

Grand Venture Technology Limited

23 July 2021

BUY
(Initiation)

Price: S\$1.020 (as at 22 July 2021)

Target Price: S\$1.180 (+15.7%)

BBG	GVTL SP
Market cap	S\$311.9 million
Price (22 July 2021)	S\$1.020
52-week range	S\$0.235 – S\$1.080
Target Price	S\$1.180
Shares Outstanding	305.8 million
Free Float	21.04%
Major Shareholder	Metalbank Singapore 31.1% Novo Tellus SPV12 29.6% Sunshine Power 9.2%
P/BV (12/20)	4.0x*
Net Debt to EBITDA (12/20)	2.3x

Source: Company data, Bloomberg, SAC Capital

* The book value is adjusted for the private placement, and includes the amount raised from the new placement shares.

Analyst

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Solid growth backed by high demand

Grand Venture Technology is a manufacturing solutions and service provider, for the semiconductor, analytical life sciences, electronics and other industries, with operations in Singapore, Malaysia and China. The Group serves some of the largest Original Equipment Manufacturers and analytical life sciences players, for the manufacture and assembly of complex precision machining, sheet metal components and other laboratories testing and pharmaceutical applications.

Strong 1QFY21 with semiconductor segment spearheading gains. The Group recorded a 59.0% yoy increase in 1QFY21 revenue from S\$14.5m to S\$23.0m. The increase in revenue came on the back of growth in all 3 business segments, with semiconductor leading gains (+68.5% yoy), life sciences segment (+38.4%), and electronics, medical and others (+42.2%). Net profit in 1QFY21 surged by 5.3x to S\$3.3 million in 1QFY21, from S\$0.6 million in 1QFY20, due to growing share of customers. GVT recorded a stronger gross margin at 32.1% (1QFY20: 22.9%), due to improved capacity utilisation.

Growth in all 3 segments likely to sustain, with strong global semiconductor demand persisting, expected to grow at a CAGR of 19.7% in 2021 and 8.8% in 2022. The mass spectrometry market is seeing rising demand due to more stringent regulations and higher testing activity. Ageing population, higher income levels and rise in minimally invasive procedures will strengthen demand for production of surgical microscope.

Capex will drive growth and scale output. GVT raised S\$23.5m in net placement proceeds, of which S\$8.0m is allocated towards capex. The new Penang factory purchased this year will add ~23% to capacity when renovations are completed and operating at full production levels. Management guided that visibility of orders is around 9-12 months presently, but they are limited by the current level of production capacity. Thus, we expect high return on investment on their capital spending.

Initiate with a BUY rating, at fair value of S\$1.18. Our DCF-derived target price translates into a FY21E/FY22E P/E of 25.1x and 21.2x respectively. We expect the high semiconductor demand and chip shortage, rising healthcare needs for higher precision equipment, and higher expected Capex to continue to propel growth. Our target price implies a 15.7% upside to the last traded price. We also like GVT for their experienced (over 20+ years on average) management team, and its history of profitability since 2016, even before their IPO in 2019.

Key Risks: Labour restrictions, key customer risks and competition

Key Financials

FY ended 31 Dec	FY2018	FY2019	FY2020	FY2021E	FY2022E
Revenue (S\$m)	41.0	40.1	61.4	99.4	130.5
EBIT (S\$m)	6.8	4.9	7.4	17.9	20.9
Net profit (S\$m)	4.7	3.1	5.2	14.4	17.0
Basic EPS (S cents)	2.67	1.34	2.23	4.71	5.57
Dividend per share (S cents)	-	-	-	-	-
Net cash / (debt)	(16.3)	(15.7)	(32.2)	(9.1)	(1.9)
Valuation					
EBIT margin (%)	16.6	12.3	12.1	18.0	16.0
ROIC (%)	14.8	7.2	9.1	17.8	18.5
EV/EBITDA (x)	31.2	33.6	24.3	12.3	10.2
P/E (x) *	38.3	76.2	45.8	21.7	18.3
Dividend yield (%)	-	-	-	-	-

* Based on weighted average shares at that period.

Investment Summary

Grand Venture Technology is a manufacturing solutions and service provider for the semiconductor, analytical life sciences, electronics and other industries, with operations in Singapore, Malaysia (Penang) and China (Suzhou).

