

Singapore

ADD (no change)

Consensus ratings*: Buy 3 Hold 0 Sell 0

Current price:	S\$0.695
Target price:	S\$0.85
Previous target:	S\$1.29
Up/downside:	22.3%
CGS-CIMB / Consensus:	-36.8%
Reuters:	GRAN.SI
Bloomberg:	GVTL SP
Market cap:	US\$171.9m
	S\$235.8m
Average daily turnover:	US\$0.11m
	S\$0.15m
Current shares o/s:	330.8m
Free float:	41.0%

*Source: Bloomberg

Key changes in this note

- FY22F EPS reduced by 31.4%.
- FY23F EPS reduced by 33.7%.
- FY24F EPS reduced by 34.7%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-1.4	-25.3	-47
Relative (%)	-6.4	-26.9	-49.5

Major shareholders	% held
NT SPV 12	26.7
Lee Tiam Nam	15.3

Analyst(s)



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Grand Venture Technology Ltd

Onboarding new customers key to re-rating

- 1H22 revenue was in line with our estimate but 1H22 net profit was 21% below. 1H22 revenue increased 25.3% yoy driven by all business segments.
- Cost pressures and product mix changes saw pre-tax margin eroding from 19.7% in 1H21 to 12.5% in 1H22.
- We lower our FY22-24F EPS estimates to reflect further clarity on margin pressure trend. Our TP is reduced to S\$0.85 (previously: S\$1.29).

1H22 results: net profit was 21% below our S\$9.0m expectation

1H22 revenue rose 25.3% yoy to S\$67.1m with all business segments registering yoy growth. Revenue rose 13.4% yoy to S\$34.6m in 2Q22. 1H22 revenue was in line with our expectation. 1H22 net profit fell 16.2% yoy while 2Q22 net profit slumped 32.3% yoy. 1H22 core net profit of S\$7.1m was 21% below our S\$9.0m expectation, forming 32% of our full-year forecast. Gross profit margin (GPM) narrowed from 33.8% in 2Q21 to 25.5% in 2Q22. 1H22 GPM was 26.9% vs. 33.1% in 1H21. Net profit margin (NPM) was 10.1% in 2Q22 vs. 17.0% in 2Q21 and 11.2% in 1Q22. 1H22 NPM was 10.6% vs. 15.9% in 1H21. Interim DPS was cut to 0.3 Scts from 0.5 Scts in 1H21.

2H22 outlook: management sees robust demand

Although management sees robust demand across all its business segments in 2H22F, it is mindful that the headwinds faced by some of its back-end semiconductor customers may cap the group's growth in the near term. Hence, the group seeks to mitigate this with its expansion into the front-end semiconductor business. GVT updated that engagement with prospective customers is progressing well and guided that the onboarding of these new customers is expected to mitigate the softening demand situation from back-end semiconductor customers. In the Life Sciences segment, GVT expects demand to remain resilient given the typically long lifecycles of the customers' products. GVT is also addressing the rising cost environment via further automation and passing on some of the cost increases to customers.

Reiterate Add on growth potential

We cut our FY22-24F EPS by 31.4-34.7% as GVT navigates the difficult operating environment. This leads to a lower TP of S\$0.85 based on 13.0x (+0.5 s.d. above the average forward P/E multiple for Dec 19 to Aug 22; previously we used a 13.1x P/E multiple) on our FY23F EPS forecast. We use +0.5 s.d. above the average forward P/E multiple to price in the probability of potential FY23F earnings contribution from new customer wins in the front-end semicon space by GVT. Re-rating catalysts are stronger-than-expected results, potential new customer wins and accretive M&A. Downside risks are operational disruptions from Covid-19 lockdowns in China and higher than expected spending for long-term growth affecting our FY23-24F net profit expectations.

