

Grand Venture Technology (GVTL SP)

Not Rated

Recovery On The Cards

- Earnings turnaround play.** We see Grand Venture Technology as an earnings recovery play. Its FY23 net profit fell on a slowdown in the back-end semiconductor and electronics sectors, along with margin compression due to lower utilisation. The semiconductor sector is expected to pick up towards 2025, driven by a recovery in both front- and back-end segments. Meanwhile, GVTL's orders from key customers are improving, along with a new shipment of high-bandwidth memory-testing equipment to a key back-end customer. It has also guided for strong FY24 revenue growth of 33-39% YoY.
- Growth driven by new capacity, customers and value proposition.** GVTL recently commissioned its new Penang facility, which will enable it to increase production and sales to new front-end customers. It has also onboarded new back-end and front-end customers in the metrology, inspection, etch and wafer deposition sectors. GVTL will look to expand its services by offering more complex parts and components such as advanced packaging projects. It has already developed advanced materials machining capabilities in-house, and deepened traction with a life sciences customer.
- Semiconductor equipment sector expected to grow into 2025.** According to Semiconductor Equipment and Materials International (SEMI), global sales of total semiconductor manufacturing equipment by original equipment manufacturers (OEMs) are forecasted to reach a record USD109bn in 2024. This is expected to continue into 2025, reaching USD128b (+17% YoY) – driven by both front- and back-end segments. We see a gradual recovery in 2024 before a more pronounced rebound takes place in 2025. Longer-term semiconductor equipment demand should be driven by ongoing technological and innovations in artificial intelligence (AI) applications, data centres, high-performance computing, and automotive electrification.
- Results highlights.** 1H24 PAT grew 27% YoY to SGD4.3m on the back of SGD68m in revenue (+27% YoY). The revenue growth was driven by the semiconductor segment, where turnover surged by 32% YoY to SGD34m. Revenue of its electronics, aerospace, medical & others (abbreviated to EAMO) segment surged 32% YoY to SGD24m, with SGD4m contributed by newly acquired ACP Metal Finishing (ACP). Meanwhile, its life sciences segmental revenue grew 4% YoY to SGD10m. GPM expanded by 1.3ppt to 26.4%, led by the EAMO business. NPM remained flat at 6.3%. GVTL is guiding for FY24 revenue to be SGD148-154m, representing 33-39% YoY growth.
- Key risks.** Key downside risks include a later-than-expected demand recovery, which will pose downside risks to our earnings recovery thesis.

Fair Value (Return):	N/A
Price:	SGD0.56
Market Cap:	USD147m
Avg Daily Turnover (SGD/USD)	0.06m/0.04m

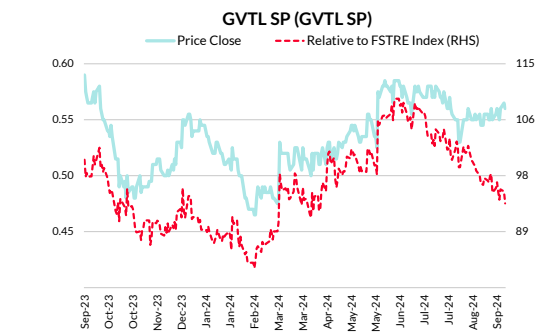
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	2.8	0.0	(4.3)	10.9	(6.7)
Relative	4.3	(9.7)	(17.8)	(0.1)	(7.4)
52-wk Price low/high (SGD)				0.47	–0.59



Source: Bloomberg

Forecasts and Valuation	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
Total turnover (SGDm)	40	61	116	131	111
Recurring net profit (SGDm)	3	5	18	13	6
Recurring net profit growth (%)	(33.9)	74.2	225.4	(24.1)	(58.4)
Recurring P/E (x)	36.80	24.15	8.50	13.38	34.20
P/B (x)	4.1	3.6	1.6	1.6	1.6
P/CF (x)	na	32.95	48.16	13.28	12.10
Dividend Yield (%)	na	na	2.0	1.1	0.2
EV/EBITDA (x)	13.53	11.32	4.73	6.77	9.53
Return on average equity (%)	13.0	15.8	24.8	12.0	4.7
Net debt to equity (%)	65.7	87.4	net cash	23.6	25.2

Source: Company data, RHB

Note:

Small cap stocks are defined as companies with a market capitalization of less than USD0.5bn.

