

Singapore

ADD (no change)

Consensus ratings*: Buy 9 Hold 0 Sell 0

Current price:	S\$22.29
Target price:	S\$29.13 ▲
Previous target:	S\$24.74
Up/downside:	30.7%
CGS-CIMB / Consensus:	16.9%
Reuters:	VENM.SI
Bloomberg:	VMS SP
Market cap:	US\$4,824m
	S\$6,369m
Average daily turnover:	US\$17.54m
	S\$23.44m
Current shares o/s:	283.3m
Free float:	92.9%

*Source: Bloomberg

Key changes in this note

- FY17F EPS increased by 5.1%.
- FY18F EPS increased by 12.1%.
- FY19F EPS increased by 15.1%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.7	1.9	117.5
Relative (%)	5.7	2.8	107.3

Major shareholders

	% held
Wong Ngit Liong	7.1
Blackrock	5.0
Schroders	5.0

Analyst(s)

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Venture Corporation

What's next after a record year?

- We expect Venture to beat FY17 consensus forecasts when the company reports its results on 28 Feb 2017.
- The recent acquisition of a freehold property in the US will help Venture build its cluster of excellence in the US.
- Venture will benefit from proximity to customers and targets new technologies/products from US customers.
- Investors should also watch for signalling effect from FY17 dividends.
- We raise our target price due to our more optimistic forecasts and a higher P/E target of 17.7x (0.5 s.d. above its 11-year historical average P/E of 15.5x).

On track for a strong finish to FY17

Preliminary estimates released by the US government showed that the nation's output increased at an annual rate of 2.6% in 4Q17. With many of Venture's customers being US corporates, we believe Venture is on track for a strong finish to FY17. To recap, 9M17/3Q17 net profits were S\$229.8m/S\$111.4m. We believe FY17 consensus net profit of S\$327.8m will be beaten and have raised our FY17 net profit forecast by 5.1% to S\$352.5m.

Why the US property acquisition is significant

On 18 Jan, Venture announced the acquisition of a property located in Milpitas, California, USA, for US\$29.4m. This is Venture's first substantial investment in the US in monetary terms and represents the company's commitment to augmenting its cluster of excellence in the US. The property to be acquired is not small, comprising a freehold estate with a land area of 9.64 acres and an industrial building with a built-up area of approximately 182,405 square feet.

Partnering US corporates for growth

Upon the completion of the acquisition of this property, Venture intends to renovate the facility to meet its objective of offering a new platform enterprise to forge new alliances, partnerships and ventures that will allow the group to take part in advanced new technologies and business from US corporates. We believe the facility will eventually offer a mix of prototyping and high-mix, low-volume production.

Signalling effect from FY17 DPS

Venture is likely to pay a higher DPS when FY17 results are announced. We have assumed that DPS will be S\$0.60 (S\$0.50 per its track record and S\$0.10 arising from the sale of its stake in an investment). We believe investors will pay particular attention to whether the FY17 DPS will be framed as a base final DPS and a special DPS or just a final DPS. Terming it a final DPS would lend further support to our optimistic earnings forecast.

Raising target price to S\$29.13

Our faith in the current momentum where revenue per quarter is expected to cross the S\$1bn mark drives our new FY17-19F forecasts. We now use a higher P/E of 17.7x (0.5 s.d. above its 11-year historical average P/E of 15.5x) on our lifted FY19F EPS forecast, leading to a higher target price of S\$29.13. Previously, we used 17.3x P/E (0.5 s.d. above its 10-year historical average of 15.2x). Downside risks are a slowdown in customer orders and weaker US\$ versus the S\$.

