

BUY

Last Traded Price (26 Feb 2024): S\$0.485 (STI: 3,171.12)

Price Target 12-mth: S\$0.58 (20% upside) (Prev S\$0.60)

Analysts

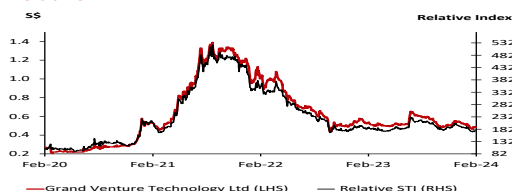
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What's New

- FY23 earnings of S\$5.5m (-58.4% y-o-y) dragged down at the gross profit level, below expectations
- Revenue guidance hints at a better 2024; backend-semicon recovery likely tilted towards 2H24
- FY24/FY25 estimates reduced by 19%/15% as we tone down our margin assumptions
- Maintain BUY with lower TP of S\$0.58

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2022A	2023A	2024F	2025F
Revenue	131	111	130	152
EBITDA	30.2	23.0	28.6	35.6
Pre-tax Profit	13.9	6.08	9.76	14.3
Net Profit	13.3	5.54	8.91	13.0
Net Pft (Pre Ex.)	13.3	5.54	8.91	13.0
Net Pft Gth (Pre-ex) (%)	(24.1)	(58.4)	60.7	46.1
EPS (S cts)	3.93	1.63	2.63	3.83
EPS Pre Ex. (S cts)	3.93	1.63	2.63	3.83
EPS Gth Pre Ex (%)	(26)	(58)	61	46
Diluted EPS (S cts)	3.93	1.63	2.63	3.83
Net DPS (S cts)	0.60	0.10	0.26	0.58
BV Per Share (S cts)	34.8	35.0	37.3	40.6
PE (X)	12.3	29.7	18.5	12.6
PE Pre Ex. (X)	12.3	29.7	18.5	12.6
P/Cash Flow (X)	12.3	10.5	5.4	7.9
EV/EBITDA (X)	6.4	8.4	6.8	5.5
Net Div Yield (%)	1.2	0.2	0.5	1.2
P/Book Value (X)	1.4	1.4	1.3	1.2
Net Debt/Equity (X)	0.2	0.3	0.2	0.2
ROAE (%)	12.0	4.7	7.3	9.8

Earnings Rev (%): (20) (15)
 Consensus EPS (S cts): 3.60 5.00
 Other Broker Recs: B: 2 S: 0 H: 1

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

Delayed but not derailed

Investment Thesis:

High-growth company with a strong blue-chip customer base. Over the past five years, GVT has delivered strong revenue and earnings growth with CAGRs of 29% and 16%, respectively. GVT also serves a blue-chip customer base – in the semiconductor back-end space, it serves four of the top six; in the analytical life sciences segment, it serves three of the top 10. The products that GVT supplies are made to certain product specifications, and thus its customer base tends to be sticky in nature.

Significant contributions from the front-end semiconductor space remain a crucial catalyst. Within the semiconductor segment, GVT's exposure to the back end is about 90-95%, implying 5-10% exposure to the front end. Contributions in FY24 from new front-end customers will remain small, while FY25 contributions are expected to be more significant.

A promising grand venture nonetheless, as long-term semiconductor uptrend remains intact. Notwithstanding near-term volatility, the semiconductor industry is well poised for growth, owing to the push towards digitalisation. McKinsey projects that the semiconductor industry will become a trillion-dollar industry by 2030. Long-term semiconductor outlook looks bright, which should benefit GVT, as more than half of its revenue comes from the semiconductor segment. The other segments GVT has diversified into should remain resilient, which should help cushion semiconductor weaknesses in the near term.

Maintain BUY with lower TP of S\$0.58 (vs. previous TP of S\$0.60). We roll over our TP to FY24/FY25F earnings to better account for 2H24's semiconductor recovery as well as contributions from new front end customers. Near-term margins may remain muted on unabsorbed capacities as the group readies itself for future growth.

Given that utilisation rates are unlikely to rebound substantially, especially with the commissioning of a new facility in Penang, we are retaining our previous PE peg of c.18x PE, near -0.25SD of the historical mean. We also reduce our earnings estimates by 19%/15% on toned down margin assumptions. Overall, we believe that GVT remains prepared to deliver when orders come in but is presently constrained by cautiousness within the industry, which should abate 2H24 onwards.

Key Risks

Delay in front end expansion, prolonged chip glut, and macro weaknesses.

