

Singapore

Overweight (no change)**Highlighted Companies****AEM Holdings Ltd****ADD, TP S\$6.85, S\$4.36 close**

AEM provides semiconductor and electronics test solutions and has a global presence across Asia, Europe and the United States.

Grand Venture Technology Ltd**ADD, TP S\$1.29, S\$0.70 close**

Founded in 2012, GVT offers complex precision machining, sheet metal components and mechatronics modules. Its manufacturing plants are located in Singapore, Malaysia and China.

Venture Corporation**ADD, TP S\$23.32, S\$17.54 close**

Formed in 1989 and headquartered in Singapore with more than 30 companies worldwide as at end-Mar 22, Venture has strength in domains such as life science, genomics and molecular diagnostics.

Summary Valuation Metrics

P/E (x)	Dec-22F	Dec-23F	Dec-24F
AEM Holdings Ltd	11.41	9.95	9.56
Grand Venture Technology Ltd	10.45	7.06	6.04
Venture Corporation	14.07	13.22	12.34
P/BV (x)	Dec-22F	Dec-23F	Dec-24F
AEM Holdings Ltd	2.75	2.28	1.93
Grand Venture Technology Ltd	1.92	1.58	1.30
Venture Corporation	1.78	1.68	1.58
Dividend Yield	Dec-22F	Dec-23F	Dec-24F
AEM Holdings Ltd	2.19%	2.51%	2.62%
Grand Venture Technology Ltd	1.91%	2.83%	3.31%
Venture Corporation	4.28%	4.28%	4.28%

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Tech Manufacturing Services

Sequential improvement expected in 2H22F

- We expect most companies under our coverage to report yoy revenue and net profit growth for 2Q22F/1H22F.
- Margin pressure/demand trend will remain key areas of concerns. In our view, most companies should experience stronger hoh net profit in 2H22F.
- For 2Q22F, we expect AEM to show the best yoy net profit growth, while Frencken and ISDN could see qoq and yoy net profit declines.

2Q22F net profit likely to still show yoy growth

2Q22/1H22 earnings reporting season kicks off for Singapore tech stocks from next Friday, 5 Aug. While we are aware of market concerns over demand trends and cost pressures, we think most companies under our coverage could still see yoy net profit growth. Key items to take note of for 2Q22/1H22 results are a) demand outlook, b) margin pressure and how companies are addressing this, c) foreign exchange currency impact, d) updates on labour situation, and e) impact from China's Covid-19 movement restrictions. For semicon-related companies, the key issue will be cancellation of plans to build more wafer fabs. If no such cancellations are planned, delays in fab build schedules could affect equipment delivery schedules and hence, revenue recognition, for companies.

Semicon: AEM could report best yoy net profit growth

In FY21, AEM's 1H/2H revenue split was 34%/66% and net profit split was 32%/68%. This performance was in line with management's then guidance that demand in 1H21 was expected to be lower with a strong recovery in 2H21 **through 2022** as its next generation tools are phased into its customer's High Volume Manufacturing sites globally. Hence, our view is that 2Q22F will see the continuation of this production ramp-up for its key customer leading to our estimated 2Q22F revenue of S\$263.1m (+135% yoy, +0.5% qoq). We expect 2Q22F net profit to be S\$39.6m (+143% yoy, -2.9% qoq) supported by our view that AEM will be able to improve its cost management in 2Q22F versus 1Q22. If we are right, FY22F performance for AEM will be 1H loaded and hence, 2H will be weaker hoh. We think this hoh weakness has already been priced in. In our view, a short-term rerating catalyst could be the possibility of AEM raising its FY22F revenue guidance upwards to between S\$780m and S\$800m, compared to the current S\$700m-750m.

China's Covid-19 restrictions likely caused yoy decline for ISDN

We think China's on-going dynamic-zero Covid policy which affects worker mobility and supply chain will add to costs and pressure sales for companies such as ISDN (China was 74% of FY21 sales) and Nanofilm. Hence ISDN could report qoq and yoy declines in net profit for 2Q22F. We think Nanofilm can still report yoy net profit growth of 18.3% for 1H22F, though the extent of this growth is subject to the quantum of the temporary spike in operating costs to maintain production in 2Q22F amid Covid-19 restrictions in China.

