

**HLIB Research**

PP 9484/12/2012 (031413)

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**HOLD** (Maintain)

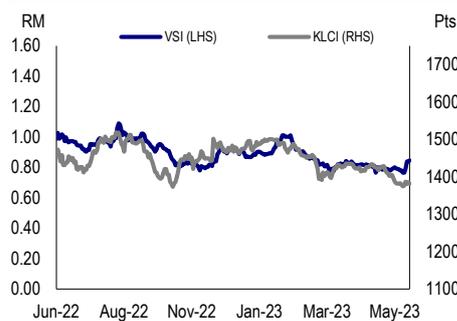
<b>Target Price:</b>	<b>RM0.88</b>
<b>Previously:</b>	<b>RM0.88</b>
<b>Current Price:</b>	<b>RM0.845</b>

Capital upside	4.1%
Dividend yield	3.3%
Expected total return	7.4%

**Sector coverage:** EMS

**Company description:** VSI is one of the top 5

EMS players in Asean, providing vertically integrated manufacturing solutions to MNC across the globe.

**Share price**


<b>Historical return (%)</b>	<b>1M</b>	<b>3M</b>	<b>12M</b>
Absolute	7.6	2.4	-16.3
Relative	10.4	4.1	-11.7

**Stock information**

Bloomberg ticker	VSI MK
Bursa code	6963
Issued shares (m)	3,858
Market capitalisation (RM m)	3,260
3-mth average volume ('000)	3,990
SC Shariah compliant	Yes
F4GBM Index member	Yes
ESG rating	★★★

**Major shareholders**

KWAP	9.0%
Beh Kim Ling	7.7%
Beh Hwee Sze	7.3%

**Earnings summary**

FYE (Jul)	FY22	FY23f	FY24f
PATMI – core (RM m)	202.3	211.7	273.8
EPS – core (sen)	5.2	5.5	7.1
P/E (x)	16.1	15.4	11.9

# V.S. Industry

## Sombre showing

VSI registered 9MFY23's sum to RM142.1m (+20% YoY) which fell behind our/consensus expectations at 67%/70%. Despite the better top line registered YoY, bottom line shrank on the back of (i) drop in EBITDA margin by 3.5ppt from higher electricity, labour and financing cost; and (ii) higher effective tax rate. As guided previously, management expects Customer X, US customer, coffee brewer and pool cleaning customer to chart softer numbers on the back of recessionary fears. Maintain HOLD with unchanged TP of RM0.88, pegged to 16x of FY23 EPS. We reiterate our call in view of the volatile market climate and cautious demand. We remain wary as demands from major brand owners could still be subdued given the recessionary fears and subdued consumer sentiment.

**Missed expectations.** VSI's registered 3QFY23 revenue of RM996.8m (-13% QoQ; +7% YoY), translating into core PATAMI of RM27.8m (-44% QoQ; -36% YoY), which brought 9MFY23's sum to RM142.1m (+20% YoY). This missed expectations at 67%/70% of ours and consensus full year forecasts, respectively. The disappointment was attributable to lower-than-expected top line coupled with EBITDA margin weakness due to uptick in opex. 9MFY23 one-off adjustments include net forex loss of +RM26.4m and gain on disposal of PPE of -RM2.1m.

**Dividend.** Declared third interim dividend of 0.4sen/share (3QFY22: 0.4 sen/share); ex-date on 11 July 2023. YTD DPS amounted to 1.2sen/share vs 9MFY22's 1.2 sen/share.

**QoQ.** Revenue reduced by -13% to RM996.8m dragged by the reduction across Malaysia (-20%), Indonesia (-38%) and China (-12%) that offset the improvement from Singapore (+34%). Core PATAMI recorded decreased of -44% to RM27.8m attributable to decrease in sales from key customers coupled with core EBITDA margin shrank by 1.6ppt.

**YoY/YTD.** Top line grew by +7% YoY/ +18% YTD thanks to uptick in sales from Malaysia (+4% YoY) and Singapore (+44%) despite the drag from Indonesia (-29%) and China (-25%). Indonesia sales were affected from the lower orders received from customers arising from the Hari Raya festive period. While China continue to suffer from challenging environment with absence of large orders that insufficient to cover the fixed cost. Malaysia and Singapore sales benefitted from higher orders from key customers. Despite the top line expansion, bottom line took a different turn with reduction by -36% YoY due to (i) drop in EBITDA margin by 3.5ppt from higher electricity, labour and financing cost; and (ii) higher effective tax rate (3QFY23: 27.6% vs 3QFY22: 23.5%).

