

Singapore Company Update

Grand Venture Technology

Bloomberg: GVTL SP | Reuters: GRAN.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 May 2022

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BUY

Last Traded Price (6 May 2022): S\$0.975 (STI : 3,291.89)
Price Target 12-mth: S\$1.40 (44% upside) (Prev S\$1.50)

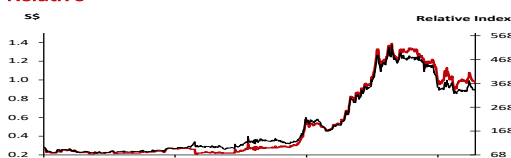
Analyst

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What's New

- 1Q22 revenue of \$32.5m in line with expectations
- Net profit margin declined to 11.2% in 1Q22 (vs 14.5% in 1Q21), lower than expected; expect margins to improve beyond 1Q22
- Inching into the front-end of the semiconductor space, customer acquisitions on the cards
- Maintain BUY with a lower TP of S\$1.40

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2020A	2021A	2022F	2023F
Revenue	61.4	116	145	178
EBITDA	14.2	31.5	37.3	46.7
Pre-tax Profit	6.03	20.9	24.1	31.7
Net Profit	5.22	17.6	19.6	25.8
Net Pft (Pre Ex.)	5.22	17.6	19.6	25.8
Net Pft Gth (Pre-ex) (%)	68.4	236.6	11.6	31.8
EPS (S cts)	2.23	5.31	5.92	7.80
EPS Pre Ex. (S cts)	2.23	5.31	5.92	7.80
EPS Gth Pre Ex (%)	68	138	12	32
Diluted EPS (S cts)	2.23	5.31	5.92	7.80
Net DPS (S cts)	0.0	0.46	1.18	1.56
BV Per Share (S cts)	15.7	31.6	36.4	42.6
PE (X)	43.8	18.4	16.5	12.5
PE Pre Ex. (X)	43.8	18.4	16.5	12.5
P/Cash Flow (X)	57.7	104.0	12.7	11.4
EV/EBITDA (X)	18.4	10.2	8.6	6.7
Net Div Yield (%)	0.0	0.5	1.2	1.6
P/Book Value (X)	6.2	3.1	2.7	2.3
Net Debt/Equity (X)	0.9	CASH	CASH	CASH
ROAE (%)	15.3	24.8	17.4	19.8
Earnings Rev (%)			(11)	(7)
Consensus EPS (S cts)			11.5	13.5
Other Broker Recs:		B: 3	S: 0	H: 0

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

High growth continues

Investment Thesis:

Riding on positive industry outlook for all three segments; expansion into front-end semiconductor space a key growth driver. The outlook for the Semiconductor industry, which contributed 71.1% to Grand Venture's (GVT) revenue in FY21, remains positive, with revenue CAGR of 39.3% during 2017-2021. GVT services top tier customers in the semiconductor back-end space and is targeting to expand to front-end activities. The successful entry into the semiconductor front-end space could open considerable growth opportunities in the semiconductor segment.

The Life Sciences segment will also benefit from growing mass spectrometer demand. Furthermore, advancements in medical technologies will be advantageous to the Electronics and Medical segment.

Margins expected to improve after 1Q22. The overall macroeconomic environment may place pressure on margins, but we expect margins to improve on the back of absorption of spare capacities and i4 initiatives.

Valuation:

Maintain BUY; TP revised to \$1.40, from \$1.50 previously. Our target price is based on 18.0x FY23F earnings, which is close to its historical peak, given robust growth trajectory.

Where we differ:

We adopt a more cautious stance on margins given the uncertain macroeconomic outlook owing to the Russia-Ukraine conflict and supply chain disruptions.

Key Risks to Our View:

Prolonged supply chain disruptions; pandemic related lockdowns; rising raw material prices, volatile end market demand.