Financial Summary

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (S\$m)	61.4	116.3	140.5	166.3	191.2
Net Profit (S\$m)	5.22	17.56	15.46	22.13	25.49
Core EPS (S\$)	0.022	0.053	0.046	0.065	0.075
Core EPS Growth	51%	138%	(14%)	43%	15%
FD Core P/E (x)	31.21	11.34	15.24	10.66	9.25
Price To Sales (x)	2.65	1.98	1.68	1.42	1.23
DPS (S\$)	-	0.010	0.009	0.013	0.015
Dividend Yield	0.00%	1.44%	1.31%	1.88%	2.16%
EV/EBITDA (x)	14.63	7.77	8.28	6.06	4.91
P/FCFE (x)	100.1	NA	NA	15.9	13.2
Net Gearing	98.5%	4.9%	10.7%	1.6%	(6.9%)
P/BV (x)	4.42	2.25	2.02	1.75	1.52
ROE	15.3%	24.8%	14.0%	17.6%	17.6%
% Change In Core EPS Estimates			(31.4%)	(33.7%)	(34.7%)
CGS-CIMB/Consensus EPS (x)			0.70	0.73	1.37

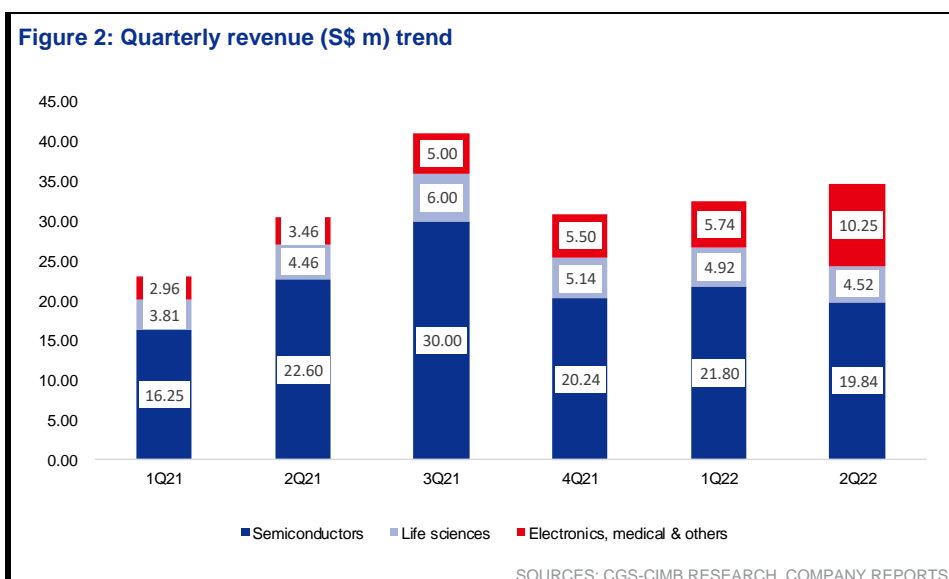
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Results comparison

FYE Dec (\$\$ m)	1H22	1H21	yoy % chg	2H21	hoh % chg	Prev FY22F	Comments
Revenue	67.06	53.54	25.26	62.72	6.93	151.56	1H22 revenue in line with our expectation.
Operating costs	(52.69)	(38.78)	35.86	(47.23)	11.55	(115.83)	
EBITDA	14.38	14.76	(2.58)	15.49	(7.15)	35.73	
Deprn & amort.	(6.52)	(4.04)	61.56	(4.80)	35.90	(9.52)	M&A and higher capex
EBIT	7.86	10.73	(26.71)	10.69	(26.47)	26.20	
Other income	1.70	0.64	165.57	0.57	196.16	2.43	FX gains.
Interest expense	(1.15)	(0.84)	36.30	(0.89)	29.39	(1.50)	
Exceptionals	0.00	0.00	na	0.00	na	0.00	
Pretax profit	8.41	10.52	(20.08)	10.37	(18.95)	27.13	
Tax	(1.28)	(2.01)	(36.61)	(1.33)	(3.77)	(4.61)	
Minority interests	0.00	0.00	na	0.00	na	0.00	
Net profit	7.13	8.51	(16.17)	9.05	(21.18)	22.52	1H22 net profit was 21% below our expectation.
Core net profit	7.13	8.51	(16.17)	9.05	(21.18)	22.52	
EPS (Scts)	2.12	3.07	(30.94)	2.80	(24.29)	6.65	
Core EPS (Scts)	2.12	3.07	(30.94)	2.80	(24.29)	6.65	
DPS (Scts)	0.30	0.50	(40.00)	0.50	na	1.33	GVT cut interim DPS
			<u>yoy chg</u> <u>in % pts</u>		<u>hoh chg</u> <u>in % pts</u>		
EBITDA margin (%)	21.44	27.57	(6.13)	24.69	(3.25)	23.57	Margin decline due to lower utilisation rate and higher costs.
Pre-tax profit margin (%)	12.54	19.65	(7.11)	16.54	(4.00)	17.90	
Net profit margin (%)	10.63	15.89	(5.26)	14.43	(3.79)	14.86	
Tax rate (%)	15.18	19.13	(3.96)	12.78	2.39	17.00	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Quarterly revenue (\$\$ m) trend