Steady performance from Venture Corporation

We expect Venture Corp to continue its steady performance. For 2Q22F, we expect revenue of S\$862.1m (+15.6% yoy, -3.1% qoq) and net profit of S\$86.3m (+14.9% yoy, +2.7% qoq). Based on Bloomberg consensus estimates as at 27 Jul 22, qoq revenue for 2QCY22F for a basket of life science companies (whom we think are Venture's customers) is expected to be 4.9% which supports our view of 2.7% qoq net profit growth for Venture.

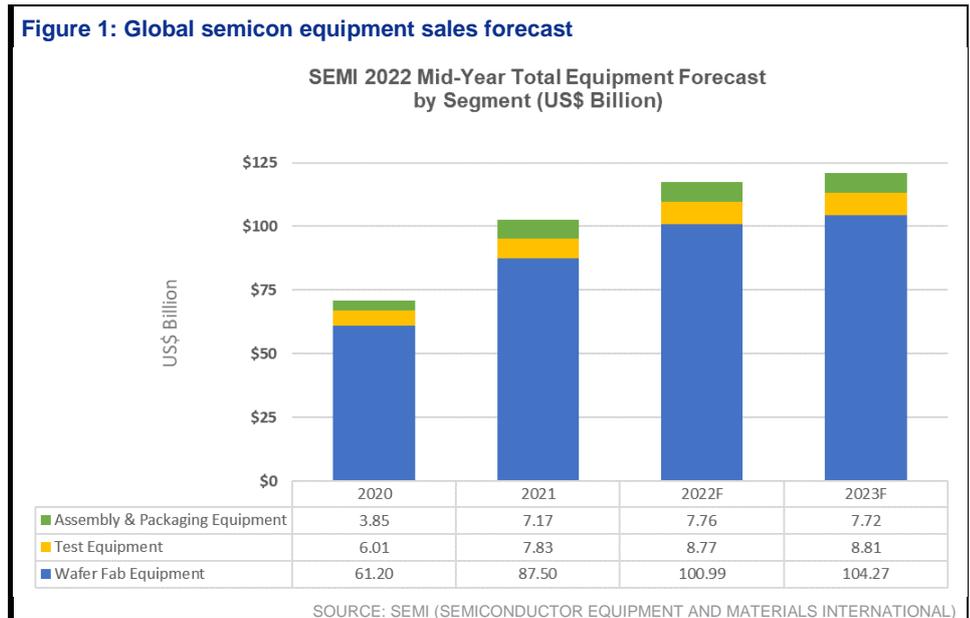
Reiterate sector Overweight

We think current demand/inflationary cost pressures have been priced in with the sector de-rating. Our big cap pick is Venture Corp, while in the small cap space, we remain positive on AEM and Grand Venture. Potential rerating catalysts for the companies under our coverage are stronger-than-expected orders from customers and earlier-than-expected success in securing new customers. Downside risks include delivery delays and operational disruptions (Covid-19 situation continues to pose a challenge).

A more positive 2H22F

Semicon: capex cuts are a key concern ►

Global sales of semiconductor manufacturing equipment* are forecast to reach US\$117.5bn in 2022F, growing 14.7% yoy from US\$102.5bn in 2021, and increase further to US\$120.8bn in 2023F. The semiconductor test equipment market is forecast* to grow 12.1% yoy to US\$8.8bn in 2022F but a slower 0.4% in 2023F on demand for high-performance computing applications.



Given increasing fears of a recession, there have been growing worries of possible capex cuts in the semicon industry.

In its 2Q22 results call, TSMC guided that it expects some of its 2022 capex to be pushed into 2023 as its suppliers have been facing greater challenges in their supply chains, which are extending tool delivery lead times. TSMC also did not comment on 2023 capex. Previously in 2021, TSMC commented that it could spend US\$100bn on capex over 2021-2023 leading some sell-side analysts covering the stock to suggest that 2023 capex could dip if this previous guidance still holds.

Intel (2Q22 results) revised its net capex down by US\$4bn to US\$23bn for FY22F. However, we note that the revision is a mix of capacity investment and the availability of potentially larger than originally forecasted capital offsets available to Intel.

(* Data source: SEMI - Mid-Year Total Semiconductor Equipment Forecast – OEM Perspective at SEMICON West 2022 Hybrid, 12 July 2022.)