Financial Summary

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue (S\$m)	2,657	2,874	4,024	4,567	4,957
Net Profit (S\$m)	151.1	179.4	352.5	405.4	466.2
Core EPS (S\$)	0.53	0.63	1.24	1.43	1.65
Core EPS Growth	7.1%	18.4%	97.9%	15.0%	15.0%
FD Core P/E (x)	41.86	35.38	17.74	15.58	13.55
Price To Sales (x)	2.32	2.15	1.57	1.38	1.27
DPS (S\$)	0.50	0.50	0.60	0.60	0.60
Dividend Yield	2.24%	2.24%	2.69%	2.69%	2.69%
EV/EBITDA (x)	27.40	23.35	13.52	11.63	9.80
P/FCFE (x)	38.8	45.9	101.5	27.5	16.4
Net Gearing	(17.1%)	(20.7%)	(9.2%)	(10.2%)	(16.7%)
P/BV (x)	3.26	3.16	2.95	2.66	2.36
ROE	8.0%	9.1%	17.2%	17.9%	18.5%
% Change In Core EPS Estimates			5.1%	12.1%	15.1%
CIMB/consensus EPS (x)			1.08	1.08	1.11

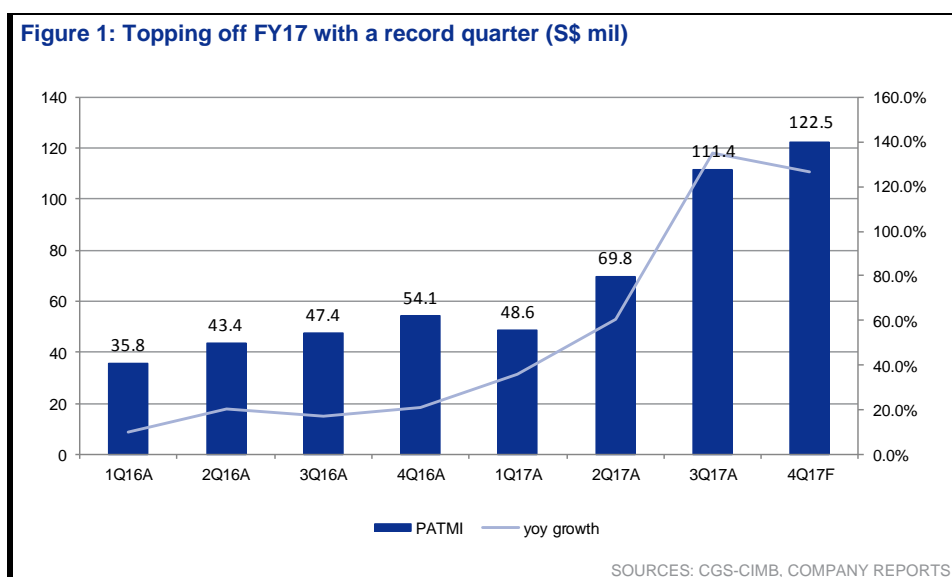
SOURCE: COMPANY DATA, CGS-CIMB FORECASTS

What's next after a record year?

Record FY17F ➤

Given that preliminary estimates released by the US government showed that the nation's output increased at an annual rate of 2.6% in 4Q17, we believe Venture's 4Q17 earnings was also strong. We note that many of Venture's customers are US corporates. To recap, 9M17/3Q17 net profits were S\$229.8m/S\$111.4m. We believe FY17 consensus net profit of S\$327.8m will be beaten and have raised our FY17 net profit forecast by 5.1% to S\$352.5m. Our higher profit forecast is due to a higher yoy revenue growth assumption. We now assume that FY17 revenue grew 40% yoy to S\$4.02bn versus our previous expectation of 37% yoy growth to S\$3.94bn.

Figure 1: Topping off FY17 with a record quarter (S\$ mil)