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 3: Earnings revision

(\$\$m)	Old			New			% chg		
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
Revenue	151.6	184.3	218.1	140.5	166.3	191.2	(7.3)	(9.8)	(12.3)
Gross margin	28.4%	31.4%	31.4%	27.0%	29.6%	29.6%	(1.4)	(1.8)	(1.8)
Net profit	22.5	33.3	38.9	15.5	22.1	25.5	(31.3)	(33.6)	(34.5)
EPS (\$\$)	0.0665	0.0984	0.1150	0.0456	0.0652	0.0751	(31.4)	(33.7)	(34.7)
No. of shares (m)	338.5	338.5	338.5	339.3	339.3	339.3	0.2	0.2	0.2

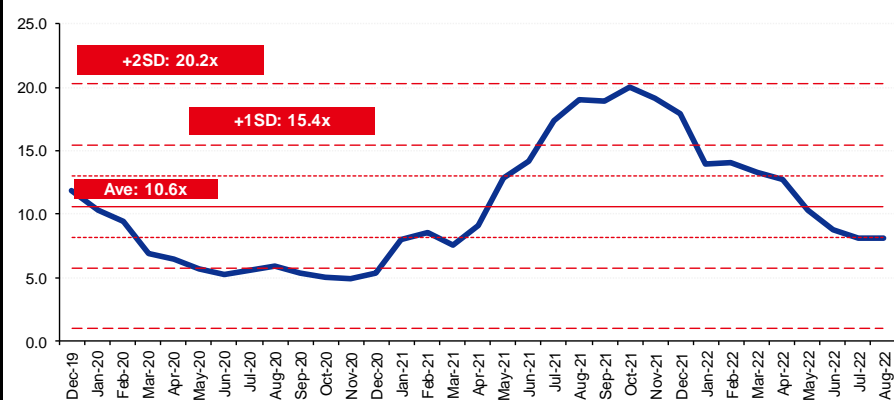
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 4: Peers comparison

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	P/E (x) CY22F	P/E (x) CY23F	3-year EPS CAGR (%)	P/BV (x) CY22F	Recurring ROE (%) CY22F	Dividend Yield (%) CY22F
Singapore											
Grand Venture Technology Ltd	GVTL SP	ADD	0.70	0.85	172	15.2	10.7	12.5%	2.02	14.1%	1.3%
Frencken Group Ltd	FRKN SP	Add	1.29	1.72	402	9.8	8.3	6.3%	1.32	14.4%	3.1%
UMS Holdings Ltd	UMSH SP	Add	1.19	1.63	579	10.9	10.6	13.3%	2.51	24.9%	4.2%
SAM Engineering & Equipment	SEQB MK	Add	3.85	3.80	468	23.9	18.3	25.2%	2.79	12.5%	1.1%
UWC BHD	UWC MK	NR	3.83	NA	993	38.0	31.6	-3.7%	10.32	27.0%	0.5%
Unisem	UNI MK	Add	2.84	3.90	1,028	18.7	16.0	na	1.99	11.3%	2.5%
Benchmark Electronics Inc	BHE US	NR	26.87	NA	945	13.4	12.0	na	na	na	na
Celestica Inc	CLS US	NR	11.40	NA	1,404	6.7	6.1	33.4%	na	13.8%	0.0%
Flex Ltd	FLEX US	NR	18.44	NA	8,410	9.4	8.2	10.9%	1.99	23.4%	0.0%
Sanmina Corp	SANM US	NR	49.23	NA	2,846	9.9	9.8	-0.1%	na	16.6%	0.0%
Simple Average excluding GVT						14.6	13.3	3.6%	3.63	19.1%	1.5%

