

Singapore

REDUCE (previously ADD)

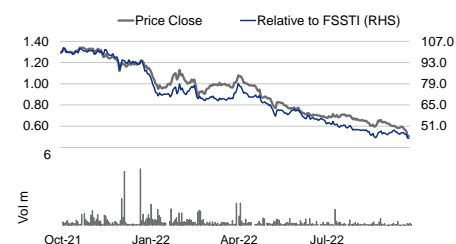
Consensus ratings*: Buy 3 Hold 0 Sell 0

| | |
|-------------------------|------------|
| Current price: | S\$0.505 |
| Target price: | S\$0.40 |
| Previous target: | S\$0.85 |
| Up/downside: | -20.8% |
| CGS-CIMB / Consensus: | -58.3% |
| Reuters: | GRAN.SI |
| Bloomberg: | GVTL SP |
| Market cap: | US\$119.2m |
| | S\$171.3m |
| Average daily turnover: | US\$0.06m |
| | S\$0.09m |
| Current shares o/s: | 330.8m |
| Free float: | 41.0% |

*Source: Bloomberg

Key changes in this note

- FY22F EPS reduced by 8.1%.
- FY23F EPS reduced by 35.9%.
- FY24F EPS reduced by 33.1%.



Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|-------|-------|-------|
| Absolute (%) | -21.7 | -27.3 | -60.9 |
| Relative (%) | -15 | -25.6 | -56.9 |

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

Analyst(s)

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Grand Venture Technology Ltd

Front-end diversification to take longer

- We think it will take longer for GVT's business with potential front-end customers to take off, as GVT attempts to provide unique solutions.
- Hence, we have reduced our FY22-24F revenue forecasts leading to 8.1-35.9% EPS reductions as GVT's cost base has increased via expansion.
- With a recovery in net profit only expected in FY24F, our TP is cut to S\$0.40 as a 9.6x (-0.5 sd below its 4-year average) P/E multiple factors this in.

1H22 results highlighted the need to diversify into the front end

1H22 semicon revenue grew 7.2% yoy, impacted by delays in deliveries of testing and bonding equipment for the consumer electronics market in light of Shanghai's Covid-19 lockdowns, Russia-Ukraine tensions, and the challenging macroeconomic environment. We understand that key customers for GVT's semicon segment are in the back-end of the semiconductor chain and continue to see soft equipment demand as discretionary consumer electronics demand is being affected by global economic uncertainties.

Creating stickier customer relationships in the front end

To diversify its semicon segment's customer exposure, GVT has been in active negotiations with prospective front-end semicon customers to supply their requirements for process chambers, complex structures, and modules. We think progress is being slowed by the need for further large capex (hence the need for firm customer commitment) if GVT is successful and GVT's desire to satisfy customers' current requirements that are being served by domestic US/European companies. This would require new capabilities on GVT's end and gaining customers' confidence that GVT can replace their existing suppliers for their Asia-based factories.

Recovery in FY24F

Slowing economic growth and the longer time to onboard new front-end customers lead us to cut our FY22-24F revenue forecasts by 4.2-19.1%. EPS forecasts for FY22-24F are reduced by 8.1-35.9% as we think the revenue shortfall will not be able to cover GVT's expanded cost base arising from its past organic expansion and M&A (operating expenses grew 46.0% yoy in 1H22).

Net profit could recover in FY24F

We downgrade our call from Add to Reduce as net profit recovery could be delayed till FY24F. As we do not expect EPS growth for FY23F, we now value GVT at 9.6x P/E multiple (-0.5 s.d. below its 4-year average (FY19-22F)). Previously, we derived a TP of S\$0.85 based on 13.0x (+0.5 s.d. above the 4-year average multiple) given the then possibility of earlier onboarding of new front-end customers. De-rating catalysts are operational disruptions from Covid-19 lockdowns in China and higher-than-expected spending for long-term growth. Upside risks are potential new customer wins, and accretive M&A which could raise GVT's revenue over FY23-24F resulting in higher net profit.