**Outlook.** As guided previously, management expects the US customer, coffee brewer and pool cleaning customer to chart softer numbers on the back of recessionary fears. In addition to the risk of downward order revision from these customers, we gather that the order outlook from Customer X are also started to dwindle. What was thought to be the anchor for the group earnings, the outlook is now turning south as the demand for some of Customer X's products started to weakened signs. We gather that, Customer X, US Customer, pool cleaner and coffee brewer are now running at marginally above breakeven point, while Customer Y's plant is severely underutilised.

**Forecast.** Unchanged pending further guidance on analyst briefing slated on 19 June.

Maintain **HOLD** with unchanged TP of **RM0.88**, pegged to 16x of FY23 EPS. We reiterate our call in view of the volatile market climate and cautious demand. We remain wary as demand from major brand owners could still be subdued given the recessionary fears and subdued consumer sentiment.

## Financial Forecast

All items in (RM m) unless otherwise stated

### Income statement

FYE Jul	FY21	FY22	FY23f	FY24f	FY25f
Revenue	4,002.3	3,914.1	4,310.5	4,757.8	5,326.0
COGS	(3,475.0)	(3,509.3)	(3,920.4)	(4,301.1)	(4,798.7)
<b>EBITDA</b>	<b>527.2</b>	<b>404.8</b>	<b>390.1</b>	<b>456.7</b>	<b>527.3</b>
D&A	(101.5)	(121.4)	(101.8)	(101.7)	(101.5)
EBIT	425.8	303.3	288.3	355.1	425.7
Net Interest Income	(7.3)	(9.7)	(15.8)	(4.5)	(4.0)
Associates	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)
<b>PBT</b>	<b>329.1</b>	<b>200.7</b>	<b>271.8</b>	<b>349.9</b>	<b>421.1</b>
Tax	(87.5)	(53.7)	(68.0)	(84.0)	(101.1)
Net Profit	241.6	147.0	203.9	265.9	320.1
MI	3.7	19.8	7.8	7.8	7.8
<b>PATAMI</b>	<b>245.4</b>	<b>166.8</b>	<b>211.7</b>	<b>273.8</b>	<b>327.9</b>
Exceptionals	24.3	35.5	-	-	-
<b>Core PATAMI</b>	<b>269.69</b>	<b>202.3</b>	<b>211.7</b>	<b>273.8</b>	<b>327.9</b>
HLIB/Consensus			84%	90%	96%

### Balance sheet

FYE Jul	FY21	FY22	FY23f	FY24f	FY25f
Cash	402.4	278.6	450.0	468.2	482.8
Receivables	992.1	1,092.3	1,074.7	1,186.2	1,327.8
Inventories	636.5	925.0	966.7	1,060.5	1,183.2
PPE	989.5	1,214.5	1,042.4	1,040.8	1,039.2
Other	577.8	469.8	640.0	640.0	640.0
<b>Assets</b>	<b>3,598.4</b>	<b>3,980.2</b>	<b>4,173.9</b>	<b>4,395.7</b>	<b>4,673.2</b>
Payables	847.0	860.3	955.9	1,048.8	1,170.1
Total debt	404.6	600.1	600.1	600.1	600.1
Other	129.3	158.9	158.9	158.9	158.9
<b>Liabilities</b>	<b>1,380.9</b>	<b>1,619.2</b>	<b>1,714.9</b>	<b>1,807.7</b>	<b>1,929.0</b>
Shareholders' Funds	2,040.5	2,190.3	2,296.2	2,433.1	2,597.0
MI	177.0	170.7	162.8	155.0	147.1
<b>Equity</b>	<b>2,217.5</b>	<b>2,361.0</b>	<b>2,459.0</b>	<b>2,588.0</b>	<b>2,744.1</b>

### Cash Flow Analysis

FYE Jul	FY21	FY22	FY23f	FY24f	FY25f
PBT	329.1	329.1	271.8	349.9	421.1
D&A	101.5	101.5	101.8	101.7	101.5
Working capital	(272.9)	(272.9)	71.6	(112.6)	(143.0)
Taxation	(100.7)	(100.7)	(68.0)	(84.0)	(101.1)
Others	66.9	66.9	-	-	-
<b>CFO</b>	<b>123.9</b>	<b>123.9</b>	<b>377.3</b>	<b>255.0</b>	<b>278.6</b>
Capex	(230.5)	(230.5)	(100.0)	(100.0)	(100.0)
Others	13.6	13.6	-	-	-
<b>CFI</b>	<b>(217.0)</b>	<b>(217.0)</b>	<b>(100.0)</b>	<b>(100.0)</b>	<b>(100.0)</b>
Dividends	(105.7)	(105.7)	(105.9)	(136.9)	(163.9)
Others	189.9	189.9	-	-	-
<b>CFF</b>	<b>84.1</b>	<b>84.1</b>	<b>(105.9)</b>	<b>(136.9)</b>	<b>(163.9)</b>
<b>Net CF</b>	<b>2.6</b>	<b>2.6</b>	<b>171.4</b>	<b>18.2</b>	<b>14.6</b>
Beginning cash	361.2	361.2	278.6	450.0	468.2
Ending cash	402.4	402.4	450.0	468.2	482.8