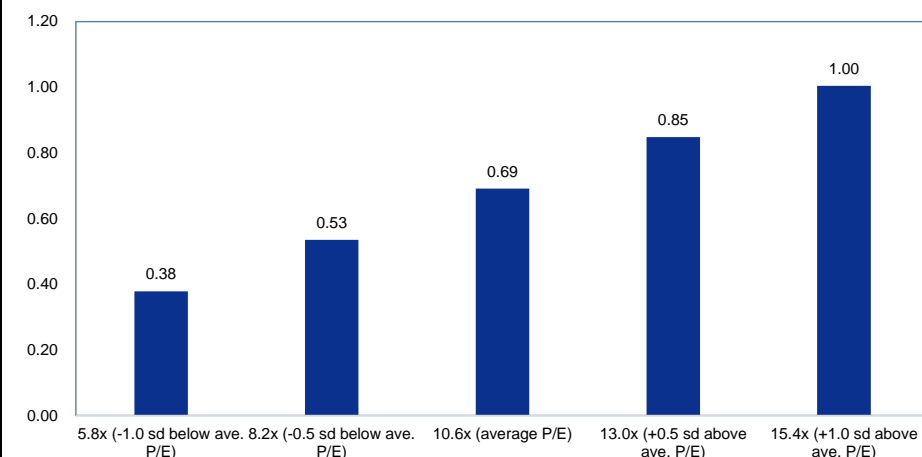
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG
NOTE: FORECASTS FOR NOT RATED COMPANIES ARE BLOOMBERG CONSENSUS ESTIMATES
DATA AS AT 11 AUG 2022

Figure 5: GVT 12-mth Fwd Rolling P/E (x)




SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 6: P/E-based TP scenario analysis

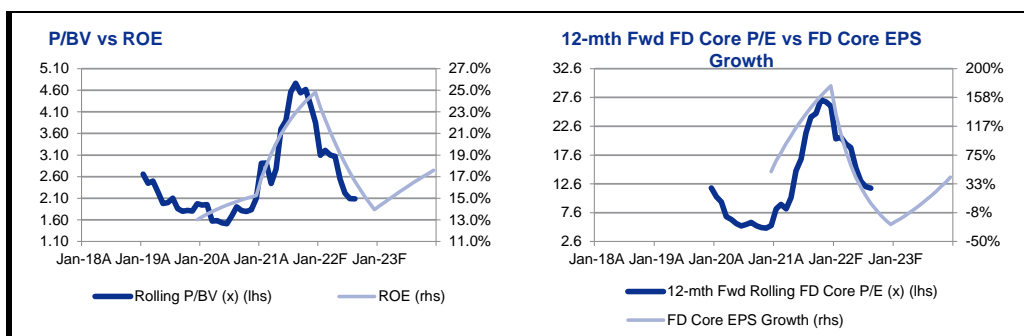


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

 ESG in a nutshell	
<p>Founded in 2012, Grand Venture Technology Limited (GVT) is a services provider for the manufacture of complex precision machining and sheet metal components and modules. The group released its inaugural sustainability for the year 2020 with the objective of becoming a responsible corporate citizen.</p>	
Keep your eye on	Implications
<p>Customer concentration risk.</p>	<p>GVT has three customers (FY20: 5 customers) that each accounted for more than 10% of FY21 revenue. To mitigate this risk, GVT will pursue business opportunities with new customers.</p>
ESG highlights	Implications
<p>Given the nature of its manufacturing operations, GVT's consumption of electricity and water, directly impacts the environment and the local community where it operates.</p>	<p>GVT seeks to reduce its carbon footprint by a) deploying solar energy to supplement current level of energy consumption; b) adopt green practices such as switching off lights at its offices where no users are present, using energy efficient equipment, setting computers to energy-saving mode and using air-conditioning only where and when function/meeting rooms are used. In FY21, GVT did not incur any fines for non-compliance with environmental laws and/or regulations.</p>
Trends	Implications
<p>The Group is committed to the health and safety of its employees by providing a safe working environment. GVT views the safety and well-being of its employees as important factors that affects its employee's morale and productivity.</p>	<p>The Group adopts an internal health and safety policies, contained within the employee handbook. The health and safety policies are designed to protect the employees' health and safety during the course of work, which include segments such as fire safety, personal protective equipment, housekeeping and cleanliness and reporting process for work-related injuries/incidences. In FY21, the group has recorded zero cases of work-related injury and work-related ill health. The group aims to maintain zero cases of work-related injury and work-related ill health in FY21.</p>

