

Grand Venture Technology Limited

13 August 2021

HOLD
(Downgrade)

Price: S\$1.230 (as at 12 August 2021)

Target Price: S\$1.300 (+5.7%)

BBG	GVTL SP
Market cap	S\$376.1 million
Price (12 August 2021)	S\$1.230
52-week range	S\$0.245 – S\$1.340
Target Price	S\$1.300
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 (06/21)	5.5x
Net Debt to EBITDA (12/20)	2.3x

Source: Company data, Bloomberg, SAC Capital

Analyst

Lim Li Jun Tracy +65 6232 3239

tlim@saccapital.com.sg

Growth in all segments

1H revenue almost doubled. The Group recorded a 98.9% yoy increase in 1HFY21 revenue from S\$26.9m to S\$53.5m, which made up 87.2% of total FY20 revenue. Net profit was up 3.8x, from S\$2.2m to S\$8.5m, pulled up by a growing share of customers. Demand in all 3 segments were strong, with semiconductor segment seeing strongest growth again (+72.6% to S\$38.9m), life sciences segment (+15.4% to S\$8.3m) and electronics, medical and others (+12.0% to S\$6.4m).

Malaysia's Movement Control Order, however, restricted some operations in Penang during 1H. As some states of Malaysia, including Penang, moves out of MCO towards their National Recovery Plan, we expect operations will improve.

Expanded Malaysia facility. The Penang factory bought in March is expected to add ~38% to Malaysia capacity and ~20% to total capacity, which we expect will contribute gradually from 4Q. We continue to expect higher ROIC for the coming 2 FYs, from the 9.1% figure in FY20, especially seeing that orderbook is strong and limiting factor lies in production capacity.

Maintained our FY21 and FY22 topline estimates. Bottomline estimates see marginal adjustments (+0.4% and +5.2% respectively) with lower forecasted expenses (SG&A costs) considering the high fixed cost nature, but accounting for higher effective tax rates (to 18% from 13.5%) going forward. GVT also announced its first payout of a 0.5 cents/share interim dividend.

Downgrade to HOLD, at fair value of S\$1.30. Our DCF-derived target price translates into a FY21E/FY22E P/E of 27.5x and 22.2x respectively. Our target price implies a 5.7% upside to the last traded price. We noted that GVT's P/E is higher than average, but we see potential in its growth with the placement proceeds (net S\$23.5m) and support from Novo Tellus, its strong customer base and its differentiated capabilities. We are also cautious of Malaysia's elevated Covid cases, Singapore's manpower supply crunch, and China's resurgence of cases in some cities which may cause supply chain disruptions.

Key Risks: Supply chain disruptions, key customer risks

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	18.9	23.5
Net profit (S\$m)	4.7	3.1	5.2	14.5	17.9
Basic EPS (S cents)	2.67	1.34	2.23	4.73	5.86
Dividend per share (S cents)	-	-	-	0.50	0.95
Net cash / (debt)	(16.3)	(15.7)	(32.2)	(9.8)	(3.2)
Valuation					
EBIT margin (%)	16.6	12.3	12.1	19.0	18.0
ROIC (%)	14.8	7.2	9.1	18.0	20.1
EV/EBITDA (x)	37.3	40.2	28.8	14.2	11.4
P/E (x) *	46.1	91.8	55.2	26.0	21.0
Dividend yield (%)	-	-	-	0.4	0.8

* Based on weighted average shares at that period.

Investment Summary

1H revenue almost doubled

Revenue (\$m)	1H21	1H20
Semi-conductor	38.9	18.2
Life sciences	8.3	5.1
Electronics, medical & others	6.4	3.6
Total	53.5	26.9

Source: Company data

The Group recorded a 98.9% yoy increase in 1HFY21 revenue from S\$26.9m to S\$53.5m, which made up 87.2% of total FY20 revenue. Net profit was up 3.8x, from S\$2.2m to S\$8.5m, pulled up by a growing share of customers.

Demand in all 3 segments were strong, with semiconductor segment seeing strongest growth again (+72.6% to S\$38.9m) in line with the global high demand and shortage of semiconductor chips. Life sciences segment (+15.4% to S\$8.3m) was driven by increased mass production of mass spectrometers subsequent to receiving customers' qualifications, and the higher industry demand for such equipment. The last segment, electronics, medical and others (+12.0% to S\$6.4m) with higher demand for electronics products and an increased penetration to the medical sector.

Group gross margin increased to 33.1% in 1H, from 29.8% a year ago, mainly due to improved capacity utilization from last year's restricted measures which led to factories shutting down and supply chain disruptions. Malaysia's Movement Control Order (MCO) however, restricted some operations in Penang during 1H. As some states of Malaysia, including Penang, moves out of MCO towards their National Recovery Plan (NRP), we expect operations will improve.

Expanded Malaysia facility, expected to add ~20% to total capacity

GVT allocated S\$8.0m of placement proceeds (net S\$23.5m) towards capex, which they had used to buy a Penang factory in March, adding ~38% to Malaysia capacity and ~20% to total capacity across all 3 countries. 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 + 65,076 sq ft* floor area	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

We continue to expect higher ROIC at least for the coming 2 FYs, from the 9.1% figure in FY20, especially seeing that orderbook is strong and limiting factor lies in production capacity.