At A Glance

Issued Capital (m shrs)	339
Mkt. Cap (\$m/US\$m)	331 / 239
Major Shareholders (%)	
NT SPV 12	26.7
Tiam Nam Lee	15.3
Sunshine Ventures Pte	8.8
Free Float (%)	49.2
3m Avg. Daily Val (US\$m)	0.28
GIC Industry : Industrials / Capital Goods	



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WHAT'S NEW

1Q22 revenue in line; growth across all segments but margins a tad weaker than expected

1Q22 Results Highlight

1Q22 revenue of \$32.5m in line with expectations. 1Q22 revenue came in at \$32.5m (+41% y-o-y, +5.3% q-o-q) with net profit of \$3.6m (+8.9% y-o-y, - 6.5% q-o-q). Higher revenues were a result of GVT gaining a greater wallet share from its key customers.

Net profit margin declined to 11.2% in 1Q22 (vs 14.5% in 1Q21), lower than expected. Margins were impacted mainly by (i) higher costs of production, (ii) lower utilization rates due to capacity increases and (iii) timing differences in passing on some of the cost increase to customers. The group also incurred S\$0.2m of one-off expenses relating to the acquisition of Formach and J-Dragon, and other COVID-19 related costs.

Growth across all three segments. Semiconductor segment revenue increased to \$21.8m (+34.1% y-o-y) on the back of new customer contributions, higher contribution from key customers, and sustained demand for semiconductor chips. Life sciences revenue rose to \$4.9m (+29.1% y-o-y) on higher levels of production and larger wallet share. Revenue from the electronics, aerospace, medical and others segment grew the most to \$5.7m (+93.8% y-o-y) following increased demand from key customers and new contributions from GVT's recent acquisitions.

Slight shift in segmental revenues. The semiconductor segment remains the largest revenue segment, making up 67.2% of total revenue, slightly lower than the 70.6% in 1Q21. This can be attributed to the electronics, aerospace, medical and others segment growing 93.8%, compared to 34.1% growth in the semiconductor segment.

Results summary

S\$m	1Q22	1Q21	Growth (%)
Revenue	32.454	23.023	41.0%
Gross profit	9.237	7.395	24.9%
Net profit after tax	3.624	3.327	8.9%
Gross profit margin	28.5%	32.1%	
Net profit margin	11.2%	14.5%	

Source: Company; DBS Bank

Segmental revenue breakdown

Revenue (\$m)	1Q22	%	1Q21	Y-o-Y Gth (%)	
Semiconductor	21.8	67.2	16.3	70.6	34.1
Life sciences	4.9	15.2	3.8	16.5	29.1
Electronics, Aerospace, Medical and Others	5.7	17.7	3.0	12.9	93.8
Total	32.5	100	23.0	100	41.0

Source: Company; DBS Bank

Our Thoughts

Industry outlook still bright. The future is rooted in digitalisation and we expect this trend to create a sustained demand for semiconductors. Long term industry growth is still expected to be buoyant, although near-term activity may be hampered by supply chain disruptions.

Higher capacity and new capabilities to propel growth.

GVT has been expanding rapidly for the past two years and we are of the view that the increased capacity and new capabilities acquired will enable the group to leverage on the industry growth. The integrated manufacturing hub with aggregate floor area of more than 350k sqft is slated for completion by 3Q22, providing capacities for future growth.

Inching into the semiconductor front-end space, a potential catalyst of GVT's growth.

According to the 1Q22 business update, GVT is "making good progress in its discussions" with potential customers engaged in the front-end space. The successful entry into the semiconductor front-end space could present considerable opportunities for growth in the semiconductor segment. We continue to keep a close watch on customer acquisitions in the front-end.