2Q22F preview ►

AEM's 2Q21 revenue/net profit were S\$112.0m/S\$16.3m. In 1Q22, AEM reported revenue/net profit of S\$261.9m/S\$40.8m. In its 1Q22 business update, AEM raised its FY22F revenue guidance to between S\$700m-750m and remained optimistic about its prospects. Key risks cited by management were supply chain challenges and geopolitical situation. We note that AEM has adopted a proactive inventory management approach and has built up a prudent level of inventory to support production for its key customer. We think AEM's 2Q22F net profit could be flat qoq to S\$39.6m, a 2.9% qoq decline.

UMS's 2Q21 revenue/net profit were S\$66.8m/S\$16.9m. In 1Q22, UMS reported revenue/net profit of S\$84.7m/S\$19.4m. In its 1Q22 results release, UMS remained positive on its FY22F outlook. A new factory in Penang scheduled for completion by end-2022 will increase its production capacity. Efforts to get additional power supply and manpower resources are also progressing as planned while discussions to resolve the tax issues with the Malaysian authorities are ongoing. We think UMS's 2Q22F net profit could grow 2.6% qoq to S\$19.9m.

ISDN's 2Q21 revenue/net profit were S\$118.8m/S\$6.1m. In 1Q22, ISDN reported revenue/net profit of S\$94.7m/S\$6.4m. 1Q22 revenue was down 3.8% yoy, affected mainly by the Covid-19 lockdown measures in China (China was 74% of FY21 revenue). We think seasonality trends will be distorted for FY22F as China's strict lockdown measures entered full swing in Apr and May 2022. Hence, we think 2Q22F revenue could potentially decline 15.0% qoq (average of the 10.0-20.0% qoq revenue decline which we think could be possible) and we assume that qoq, net profit could drop a larger 20.0%. This leads to ISDN to being the only company under our coverage that could report 2Q22F/1H22F yoy net profit declines.

Frencken's 2Q21 revenue/net profit were S\$193.8m/S\$16.6m. In 1Q22, Frencken reported revenue/net profit of S\$198.4m/S\$12.8m. It expects a moderate increase in its revenue in 1H22F as compared to 2H21. We would also watch out for margin trends and guidance in 2Q22F results as Frencken had guided earlier that it expects margin pressures to ease by 1H22F and improve hoh in 2H22F as costs are passed on to customers, and its internal efforts to improve operational efficiencies and better manage costs bear fruit.

Grand Venture 2Q21 revenue/net profit were S\$30.5m/S\$5.2m. In 1Q22, Grand Venture reported revenue/net profit of S\$32.5m/S\$3.6m. The group expects production activities in Singapore and Malaysia to normalise as these countries have made the transition towards living with Covid-19. The group is enjoying sustained demand from customers across the various business segments and remains positive on the progress of its discussions with potential customers engaged in the manufacture of metrology and inspection, etching, and wafer deposition equipment. When fully on-boarded, GVT expects these customers to be the key drivers for the front-end semiconductor activities of the group. We will also watch out for 2Q22F margin performance and GVT's progress in passing on some of the cost increases to its customers.

For 2Q22F, we think Grand Venture could revert to the FY20 seasonality pattern where 1H net profit was 40.0% of full-year performance. Hence, we think 2Q22F net profit could be S\$5.4m (+3.8% yoy, +48.6% qoq). Its key semicon customers, Teradyne and Besi reported 11.4%/5.7% qoq revenue growth for 2Q22.

We had previously cut our earnings forecast post 1Q22 business update. For 3Q22F, Teradyne has guided that it expects revenue to decline by between 0.12% and 9.6% qoq, and that 2H22F revenue will be slightly lower than 1H22. Besi has also guided that 3Q22F revenue could decline 20-30% qoq as an uncertain economic outlook affects customers' plans.

Venture's 2Q21 revenue/net profit were S\$745.5m/S\$75.1m. In 1Q22, Venture reported revenue/net profit of S\$889.3m/S\$84.0m. Venture guided that there was a steady demand outlook from most of its customers and the company was optimistic about its long-term prospects despite the uncertainties in the operating environment. We think Venture could report a 2Q22F net profit of S\$86.3m (+14.9% yoy, + 2.7% qoq).