Semiconductor

The semiconductor segment involves the manufacturing of electrical components and devices such as transistors and diodes. The Group serves some of the largest Original Equipment Manufacturers (“OEMs”) by providing a range of engineering, assembly, testing and product lifecycle management services for the manufacture of complex precision machining and sheet metal components and modules. Other capabilities include:

- Metals machining, Engineering plastics machining, Ceramic machining, Quartz machining, Sub-micron machining, Vacuum parts manufacturing
- Cutting / laser cutting, CNC bending, CNC turret punching, Welding and robotic magnesium inert gas welding, Wet painting / powder coating
- Modular assembly, Electromechanical assembly, Mechatronics assembly, Class 10K cleanroom assembly, Testing services

Life sciences, electronics and others

The life sciences, electronics and others segment are aggregated as Management considers the products and services offered by these segments share common production facilities and usage of raw materials in the production process. Revenue from this segment is mainly contributed by the manufacturing of key components of mass spectrometers, high performance liquid chromatography instruments used for various laboratories testing and pharmaceutical applications, and the assembly of complex modules for customers in the business of industrial automation and manufacturing equipment.

Strong 1QFY21 with semiconductor segment spearheading gains

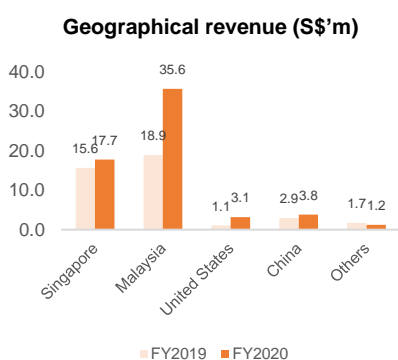
The Group recorded a 59.0% yoy increase in 1QFY21 revenue from S\$14.5m to S\$23.0m. This made up 37.5% of total FY20 revenue. The increase in revenue came on the back of growth in all 3 business segments, with semiconductor spearheading gains.

Semiconductor segment rose 68.5% yoy in 1Q to S\$16.3m, contributing 70.6% of 1QFY21 revenue. This was in line with higher demand for semiconductor chips globally. Life sciences segment (+38.4% yoy to S\$2.8m) was driven by increased mass production of mass spectrometers subsequent to receiving customers’ qualifications. Electronics, medical and others segment likewise saw stronger sales (+42.2% yoy to S\$2.1m) with higher demand for electronics products and an increased penetration to the medical sector.

Net profit in 1QFY21 surged by 5.3x to S\$3.3 million in 1QFY21, from S\$0.6 million in 1QFY20, due to growing share of customers. GVT recorded a stronger gross margin at 32.1% (1QFY20: 22.9%), due to improved capacity utilisation.

Revenue (S\$'m)	FY2020	FY2019
Semi-conductor	42.2	23.9
Life sciences, electronics and others	19.2	16.2
Total	61.4	40.1

Source: Company data



Source: Company data

Investment Summary

Capex to drive growth and scale output

ROIC as at FY2020 was 9.1%. We expect ROIC to continue to increase at least for the next 2 years, with the ramp up of capital spending which will increase capabilities and production capacity.

Of the placement proceeds, GVT allocated S\$8.0m towards capex. GVT had purchased a new factory in Penang, Malaysia in March 2021. The new factory (74,056 sqft in land area and 65,076 sqft in floor area) will expand the Group's total factory size by ~23% when it is at full production capacity.

Given the high demand in all segments, order book has been and is still going strong. Management guided that visibility of orders is around 9-12 months presently. Utilisation rates of GVT's factories are high. Current limiting factors for revenue growth are: 1) Labour restrictions, and 2) Production capacity. Thus, we expect high return on investment on their capital spending. Taking into consideration renovations, we expect the new factory to begin production in 4QFY21 or 1QFY22, and be ramped up to higher capacity later in FY22.

Country	Location	Land Area	Activities
Singapore	Changi North	86,736 sq ft	Corporate Headquarters Precision Machining Assembly and Testing
Malaysia	Penang	169,480 sq ft + 74,056 sq ft*	Precision Machining Sheet Metal Fabrication Assembly and Testing
China	Suzhou	63,000 sq ft	Precision Machining Assembly and Testing
Total area		319,216 sqft	

* Will be undergoing renovation before adding to capacity

Source: Company data

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We also like GVT for their experienced (over 20+ years on average) management team, and its history of profitability since 2016, even before their IPO in 2019.