Significant US investment points the way ➤

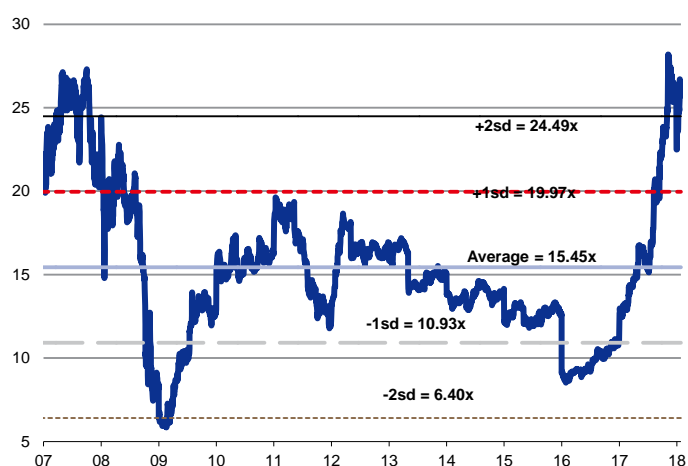
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Figure 2: Earnings revisions

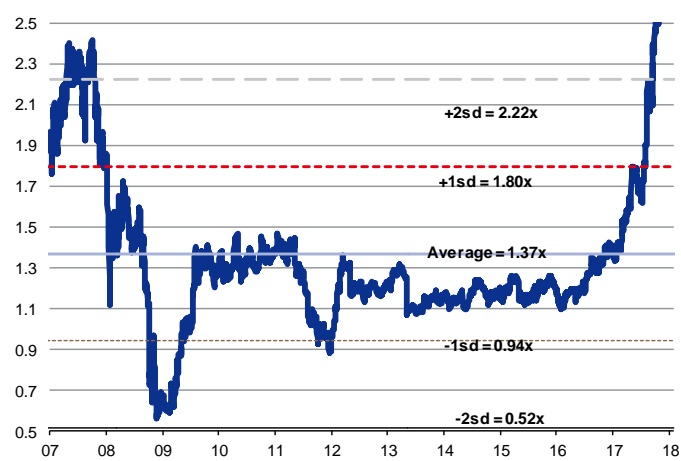
(S\$m)	2016		2017F			2018F			2019F		
		Old	New	% chg	Old	New	% chg	Old	New	% chg	
Revenue	2,874.2	3,937.7	4,023.9	2.2	4,331.4	4,567.0	5.4	4,633.0	4,956.7	7.0	
EBITDA	246.9	430.2	450.9	4.8	465.2	519.9	11.8	520.3	596.3	14.6	
Net profit	179.4	335.3	352.5	5.1	361.5	405.4	12.1	405.2	466.2	15.1	
Core EPS (S\$)*	0.63	1.18	1.24	5.1	1.28	1.43	12.1	1.43	1.65	15.1	

* using 283.3m shares versus 282.0m shares previously

SOURCES: CGS-CIMB, COMPANY REPORTS

Figure 3: VMS historical average forward P/E


SOURCES: CIMB, BLOOMBERG

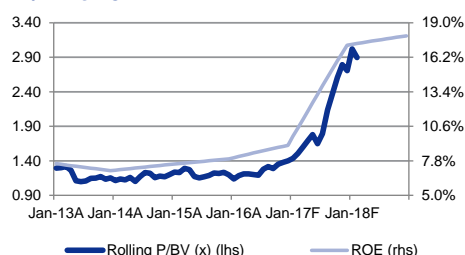
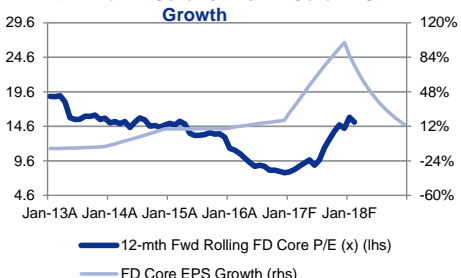
Figure 4: VMS historical average forward P/BV