### Quarterly financial summary

FYE Jul	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Revenue	927.6	1,004.4	1,294.3	1,147.0	996.8
COGS	(831.0)	(936.3)	(1,175)	(1,067)	(927.5)
<b>EBITDA</b>	<b>96.6</b>	<b>68.0</b>	<b>119.3</b>	<b>79.1</b>	<b>69.326</b>
D&A	(30.8)	(31.2)	(31.8)	(30.9)	(30.6)
EBIT	65.7	36.9	87.5	48.2	38.7
Net Interest Income	(2.4)	(3.5)	(6.7)	(9.5)	(7.9)
Associates	(0.4)	0.8	0.0	0.1	0.7
<b>PBT</b>	<b>62.9</b>	<b>34.2</b>	<b>80.9</b>	<b>38.8</b>	<b>31.5</b>
Tax	(14.8)	(12.4)	(21.6)	(11.1)	(8.7)
Net Profit	48.1	21.7	59.3	27.7	22.8
MI	3.2	12.8	1.4	2.6	4.0
<b>PATAMI</b>	<b>51.3</b>	<b>34.6</b>	<b>60.7</b>	<b>30.4</b>	<b>26.8</b>
Exceptionals	(8.2)	47.3	3.6	19.6	1.027
<b>Core PATAMI</b>	<b>43.1</b>	<b>81.9</b>	<b>64.3</b>	<b>50.0</b>	<b>27.8</b>

### Valuation Ratios

FYE Jul	FY21	FY22	FY23f	FY24f	FY25f
Core EPS (sen)	7.0	5.2	5.5	7.1	8.5
P/E (x)	12.1	16.1	15.4	11.9	9.9
EV/EBITDA (x)	6.2	8.8	8.7	7.4	6.4
DPS (sen)	4.2	4.2	2.8	3.6	4.3
Dividend yield (%)	5.0	5.0	3.3	4.2	5.1
BVPS (RM)	0.5	0.6	0.6	0.6	0.7
P/B (x)	1.6	1.5	1.4	1.3	1.2
EBITDA margin	13.2	10.3	9.1	9.6	9.9
EBIT margin	10.6	7.7	6.7	7.5	8.0
PBT margin	8.2	5.1	6.3	7.4	7.9
Net margin	6.7	5.2	4.9	5.8	6.2
ROE (%)	13.2	9.2	9.2	11.3	12.6
ROA (%)	7.5	5.1	5.1	6.2	7.0
Net gearing	0.0	0.1	0.1	0.1	0.0

**Figure #1** Quarterly results comparison

FYE Jul (RM m)	3QFY22	2QFY23	3QFY23	QoQ	YoY	9MFY22	9MFY23	YoY
Revenue	927.6	1,147.0	996.8	-13.1%	7.5%	2,909.7	3,438.1	18.2%
EBITDA	96.6	79.1	69.326	-12.4%	-28.2%	265.0	205.0	-22.6%
EBITDA Margin (%)	10.4%	6.9%	7.0%			9.1%	6.0%	-3.1%
EBIT	65.7	48.2	38.7	-19.7%	-41.1%	174.7	174.5	-0.2%
PBT	62.9	38.8	31.5	-18.9%	-49.9%	167.2	151.2	-9.6%
PAT	48.1	27.7	22.8	-17.7%	-52.6%	128.2	109.8	-14.3%
Reported PATAMI	51.3	30.4	26.8	-11.8%	-47.8%	135.2	117.8	-12.8%
Core PATAMI	43.1	50.0	27.8	-44.4%	-35.5%	118.9	142.1	19.5%
Reported EPS (sen)	1.3	0.8	0.7	-11.8%	-47.8%	3.5	3.1	-12.8%
Core EPS (sen)	1.1	1.3	0.7	-44.4%	-35.5%	3.1	3.7	19.5%

Bursa, HLIB Research

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<b>BUY</b>	Expected absolute return of +10% or more over the next 12 months.
<b>HOLD</b>	Expected absolute return of -10% to +10% over the next 12 months.
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