Financial Summary

| | Dec-20A | Dec-21A | Dec-22F | Dec-23F | Dec-24F |
|--------------------------------|---------|---------|---------|---------|---------|
| Revenue (S\$m) | 61.4 | 116.3 | 134.6 | 134.5 | 156.5 |
| Net Profit (S\$m) | 5.22 | 17.56 | 14.20 | 14.18 | 17.06 |
| Core EPS (S\$) | 0.022 | 0.053 | 0.042 | 0.042 | 0.050 |
| Core EPS Growth | 51% | 138% | (21%) | (0%) | 20% |
| FD Core P/E (x) | 22.68 | 8.24 | 12.05 | 12.09 | 10.04 |
| Price To Sales (x) | 1.93 | 1.44 | 1.27 | 1.27 | 1.09 |
| DPS (S\$) | - | 0.010 | 0.008 | 0.008 | 0.010 |
| Dividend Yield | 0.00% | 1.98% | 1.66% | 1.65% | 1.99% |
| EV/EBITDA (x) | 11.36 | 5.69 | 6.39 | 5.58 | 4.43 |
| P/FCFE (x) | 72.71 | NA | NA | 9.17 | 15.64 |
| Net Gearing | 98.5% | 4.9% | 9.2% | (4.1%) | (9.0%) |
| P/BV (x) | 3.21 | 1.63 | 1.48 | 1.35 | 1.22 |
| ROE | 15.3% | 24.8% | 12.9% | 11.7% | 12.7% |
| % Change In Core EPS Estimates | | | (8.1%) | (35.9%) | (33.1%) |
| CGS-CIMB/Consensus EPS (x) | | | 0.89 | 0.63 | 0.67 |

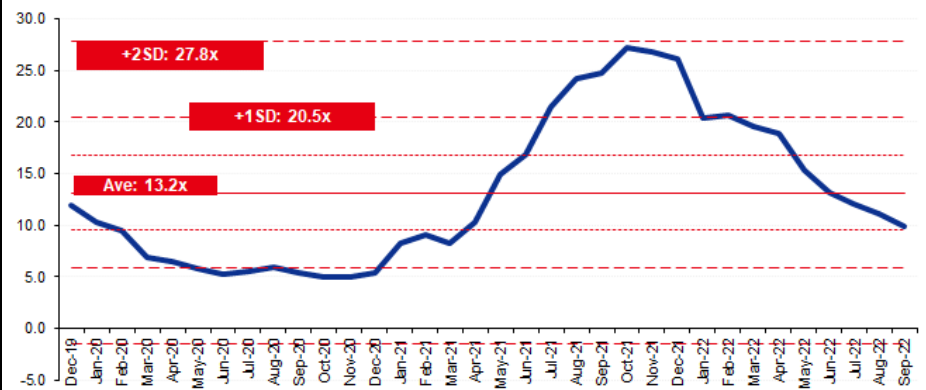
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Earnings revision

| (\$m) | Old | | | New | | | % chg | | |
|-------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | FY22F | FY23F | FY24F | FY22F | FY23F | FY24F | FY22F | FY23F | FY24F |
| Revenue | 140.5 | 166.3 | 191.2 | 134.6 | 134.5 | 156.5 | (4.2) | (19.1) | (18.1) |
| Gross margin | 27.0% | 29.6% | 29.6% | 27.0% | 29.6% | 29.8% | 0.1 | (0.0) | 0.1 |
| Net profit | 15.5 | 22.1 | 25.5 | 14.2 | 14.2 | 17.1 | (8.1) | (35.9) | (33.1) |
| EPS (\$) | 0.0456 | 0.0652 | 0.0751 | 0.0419 | 0.0418 | 0.0503 | (31.4) | (35.9) | (33.1) |
| No. of shares (m) | 339.3 | 339.3 | 339.3 | 339.3 | 339.3 | 339.3 | 0.0 | 0.0 | 0.0 |