SOURCES: CGS-CIMB, COMPANY REPORTS

Figure 5: Peers comparison

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x) CY18F	Recurring ROE (%) CY18F	Dividend Yield (%) CY18F
						CY18F	CY19F				
Venture Corporation	VMS SP	Add	22.29	29.13	4,824	15.6	13.5	15.1%	2.66	17.8%	2.7%
Foxconn International	2038 HK	NR	2.19	NA	2,267	36.5	21.5	na	0.66	3.6%	0.4%
US											
Benchmark Electronics	BHE US	NR	27.80	NA	1,382	16.8	14.3	na	na	na	0.0%
Celestica Inc	CLS US	NR	10.39	NA	1,470	9.0	8.3	19.5%	1.03	11.9%	0.0%
Flextronics International	FLEX US	NR	17.35	NA	9,155	12.9	10.7	-23.8%	2.77	21.8%	0.0%
Jabil Circuit	JBL US	NR	25.20	NA	4,416	9.5	8.0	15.3%	1.85	20.2%	1.3%
Plexus Corp	PLXS US	NR	59.39	NA	2,001	17.5	15.7	-3.2%	1.94	11.5%	0.0%
Sanmina-SCI Corp	SANM US	NR	26.10	NA	1,860	11.5	9.7	0.8%	na	na	0.0%
Simple Average (US)						12.9	11.1	1.7%	1.90	16.3%	0.2%
Simple Average (all co)						16.2	12.7	-2.8%	1.8	14.5%	0.5%

SOURCES: CGS-CIMB, COMPANY REPORTS

BY THE NUMBERS
P/BV vs ROE

12-mth Fwd FD Core P/E vs FD Core EPS Growth

Profit & Loss

(\$M)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Net Revenues	2,657	2,874	4,024	4,567	4,957
Gross Profit	616	702	966	1,062	1,165
Operating EBITDA	213	247	451	520	596
Depreciation And Amortisation	(46)	(46)	(33)	(38)	(41)
Operating EBIT	166	200	418	482	556
Financial Income/(Expense)	2	2	2	2	2
Pretax Income/(Loss) from Assoc.	2	3	3	2	2
Non-Operating Income/(Expense)	8	9	2	2	2
Profit Before Tax (pre-EI)	179	215	425	488	562
Exceptional Items	0	0	0	0	0
Pre-tax Profit	179	215	425	488	562
Taxation	(28)	(35)	(72)	(83)	(95)
Exceptional Income - post-tax					
Profit After Tax	151	179	352	405	466
Minority Interests	(0)	(0)	0	0	0
Preferred Dividends	0	0	0	0	0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	151	179	352	405	466
Recurring Net Profit	147	175	352	405	466
Fully Diluted Recurring Net Profit	147	175	352	405	466

Cash Flow

(\$M)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
EBITDA	212.5	246.9	450.9	519.9	596.3
Cash Flow from Inv. & Assoc.	(2.0)	(3.0)	(2.5)	(2.0)	(2.0)
Change In Working Capital	28.6	(8.2)	(367.4)	(152.2)	(99.9)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	2.5	2.4	2.4	2.4	2.4
Net Interest (Paid)/Received	2.0	2.2	2.0	2.0	2.0
Tax Paid	(25.3)	(33.5)	(36.2)	(72.2)	(83.0)
Cashflow From Operations	218.3	206.9	49.2	297.9	415.8
Capex	(14.6)	(33.5)	(30.0)	(68.5)	(30.0)
Disposals Of FAs/subsidiaries	0.0	0.0	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0	0.0
Other Investing Cashflow	0.9	3.1	(0.0)	(0.0)	(0.0)
Cash Flow From Investing	(13.7)	(30.4)	(30.0)	(68.5)	(30.0)
Debt Raised/(repaid)	(46.4)	(42.0)	42.4	0.0	0.0
Proceeds From Issue Of Shares	12.9	18.2	0.0	0.0	0.0
Shares Repurchased	0.0	(0.5)	0.0	0.0	0.0
Dividends Paid	(138.0)	(138.4)	(138.9)	(170.0)	(170.0)
Preferred Dividends					
Other Financing Cashflow	(26.1)	0.0	0.0	0.0	0.0
Cash Flow From Financing	(197.6)	(162.7)	(96.5)	(170.0)	(170.0)
Total Cash Generated	7.0	13.8	(77.2)	59.5	215.8
Free Cashflow To Equity	158.2	134.5	61.6	229.5	385.8
Free Cashflow To Firm	205.6	177.4	20.2	230.5	386.8