19 September 2024

Industrials | Machinery-Diversified

Financial Exhibits

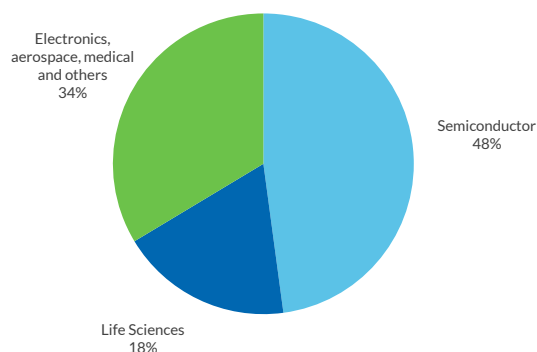
Asia	Financial summary (SGD)	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
Singapore	Recurring EPS	0.02	0.02	0.07	0.04	0.02
Industrials	DPS	-	-	0.01	0.01	0.00
Grand Venture Technology	BVPS	0.14	0.16	0.35	0.35	0.35
GVTL SP	Return on average equity (%)	13.0	15.8	24.8	12.0	4.7
Not Rated						
Valuation basis	Valuation metrics	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
N/A	Recurring P/E (x)	36.80	24.15	8.50	13.38	34.20
	P/B (x)	4.1	3.6	1.6	1.6	1.6
	FCF Yield (%)	(6.3)	(2.7)	(8.8)	2.1	2.9
Key drivers	Dividend Yield (%)	-	-	2.0	1.1	0.2
An anticipated pick-up in the semiconductor sector.	EV/EBITDA (x)	13.53	11.32	4.73	6.77	9.53
	EV/EBIT (x)	26.78	21.27	6.58	12.60	26.05
Key risks	Income statement (SGDm)	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
Later-than-expected increase in demand again, which will pose downside risks to its earnings recovery.	Total turnover	40.1	61.4	116.3	131.1	111.3
	Gross profit	14.9	18.9	37.7	35.8	27.8
	EBITDA	9.8	14.3	31.5	30.2	23.0
	Depreciation and amortisation	(4.8)	(6.7)	(8.8)	(14.0)	(14.6)
	Operating profit	4.9	7.6	22.6	16.2	8.4
	Net interest	(1.1)	(1.4)	(1.7)	(2.4)	(2.3)
	Pre-tax profit	3.8	6.2	20.9	13.9	6.1
	Taxation	(0.7)	(0.8)	(3.3)	(0.6)	(0.5)
	Reported net profit	3.1	5.4	17.6	13.3	5.5
	Recurring net profit	3.1	5.4	17.6	13.3	5.5
Company Profile	Cash flow (SGDm)	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
Grand Venture Technology is engaged in the precision manufacturing of complex precision machining, sheet metal components and mechatronic modules. It has manufacturing plants in Singapore, Penang and Johor in Malaysia, and in Suzhou, China.	Change in working capital	(8.8)	17.6	(26.1)	(20.5)	(3.9)
	Cash flow from operations	(1.2)	4.0	3.1	13.4	15.7
	Capex	(6.0)	(7.4)	(16.3)	(9.7)	(10.2)
	Cash flow from investing activities	(5.7)	(7.3)	(16.0)	(15.8)	(9.7)
	Dividends paid	(14.0)	0.0	(1.3)	(2.7)	(1.0)
	Cash flow from financing activities	10.5	5.0	51.8	(19.9)	(9.5)
	Cash at beginning of period	2.5	5.8	7.5	46.3	23.1
	Net change in cash	3.6	1.6	38.9	(22.3)	(3.6)
	Ending balance cash	6.0	7.5	46.5	23.3	19.2
	Balance sheet (SGDm)	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
	Total cash and equivalents	5.8	7.5	46.3	23.1	19.1
	Tangible fixed assets	30.2	43.3	56.4	84.4	83.5
	Total assets	73.6	94.4	182.9	204.1	203.4
	Short-term debt	12.3	10.6	16.3	18.7	20.8
	Total long-term debt	14.2	29.1	29.6	32.3	28.2
	Total liabilities	42.1	57.5	78.3	86.0	84.8
	Total equity	31.5	36.9	104.6	118.1	118.6
	Total liabilities & equity	73.6	94.4	182.9	204.1	203.4
	Key metrics	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
	Revenue growth (%)	(2.3)	53.2	89.3	12.8	(15.1)
	Recurrent EPS growth (%)	(42.9)	52.3	184.1	(36.5)	(60.9)
	Gross margin (%)	37.2	30.8	32.4	27.3	25.0
	Operating EBITDA margin (%)	24.4	23.4	27.1	23.0	20.7
	Net profit margin (%)	7.7	8.8	15.1	10.2	5.0
	Dividend payout ratio (%)	0.0	0.0	18.8	15.3	6.1
	Capex/sales (%)	15.0	12.1	14.0	7.4	9.2
	Interest cover (x)	4.52	5.36	13.07	6.90	3.59