Financial Summary

Strong 1QFY21 with semiconductor segment spearheading gains

The Group recorded a 59.0% yoy increase in 1QFY21 revenue from S\$14.5m to S\$23.0m. This made up 37.5% of total FY20 revenue. The increase in revenue came on the back of growth in all 3 business segments, with semiconductor spearheading gains.

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Net profit in 1QFY21 surged by 5.3x to S\$3.3 million in 1QFY21, from S\$0.6 million in 1QFY20, due to growing share of customers. GVT recorded a stronger gross margin at 32.1% (1QFY20: 22.9%), due to improved capacity utilisation. In 1QFY20 previously, the Group's operational disruptions in Suzhou due to Chinese New Year holidays, facility expansion and relocation weighed down on margins.

We expect strong demand in all segments will continue, with the global semiconductor super cycle, higher demand for analytical life sciences instruments for use in areas including drug discovery, vaccine production and testing, etc. The Group also increased penetration into the medical sector. However, near-term headwinds will weigh on production capacities. We are cautious of Malaysia's Movement Control Order (MCO) which sees factory capacity capped at 60%, and Singapore's current manpower supply crunch which will impact both factories and limit supply output.

Placement proceeds to be growth multiplier

GVT completed a placement on 15 March 2021 (placement shares represented 23.4% of enlarged share capital when allocated and issued), raising net proceeds of S\$23.5m. The proceeds allows room for internal growth by capital spending, and expansion through M&A, JVs and partnerships. Furthermore, with the placee being a wholly-owned subsidiary of Novo Tellus PE Fund 2, L.P., this opens opportunities for potential business partnerships.

Use of Net Proceeds (\$'m)	Allocated (as at 21/05)	Net proceeds utilised	Balance of net proceeds
Expansion via M&A, JVs and partnerships	14.0	-	14.0
Investing/enhancing operational and engineering capabilities	8.0	1.5	6.5
General working capital	1.5	1.5	-
Total	23.5	3.0	20.5

Source: Company data

* Metalbank previously held 57.0% of share capital before placement. Metalbank's shareholders and their respective shareholdings were as follows, according to GVT's IPO offer document: Mr. Lee Tiam Nam (43.6%), Mr. Ng Wai Yuen Julian (Wu Weixian Julian) (11.6%), Mr. Tan Chun Siong (11.6%), Mr. Kong Sang Wah (11.6%), Mr. Saw Yip Hooi (11.6%), Mr. Ng Kok Chai (4.1%), Mr. Loh Kien Giap (4.1%) and Mr. Chan Kok Heong (1.7%).

Growth Drivers

Capex to drive growth

The placement proceeds will allow for capital spending for organic expansion through capital spending. GVT allocated S\$8.0m towards capex. GVT had purchased a new factory in Penang, Malaysia in March 2021. The new factory (74,056 sqft in land area and 65,076 sqft in floor area) will expand the Group's total factory size by ~23% when it is at full production capacity.

Given the high demand in all segments, order book has been and is still going strong. Management guided that visibility of orders is around 9-12 months presently. Utilisation rates of GVT's factories are high. Current limiting factors for revenue growth are: 1) Labour restrictions, and 2) Production capacity. Thus, we expect high return on investment on their capital spending. Taking into consideration renovations, we expect the new factory to begin production in 4QFY21 or 1QFY22, and be ramped up to higher capacity later in FY22.

Differentiated precision manufacturing capabilities

Given their competencies in ultra precision machining and advanced materials machining, GVT is intending to expand revenue streams to develop in-house competencies in advanced materials (specifically, quartz and ceramic). Management believes these advanced materials will open a gateway into more niche products in the market, especially as they possess the capabilities required for production. Management indicated that given the challenging technologies required, they anticipate less competition in the business of these advanced materials.

Strong and sticky customer base

Management commented they maintain close and strong relationships with their key customers. In FY20, the top 5 customers made up 85.0% (S\$52.2m) of total Group revenue. GVT's customers are leading global players across the semiconductor front-end and back-end equipment, analytical life science instruments, medical, and electronics segments.

The Group serves some of the largest OEMs, having 4 of the top 6 semiconductor back-end suppliers as their customers, and they also have 3 in the top 10 analytical life sciences players as customers.