1H22F preview ►

Nanofilm does not report quarterly numbers. In 1H21, revenue grew 24.2% yoy to S\$96.6m and net profit fell 3.1% yoy to S\$17.9m affected by unexpected one-off costs. In its 1Q22 business update, Nanofilm reported 27% yoy growth in revenue with its main Advanced Materials Business Unit (AMBU) contributing to 81% of revenue. Within the AMBU, Nanofilm guided that 3C (computers, communications, consumer electronics) segment order visibility is strong as it enters the second-half peak season. Given the higher cost arising from its closed loop manufacturing arrangement in 1H22 amongst other costs, we think 1H22F net profit could grow 18.3% yoy to S\$21.2m (growth could be lower depending on the extent of the temporary spike in operating cost).

Figure 2: CGS-CIMB Singapore tech coverage results release dates

Company	Date	Day
VENTURE	05-Aug-22	Friday
GVT	10-Aug-22	Wednesday
FRENCKEN	11-Aug-22	Thursday
NANO	11-Aug-22	Thursday
AEM	12-Aug-22	Friday
ISDN	12-Aug-22	Friday
UMS	12-Aug-22	Friday

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 3: CGS-CIMB 2Q22F revenue expectations

Company	2Q22F		yoy chg	1Q22		qoq chg
	2Q22F	2Q21	(%)	1Q22	1Q21	(%)
AEM	263.10	112.02	134.87	261.90	112.02	0.46
FRENCKEN	203.50	193.77	5.02	198.36	193.77	2.59
GVT	34.23	30.52	12.16	32.45	30.52	5.49
ISDN	80.51	118.76	(32.21)	94.72	118.76	(15.00)
UMS	85.02	66.78	27.31	84.74	66.78	0.33
VENTURE	862.07	745.50	15.64	889.30	745.50	(3.06)

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 4: CGS-CIMB 1H22F revenue expectations

Company	1H22F		yoy chg	1H21		hoh chg
	1H22F	1H21	(%)	1H21	1H20	(%)
AEM	525.00	192.25	173.08	373.21	192.25	40.67
FRENCKEN	401.86	375.30	7.08	391.77	375.30	2.58
GVT	66.68	53.54	24.54	62.72	53.54	6.31
ISDN	175.23	217.20	(19.33)	222.98	217.20	(21.42)
NANO	106.82	96.63	10.55	150.06	96.63	(28.82)
UMS	169.76	116.39	45.85	154.83	116.39	9.64
VENTURE	1,655.16	1,432.20	15.57	1,675.30	1,432.20	(1.20)

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 5: CGS-CIMB 2Q22F net profit expectations

Company	2Q22F		2Q21		1Q22	
	2Q22F	2Q21	yoy chg (%)	1Q22	qoq chg (%)	1Q22
AEM	39.63	16.33	142.68	40.80	(2.87)	
FRENCKEN	12.89	16.64	(22.54)	12.84	0.39	
GVT	5.38	5.18	3.86	3.62	48.62	
ISDN	5.14	6.09	(15.65)	6.42	(19.98)	
UMS	19.87	16.90	17.57	19.37	2.58	
VENTURE	86.28	75.10	14.89	84.00	2.71	

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 6: CGS-CIMB 1H22F net profit expectations

Company	1H22F		1H21		2H21	
	1H22F	1H21	yoy chg (%)	2H21	hoh chg (%)	1H21
AEM	80.43	29.53	172.39	62.40	28.89	
FRENCKEN	25.72	31.34	(17.93)	27.39	(6.10)	
GVT	9.01	8.51	5.88	9.05	(0.44)	
ISDN	11.56	12.17	(4.96)	13.32	(13.18)	
NANO	21.16	17.89	18.28	44.32	(52.26)	
UMS	39.24	32.27	21.60	20.83	88.38	
VENTURE	161.78	140.40	15.23	171.70	(5.78)	

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 7: CY2Q22 revenue qoq growth outlook of Venture's key life science customers