Source: Company data, RHB

Company Details

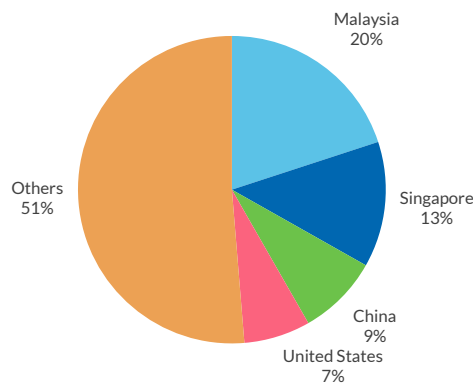
GVTL is involved in the precision manufacturing of complex precision machining, sheet metal components and mechatronics modules with manufacturing plants in Singapore, Penang and Johor in Malaysia, as well as Suzhou, China. Customers include OEMs from the semiconductor, electronics, analytical life sciences, aerospace, medical and industrial automation industries.

Figure 1: Revenue by segment (FY23)



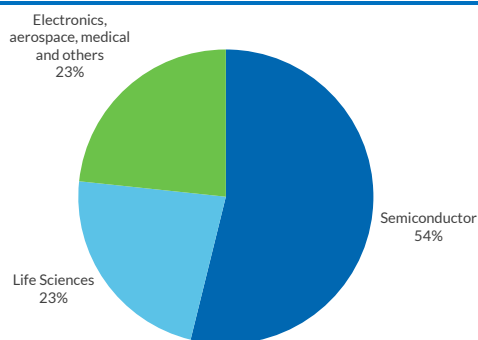
Source: Company data

Figure 2: Revenue by geography (FY23)



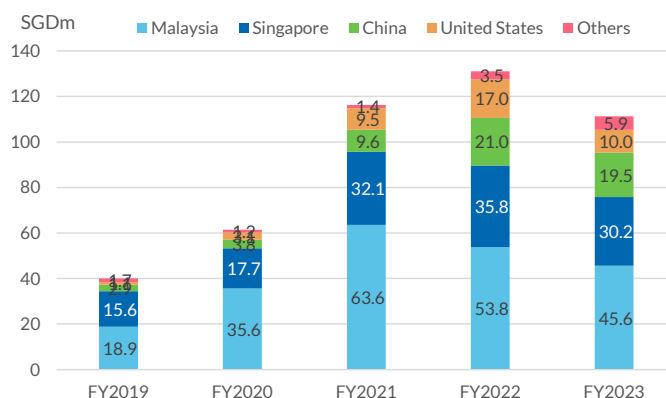
Source: Company data

Figure 3: Gross profit by segment (FY23)



Source: Company data

Figure 4: Revenue by geography



Key business segments. GVTL’s business is mainly divided into three segments: i) Semiconductors, ii) life sciences, and iii) EAMO.