Customer base is sticky across the different high-tech industries, as products are components are niche and require high precision, and GVT has the capabilities to meet the unique precision machine parts manufacturing demands. Each customer would also have its own set of specifications and requirements for the components, which will likely deter them from changing suppliers once they have found one. Management also said that cross-selling opportunities are present, within and across industry verticals. GVT is working to enhance its segment diversification.

Given its customers' market share and presence, solid market demand is expected to translate to firmer topline for GVT.

Growth Drivers

Strong semiconductor demand to sustain in the coming years

Covid-19 has accelerated the demand for the semiconductor industry, and the world has been seeing high demand for chips since last year, which has led to a shortage as supply is struggling to keep up to the surging demand from consumer electronics, autonomous vehicles, communications, IT infrastructures, data centers and healthcare electronics. The strong demand currently, which is forecasted to continue in the coming years, puts GVT in a good position to capitalise on the growth opportunities arising from the chip equipment manufacturing market and the acceleration of digital innovations.

The World Semiconductor Trade Statistics (“WSTS”) forecasted that the worldwide semiconductor market is expected to increase by 19.7% in 2021 to hit US\$527 billion, and continuing to grow by 8.8% in 2022. WSTS projected year-to-year increases in Asia Pacific (23.5%), Europe (21.1%), Japan (12.7%), and the Americas (11.1%).

SEMI reported in its World Fab Forecast in June that semiconductor manufacturers worldwide will have started construction on 19 new high-volume fabs by the end 2021. This will be followed by another 10 in 2022, to meet the accelerating demand for chips, and will bring equipment spending for these fabs to over US\$140 billion. We expect these positive effects from higher global equipment spending will trickle down to GVT as a component supplier.

According to Global Market Insights, the adoption of technologies such as artificial intelligence (AI), Internet of Things in fabrication and the constant use of advance chipsets in automotive and consumer electronics, will drive the demand for semiconductor manufacturing. This demand will boost support for the semiconductor manufacturing equipment market and is projected to reach over US\$80 billion by 2026. McKinsey reported that the growth in semiconductor sales is expected to be accelerated by a shift towards Artificial Intelligence, 5G to 6G Technology, semiconductors that enable servers, connectivity, and cloud usage as online collaboration grows. Other sectors that will fuel demand growth are contactless solutions, automated-delivery solutions, digitalization, rise in autonomous vehicles, and the Internet of Things, especially in traditional sectors, such as healthcare, government, and defense.

Higher industry demand in the mass spectrometry market

Growth in GVT's life sciences segment was mainly driven by increased mass production of mass spectrometers subsequent to receiving customers' qualifications, on the back of higher industry demand.

The European Pharmaceutical Review forecasted that the global mass spectrometry market will grow at a CAGR of 6.24%, from a value of US\$4.48 billion in 2020 to US\$7.3 billion by 2028. According to Thermo Fisher Scientific, a key player in the mass spectrometry market, mass spectrometers are used in areas including proteomics, drug discovery, clinical testing, genomics and vaccine production and testing. Frost & Sullivan reported that stringent regulations related to environment, food and drug quality has contributed to higher testing activity, which will result in higher demand for faster and more accurate mass spectrometers.

Growth Drivers

Ageing population and rise in minimally invasive procedures

Growth in this segment was mainly driven by strengthening of demand for the electronics segment products and the Group's increased penetration to the medical sector, such as surgical microscope used by neurosurgeons.

Global ageing population is prevalent with birth rates around the world around the world had been facing a decline in the past few decades. According to data from the World Bank, total births per woman dropped from 2.70 in 2000 to 2.40 in 2019. Similarly, Singapore's birth rate dropped from 1.83 in 1990 to 1.10 in 2020. With rising demand for healthcare coupled with higher income and spending power, there would be increasing adoption of surgical microscopes among other medical needs, including for neuro and ENT surgery which would benefit GVT with their current customer base.

According to Grand View Research, the global surgical microscopes market size is expected to rise at a CAGR of 11.1%, to reach USD 2.3 billion by 2028. This is due to the increasing need for ophthalmic procedures, rapid adoption of surgical microscopes in cosmetic surgeries, and new product launches. With the rise in demand for minimally invasive surgeries, which require high levels of precision and accuracy, key market players are focusing on research & development to compete in new product development.

