

Grand Venture Technology Limited

18 March 2022

BUY (previously Hold)

BBG	GVTL SP
Market cap	S\$269 million
Price (17 March 2022)	S\$0.96
52-week range	S\$0.450 – S\$1.450
Target Price	S\$1.195 (previously S\$1.30)
Shares Outstanding	298.9 million
Free Float	41.03%
Major Shareholder	Novo Tellus SPV 12.26.68% Lee Tiam Nam, Ricky 15.33% Sunshine Ventures 8.84%
P/BV (12/21)	2.7x
Net Debt to EBITDA (12/21)	Net cash

Source: Company data, Bloomberg, SAC Capital

Analyst

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Next phase of growth

FY21 results were ahead of our estimates of revenue (+17%) and net profit. (+21%) due mainly to higher sales across all 3 segments. Revenue rose 89% yoy (Semiconductor: +96%, Life sciences: +53%, Electronics, medical and others: +110%) and consequently, net profit surged 237%.

Production capacity is no longer a limiting factor. Its 2nd factory bought in March 21 has been completed and contributes an additional ~20% capacity. With the extra capacity, management hopes to bring back orders that were previously contracted out, hence, improving margin. Most of GVT's sheet metal fabrication works will also be consolidated at Formach Asia's Johor factory. This will free up some space in Singapore for GVT to take on new projects and orders.

Development in front end capabilities is key catalyst to GVT's growth. GVT is in talk with new customers from the front end and has allocated some space in its integrated hub once it is completed in late 2022. We expect to only see significant progress FY23-24 onwards as onboarding including qualification process and ramp up takes time. Investment in machineries and equipment comes after obtaining commitments from customers. GVT is expected to take on more debt to fund its expansion. We increase our cost of debt to 5.3%.

Smaller delivery of its semiconductor components in 1H22.

One of GVT's main customer, Teradyne, has guided a lower 1H22 forecast with a 15-20% drop in sales due to a slower transition to 3nm technology. Catch up in shipment is likely to be at the end of FY22 or start FY23.

We revise our FY22E topline and bottomline estimates up by 23% and 36% and introduced our FY23 numbers. **Revise to BUY at lower TP of S\$1.195 accounting for higher cost of debt and market risk. (WACC: 8.70%)** Contributions from the 2 new subsidiaries are not included in the estimates.

Key Financials

FY ended 31 Dec	FY2019	FY2020	FY2021	FY2022E	FY2023E
Revenue (S\$m)	40.1	61.4	116.3	160.9	219.9
EBIT (S\$m)	4.9	7.5	22.6	31.8	45.2
Net profit (S\$m)	3.1	5.2	17.6	24.5	34.8
Basic EPS (S cents)	1.34	2.23	5.87	8.18	11.7
Dividend per share (S cents)	-	-	1.0	1.5	2.1
Net cash / (debt)	(15.7)	(32.2)	0.5	6.3	4.6
Valuation					
EBIT margin (%)	12.3	12.1	19.5	19.8	20.6
ROIC (%)	9.1	9.1	20.4	23.2	26.5
EV/EBITDA (x)	30.7	22.5	9.1	6.7	4.9
P/E (x)	71.7	43.1	16.3	11.7	8.2
Dividend yield (%)	-	-	1.0	1.5	2.2

Income Statement

S\$'mil	Fiscal Year Ended 31 Dec				
	FY2019A	FY2020A	FY2021A	FY2022E	FY2023E
Revenue	40.1	61.4	116.3	160.9	219.9
Cost of sales	-25.2	-42.5	-78.6	-107.8	-145.1
Gross profit	14.9	18.9	37.7	53.1	74.8
Other income	0.6	0.5	1.2	1.2	1.2
Selling and distribution costs	-0.5	-0.5	-1.0	-1.4	-2.0
General and admin expenses	-8.1	-9.6	-12.5	17.3	-23.7
Other operating expenses	-2.0	-2.0	-2.7	-3.7	-5.1
Finance expenses	-1.1	-1.4	-1.7	-2.7	-3.7
Profit before tax	3.8	6.0	20.9	29.1	41.5
Tax expense	-0.7	-0.8	-3.3	-4.7	-6.6
Profit/(loss) for the year	3.1	5.2	17.6	24.5	34.8

Ratios

	Fiscal Year Ended 31 Dec				
	FY2019A	FY2020A	FY2021A	FY2022E	FY2023E
Profitability (%)					
Gross profit/(loss) margin	37.2	30.8	32.4	33.0	34.0
Profit/(loss) before tax margin	9.6	9.8	18.0	18.1	18.9
Liquidity (x)					
Current ratio	1.5	1.9	2.8	3.7	3.8
Quick ratio	0.8	1.1	1.9	2.6	2.6
Interest coverage ratio	4.5	5.2	13.1	11.8	12.1
Net Debt to Equity (%)	65.7	87.4	Net cash	Net cash	Net cash
Valuation (x)					
P/E	71.7	43.1	16.3	11.7	8.2
P/B	9.1	7.8	2.7	2.3	1.9
EV/EBITDA	30.7	22.5	9.1	6.7	4.9
Cash Conversion Cycle					
Trade receivable days	103	92	75	75	75
Inventory days	191	157	144	144	144
Trade payable days	156	103	89	89	89
CCC days	138	147	130	130	130