The semiconductor segment manufactures precision machined components, complex sheet metal and mechatronics assembly for customers that are leading chip manufacturing and electronics assembly solutions equipment providers. Key customers include front- and back-end equipment players – BE Semiconductor Industries, Teradyne, Kulicke & Soffa, SAM Engineering & Equipment (SEQB MK, NR). Its life sciences segment manufactures key components of mass spectrometers, high-performance liquid chromatography instruments and bolt-on instruments, for laboratory testing and pharmaceutical applications. Finally, its EAMO division manufactures and assembles consumable parts for commercial aircraft carriers, surgical microscopes and complex modules for industrial automation and equipment manufacturing customers. Customers for life sciences aerospace and others segments include SCIEX, Thermo Fisher Scientific, Safran, and ASMPT.

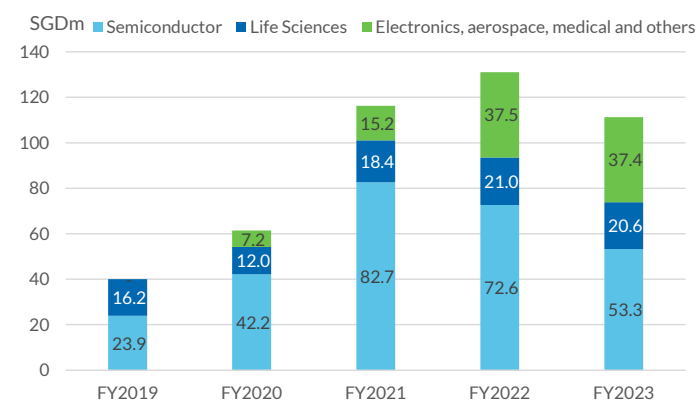
GVTL’s key segment remains its semiconductor unit, which accounts for over 50% of revenue and gross profit. As such, a key revenue driver would be increased demand for semiconductor front-end and back-end processes and equipment. Longer-term drivers of semiconductor equipment would be complex AI chips and the shift towards 2.5D and 3D dynamic random access memory or DRAM technology, which will create new demand for new and advanced testing equipment. These, in turn, drive retooling needs – which GVTL will be a beneficiary of.

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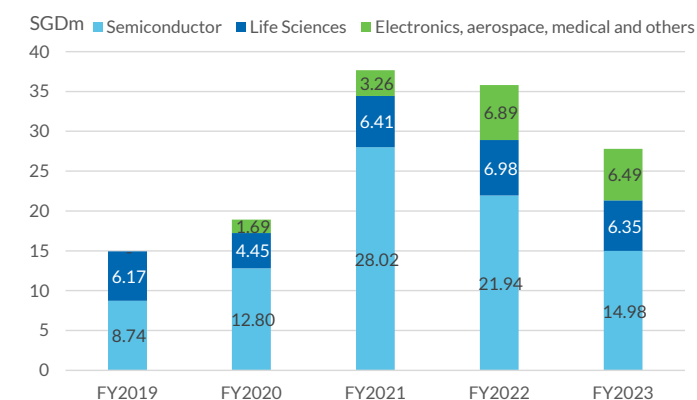
The revenue driver for life sciences and aerospace segments would be increased end-demand for medical equipment such as spectrometers, surgical microscopes, and a ramp-up in air travel and demand for aircraft landing gear systems.