At A Glance

Issued Capital (m shrs)	339
Mkt. Cap (S\$m/US\$m)	165 / 123
Major Shareholders (%)	
NT SPV 12	26.7
Tiam Nam Lee	15.4
SUNSHINE VENTURES PTE	8.8
Free Float (%)	49.1
3m Avg. Daily Val (US\$m)	0.04
GIC Industry : Information Technology / Technology Hardware & Equipment	

WHAT'S NEW

Delayed but not derailed

FY23 revenue of S\$111.3m, down 15.1% y-o-y, attributable to weakness in the semiconductor segment. The decline primarily stemmed from weakness in the semiconductor back end, in tandem with the overall industry downturn. Accordingly, the share of revenue from the semiconductor segment fell to 47.9% in FY23 (vs. 55.4% in FY22). Revenue from the life sciences segment marginally declined by 1.9%, with the decline in business activity offset by growth in wallet share. Revenue from the EAMO (Electronics, Aerospace, Medical, and Others) segment remained flat with lower contribution from the electronics sub-segment offset by maiden full year contribution from GVT Suzhou Limited (formerly J-Dragon) and Formach.

Revenue by business segment (\$m)

	FY23	Share	FY22	Share	% change
Semiconductor	53.3	47.9%	72.6	55.4%	-26.6%
Life Sciences	20.6	18.5%	21.0	16.0%	-1.9%
EAMO	37.4	33.6%	37.5	28.6%	flat
Total	111.3		131.1		-15.1%

Source: Company, DBS Bank Ltd

FY23 earnings of S\$5.5m (-58.4% y-o-y) with the key drag at the gross profit level, below expectations. The two key factors contributing to the contraction in gross profit are a decline in top lines and continued capacity absorption. Underlying the decline in gross profit is a contraction of 2.3 ppts in gross margin attributed to onboarding expenses during a semiconductor downturn, as well as fair value inventory adjustments.

Comparison of gross margins by business segment

	FY23 G PM	FY22 GPM	change
Semiconductor	28.1%	30.2%	-2.1 ppts
Life Sciences	30.8%	33.3%	-2.5 ppts
Electronics, aerospace, medical, and others	17.3%	18.4%	-1.1 ppts
Group	25.0%	27.3%	2.3 ppts

Source: Company, DBS Bank Ltd

Final dividend of 0.1 Scts/share proposed. Total dividend per share for FY23 stands at 0.1 Scts/share vs. 0.6 Scts/share in FY22.

Outlook

Revenue guidance hints at a better 2024; backend-semicon recovery likely tilted towards 2H24. Albeit noting that management's commentary underscores a cautious tone, GVT's revenue guidance for 1H24 ranges between \$58-64m, with the midpoint of guidance representing a growth rate of 13.2% y-o-y vs. 1H23's revenue. This accounts for c.47% of our updated FY24 estimates. While GVT anticipates ongoing challenges in the global semiconductor industry due to geopolitical tensions and macroeconomic factors, it remains cautiously optimistic for operating conditions in the semiconductor and electronics industry to improve from 2H24. Life Sciences demand is also expected to remain healthy while a recovery in air travel should bode well for the aerospace segment. Consequently, we retain our views of a better 2H24 and believe the share price has more upside potential as the industry turns.

Delayed but not derailed; maintain BUY with lower TP S\$0.58 (vs. \$0.60 previously). We roll over our TP to FY24/FY25 earnings to better account for 2H24 semiconductor recovery as well as contributions from new front-end customers. Near-term margins may remain muted on unabsorbed capacities as the group readies itself for future growth. With utilisation rates unlikely to rebound substantially, especially with the commissioning of a new facility in Penang, we retain our previous PE peg of c.18x PE, near -0.25SD of the historical mean. We adjust our FY24/25 revenue estimates upwards slightly by 2-3% to account for the industry recovery but cut earnings by 19%/15% as we tone down our margin assumptions. Overall, we believe that GVT remains prepared to deliver when orders come in but is presently constrained by cautiousness within the industry, which should abate 2H24 onwards.

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 in Singapore, Malaysia, and China. Its customer base includes established blue-chip companies in the semiconductor back-end and analytical life sciences industries.