SOURCE: CGS-CIMB RESEARCH, COMPANY DATA

BY THE NUMBERS... cont'd
Balance Sheet

(\$m)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Cash And Equivalents	459	500	332	379	581
Total Debtors	604	751	1,058	1,201	1,304
Inventories	556	623	838	960	1,039
Total Other Current Assets	0	0	0	0	0
Total Current Assets	1,619	1,874	2,228	2,541	2,924
Fixed Assets	186	203	202	234	224
Total Investments	62	37	47	51	55
Intangible Assets	640	640	640	640	640
Total Other Non-Current Assets	20	4	20	20	20
Total Non-current Assets	909	885	908	944	938
Short-term Debt	109	93	109	109	109
Current Portion of Long-Term Debt					
Total Creditors	479	683	838	951	1,032
Other Current Liabilities	15	18	15	15	15
Total Current Liabilities	603	794	961	1,075	1,156
Total Long-term Debt	26	0	26	26	26
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0	0	0	0	0
Total Non-current Liabilities	26	0	26	26	26
Total Provisions	3	2	3	3	3
Total Liabilities	633	796	991	1,104	1,185
Shareholders' Equity	1,893	1,960	2,143	2,378	2,674
Minority Interests	3	2	2	2	2
Total Equity	1,896	1,963	2,145	2,380	2,677

Key Ratios

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue Growth	7.9%	8.2%	40.0%	13.5%	8.5%
Operating EBITDA Growth	13.9%	16.2%	82.7%	15.3%	14.7%
Operating EBITDA Margin	8.0%	8.6%	11.2%	11.4%	12.0%
Net Cash Per Share (\$\$)	1.17	1.47	0.69	0.86	1.57
BVPS (\$\$)	6.85	7.06	7.56	8.39	9.44
Gross Interest Cover	170.4	224.0	418.4	482.4	555.7
Effective Tax Rate	15.5%	16.4%	17.0%	17.0%	17.0%
Net Dividend Payout Ratio	77.4%	64.7%	40.0%	34.8%	30.3%
Accounts Receivables Days	77.45	81.71	77.34	84.65	86.46
Inventory Days	99.20	99.36	87.18	93.62	96.22
Accounts Payables Days	66.09	71.12	68.77	73.53	75.35
ROIC (%)	11.1%	13.3%	27.5%	25.3%	26.6%
ROCE (%)	8.5%	9.9%	19.4%	20.2%	20.9%
Return On Average Assets	7.1%	8.0%	14.3%	14.7%	15.2%

Key Drivers

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
ASP Change (% , Main Product)	0.0%	0.0%	0.0%	0.0%	0.0%
Unit sales growth (% , main prod)	6.8%	6.8%	6.8%	6.8%	6.8%
No. Of Lines (main Product)	N/A	N/A	N/A	N/A	N/A
Rev per line (US\$, main prod)	N/A	N/A	N/A	N/A	N/A
ASP chg (% , 2ndary prod)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% , 2ndary prod)	N/A	N/A	N/A	N/A	N/A
No. Of Lines (secondary Product)	N/A	N/A	N/A	N/A	N/A
Rev per line (US\$, 2ndary prod)	N/A	N/A	N/A	N/A	N/A