Customer	BB Code	FYE	CY2Q21	CY1Q22	CY2Q22
Agilent	A US	Oct	2.15%	-35.82%	51.95%
Danaher	DHR US	Dec	5.25%	-5.65%	0.82%
Fortive	FTV US	Dec	4.80%	0.12%	2.01%
Illumina	ILMN US	Dec	3.02%	2.09%	-0.30%
Thermo Fischer	TMO US	Dec	-6.39%	10.43%	-15.65%
Trimble Inc	TRMB US	Dec	6.62%	7.31%	-6.65%
Waters	WAT US	Dec	12.01%	-17.44%	2.42%
Simple average			3.92%	-5.57%	4.94%

SOURCES: BLOOMBERG AS AT 27 JUL 2022

Figure 8: Singapore tech sector 12-month rolling forward P/E (x)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 9: Singapore Tech Sector Valuation

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)	Dividend Yield (%)
						CY22F	CY23F		CY22F	CY23F		
Aztech Global Ltd	AZTECH SP	Add	0.86	1.22	480	7.3	6.4	11.6%	1.96	1.70	29.0%	6.8%
Grand Venture Technology Ltd	GVTL SP	Add	0.70	1.29	171	10.4	7.1	22.4%	1.92	1.58	20.0%	1.9%
ISDN Holdings Ltd	ISDN SP	Add	0.52	0.70	163	8.6	7.4	7.7%	1.04	0.94	12.9%	2.9%
AEM Holdings Ltd	AEM SP	Add	4.36	6.85	975	11.4	9.9	11.9%	2.75	2.28	26.9%	2.2%
Frencken Group Ltd	FRKN SP	Add	1.22	1.72	377	9.2	7.9	6.3%	1.24	1.12	14.4%	3.2%
Nanofilm Technologies Int'l Ltd	NANO SP	Add	2.03	3.07	970	19.0	15.6	14.7%	2.78	2.45	15.7%	1.3%
UMS Holdings Ltd	UMSH SP	Add	1.18	1.63	569	10.8	10.5	13.3%	2.49	2.20	24.9%	4.2%
Venture Corporation	VMS SP	Add	17.54	23.32	3,694	14.2	13.1	9.0%	1.78	1.68	12.9%	4.3%
Vicplas International Ltd	VPS SP	Add	0.19	0.27	71	9.7	7.8	na	1.20	1.08	13.2%	2.6%
Simple average						11.2	9.5	12.1%	1.91	1.67	18.9%	3.3%
Simple average excluding Nanofilm						10.2	8.8	12.1%	1.80	1.57	19.3%	3.5%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

DATA AS AT 29 JUL 2022

 <div style="float: right;"> Refinitiv ESG Scores <table border="1" style="display: inline-table; text-align: center;"> <tr> <td style="background-color: #f4a460;">C-</td> <td style="background-color: #2e8b57; color: white;">A+</td> <td style="background-color: #f4a460;">C-</td> <td style="background-color: #d2691e;">D+</td> <td style="background-color: #9acd32;">C</td> <td style="background-color: #9acd32;">C</td> </tr> <tr> <td style="font-size: 8px;">ESG Score</td> <td style="font-size: 8px;">ESG Controversies Score</td> <td style="font-size: 8px;">ESG Combined Score</td> <td style="font-size: 8px;">ESG Environment Pillar Score</td> <td style="font-size: 8px;">ESG Social Pillar Score</td> <td style="font-size: 8px;">ESG Government Pillar Score</td> </tr> </table> </div>		C-	A+	C-	D+	C	C	ESG Score	ESG Controversies Score	ESG Combined Score	ESG Environment Pillar Score	ESG Social Pillar Score	ESG Government Pillar Score
C-	A+	C-	D+	C	C								
ESG Score	ESG Controversies Score	ESG Combined Score	ESG Environment Pillar Score	ESG Social Pillar Score	ESG Government Pillar Score								
ESG in a nutshell <p>AEM Holdings Ltd is a semiconductor equipment company headquartered in Singapore. AEM received an ESG grade of C- from Refinitiv. Refinitiv noted that AEM scored well in the social pillar of ESG. In the environment pillar, Refinitiv noted that there was room for improvement.</p>													
Keep your eye on <p>Customer concentration risk.</p>	Implications <p>Intel (INTC US, NR) is AEM’s major customer. Our forecasts assumes that AEM will retain its status as the sole supplier for its products to Intel. Management has indicated that it hopes to have meaningful revenue from other customers in 2022. We note progress on this front with AEM’s announcement on 31 Aug 2021 that a major memory company has selected AEM as its System Level Test provider.</p>												
ESG highlights <p>AEM believes that its staff are its greatest asset. We note that technological and engineering skills and knowledge are key success factors in AEM’s business.</p>	Implications <p>In 2020, each employee received an average of 8.6 hours of training. While training hours were affected by the Covid-19 pandemic, AEM has adopted digital tools and new ways of working to ensure that its employees are equipped with the right skills. The firm’s commitment is to help employees develop professionally and personally to advance their career in the company.</p>												
Trends <p>AEM’s business involves the use of water-glycol mixtures that must be disposed of properly.</p>	Implications <p>We note that AEM transports water-glycol mixtures used in cooling systems to recycling centers for safe disposal. The company has also complied with environmental protection and management regulations in the past 11 years. AEM also engages qualified vendors to perform audits and tests on its environmental compliance on a yearly basis. As such, our forecasts assumes that AEM will not incur any regulatory cost relating to breach of environmental regulations.</p>												