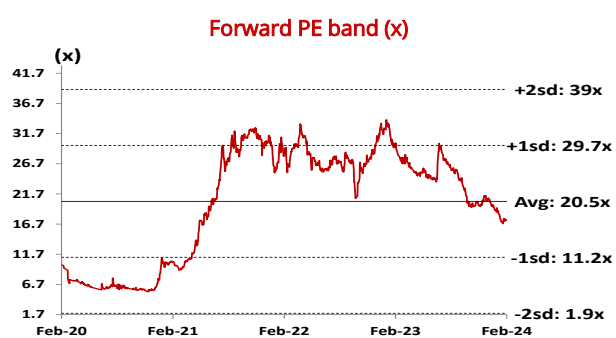
Grand Venture Technology Ltd

Interim Income Statement (\$m)

FY Dec	2H2022	1H2023	2H2023	% chg y-o-y	% chg h-o-h
Revenue	64	54	57	(10.3)	6.6
Cost of Goods Sold	(46)	(40)	(43)	(6.8)	6.9
Gross Profit	18	14	14	(19.4)	5.7
Other Oper. (Exp)/Inc	(11)	(8)	(11)	0.6	34.4
Operating Profit	7	5	3	(52.5)	(39.4)
Other Non Opg (Exp)/Inc	0	0	0	-	-
Associates & JV Inc	0	0	0	-	-
Net Interest (Exp)/Inc	(1)	(1)	(1)	4.0	1.6
Exceptional Gain/(Loss)	0	0	0	-	-
Pre-tax Profit	5	4	2	(63.2)	(50.4)
Tax	1	(1)	0	(82.1)	(119.4)
Minority Interest	0	0	0	-	-
Net Profit	6	3	2	(65.4)	(37.1)
Net profit bef Except.	6	3	2	(65.4)	(37.1)
EBITDA	7	5	3	(52.5)	(39.4)
Margins (%)					
Gross Margins	27.7	25.1	24.9		
Opg Profit Margins	10.4	9.7	5.5		
Net Profit Margins	9.7	6.3	3.7		

Source of all data: Company, DBS Bank Ltd

Historical PE and PB band



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



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

Grand Venture Technology Ltd

Income Statement (\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Revenue	116	131	111	130	152
Cost of Goods Sold	(78.6)	(95.3)	(83.5)	(96.6)	(111)
Gross Profit	37.7	35.8	27.8	33.6	40.8
Other Opng (Exp)/Inc	(15.1)	(19.6)	(19.4)	(21.7)	(24.4)
Operating Profit	22.6	16.2	8.42	11.9	16.4
Other Non Opng (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	(1.7)	(2.4)	(2.3)	(2.2)	(2.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	20.9	13.9	6.08	9.76	14.3
Tax	(3.3)	(0.6)	(0.5)	(0.9)	(1.2)
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	17.6	13.3	5.54	8.91	13.0
Net Profit before Except.	17.6	13.3	5.54	8.91	13.0
EBITDA	31.5	30.2	23.0	28.6	35.6
Growth					
Revenue Gth (%)	89.3	12.8	(15.1)	17.0	16.5
EBITDA Gth (%)	121.9	(4.0)	(23.8)	24.5	24.2
Opg Profit Gth (%)	203.7	(28.2)	(48.1)	41.6	37.5
Net Profit Gth (Pre-ex) (%)	236.6	(24.1)	(58.4)	60.7	46.1
Margins & Ratio					
Gross Margins (%)	32.4	27.3	25.0	25.8	26.9
Opg Profit Margin (%)	19.4	12.4	7.6	9.2	10.8
Net Profit Margin (%)	15.1	10.2	5.0	6.8	8.6
ROAE (%)	24.8	12.0	4.7	7.3	9.8
ROA (%)	12.7	6.9	2.7	4.2	5.8
ROCE (%)	13.4	6.6	1.8	3.8	5.8
Div Payout Ratio (%)	18.8	15.3	6.1	10.0	15.0
Net Interest Cover (x)	13.2	6.9	3.6	5.5	7.6

Source: Company, DBS Bank Ltd

Interim Income Statement (\$m)

FY Dec	2H2021	1H2022	2H2022	1H2023	2H2023
Revenue	62.7	67.1	64.0	53.9	57.4
Cost of Goods Sold	(42.8)	(49.0)	(46.3)	(40.3)	(43.1)
Gross Profit	20.0	18.1	17.7	13.5	14.3
Other Oper. (Exp)/Inc	(8.7)	(8.5)	(11.0)	(8.3)	(11.1)
Operating Profit	11.2	9.55	6.69	5.25	3.18
Other Non Opng (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	(0.9)	(1.1)	(1.2)	(1.2)	(1.2)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	10.4	8.41	5.48	4.06	2.01
Tax	(1.3)	(1.3)	0.72	(0.7)	0.13
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	9.05	7.13	6.19	3.40	2.14
Net profit bef Except.	9.05	7.13	6.19	3.40	2.14
EBITDA	11.2	9.55	6.69	5.25	3.18
Growth					
Revenue Gth (%)	17.1	6.9	(4.5)	(15.9)	6.6
EBITDA Gth (%)	(1.2)	(15.0)	(29.9)	(21.6)	(39.4)
Opg Profit Gth (%)	(1.2)	(15.0)	(29.9)	(21.6)	(39.4)
Net Profit Gth (%)	6.3	(21.2)	(13.2)	(45.1)	(37.1)
Margins					
Gross Margins (%)	31.8	26.9	27.7	25.1	24.9
Opg Profit Margins (%)	17.9	14.2	10.4	9.7	5.5
Net Profit Margins (%)	14.4	10.6	9.7	6.3	3.7

