

MITA No. 010/06/2008

4 May 2009

Venture Corp

Downgrade to

HOLD

Previous Rating: BUY

Cautiously improving 2Q09 outlook

S\$5.96

Fair Value: S\$5.64

Stock Code: VENM.SI
 Reuters: V03
 ISIN Code: V03
 Bloomberg: VMS SP
 Event: Results

'Tough 1Q09 as expected. Venture Corp (VMS) reported its 1Q09 results last weekend, where the results reflected a tough quarter as expected. Revenue fell 22.7% YoY to S\$725.5m, coming in about 4.5% shy of our forecast, as it had suffered sharp falls (~30%) in almost all segments of its business, except for Printing & Imaging (P&I). We note that it was due to the shift to a full product configuration model by a key customer, which resulted in positive revenue impact but without the attendant margin i.e. very little value-add from VMS on these products. Net profit slipped 50.8% YoY to S\$27.7m, and was 1.0% shy of our forecast. Despite excluding a forex gain of S\$9.1m and a marked-to-market impairment loss of S\$12.6m for its CDO, core earnings still showed a 57.2% YoY drop.

General Data	
Issued Capital (m)	274
Mkt Cap (S\$m/US\$m)	1,635/1,102
Major Shareholder	
Aberdeen Asset Mgmt (15.1%)	
Free Float (%)	68.0
NTA per share (S\$)	6.41
Daily Vol 3-mth ('000)	1,369
52Wk High (S\$)	11.460
52Wk Low (S\$)	3.900

2Q09 outlook cautiously improving. Although management expects 2009 to remain challenging, it also noted that it has seen some improvements in some customers' forecasts; this has already resulted in monthly improvement in sales since late Feb. VMS will continue to pursue growth through addition of new customers, which we understand will be through its ODM projects - management revealed that there were >25 such projects under development and has made entry into the aerospace sector with a reputable new customer. In the longer term, it targets to develop as many as 10 solution enterprises from its existing operations (mainly those in product marketing and distribution channels) - to enhance its value creation.

Potential CDO writebacks. VMS has already almost fully marked down its original S\$167.8m CDO2 investment to S\$10.9m, and should credit markets improve, we can expect potential writebacks in the next few quarters; however, we prefer to remain conservative and only adjust our numbers if/when it get its full investment back by end Dec. Meanwhile, we believe our FY09 estimates already reflect the still uncertain environment and we will leave them intact until we see more concrete signs of recovery. As such, our fair value remains at S\$5.64 (based on 8x FY09F PER). As the stock has run up nearly 25% since our upgrade in March, and the current price exceeds our fair value by 4.7%, we downgrade our rating to **HOLD**; but we still think that the company remains fundamentally sound and its S\$0.50/share dividend payout remains sustainable (8.4% yield).

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Year to 31 Dec	Turnover (S\$m)	EBITDA (S\$m)	Net Profit (S\$m)	EPS (cents)	EPS Growth (%)	PER (x)	Div Yield (%)
FY 07	3,872.8	365.7	300.0	110.0	-	5.4	9.7
FY 08	3,784.1	341.1	166.7	60.8	-44.8	9.8	8.4
FY 09F	3,209.0	253.5	193.3	70.5	16.0	8.5	8.4
FY 10F	3,123.3	246.7	212.9	77.6	10.1	7.7	8.4

Please refer to the important disclosures at the back of this document.

Venture's Key Financial Data

Venture Results	1Q08	1Q09	% Chg	4Q08	% Chg
Year Ended 31 Dec (S\$ m)	(S\$m)	(S\$m)	(YoY)	(S\$m)	(QoQ)
Revenue	939.1	725.5	-22.7%	906.9	-20.0%
Gross profit	198.4	128.2	-35.4%	180.5	-29.0%
Gross margin	21.1%	17.7%		19.9%	
EBITDA	87.6	46.6	-46.8%	74.7	-37.6%
Depreciation & amortisation	-15.3	-15.6	2.3%	-15.6	0.5%
Net interest	3.1	1.0	-66.4%	0.6	76.4%
Forex gain (loss)	4.1	9.1	119.7%	-0.1	nm
Associate	0.0	-1.1	nm	1.6	nm
Investment gain/others	0.1	0.4	172.4%	0.1	180.1%
CDO adjustment	-20.7	-12.6	-39.4%	-57.6	-78.2%
Pre-tax profit	58.9	27.8	-52.8%	3.7	642.2%
Pre-tax margin	6.3%	3.8%		0.4%	
Tax	-2.2	-0.2	-90.8%	0.9	nm
Minority interest	-0.4	0.1	nm	0.0	nm
Net profit	56.3	27.7	-50.8%	4.6	504.0%
Net Margin	6.0%	3.8%		0.5%	
Core Earnings (Excludes CDO, Impairment and Forex)	72.9	31.2	-57.2%	68.6	-54.5%