Balance Sheet

S\$'mil	Fiscal Year Ended 31 Dec				
	FY2019A	FY2020A	FY2021E	FY2022E	FY2023E
Property, plant and equipment	34.7	43.3	56.4	70.3	82.8
Intangible assets	2.0	2.0	2.0	2.0	2.0
Prepayment	0.6	0	3.1	0	0
Deferred tax assets	1.1	1.0	0.3	0.3	0.3
Total non-current assets	38.4	46.4	61.8	72.6	85.1
Cash and bank balances	5.8	7.5	46.3	56.6	75.1
Trade and other receivables	13.0	17.9	30.0	33.2	45.3
Prepayments	0.7	1.7	3.8	3.8	3.8
Inventories	15.7	20.9	40.9	42.4	57.1
Total current assets	35.2	48.0	121.1	136.1	181.4
Total assets	73.6	94.4	182.9	208.7	266.5
Loans and borrowings	14.2	29.1	29.6	41.8	59.6
Lease liabilities	3.9	3.4	4.3	4.3	4.3
Others	0.0	0.2	1.3	1.3	1.3
Total non-current liabilities	18.1	32.8	35.1	47.4	65.2
Trade and other payables	10.7	13.2	25.1	26.2	35.3
Loans and borrowings	12.3	10.6	16.3	8.5	10.9
Lease liabilities	0.7	0.7	1.3	1.3	1.3
Others	0.3	0.3	0.5	0.5	0.5
Total current liabilities	24.0	24.8	43.2	36.6	48.1
Total liabilities	42.1	57.5	78.3	84.0	113.3
Share Capital	27.8	27.8	78.9	78.9	78.9
Other reserve	-1.0	-0.9	-0.2	-0.2	-0.2
Retained earnings	4.7	9.9	25.9	46.0	74.5
Total equity	31.5	36.9	104.6	124.7	153.2
Total liabilities and equity	73.6	94.4	182.9	208.7	266.5

Cash Flows Statement

S\$'mil	Fiscal Year Ended 31 Dec				
	FY2019A	FY2020A	FY2021A	FY2022E	FY2023E
Cash flows from operating activities					
Profit/(loss) before tax	3.8	6.0	20.9	29.1	41.5
Depreciation and amortisation	4.8	6.7	8.9	10.1	12.5
Interest income	0.0	0.0	0.0	0.0	0.0
Interest expense	1.1	1.4	1.7	2.7	3.7
Unrealised forex gain	-0.2	-0.1	0	0	0
Others	0.0	0.2	0	0	0
OCF before changes in working capital	9.5	14.3	32.6	41.8	57.7
Changes in working capital	-8.8	-8.3	-26.1	-3.5	-17.8
Income taxes paid	-0.6	-0.7	-1.6	-4.7	-6.6
Interest received	0.0	0.0	0.0	0.0	0.0
Interest paid	-1.3	-1.4	-1.7	-2.7	-3.7
Net cash from operating activities	-1.2	4.0	3.1	31.0	29.6
Cash flows from investing activities					
Purchase of PPE	-6.0	-7.4	-16.3	-20.8	-25.0
PPE disposal proceeds	0.0	0.0	0.0	0	0
Capital expenditure grant received	0.3	0.1	0.3	0	0
Others	0.0	0.0	0	0	0
Net cash used in investing activities	-5.7	-7.3	-16.0	-20.8	-25.0
Cash flows from financing activities					
Dividends paid	0.0	0.0	-1.5	-4.4	-6.3
Proceeds from borrowings	2.1	25.4	8.2	20.0	25.0
Repayment of borrowings	-2.0	-10.8	-2.8	-15.5	-4.8
Repayment of hire purchases	-2.4	-3.6	-4.5	0	0
Payment of principal portion of lease liabilities	-0.3	-0.7	-0.9	0	0
Proceeds from issuance of shares	13.2	0.0	51.1	0	0
Others	-0.6	-5.0	0.1	0	0
Net cash (used in)/from financing activities	10.5	5.0	51.8	0.1	13.9
Net increase in cash	3.6	1.6	38.9	10.3	18.5
Forex effects	0.0	0.1	0.1	0	0
Beginning cash	1.8	5.4	7.1	46.1	56.4
Ending Cash	5.4	7.1	46.1	56.4	74.9

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