Key Risks

Labour restrictions impeding output

With spike in Covid cases in regional countries, border restrictions have curbed manpower supply, leading to a labour supply crunch. As many of the workers in the Singapore factory come from Malaysia, with Malaysia's extension of lockdown as daily Covid cases remain elevated, we expect Singapore's factory will still see higher manpower costs in the near-term until border restrictions are eased.

Currently, Malaysia factories are taking up around 53% of the Group's total factory size. As the MCO has limited workforce capacity to 60%, many manufacturers in Malaysia are grappling with reduced outputs, as would likely be the case for GVT's production as well. We expect manpower pressures to weigh on production capacity and longer lead times for orders.

Key customer risk and Competition

In FY20, the top 5 customers made up 85.0% (S\$52.2m) of total Group revenue, with each individually contributing over 10%. Customers are leading global players across the semiconductor front-end and back-end equipment, analytical life science instruments, medical, and electronics segments. The Group serves some of the largest OEMs, having 4 of the top 6 semiconductor back-end suppliers as their customers, and they also have 3 in the top 10 analytical life sciences players as customers.

Management commented that some of their closest competitors are:

- (a) Frencken Group Limited
- (b) UMS Holdings Limited

However, Management noted that although they are competitors, each firm has their own product line. In addition, we believe that with GVT's longstanding reputation and relationships with current clients, and the highly niche requirements and customised nature of components, its customer base would likely remain sticky.

TICKER	Market Cap (SGD mil)	P/E (as at 22 July 2021)
AEM HOLDINGS LTD	1,162.17	11.60
UMS HOLDINGS LTD	853.49	20.73
FRENCKEN GROUP LTD	811.30	18.99
MICRO-MECHANICS HOLDINGS LTD	440.73	25.60
ISDN HOLDINGS LTD	319.97	20.92
GRAND VENTURE TECHNOLOGY	311.90	45.79
INNOTEK LTD	202.49	14.44
AVI-TECH ELECTRONICS LTD	68.42	17.00
ASTI HOLDINGS LTD	23.19	10.76
SECTOR AVERAGE	465.96	20.65

Source: Company Data, SAC Capital

Income Statement

S\$'mil	Fiscal Year Ended 31 Dec				
	FY2018A	FY2019A	FY2020A	FY2021E	FY2022E
Revenue	41.0	40.1	61.4	99.4	130.5
Cost of sales	-26.2	-25.2	-42.5	-66.0	-88.3
Gross profit	14.8	14.9	18.9	33.4	42.3
Other income	1.3	0.6	0.5	0.5	0.5
Selling and distribution costs	-0.6	-0.5	-0.5	-0.8	-1.0
General and administrative expenses	-6.9	-8.1	-9.6	-11.9	-16.6
Other operating expenses	-1.7	-2.0	-2.0	-3.3	-4.3
Profit before tax	5.9	3.8	6.0	16.6	19.7
Tax expense	-1.2	-0.7	-0.8	-2.2	-2.7
Profit/(loss) for the year	4.7	3.1	5.2	14.4	17.0

Ratios

	Fiscal Year Ended 31 Dec				
	FY2018A	FY2019A	FY2020A	FY2021E	FY2022E
Profitability (%)					
Gross profit/(loss) margin	36.2	37.2	30.8	33.6	32.4
Profit/(loss) before tax margin	14.4	9.6	9.8	16.7	15.1
Liquidity (x)					
Current ratio	1.1	1.5	1.9	2.8	3.1
Quick ratio	0.6	0.8	1.1	1.9	2.1
Interest coverage ratio	7.3	4.5	5.2	14.0	17.1
Net Debt to Equity (%)	136.5	65.7	87.4	12.2	2.1
Valuation (x)					
P/E	38.3	76.2	45.8	21.7	18.3
P/B	11.2	7.5	6.5	4.2	3.4
EV/EBITDA	31.2	33.6	24.3	12.3	10.2
Cash Conversion Cycle					
Trade receivable days	85	118	106	72	61
Inventory days	148	228	180	127	105
Trade payable days	150	155	113	80	66
CCC days	82	191	173	119	99