SOURCE: CGS-CIMB RESEARCH, COMPANY DATA

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
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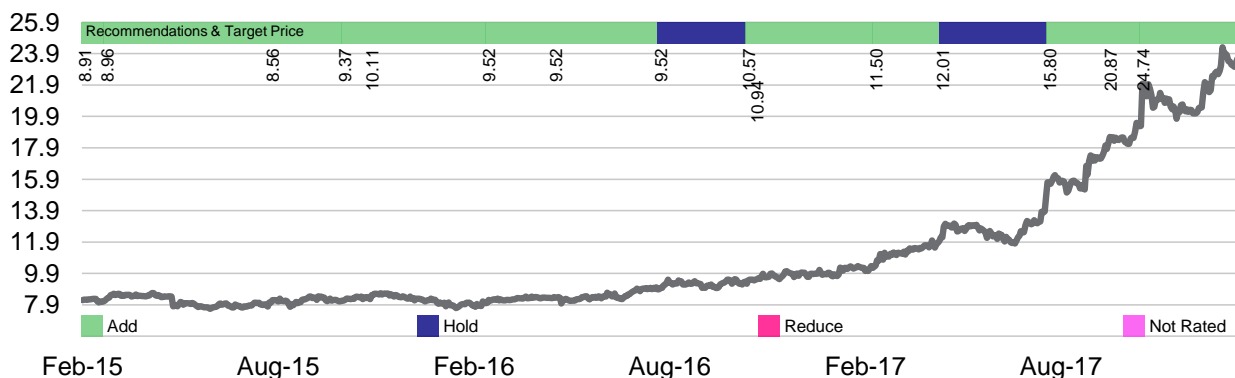
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1235 companies under coverage for quarter ended on 31 December 2017		
	Rating Distribution (%)	Investment Banking clients (%)
Add	58.5%	6.4%
Hold	31.7%	2.6%
Reduce	9.0%	0.7%

Spitzer Chart for stock being researched (2 year data)

Venture Corporation (VMS SP)

— Price Close



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2017, Anti-Corruption 2017

AAV – Very Good, n/a, **ADVANC** – Excellent, Certified, **AEONTS** – Good, n/a, **AMATA** – Very Good, n/a, **ANAN** – Excellent, n/a, **AOT** – Excellent, Declared, **AP** – Excellent, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Declared, **BCP** - Excellent, Certified, **BCPG** – Very Good, n/a, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, , **BGRIM** – not available, n/a, **BH** - Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Declared, **BLA** – Very Good, Certified, **BPP** – Good, n/a, **BR** - Good, Declared, **BTS** - Excellent, Certified, **CBG** – Good, n/a, **CCET** – Good, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** - Excellent, Certified, **DELTA** - Excellent, n/a, **DEMCO** – Excellent, Certified, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Very Good, n/a, **ECL** – Very Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Very Good, n/a, **GFPT** - Excellent, Declared, **GGC** – not available, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** - Excellent, n/a, **GUNKUL** – Excellent, Declared, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **ICHI** – Excellent, n/a, **III** – not available, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JAS** – not available, Declared, **JASIF** – not available, n/a, **JUBILE** – Good, Declared, **KAMART** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KGI** – Very Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, n/a, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Very Good, Declared, **MALEE** – Very Good, n/a, **MBKET** – Very Good, Certified, **MC** – Very Good, Declared, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTLS** – Very Good, Declared, **NYT** – Excellent, n/a, **OISHI** – Very Good, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PSH** – Excellent, Certified, **PSL** - Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **SAMART** - Excellent, n/a, **SAPPE** - Good, n/a, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCBLIF** – not available, n/a, **SCC** – Excellent, Certified, **SCN** – Very Good, Declared, **SCCC** - Excellent, Declared, **SIM** - Excellent, n/a, **SIRI** – Very Good, Declared, **SPA** - Good, n/a, **SPALI** - Excellent, n/a, **SPRC** – Excellent, Declared, **STA** – Very Good, Declared, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **TASCO** – Very Good, n/a, **TCAP** – Excellent, Certified, **THAI** – Very Good, n/a, **THANI** – Very Good, Certified, **THCOM** – Excellent, Certified, **THRE** – Very Good, Certified, **THREL** – Excellent, Certified, **TICON** – Very Good, Declared, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TK** – Very Good, n/a, **TKN** – Very Good, Declared, **TMB** - Excellent, Certified, **TNR** – Good, n/a, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TIPIP** – not available, n/a, **TRUE** – Excellent, Declared, **TTW** – Very Good, n/a, **TU** – Excellent, Declared, **TVO** – Excellent, Declared, **UNIQ** – not available, Declared, **VGI** – Excellent, Declared, **WHA** – not available, Declared, **WHART** – not available, n/a, **WORK** – not available, n/a.

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Definition:

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- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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