Watch out for margins. With the Russia-Ukraine crisis, inflation, and rising interest rates, the overall macroeconomic environment may place added pressures on margins. To alleviate some of these pressures, GVT intends to pass on the higher costs to its customers. The Industry 4.0 (i4) initiatives are likely to support margins on enhanced efficiency and

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productivity. Moreover, we expect the growth story to play out, with increasing wallet share and contributions from key customers. This should in turn translate to higher utilization rates, partially offsetting decline in margins. Overall, we expect net margins to trend up from 1Q22 results.

Maintain BUY with lower TP of \$1.40, from \$1.50 previously. Revenue unchanged but we have revised earnings downwards by 10.6% and 6.5% in FY22F and FY23F respectively on lower margin assumptions. Industry outlook remains compelling, while the group's foray into the semiconductor front-end is beginning to take shape. However, we expect near-term margin compression, but this should improve as the group grows in scale and utilization rate improves. Our target price of S\$1.40 is based on 18.0x PE on FY23F earnings.

Company Background

Grand Venture Technology Limited was established in 2012 and is a manufacturing solutions and services provider for the semiconductor, life sciences, electronics, medical, and industrial automation industries. Its manufacturing plants are located in Singapore, Malaysia, and China. The customer base includes established blue-chip companies in the semiconductor back-end and analytical life sciences industries.

Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

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Income Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	40.1	61.4	116	145	178
Cost of Goods Sold	(25.2)	(42.5)	(78.6)	(99.3)	(120)
Gross Profit	14.9	18.9	37.7	46.1	58.3
Other Opng (Exp)/Inc	(10.0)	(11.5)	(15.1)	(19.9)	(24.4)
Operating Profit	4.91	7.44	22.6	26.2	33.9
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(1.1)	(1.4)	(1.7)	(2.2)	(2.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	3.84	6.03	20.9	24.1	31.7
Tax	(0.8)	(0.8)	(3.3)	(4.5)	(5.9)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	3.10	5.22	17.6	19.6	25.8
Net Profit before Except.	3.10	5.22	17.6	19.6	25.8
EBITDA	9.84	14.2	31.5	37.3	46.7
Growth					
Revenue Gth (%)	(2.3)	53.2	89.3	25.0	22.5
EBITDA Gth (%)	(6.1)	44.1	121.9	18.4	25.3
Opg Profit Gth (%)	(28.0)	51.5	203.7	16.0	29.1
Net Profit Gth (Pre-ex) (%)	(33.9)	68.4	236.6	11.6	31.8
Margins & Ratio					
Gross Margins (%)	37.2	30.8	32.4	31.7	32.7
Opg Profit Margin (%)	12.3	12.1	19.4	18.0	19.0
Net Profit Margin (%)	7.7	8.5	15.1	13.5	14.5
ROAE (%)	13.0	15.3	24.8	17.4	19.8
ROA (%)	5.0	6.2	12.7	10.0	11.6
ROCE (%)	4.0	5.3	13.4	10.6	13.0
Div Payout Ratio (%)	0.0	0.0	8.7	20.0	20.0
Net Interest Cover (x)	4.6	5.3	13.2	12.2	16.0

Source: Company, DBS Bank

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Interim Income Statement (\$\$m)

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Revenue	22.0	26.9	34.5	53.5	62.7
Cost of Goods Sold	(13.9)	(18.9)	(23.6)	(35.8)	(42.8)
Gross Profit	8.06	8.03	10.9	17.7	20.0
Other Oper. (Exp)/Inc	(5.5)	(4.8)	(6.7)	(6.4)	(8.7)
Operating Profit	2.55	3.28	4.16	11.4	11.2
Other Non Op (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.6)	(0.7)	(0.7)	(0.9)	(0.9)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	1.96	2.58	3.45	10.5	10.4
Tax	(0.4)	(0.4)	(0.5)	(2.0)	(1.3)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	1.58	2.22	2.99	8.51	9.05
Net profit bef Except.	1.58	2.22	2.99	8.51	9.05
EBITDA	2.55	3.28	4.16	11.4	11.2