Balance Sheet

S\$'mil	Fiscal Year Ended 31 Dec				
	FY2018A	FY2019A	FY2020A	FY2021E	FY2022E
Property, plant and equipment	24.1	34.7	43.3	57.0	64.5
Intangible assets	2.1	2.0	2.0	2.0	2.0
Prepayment	0.3	0.6	0.0	0.0	0.0
Deferred tax assets	1.2	1.1	1.0	1.0	1.0
Total non-current assets	27.6	38.4	46.4	60.1	67.6
Cash and bank balances	2.5	5.8	7.5	26.6	30.2
Trade and other receivables	9.6	13.0	17.9	19.7	21.6
Prepayments	1.1	0.7	1.7	1.7	1.7
Inventories	10.6	15.7	20.9	23.0	25.3
Total current assets	23.7	35.2	48.0	71.0	78.9
Total assets	51.3	73.6	94.4	131.0	146.5
Loans and borrowings	14.1	14.2	29.1	26.2	23.6
Lease liabilities	0.0	3.9	3.4	4.7	5.2
Others	0.0	0.0	0.2	0.2	0.2
Total non-current liabilities	14.1	18.1	32.8	31.2	29.0
Trade and other payables	10.8	10.7	13.2	14.5	16.0
Loans and borrowings	10.3	12.3	10.6	9.5	8.6
Lease liabilities	0.0	0.7	0.7	0.8	0.8
Others	0.1	0.3	0.3	0.3	0.3
Total current liabilities	21.2	24.0	24.8	25.1	25.6
Total liabilities	35.3	42.1	57.5	56.3	54.7
Share Capital	15.4	27.8	27.8	51.3	51.3
Currency translation reserve	-0.9	-1.0	-0.9	-0.9	-0.9
Retained earnings	1.6	4.7	9.9	24.3	41.3
Total equity	16.1	31.5	36.9	74.8	91.8
Total liabilities and equity	51.3	73.6	94.4	131.0	146.5

Cash Flows Statement

S\$'mil	Fiscal Year Ended 31 Dec				
	FY2018A	FY2019A	FY2020A	FY2021E	FY2022E
Cash flows from operating activities					
Profit/(loss) before tax	5.9	3.8	6.0	16.6	19.7
Depreciation and amortisation	3.7	4.8	6.7	8.2	10.0
Interest expense	0.0	0.0	0.0	0.0	0.0
Interest income	0.9	1.1	1.4	1.3	1.2
Unrealised forex gain	-0.1	-0.2	-0.1	0.0	0.0
Others	0.1	0.0	0.2	0.0	0.0
OCF before changes in working capital	10.5	9.5	14.3	26.1	30.9
Changes in working capital	-2.5	-8.8	-8.3	-2.6	-2.8
Income taxes paid	-0.7	-0.6	-0.7	-2.2	-2.7
Interest received	0.0	0.0	0.0	0.0	0.0
Interest paid	-0.9	-1.3	-1.4	-1.3	-1.2
Net cash from operating activities	6.3	-1.2	4.0	20.1	24.2
Cash flows from investing activities					
Purchase of PPE	-5.2	-6.0	-7.4	-15.1	-10.9
PPE disposal proceeds	0.0	0.0	0.0	0.0	0.0
Capital expenditure grant received	0.0	0.3	0.1	0.0	0.0
Net cash outflow on acquisition of business	-0.8	0.0	0.0	0.0	0.0
Net cash used in investing activities	-5.9	-5.7	-7.3	-15.1	-10.9
Cash flows from financing activities					
Dividends paid	0.0	0.0	0.0	0.0	0.0
Proceeds from borrowings	5.3	2.1	25.4	3.2	3.2
Repayment of borrowings	-3.3	-2.6	-15.8	-7.2	-6.8
Repayment of hire purchases	-2.5	-2.4	-3.6	-4.4	-5.1
Payment of principal portion of lease liabilities	0.0	-0.3	-0.7	-0.9	-1.0
Proceeds from issuance of shares	1.2	13.2	0.0	23.5	0.0
Others	-0.4	0.5	-0.4	0.0	0.0
Net cash (used in)/from financing activities	0.2	10.5	5.0	14.2	-9.7
Net increase in cash	0.6	3.6	1.6	19.1	3.6
Forex effects	0.0	0.0	0.1	0.0	0.0
Beginning cash	1.2	1.8	5.4	7.1	26.2
Ending Cash	1.8	5.4	7.1	26.2	29.9

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