Investment Summary

Growing capabilities

Given their competencies in ultra precision machining and advanced materials machining, GVT is expanding its 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. Given the challenging technologies required, less competition can be anticipated.

Strong and sticky customer base

Given its customers' market share and presence, solid market demand is expected to translate to firmer topline. 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 also said that cross-selling opportunities are present, within and across industry verticals.

Downgrade to HOLD, at fair value of S\$1.30.

Our DCF-derived target price translates into a FY21E/FY22E P/E of 27.5x and 22.2x respectively. Our target price implies a 5.7% upside to the last traded price.

We maintained our FY21 and FY22 topline estimates. Bottomline estimates see marginal adjustments (+0.4% and +5.2% respectively) with lower forecasted expenses (selling, distribution, and general and administrative costs) considering the high fixed cost nature, but accounting for higher effective tax rates (to 18% from 13.5%) going forward. GVT also announced its first payout of a 0.5 cents/share interim dividend.

We expect strong demand in all segments will continue, with the global semiconductor super cycle, higher demand in the mass spectrometry market amid higher testing activity, and the increased penetration into the medical sector. Higher vaccination rates are pointing to less restrictive border measures. However, we are still cautious of Malaysia's elevated Covid cases, Singapore's manpower supply crunch, and China's resurgence of cases in some cities which may cause supply chain disruptions.

We noted that GVT's P/E is higher than average, but we see potential in its growth with the placement proceeds (net S\$23.5m) and support from Novo Tellus, its strong customer base and its differentiated capabilities.

TICKER	Market Cap (SGD mil)	P/E (as at 12 Aug 2021)
AEM HOLDINGS LTD	1,150.89	15.71
UMS HOLDINGS LTD	938.84	22.80
FRENCKEN GROUP LTD	922.33	16.70
MICRO-MECHANICS HOLDINGS LTD	446.29	25.93
GRAND VENTURE TECHNOLOGY	376.11	28.29
ISDN HOLDINGS LTD	350.45	19.76
INNOTEK LTD	209.36	14.93
AVI-TECH ELECTRONICS LTD	70.13	17.43
ASTI HOLDINGS LTD	23.19	10.76
SECTOR AVERAGE	498.62	19.14

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	-1.2
General and administrative expenses	-6.9	-8.1	-9.6	-11.5	-13.8
Other operating expenses	-1.7	-2.0	-2.0	-2.7	-4.2
Profit before tax	5.9	3.8	6.0	17.6	22.1
Tax expense	-1.2	-0.7	-0.8	-3.2	-4.2
Profit/(loss) for the year	4.7	3.1	5.2	14.5	17.9

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	17.7	16.9
Liquidity (x)					
Current ratio	1.1	1.5	1.9	2.8	3.0
Quick ratio	0.6	0.8	1.1	1.9	2.0
Interest coverage ratio	7.3	4.5	5.2	14.8	16.3
Net Debt to Equity (%)	136.5	65.7	87.4	13.4	3.6
Valuation (x)					
P/E	46.1	91.8	55.2	26.0	21.0
P/B	13.5	9.0	7.8	5.1	4.3
EV/EBITDA	37.3	40.2	28.8	14.2	11.4
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	56.3	62.4
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	0.7	0.7
Total non-current assets	27.6	38.4	46.4	59.0	65.1
Cash and bank balances	2.5	5.8	7.5	25.9	29.0
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	70.3	77.6
Total assets	51.3	73.6	94.4	129.3	142.7
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	-1.1	-1.1
Retained earnings	1.6	4.7	9.9	22.8	37.8
Total equity	16.1	31.5	36.9	73.1	88.1
Total liabilities and equity	51.3	73.6	94.4	129.3	142.7

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	17.6	22.1
Depreciation and amortisation	3.7	4.8	6.7	8.2	9.8
Interest expense	0.0	0.0	0.0	0.0	0.0
Interest income	0.9	1.1	1.4	1.3	1.4
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	27.1	33.4
Changes in working capital	-2.5	-8.8	-8.3	-2.6	-2.8
Income taxes paid	-0.7	-0.6	-0.7	-3.2	-4.2
Interest received	0.0	0.0	0.0	0.0	0.0
Interest paid	-0.9	-1.3	-1.4	-1.3	-1.4
Net cash from operating activities	6.3	-1.2	4.0	20.1	24.9
Cash flows from investing activities					
Purchase of PPE	-5.2	-6.0	-7.4	-14.3	-9.3
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	-14.3	-9.3
Cash flows from financing activities					
Dividends paid	0.0	0.0	0.0	-1.5	-2.9
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	12.7	-12.6
Net increase in cash	0.6	3.6	1.6	18.5	3.0
Forex effects	0.0	0.0	0.1	0.0	0.0
Beginning cash	1.2	1.8	5.4	7.1	25.6
Ending Cash	1.8	5.4	7.1	25.6	28.6

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