

MANUFACTURING

Grand Venture Technology builds diversified customer base to capture growth segments

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Grand Venture Technology (GVT), a provider of manufacturing solutions and services, has become part of a larger group of companies receiving investment from private equity firm Novo Tellus Capital Partners in recent months, each taking up different parts of the broader electronics manufacturing ecosystem.

Novo Tellus, led by managing director Loke Wai San, holds 29.6% of GVT, after completing an initial placement of about 71.5 million new shares at 33 cents, as well as a purchase of 19 million shares held by former majority shareholder Metalbank. Loke, who is also chairman of **AEM Holdings**, has been on an acquisition spree of sorts in recent months. Besides the Novo Tellus investment in GVT, AEM has also made an offer to buy over CEI at \$1.15 per share, valuing the printed circuit board maker at \$99.7 million. The offer will close on April 26 but with around a 70% acceptance rate as of March 29, it has already turned unconditional.

In addition, Novo Tellus joined hands with Koh Boon Hwee, chairman of Sunningdale Tech to privatise the company in a deal that values it at \$317.8 million. Earlier, Novo Tellus had also taken an 8.53% stake in precision parts maker **ISDN Holdings**, and on March 15, it made a partial offer to take its stake in IT products distributor and reseller **Procurri Corporation** to 51%.

According to GVT, the bulk of the new capital from Novo Tellus will be used for possible M&As that are complementary to its existing business or to beef up areas where it can grow more quickly. If GVT had chosen to grow organically, it would have taken another few more years. “This is where we have an acquisition target so as to shorten the learning curve. We might also look at a new industry that probably the target is in but we are not, but we are planning to go in,” says Julian Ng, CEO of GVT.

Some of these capabilities, Ng reveals, are in advanced materials, mechatronics and precision assembly capabilities. “All these capabilities we have but we are still in the process of building and fine-tuning it to the stage whereby we can call ourselves a specialist or a craftsman.” According to Ng, these skills can be found in regions like Europe, the US and Japan, but as of now, the goal of GVT is to “help the customers complete their supply-chain ecosystem” and prevent supply-chain disruption in light of the US-China trade war.

Two main revenue streams

GVT has two main customer segments. One is a clearly differentiated semiconductor group while the other is a more diversified group consisting of clients in life sciences, electronics and other industries.

Ng says the two big segments will help GVT capture revenue during the “crisis” and “recovery” phases of the Covid-19 pandemic. The semiconductor segment, riding on the pandemic, enjoys steady growth as people are forced to work from home at the height of the pandemic, driving up demand for electronics.

Meanwhile, GVT's life sciences segment is poised to take advantage of the economic recovery. Specifically, the segment helps make parts and modules for mass spectrometers, which is used for drug discovery and manufacturing, including the manufacture of vaccines.

The mass spectrometers check and ensure the components that go into the drugs and vaccines are made to specifications, and Ng is optimistic that with numerous vaccines in production, there will be a further uptick in demand.

For the FY2020 ended Dec 31, 2020, the semiconductor segment enjoyed a 76.6% jump in revenue to \$42.2 million while the segment consisting of life sciences, electronics and others, reported an 18.8% increase in revenue to \$19.2 million as GVT increased its production activity level, following a series of so-called First Article (FA) approvals by customers in the life sciences industry.

FA approvals determine whether the manufacturing process of a company is capable of consistently delivering parts that conform to specifications. With an FA, the buyer is assured the design requirements have been met and that the supplier's manufacturing process and functional tests are capable of consistently delivering quality parts.

In FY2020, GVT reported earnings rose 68.4% to \$5.2 million from \$3.1 million in FY2019 despite the pandemic. Meanwhile, revenue was up 53.2% y-o-y to \$61.4 million from FY2019's \$40.1 million.

GVT is relatively new to the Singapore Exchange. In 2019, it had raised \$13.2 million in gross IPO proceeds after selling shares at 27.5 cents. As of April 6, the stock closed at 52 cents, valuing the company at about \$159 million.

Supply chain worries

Although Ng says GVT had performed "very well" in FY2020, he is aware that the company faces external pressures, including supply chain disruptions. For example, he points at the global chip shortage that had affected many carmakers, forcing their factories to stop production.

Furthermore, Ng believes that US-China trade tensions have reached a phase where industries such as semiconductor manufacturing are moving to more resilient locations like the US to secure the supply chain and sidestep the disruption.

Although most of GVT's customers come from the US and Europe, Ng says there are no plans for GVT to relocate to these regions as of now. "We are always on the lookout for partners or a target we can partner together. So, probably in the future, we might have a presence in these two regions," he says.

Currently, GVT does not have any Chinese OEM customers. The way Ng sees it, China may have its own locally-made mass spectrometers and analytical tools but they are “not there yet” in terms of quality for now.

However, he does admit that “15 years down the road, I will not dare to say that”.

Nevertheless, Ng says even with the new Biden Administration, the company will have to learn to live with the trade war. “If you look at it in a positive way, there are two markets to serve so you have more choices.” He compares the US and China to two “big brothers” in the world economy. “We just need to make sure that when the other big brother is ready, we are also ready to take on the market. If you wait, you will not have time to enjoy the fruits even if they happen to come close to the US in terms of technical capabilities.” He thinks in another 10 to 15 years, China can close the gap on the US in terms of technical capabilities.

Dividend policy

Since its listing, GVT has yet to pay a dividend. Whatever profits GVT shareholders have enjoyed thus far are capital gains. CFO Robby Sucipto says the company is aware that shareholders look forward to receiving dividends and that the company is reviewing its dividend policy.

However, he adds that as GVT’s business is capital-intensive and it is trying to ramp up its capacity, its priority now is to channel earnings back into the business itself in the form of working capital so that higher demand from customers can be met.

On March 8, the company announced plans to acquire factory space within the Penang Science Park for RM19.4 million (\$6.28 million) to increase its capacity. The property, which has a 60-year-lease, sits on a 74,056 sq ft plot of land with 65,076 sq ft now taken up by the factory’s floor area.

“At the end of the day, it’s how the company creates value. You can give dividends but then it’s gone. Shareholders don’t get anything more,” says Sucipto. “But if you hold on to the money, you can reinvest it into something that is going to help the company grow a lot more.”

In a research report, CGS-CIMB analyst William Tng notes that GVT’s FY2020 earnings came in better than expected. From his previous target price of 36 cents per share, Tng now sees GVT as worth 60.5 cents per share, based on a 3.31x FY2021 P/BV multiple, up from 2.35 times previously.

“We think Grand Venture will continue to invest in its capabilities and production capacity over FY2021–FY2022 in anticipation of strong demand from its

semiconductor and life sciences, medical equipment customers,” says CGS-CIMB’s Tng.

Grand Venture Technology