Exhibit 2 Segmental Breakdown of Revenue

Year to 31 Dec (In S\$m)	1Q08	1Q09	% YoY	4Q08	% QoQ
PC & Data Storage	189.4	133.4	-29.6%	168.7	-20.9%
Printing & Imaging	240.2	254.7	6.0%	265.8	-4.2%
Networking & Communication	171.9	106.5	-38.0%	157.5	-32.4%
Test & Measurement/Medical	154	104.3	-32.3%	122.4	-14.8%
Retail Store/Industrial Products	183.6	126.6	-31.0%	192.4	-34.2%
Total	939.1	725.5	-22.7%	906.8	-20.0%

EARNINGS FORECAST

Year Ended 31 Dec (S\$ m)	FY07	FY08	FY09F	FY10F
Revenue	3,872.8	3,784.1	3,209.0	3,123.3
EBITDA	365.7	341.1	253.5	246.7
Depreciation & amortisation	-65.5	-60.8	-52.4	-41.8
Net interest	5.8	6.5	9.5	16.1
Associates	4.7	0.2	0.2	0.0
CDO Adjustments	-16.2	-114.5	-12.0	0.0
Exceptionals	0.0	0.0	0.0	0.0
Pre-tax profit	294.6	172.6	198.8	221.0
Tax	8.1	-5.0	-6.0	-6.6
Minority interests	-2.7	-0.9	0.5	-1.4
Net profit	300.0	166.7	193.3	212.9
Earnings per share (cents)	110.0	60.8	70.5	77.6
Fully diluted earnings per share (cents)	110.0	60.8	70.5	77.6

BALANCE SHEET

As at 31 Dec (S\$ m)	FY07	FY08	FY09F	FY10F
Cash	493.3	513.8	631.1	682.2
Other current assets	1,243.9	1,270.9	1,039.3	1,013.6
Fixed assets	206.8	196.0	158.7	116.8
Other long term assets	1,104.5	935.6	875.6	858.6
Total assets	3,048.5	2,916.3	2,704.7	2,671.2
Current liabilities less debt	593.4	666.9	515.1	504.4
Debt	510.3	321.5	200.0	100.0
Other long term liabilities	49.4	29.1	35.0	35.0
Total liabilities	1,153.0	1,017.5	750.1	639.4
Shareholders equity	1,884.5	1,895.6	1,951.9	2,027.7
Minority interests	10.9	3.2	2.7	4.1
Total equity and liabilities	3,048.5	2,916.3	2,704.7	2,671.2
NTA per share (cents)	631.0	641.1	667.8	701.6

CASH FLOW

Year Ended 31 Dec (S\$ m)	FY07	FY08	FY09F	FY10F
Operating profit before working cap. changes	368.2	354.0	301.3	283.7
Working capital changes	81.4	34.5	77.6	15.0
Interest and tax	0.4	-9.3	12.2	9.5
Net cash from operations	450.0	379.2	391.0	308.2
Capex	-39.7	-32.6	-15.0	-20.0
Other investing flows	54.2	10.4	0.0	0.0
Investing cash flow	14.6	-22.2	-15.0	-20.0
Change in equity	21.9	0.0	0.0	0.0
Net change in debt	-121.2	-189.1	-121.5	-100.0
Dividends paid	-154.6	-137.1	-137.1	-137.1
Financing cash flow	-253.9	-326.2	-258.7	-237.1
Other adjustments	-46.3	-10.4	0.0	0.0
Net cash flow	164.3	20.4	117.4	51.1
Cash at beginning of year	329.0	493.3	513.8	631.1
Add: Bank overdraft	0.0	0.0	0.0	0.0
Cash at end of year	493.3	513.8	631.1	682.2

Key Ratios

PER (x)	5.4	9.8	8.5	7.7
Price/NTA (x)	0.9	0.9	0.9	0.8
EV/EBITDA (x)	4.5	4.2	4.7	4.3
Dividend yield (%)	9.7	8.4	8.4	8.4
ROIC (%)	12.5	7.5	9.0	10.0
ROE (%)	15.9	8.8	9.9	10.5
Net gearing (%)	0.9	Net Cash	Net Cash	Net Cash
PE to growth (x)	NA	-0.2	0.5	0.8

Source: Company data, OIR estimates

SHAREHOLDING DECLARATION:

The analyst/analysts who wrote this report holds NIL shares in the above security.

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