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 2: GVT's 12-mth Fwd Rolling P/E (x)




SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 3: Peers Comparison

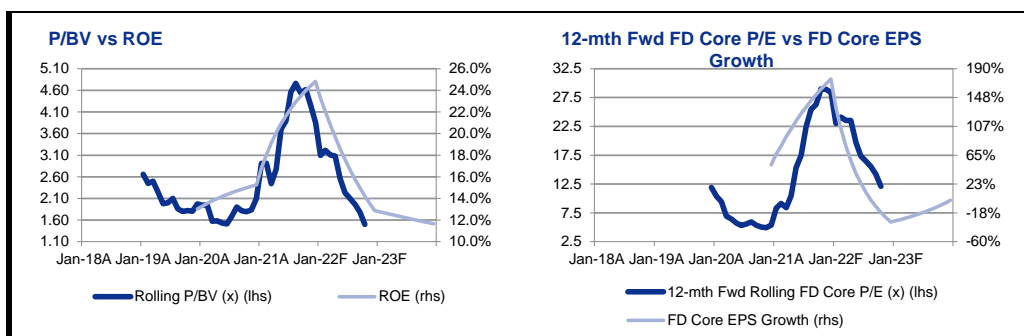
| Company | Bloomberg Ticker | Recom. | Price (lcl curr) | Target Price (lcl curr) | Market Cap (US\$ m) | P/E (x) CY22F | P/E (x) CY23F | 3-year EPS CAGR (%) | P/BV (x) CY22F | Recurring ROE (%) CY22F | Dividend Yield (%) CY22F |
|-------------------------------------|------------------|--------|------------------|-------------------------|---------------------|---------------|---------------|---------------------|----------------|-------------------------|--------------------------|
| Singapore | | | | | | | | | | | |
| Grand Venture Technology Ltd | GVTL SP | ADD | 0.51 | 0.40 | 119 | 12.1 | 12.1 | -3.2% | 1.48 | 13.3% | 1.7% |
| Frencken Group Ltd | FRKN SP | Add | 0.87 | 1.75 | 257 | 6.5 | 5.6 | 7.1% | 0.88 | 14.3% | 4.6% |
| UMS Holdings Ltd | UMSH SP | Add | 1.01 | 1.37 | 470 | 7.2 | 7.5 | 22.2% | 2.01 | 31.5% | 5.0% |
| SAM Engineering & Equipment | SEQB MK | Hold | 4.74 | 4.45 | 547 | 29.4 | 22.5 | 24.4% | 3.44 | 12.6% | 0.9% |
| UWC BHD | UWC MK | NR | 3.48 | NA | 825 | 35.8 | 28.0 | 16.8% | 8.86 | 29.2% | 0.7% |
| Unisem | UNI MK | Hold | 2.41 | 2.60 | 828 | 15.9 | 17.5 | na | 1.69 | 11.6% | 2.9% |
| Benchmark Electronics Inc | BHE US | NR | 25.89 | NA | 910 | 12.9 | 11.6 | na | 0.91 | 7.1% | 2.5% |
| Celestica Inc | CLS US | NR | 8.86 | NA | 1,090 | 5.2 | 4.8 | 33.4% | na | 14.3% | 0.0% |
| Flex Ltd | FLEX US | NR | 17.22 | NA | 7,854 | 8.7 | 7.7 | 11.9% | 1.80 | 23.4% | 0.0% |
| Sanmina Corp | SANM US | NR | 51.54 | NA | 2,979 | 10.3 | 10.2 | -0.4% | na | 16.6% | 0.0% |
| Simple Average excluding GVT | | | | | | 12.8 | 11.8 | 14.3% | 3.05 | 20.7% | 1.9% |