Figure 5: Revenue by segment



Source: Company data

Figure 6: Gross profit by segment



Source: Company data

Valuation

Trading at <1x PEG, based on current growth momentum. GVTL is expected to deliver a stronger 2H24, with an earnings turnaround for FY24F. Annualising FY24F earnings from 1H24, earnings are estimated to be at c.SGD9m (+62% YoY). Based on Bloomberg data, the stock currently trades at c.20x FY24F P/E while its 2-year earnings growth CAGR is at 56%, ie from SGD5.5m in FY23 to SGD13.5m in FY26F. This translates into an attractive PEG of <1x. We include Singapore listed technology players as peers. GVTL is trading at a discount to its peer average of 22.8x, based on FY24F P/E.

Figure 7: Peer comparison

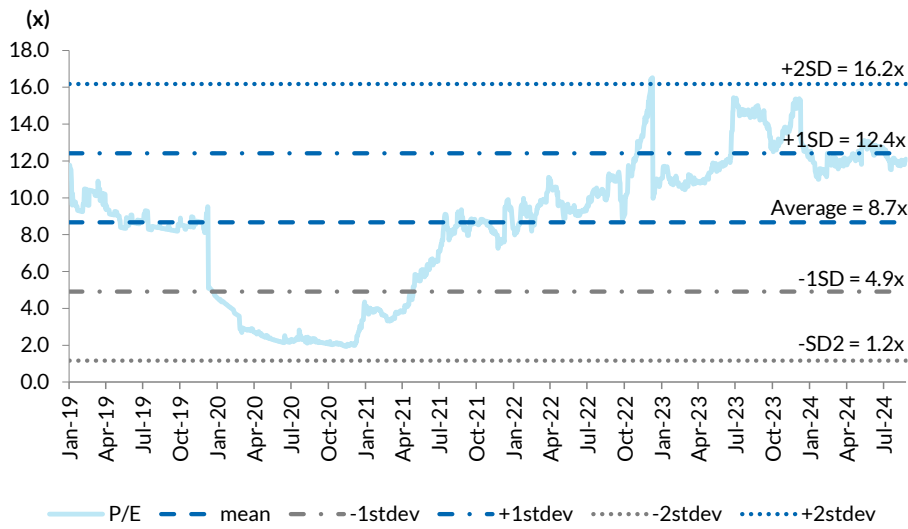
Company	Market Cap (USDm)	Px Last	P/E (Act)	P/E (Yr1)	P/E (Yr2)	ROE (%)	Operating Margin (%)	Net Margin (%)	Dividend Yield (%)	Net Gearing (x)
Grand Venture Tech	147	0.56	34.2x	20.0x	14.0x	5%	8%	5%	0.2%	25.2%
UMS Integration	571	1.04	14.2x	17.6x	14.9x	13%	23%	20.0%	5.4%	Cash
Frencken Group	416	1.26	16.8x	12.5x	11.0x	10%	8%	5.7%	1.8%	Cash
AEM Holdings	324	1.34	n/a	44.7x	12.4x	(4%)	3%	(0.3%)	n/a	5.2%
Micro-Mechanics	169	1.57	27.1x	n/a	n/a	17%	20%	13.9%	3.8%	Cash
ISDN Holdings	102	0.30	31.7x	16.4x	11.8x	2%	8%	1.4%	0.9%	9.2%
Avi-Tech	34	0.26	15.5x	n/a	n/a	5%	9%	11.2%	5.9%	Cash
Average			21.1x	22.8x	12.5x	7%	11.9%	8.7%	3.6%	7.2%

Note: All forward data/forecasts are from Bloomberg except for FRKN

Source: Bloomberg, RHB

Dividends. GVTL has not paid any dividend until FY21 – that year, it declared DPS of 1 SG cent for the full year and 0.6 SG cents for FY22. The dividend payout ratio amounted to 15-18% for both years. In FY23, a 0.1 SG cent final dividend was declared, which implied a 6% payout ratio. We believe dividends declared will be down to profitability, since it does not have a fixed pattern of dividend payments.

Figure 8: GVTL's historical forward P/E mean



Source: Bloomberg

Recommendation Chart



Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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