Source: Company, DBS Bank Ltd

Grand Venture Technology Ltd

Balance Sheet (\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Net Fixed Assets	56.4	84.4	83.5	97.2	98.4
Invt in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	5.40	10.9	10.2	9.84	9.45
Cash	46.3	23.1	19.1	18.5	17.5
ST Investment	0.0	0.0	0.0	0.0	0.0
Inventory	40.9	50.6	56.7	52.3	60.1
Debtors	30.0	32.0	30.6	35.3	41.1
Net Intangibles Assets	2.02	10.2	9.46	9.06	8.67
Other Current Assets	3.84	3.04	3.08	3.08	3.08
Total Assets	183	204	203	216	230
ST Debt	16.3	18.7	20.8	20.8	20.8
Creditor	25.1	23.2	26.2	31.1	33.5
Other Current Liab	1.85	2.73	2.62	2.62	2.62
LT Debt	29.6	32.3	28.2	28.2	28.2
Other LT Liabilities	5.57	9.22	6.91	6.91	6.91
Shareholder's Equity	105	118	119	127	138
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Cap. & Liab.	183	204	203	216	230
Non-Cash Wkg. Capital	47.9	59.8	61.6	57.0	68.2
Net Cash/(Debt)	0.54	(27.8)	(29.9)	(30.5)	(31.5)
Debtors Turn (avg days)	75.2	86.3	102.7	92.4	92.0
Creditors Turn (avg days)	100.2	108.3	130.9	131.1	128.6
Inventory Turn (avg days)	161.9	205.5	284.4	249.3	223.8
Asset Turnover (x)	0.8	0.7	0.5	0.6	0.7
Current Ratio (x)	2.8	2.4	2.2	2.0	2.1
Quick Ratio (x)	1.8	1.2	1.0	1.0	1.0
Net Debt/Equity (X)	CASH	0.2	0.3	0.2	0.2
Net Debt/Equity ex MI (X)	CASH	0.2	0.3	0.2	0.2
Capex to Debt (%)	35.5	19.1	20.9	61.2	40.8

Cash Flow Statement (\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Pre-Tax Profit	20.9	13.9	6.08	9.76	14.3
Dep. & Amort.	8.88	14.0	14.6	16.7	19.2
Tax Paid	(1.6)	(1.3)	(0.7)	(0.9)	(1.2)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(21.8)	(11.5)	(2.0)	4.64	(11.2)
Other Operating CF	(3.3)	(1.6)	(2.3)	0.0	0.0
Net Operating CF	3.10	13.4	15.7	30.3	21.0
Capital Exp.(net)	(16.3)	(9.7)	(10.2)	(30.0)	(20.0)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	(6.9)	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.30	0.82	0.50	0.0	0.0
Net Investing CF	(16.0)	(15.8)	(9.7)	(30.0)	(20.0)
Div Paid	(1.5)	(2.7)	(1.0)	(0.9)	(2.0)
Chg in Gross Debt	5.33	(7.5)	1.48	0.0	0.0
Capital Issues	51.1	0.0	0.0	0.0	0.0
Other Financing CF	(3.1)	(9.7)	(10.0)	0.0	0.0
Net Financing CF	51.8	(19.9)	(9.5)	(0.9)	(2.0)
Currency Adjustments	0.07	(0.7)	(0.4)	0.0	0.0
Chg in Cash	39.0	(23.0)	(4.0)	(0.6)	(1.0)
Opg CFPS (S cts)	7.52	7.34	5.20	7.55	9.48
Free CFPS (S cts)	(4.0)	1.09	1.60	0.08	0.28

Source: Company, DBS Bank Ltd

Target Price & Ratings 12-mth History



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

Source: DBS Bank Ltd

Analyst: Amanda Tan

Lee Keng LING

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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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