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS



Profit & Loss

(\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	61.40	116.26	140.46	166.27	191.21
Gross Profit	25.65	46.52	49.24	61.84	70.48
Operating EBITDA	13.61	30.25	29.96	39.25	45.88
Depreciation And Amortisation	(6.71)	(8.83)	(11.36)	(12.61)	(13.86)
Operating EBIT	6.90	21.41	18.60	26.64	32.02
Financial Income/(Expense)	(1.42)	(1.73)	(2.20)	(2.30)	(2.30)
Pretax Income/(Loss) from Assoc.	0.00	0.00	0.00	0.00	0.00
Non-Operating Income/(Expense)	0.56	1.21	2.00	2.00	0.63
Profit Before Tax (pre-EI)	6.03	20.90	18.40	26.34	30.35
Exceptional Items					
Pre-tax Profit	6.03	20.90	18.40	26.34	30.35
Taxation	(0.81)	(3.34)	(2.94)	(4.21)	(4.86)
Exceptional Income - post-tax					
Profit After Tax	5.22	17.56	15.46	22.13	25.49
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	5.22	17.56	15.46	22.13	25.49
Recurring Net Profit	5.22	17.56	15.46	22.13	25.49
Fully Diluted Recurring Net Profit	5.22	17.56	15.46	22.13	25.49

Cash Flow

(\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	13.61	30.25	29.96	39.25	45.88
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(8.27)	(26.13)	(21.10)	(9.91)	(11.53)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	1.21	2.33	1.98	1.98	0.70
Net Interest (Paid)/Received	(1.42)	(1.73)	(2.20)	(2.30)	(2.30)
Tax Paid	(0.66)	(1.62)	(2.94)	(4.21)	(4.86)
Cashflow From Operations	4.47	3.10	5.69	24.81	27.89
Capex	(7.94)	(16.26)	(10.00)	(10.00)	(10.00)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	0.09	0.30	0.00	0.00	0.00
Cash Flow From Investing	(7.85)	(15.96)	(10.00)	(10.00)	(10.00)
Debt Raised/(repaid)	5.02	4.47	0.00	0.00	0.00
Proceeds From Issue Of Shares	0.00	51.08	0.00	0.00	0.00
Shares Repurchased	0.00	0.00	0.00	0.00	0.00
Dividends Paid	0.00	(1.53)	(3.09)	(4.43)	(5.10)
Preferred Dividends	0.00	0.00	0.00	0.00	0.00
Other Financing Cashflow	0.00	0.14	0.00	0.00	0.00
Cash Flow From Financing	5.02	54.16	(3.09)	(4.43)	(5.10)
Total Cash Generated	1.63	41.30	(7.40)	10.38	12.80
Free Cashflow To Equity	1.63	(8.39)	(4.31)	14.81	17.89
Free Cashflow To Firm	(1.97)	(11.13)	(2.11)	17.11	20.19

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(S\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	7.49	46.34	38.94	49.32	62.11
Total Debtors	17.89	30.02	45.41	53.75	61.82
Inventories	20.93	40.91	56.20	64.13	73.75
Total Other Current Assets	1.69	3.84	3.84	3.84	3.84
Total Current Assets	48.00	121.11	144.39	171.04	201.52
Fixed Assets	43.35	56.36	55.00	52.40	48.54
Total Investments	0.00	0.00	0.00	0.00	0.00
Intangible Assets	2.04	2.02	2.02	2.02	2.02
Total Other Non-Current Assets	1.03	3.39	3.39	3.39	3.39
Total Non-current Assets	46.41	61.76	60.40	57.80	53.94
Short-term Debt	11.30	17.58	17.58	17.58	17.58
Current Portion of Long-Term Debt					
Total Creditors	13.20	25.05	34.63	41.00	47.15
Other Current Liabilities	0.29	0.52	0.52	0.52	0.52
Total Current Liabilities	24.79	43.15	52.73	59.10	65.24
Total Long-term Debt	32.52	33.85	33.85	33.85	33.85
Hybrid Debt - Debt Component	0.00	0.00	0.00	0.00	0.00
Total Other Non-Current Liabilities	0.24	1.26	1.26	1.26	1.26
Total Non-current Liabilities	32.76	35.12	35.12	35.12	35.12
Total Provisions	0.00	0.00	0.00	0.00	0.00
Total Liabilities	57.54	78.27	87.85	94.21	100.36
Shareholders' Equity	36.86	104.61	116.97	134.67	155.07
Minority Interests					
Total Equity	36.86	104.61	116.97	134.67	155.07