Growth

Revenue Gth (%)	21.7	22.3	28.2	55.2	17.1
EBITDA Gth (%)	7.8	28.8	26.8	173.2	(1.2)
Op (Exp) Profit Gth (%)	7.8	28.8	26.8	173.2	(1.2)
Net Profit Gth (%)	3.9	40.9	34.6	184.3	6.3

Margins

Gross Margins (%)	36.6	29.8	31.6	33.1	31.8
Op (Exp) Profit Margins (%)	11.6	12.2	12.1	21.2	17.9
Net Profit Margins (%)	7.2	8.3	8.7	15.9	14.4

Balance Sheet (\$\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	34.7	43.4	56.4	65.3	67.5
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	3.76	3.06	5.40	5.38	5.36
Cash & ST Invts	5.77	7.49	46.3	47.9	56.1
Inventory	15.7	20.9	40.9	46.1	55.6
Debtors	13.0	17.9	30.0	40.3	49.4
Other Current Assets	0.70	1.69	3.84	3.84	3.84
Total Assets	73.6	94.4	183	209	238
ST Debt	12.3	10.6	16.3	16.3	16.3
Creditor	10.7	13.2	25.1	35.4	43.7
Other Current Liab	1.00	1.02	1.85	1.85	1.85
LT Debt	9.19	29.1	29.6	29.6	29.6
Other LT Liabilities	8.93	3.62	5.57	5.57	5.57
Shareholder's Equity	31.5	36.9	105	120	141
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Cap. & Liab.	73.6	94.4	183	209	238
Non-Cash Wkg. Capital	17.7	26.3	47.9	53.0	63.4
Net Cash/(Debt)	(15.7)	(32.2)	0.54	2.08	10.3
Debtors Turn (avg days)	102.8	91.8	75.2	88.4	92.0
Creditors Turn (avg days)	193.8	122.1	100.2	125.1	135.0
Inventory Turn (avg days)	237.0	187.1	161.9	180.0	173.7
Asset Turnover (x)	0.6	0.7	0.8	0.7	0.8
Current Ratio (x)	1.5	1.9	2.8	2.6	2.7
Quick Ratio (x)	0.8	1.0	1.8	1.6	1.7
Net Debt/Equity (X)	0.5	0.9	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	0.5	0.9	CASH	CASH	CASH
Capex to Debt (%)	28.1	18.7	35.5	43.7	32.8

Source: Company, DBS Bank

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Cash Flow Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	3.84	6.03	20.9	24.1	31.7
Dep. & Amort.	4.93	6.74	8.88	11.0	12.9
Tax Paid	(0.6)	(0.7)	(1.6)	(4.5)	(5.9)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(7.4)	(8.7)	(21.8)	(5.2)	(10.3)
Other Operating CF	(2.0)	0.58	(3.3)	0.0	0.0
Net Operating CF	(1.2)	3.96	3.10	25.5	28.3
Capital Exp.(net)	(6.0)	(7.4)	(16.3)	(20.0)	(15.0)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt. in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.34	0.09	0.30	0.0	0.0
Net Investing CF	(5.7)	(7.3)	(16.0)	(20.0)	(15.0)
Div Paid	0.0	0.0	(1.5)	(3.9)	(5.2)
Chg in Gross Debt	(0.5)	9.64	5.33	0.0	0.0
Capital Issues	13.2	0.0	51.1	0.0	0.0
Other Financing CF	(2.2)	(4.6)	(3.1)	0.0	0.0
Net Financing CF	10.5	5.02	51.8	(3.9)	(5.2)
Currency Adjustments	0.0	0.08	0.07	0.0	0.0
Chg in Cash	3.56	1.72	39.0	1.55	8.16
Opg CFPS (S cts)	2.65	5.40	7.52	9.26	11.7
Free CFPS (S cts)	(3.1)	(1.5)	(4.0)	1.65	4.03

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	14 Apr 22	1.01	1.50	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Lee Keng LING

Singapore Research Team

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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