SOURCES: CGS-CIMB RESEARCH, REFINITIV



ESG in a nutshell

Frencken Group Limited (Frencken) provides original design, original equipment and diversified integrated manufacturing solutions for customers in the automotive, healthcare, industrial, analytical & life sciences and semiconductor industries. Frencken believes that a solid governance structure is essential for the long-term prosperity of an organisation. With the guidance of the Code of Corporate Governance (2018 Code) issued by the Monetary Authority of Singapore (MAS) in Aug 2018, Frencken said it ensures compliance and strives to uphold the highest standards of corporate governance.

Keep your eye on	Implications
Customer concentration risk.	Frencken has one customer that accounted for 12.3% of its FY21 revenue. This is an improvement from FY20 where the same customer accounted for 17.6% of its revenue. Frencken's customer concentration risk is offset by Frencken's exposure to other business segments and efforts to recruit new customers.
ESG highlights	Implications
The group aims to reduce its environmental footprint and keep itself updated on local environmental regulations and guidelines. The group aims to achieve a balance between its economic growth and contribution in sustaining the environment.	Frencken's efforts to reduce its environmental impact include replacing legacy lighting with energy efficient LED lighting and the use of renewable energy. To reduce its carbon footprint and build greater business sustainability, solar energy panels have been installed at its factories in Chuzhou (China), Selangor (Malaysia) and Thailand, according to its FY21 Annual Report. Further progress in the usage of energy efficient lighting and renewable energy could lower operating costs.
Trends	Implications
Frencken has established occupational safety and health (OSH) policies, as well as a safety and health committee, within its various entities. The committee comprises representatives from the executive and non-executive staff.	Throughout FY21, zero cases (FY20: zero cases) of occupational diseases and zero work-related fatalities were reported, as covered in its FY21 Annual Report.

SOURCES: CGS-CIMB RESEARCH, REFINITIV



ESG in a nutshell

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.

Keep your eye on

Customer concentration risk.

Implications

GVT has five customers that each accounted for more than 10% of FY20 revenue. To mitigate this risk, GVT will pursue business opportunities with new customers.

ESG highlights

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.

Implications

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 FY20, GVT did not incur any fines for non-compliance with environmental laws and/or regulations.

Trends

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.

Implications

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 FY20, the group has recorded zero case of work-related injury and work-related ill health. The group aims to maintain the zero case of work-related injury and work-related ill health in FY21.

SOURCES: CGS-CIMB RESEARCH, REFINITIV



ESG in a nutshell

ISDN focuses on the motion control industry and provides the full spectrum of integrated precision engineering services from conceptualisation, design and development to prototyping, production, sales and marketing and after-sales engineering support. The group is also involved in mini-hydropower projects in Indonesia. Through its role in industrial automation, ISDN aims to help drive efficiency to save energy and reduce the environmental impact of a multitude of industries.

Keep your eye on

The group's mini-hydropower plant project in Indonesia helps offset carbon emissions and mitigate climate change. The mini-hydropower plants targets the remote and rural areas in Indonesia, generating clean energy and job opportunities.

Implications

ISDN's mini-hydropower plants face delays due to the Covid-19 pandemic. Two of these plants have been operational since end 3Q21, while another plant is scheduled to be completed by FY22F. Mini-hydropower earnings represent upside earnings risk as we have not factored them into our projections.