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG
NOTE: FORECSTS FOR NOT RATED COMPANIES ARE BLOOMBERG CONSENSUS ESTIMATES
DATA AS AT 14 OCT 2022

|  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 affect its employees' morale and productivity.</p> | <p>The Group adopts 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 recorded zero case of work-related injuries and work-related ill health.</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 | 134.61 | 134.51 | 156.55 |
| Gross Profit | 25.65 | 46.52 | 47.74 | 52.38 | 60.44 |
| Operating EBITDA | 13.61 | 30.25 | 28.46 | 29.78 | 35.84 |
| Depreciation And Amortisation | (6.71) | (8.83) | (11.36) | (12.61) | (13.86) |
| Operating EBIT | 6.90 | 21.41 | 17.10 | 17.18 | 21.98 |
| 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 | 16.90 | 16.88 | 20.31 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 6.03 | 20.90 | 16.90 | 16.88 | 20.31 |
| Taxation | (0.81) | (3.34) | (2.70) | (2.70) | (3.25) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 5.22 | 17.56 | 14.20 | 14.18 | 17.06 |
| Minority Interests | | | | | |
| Preferred Dividends | | | | | |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | | | | | |
| Net Profit | 5.22 | 17.56 | 14.20 | 14.18 | 17.06 |
| Recurring Net Profit | 5.22 | 17.56 | 14.20 | 14.18 | 17.06 |
| Fully Diluted Recurring Net Profit | 5.22 | 17.56 | 14.20 | 14.18 | 17.06 |

Cash Flow

| (\$m) | Dec-20A | Dec-21A | Dec-22F | Dec-23F | Dec-24F |
|----------------------------------|---------------|----------------|----------------|----------------|----------------|
| EBITDA | 13.61 | 30.25 | 28.46 | 29.78 | 35.84 |
| Cash Flow from Inv. & Assoc. | | | | | |
| Change In Working Capital | (8.27) | (26.13) | (18.27) | 1.92 | (10.04) |
| (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) | (2.70) | (2.70) | (3.25) |
| Cashflow From Operations | 4.47 | 3.10 | 7.26 | 28.68 | 20.96 |
| 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) | (2.84) | (2.84) | (3.41) |
| 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 | (2.84) | (2.84) | (3.41) |
| Total Cash Generated | 1.63 | 41.30 | (5.58) | 15.85 | 7.55 |
| Free Cashflow To Equity | 1.63 | (8.39) | (2.74) | 18.68 | 10.96 |
| Free Cashflow To Firm | (1.97) | (11.13) | (0.54) | 20.98 | 13.26 |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

| (\$m) | Dec-20A | Dec-21A | Dec-22F | Dec-23F | Dec-24F |
|--------------------------------------|--------------|---------------|---------------|---------------|---------------|
| Total Cash And Equivalents | 7.49 | 46.34 | 40.76 | 56.61 | 64.15 |
| Total Debtors | 17.89 | 30.02 | 43.52 | 43.48 | 50.61 |
| Inventories | 20.93 | 40.91 | 53.82 | 51.91 | 60.25 |
| Total Other Current Assets | 1.69 | 3.84 | 3.84 | 3.84 | 3.84 |
| Total Current Assets | 48.00 | 121.11 | 141.94 | 155.84 | 178.86 |
| 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 | 33.19 | 33.17 | 38.60 |
| Other Current Liabilities | 0.29 | 0.52 | 0.52 | 0.52 | 0.52 |
| Total Current Liabilities | 24.79 | 43.15 | 51.29 | 51.26 | 56.70 |
| 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 | 86.40 | 86.38 | 91.81 |
| Shareholders' Equity | 36.86 | 104.61 | 115.97 | 127.31 | 140.95 |
| Minority Interests | | | | | |
| Total Equity | 36.86 | 104.61 | 115.97 | 127.31 | 140.95 |