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	53.2%	89.3%	20.8%	18.4%	15.0%
Operating EBITDA Growth	47%	122%	(1%)	31%	17%
Operating EBITDA Margin	22.2%	26.0%	21.3%	23.6%	24.0%
Net Cash Per Share (S\$)	(0.16)	(0.02)	(0.04)	(0.01)	0.03
BVPS (S\$)	0.16	0.31	0.34	0.40	0.46
Gross Interest Cover	4.85	12.37	8.46	11.58	13.92
Effective Tax Rate	13.5%	16.0%	16.0%	16.0%	16.0%
Net Dividend Payout Ratio	NA	18.1%	20.0%	20.0%	20.0%
Accounts Receivables Days	92.0	75.2	98.0	108.8	110.6
Inventory Days	187.4	161.8	194.3	210.3	209.0
Accounts Payables Days	122.3	100.1	119.4	132.2	133.6
ROIC (%)	12.1%	29.2%	16.8%	20.4%	23.2%
ROCE (%)	9.6%	18.1%	11.5%	15.0%	16.3%
Return On Average Assets	7.9%	13.9%	9.1%	11.3%	11.5%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Semiconductor revenue growth (%)	77.0%	96.1%	12.5%	15.0%	15.0%
Life Sciences, others - revenue growth (%)	18.4%	70.0%	45.0%	25.0%	15.0%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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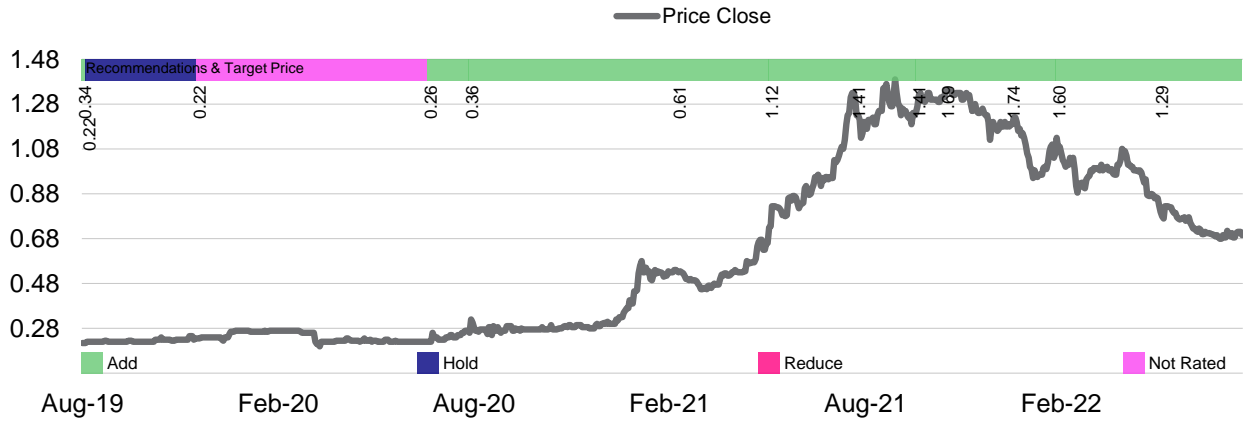
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643 companies under coverage for quarter ended on 30 June 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

Spitzer Chart for stock being researched (2 year data)

Grand Venture Technology Ltd (GVTL SP)



Recommendation Framework

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Add The stock's total return is expected to exceed 10% over the next 12 months.

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