ESG highlights

At end-FY21, ISDN employs more than 1,050 employees in over 50 locations throughout Asia-Pacific. ISDN has an established whistle-blowing policy which allows the whistle-blower direct access to their superiors, any of the Group's Managing Director and President, or the Chairman of the Audit Committee.

Implications

The large number of subsidiaries in various geographies could pose operational risk. In 2018, ISDN's Beijing subsidiary was served a writ of summons alleging that its ex-employee had borrowed monies for which the Beijing subsidiary has acted as a guarantor. Ineffective risk control could pose financial and reputational risks to ISDN.

Trends

Rising wage costs and increasing competition for talent is a key trend to watch out for. ISDN's employees are its most valuable assets as they understand customer requirements and are able to offer value-added solutions as per management.

Implications

ISDN provides equal opportunities for employees in respect of recruitment, training and development, job advancement, and remuneration and benefits as per management. According to management, the group does not discriminate on the basis of gender, ethnicity, religion, colour, age, marital status, family status, pregnancy or any other discrimination prohibited by applicable laws. In addition to the basic wage package, ISDN also provides benefits and welfare such as severance pay, mandatory/central provident fund, employment compensation insurance, medical insurance, unlimited reimbursements for doctor visits, annual leave, sick leave, additional remuneration and benefits to reward and recognise performing employees such as performance-based bonus, commissions and variable annual bonuses. Based on the different job duties of employees, local travelling (parking and petrol inclusive) allowance, mobile phone allowance, overseas travelling and meals allowance, and overtime taxi claim are included in the total remuneration and benefits package for employees.

SOURCES: CGS-CIMB RESEARCH, REFINITIV



ESG in a nutshell

Nanofilm Technologies Int'l Ltd (Nanofilm) is a deep technology company offering advanced materials and filtered cathodic vacuum arc (FCVA) coating technologies. The company has a strong commitment to ESG and sustainable production methods. Nanofilm was awarded Frost & Sullivan's 2021 Asia Pacific Technology Innovation Leadership Award and Deloitte's Best Managed Companies Singapore 2021, underscoring the company's ESG commitment and environmentally friendly production process (as compared to conventional coating technologies in the market).

Upcoming events to watch out for include Nanofilm's JV with Temasek in Sydrogen Energy, where it will be providing advanced materials surface solutions to critical components in fuel cell and electrolyser systems.

<p>Keep your eye on</p> <p>Nanofilm has a JV with Temasek, named Sydrogen Energy, in the hydrogen energy economy to apply its advanced materials surface solutions to critical components in fuel cell and electrolyser systems. Hydrogen fuel cells are more environmentally friendly as they generate electricity without emitting carbon dioxide or other harmful pollutants (unlike other conventional energy sources).</p>	<p>Implications</p> <p>This is positive if the JV can successfully garner market adoption and reach a commercial scale, which will open up a new revenue stream for Nanofilm.</p>
<p>ESG highlights</p> <p>Nanofilm was awarded Frost & Sullivan's 2021 Asia Pacific Technology Innovation Leadership Award. According to Frost & Sullivan, FCVA and FCVA hybrid coating technologies and production processes do not require high heat and can perform vacuum coating deposition at room temperature in an environmentally friendly manner as compared to conventional coating technologies in the market. Nanofilm was also named one of the inaugural winners of Deloitte's Best Managed Companies Singapore 2021 award, underscoring its commitment to ESG.</p>	<p>Implications</p> <p>This highlights that Nanofilm's FCVA-based coating methods are differentiated from conventional coating methods in the market on both technology and environmental fronts. In our view, as customers increasingly take into account environmental considerations in their production processes, Nanofilm's more environmentally friendly technology and processes are an attractive solution. This could raise the demand for its coating services, driving higher revenue and earnings.</p>
<p>Trends</p> <p>According to Nanofilm, all of its factories are fully compliant with the environmental laws and regulations in the countries that they operate in. Nanofilm is committed to environmental protection, reducing carbon emissions, preventing pollution, and minimising waste. In addition, Nanofilm is subject to regular and annual ESG audits performed by its global customers. In FY21, Nanofilm was subjected to two ESG audits from its customers, and met all their requirements.</p>	<p>Implications</p> <p>In FY21, Nanofilm generated a total of 69,007 tonnes of carbon dioxide equivalent (tCO₂e) from its Singapore, China and Vietnam operations. Its Scope 1 emissions amounted to 2,463 tCO₂e or approximately 4% of the overall GHG emissions while Scope 2 emissions were 66,544 tCO₂e or approximately 96% of the overall GHG emissions. The increase in Scope 1 emissions in FY21 was due to diesel consumption for the use of diesel power generators to support power required for Shanghai Plant 2 and equipment qualification in view of project commencements. During this time, the group's application to the Chinese Municipal Government for high tension power to meet Shanghai Plant 2's requirements had taken longer than expected. Since May 2021, the new Shanghai Plant 2 completed its connection to the government's power grid, reverting to normalised utility tariffs. Nanofilm will continue to monitor the emissions intensity for the various sites and improve the efficiency of its operational processes, with an aim to reduce 30% of its GHG intensity by 2030 as per its FY21 SR.</p>