Key Ratios

| | Dec-20A | Dec-21A | Dec-22F | Dec-23F | Dec-24F |
|---------------------------|---------|---------|---------|---------|---------|
| Revenue Growth | 53.2% | 89.3% | 15.8% | (0.1%) | 16.4% |
| Operating EBITDA Growth | 47% | 122% | (6%) | 5% | 20% |
| Operating EBITDA Margin | 22.2% | 26.0% | 21.1% | 22.1% | 22.9% |
| Net Cash Per Share (\$) | (0.16) | (0.02) | (0.03) | 0.02 | 0.04 |
| BVPS (\$) | 0.16 | 0.31 | 0.34 | 0.38 | 0.42 |
| Gross Interest Cover | 4.85 | 12.37 | 7.77 | 7.47 | 9.56 |
| 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 | 99.7 | 118.0 | 110.0 |
| Inventory Days | 187.4 | 161.8 | 199.0 | 234.9 | 213.6 |
| Accounts Payables Days | 122.3 | 100.1 | 122.4 | 147.5 | 136.7 |
| ROIC (%) | 12.1% | 29.2% | 15.4% | 13.4% | 17.8% |
| ROCE (%) | 9.6% | 18.1% | 10.6% | 9.9% | 11.8% |
| Return On Average Assets | 7.9% | 13.9% | 8.5% | 7.9% | 8.7% |

Key Drivers

| | Dec-20A | Dec-21A | Dec-22F | Dec-23F | Dec-24F |
|--|---------|---------|---------|---------|---------|
| Semiconductor revenue growth (%) | 77.0% | 96.1% | 9.4% | -5.0% | 20.0% |
| Life Sciences, others - revenue growth (%) | 18.4% | 70.0% | 35.0% | 10.0% | 10.0% |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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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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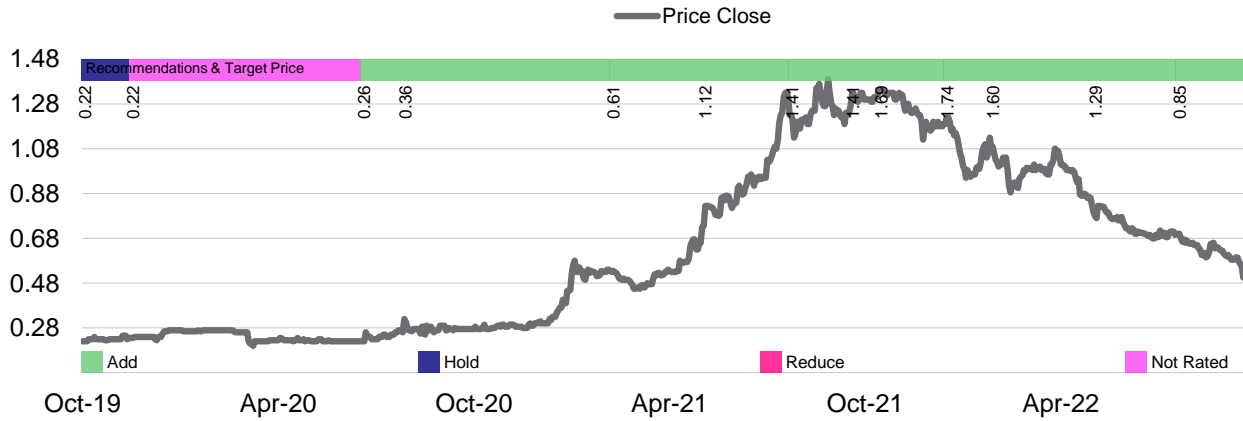
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| Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2022 | | |
|--|-------------------------|--------------------------------|
| 643 companies under coverage for quarter ended on 30 June 2022 | | |
| | Rating Distribution (%) | Investment Banking clients (%) |
| Add | 68.4% | 0.8% |
| Hold | 24.6% | 0.0% |
| Reduce | 7.0% | 0.2% |

Spitzer Chart for stock being researched (2 year data)

Grand Venture Technology Ltd (GVTL SP)



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.

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