth (%)	(1.3)	14.2	11.7	11.8	8.1
Net profit growth (%)	(6.1)	6.6	9.5	11.5	6.9
EPS growth (%)	(6.2)	6.5	9.5	11.5	6.9
BVPS growth (%)	1.4	1.9	0.2	1.1	1.8
Operating margin (%)	5.6	6.1	6.4	7.0	7.4
Net profit margin (%)	5.6	5.7	5.9	6.3	6.7
Return on average assets (%)	5.4	5.6	6.0	6.6	7.0
Return on average equity (%)	7.2	7.6	8.2	9.1	9.6
Net debt to equity (%)	(12.5)	(12.0)	(11.9)	(12.5)	(13.5)
DPS	0.50	0.50	0.50	0.50	0.50
Recurrent cash flow per share	0.39	0.62	0.62	0.70	0.73

Source: Company data, RHB

SWOT Analysis

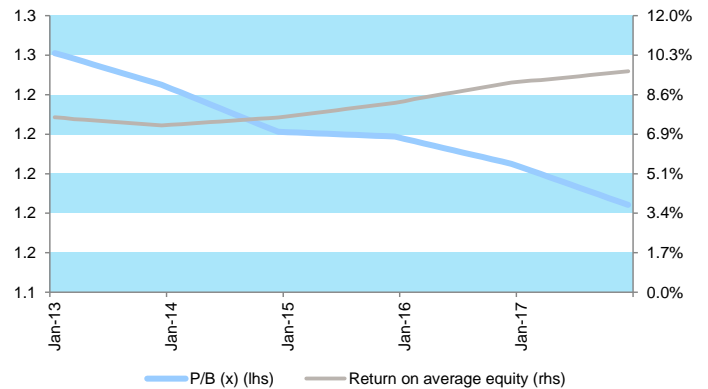


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

Venture is a leading global electronics services and integrated solution provider with a diversified portfolio of customers worldwide.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-08-05	Neutral	8.03	8.03
2015-03-03	Neutral	8.16	8.27
2014-11-09	Neutral	7.50	7.55
2014-02-27	Neutral	7.71	7.55
2014-01-28	Neutral	7.41	7.42
2013-11-11	Buy	8.74	7.67
2013-05-02	Buy	8.82	7.55
2013-03-01	Buy	9.40	8.38
2012-11-09	Buy	8.99	7.74
2012-08-13	Buy	8.74	7.67

Source : RHB, Bloomberg

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Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

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