SOURCES: CGS-CIMB RESEARCH, REFINITIV



ESG in a nutshell

UMS Holdings Limited is a integration partner providing equipment manufacturing and engineering services to Original Equipment Manufacturers of semiconductors. UMS's sustainability vision is to align its economic success with environmental and social responsibility. The company is a member of the Responsible Business Alliance.

Keep your eye on

Customer concentration risk.

Implications

Applied Materials (AMAT US, NR) is UMS's major customer. Our forecasts assumes that UMS will retain its allocation of AMAT's requirement for the product that it participates in. Over the years, management has tried to diversify its revenue.

ESG highlights

We believe UMS's skilled technicians are its greatest asset. As the business involves machining, skilled technicians can reduce wastage and deliver the machines parts faster. We believe this is a differentiating factor for UMS.

Implications

The Group employed 518 employee at the end of 2020. UMS's practices are guided by the principles set out by Singapore's Tripartite Alliance for Fair and Progressive Employment Practices. The group is an equal opportunity employer that embraces employee diversity and promotes an inclusive work culture. In 2020, the company did not receive any reports of discrimination or exploitative labour practices.

Trends

UMS's main contribution to reducing the environmental impact involves suppressing the amount of materials and energy used in the process of manufacturing, while also reducing, as much as possible, the emission of environmentally harmful substances.

Implications

For the manufacturing process, UMS has established a target of 0.13KWH/revenue energy intensity to achieve energy conservation by optimizing its manufacturing processes. In 2020, the group achieved an energy intensity of 0.1558 KWH/revenue.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

ESG in a nutshell		Refinitiv ESG Scores							
				C+ ESG Score	A+ ESG Controversies Score	C+ ESG Combined Score	C- ESG Environment Pillar Score	B- ESG Social Pillar Score	B+ ESG Government Pillar Score
		<p>Venture Corporation Ltd is an electronic equipment and parts company headquartered in Singapore. Venture received an ESG Grade of C+ from Refinitiv. Refinitiv noted that Venture saw improvements in workforce, human rights and management categories but saw relative deteriorations in emissions, product responsibility, resource use categories.</p>							
Keep your eye on					Implications				
Customer concentration risk.					Due to non-disclosure agreements with customers, Venture does not name its major customers. Based on its FY20 annual report, we note that it has one major customer that accounts for more than 10% of its revenue. The loss of this customer will negatively affect Venture. We do not assume that Venture will lose this customer.				
ESG highlights					Implications				
Based on our channel checks, we believe Venture is involved in manufacturing e-cigarettes.					Although our valuation methodology does not impute any discount for involvement in e-cigarettes, we note that some investors may be constrained in investing in companies with exposure to smoking.				
Trends					Implications				
Venture's main source of energy usage is electricity from the grid. Carbon emission intensity by revenue increased from 23.7 kg of TCO _{2e} /S\$m in 2019 to 28.5 TCO _{2e} /S\$m in 2020.					We have not imputed any carbon costs in our forecasts. We note that Venture has adopted measures to reduce electricity usage, such as replacing traditional lighting with energy efficient LED lighting and replacing older air conditioning systems with newer and more energy efficient inverter type air conditioners.				
SOURCES: CGS-CIMB RESEARCH, REFINITIV									

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2022		
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%

Recommendation Framework**Stock Ratings**

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- 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.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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