



AmInvestment Bank

## Company report

## V.S.INDUSTRY

(VSI MK EQUITY, VSID.KL)

16 Jun 2023

Impacted by higher operating expenses

**HOLD**

(Maintained)

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Rationale for Report: Company Result

Price	RM0.85
Fair Value	RM0.80
52-week High/Low	RM1.11/RM0.75

## Key Changes

Fair value	⬇️
EPS	⬇️

YE to Jul	FY22	FY23F	FY24F	FY25F
Revenue (RM mil)	3,914.1	4,310.5	4,740.5	5,072.3
Core net profit (RM mil)	215.3	210.8	226.5	249.4
FD Core EPS (sen)	4.6	4.5	4.8	5.3
FD Core EPS growth (%)	(21.5)	(2.1)	7.4	10.1
Consensus Net Profit (RM mil)	-	202.8	256.2	295.8
DPS (sen)	2.0	1.8	2.6	2.9
PE (x)	18.4	18.8	17.5	15.9
EV/EBITDA (x)	10.5	9.3	8.0	7.3
Div yield (%)	2.4	2.1	3.1	3.4
ROE (%)	8.0	8.5	9.7	10.1
Net Gearing (%)	14.7	4.3	1.1	2.5

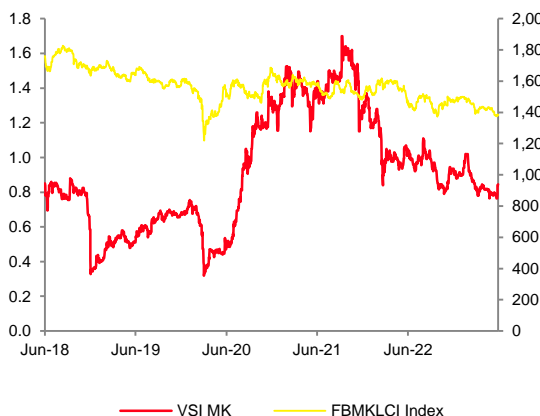
## Stock and Financial Data

Shares Outstanding (million)	3,773.6
Market Cap (RM mil)	3,188.7
Book Value (RM/share)	0.58
P/BV (x)	1.5
ROE (%)	8.0
Net Gearing (%)	14.7

Major Shareholders	Beh Hwee Sze (14.3%)
	KWAP (9.0%)
	Datuk Beh Kim Ling (7.7%)

Free Float	45.6
Avg Daily Value (RM mil)	3.2

Price performance	3mth	6mth	12mth
Absolute (%)	2.4	(9.6)	(16.3)
Relative (%)	4.1	(4.0)	(11.7)



## Investment Highlights

- We maintain our HOLD recommendation on V.S. Industry (VSI) with a lower fair value of RM0.80/share (from RM0.85/share previously) based on CY23F target PE of 15x (Exhibit 3), at parity to its 5-year forward average. We made no adjustment to our neutral 3- star ESG rating.
- VSI's 9MFY23 core net profit of RM135mil generally came in below expectations, accounting for 59% of our earlier FY23F forecast and 67% of the street's estimates. Notably, we have excluded the lumpy RM19.8mil forex loss in 2QFY23 from our core earnings calculation.
- The deviation to our forecast was mainly due to lower-than-expected GPM amid the increase in operating expenses. Hence, we trim our FY23F-FY25F earnings by 7%/7%/8%.
- The group declared a 3rd interim dividend of 0.4 sen/share in 3QFY23, bringing that total dividend for 9MFY23 to 1.2 sen/share (implying a payout of 34% vs 44%-49% in pre-pandemic period).
- The dividend payout falls short of our expectation, accounting for only 50% of our FY23 DPS estimate of 2.4 sen/share (vs 68%-69% during pre-pandemic). Hence, we revised our FY23 DPS projection to 1.8 sen/share with a lower payout assumption of 40% from 50% previously.
- As for now, we maintain our DPS assumptions for FY24F-25F pending management guidance on dividend payout in next Monday's result briefing.
- On a YoY basis, VSI's 3QFY23 revenue increased by 8% to RM997mil, primarily due to higher sales orders from key customers in Malaysia, alongside with the continuous production ramp-up following the arrival of additional migrant workers.
- However, 3QFY23 core earnings halved to RM27mil primarily due to higher electricity surcharges and labour costs. Furthermore, the group's financing costs have increased by 2.4x YoY, as a result of the issuance of RM500mil debt securities under the Sukuk Wakalah programme in Sep 2022.
- On a QoQ basis, VSI's 3QFY23 revenue decreased by 13%, mainly due to lower sales orders. Notably, VSI's revenue has been declining since 1QFY23.

- Consequently, the group 3QFY23 core earnings declined by 47% QoQ. The earnings were further dampened by higher operating costs and higher overheads following under-utilisation of its production lines. This brought the GPM lower by 2ppt QoQ.
- Nevertheless, barring any unforeseen circumstances, sales are expected to gradually improve starting from FY24F, driven by new model launches by its customers (such as US-based Customer and Coffee Brewer) and the restocking of inventories by clients. Most of the customers have delayed new model launches since 2022 due to the challenging macroeconomic environment.
- Meanwhile, one of its key customers has been gradually reducing its reliance on China, which could translate into more orders for VSI and an improvement in utilisation rates of plant capacity.
- With the stock trading at FY24F PE of 17.5x, 17% above its 5-year average of 15x, we see limited upside potential.

## EXHIBIT 1: RESULTS SUMMARY

FYE Dec (RM mil)	3QFY22	2QFY23	3QFY23	QoQ (%)	YoY (%)	9MFY22	9MFY23	YoY (%)
<b>Revenue</b>	<b>927.6</b>	<b>1,147.0</b>	<b>996.8</b>	<b>(13.1)</b>	<b>7.5</b>	<b>2,909.7</b>	<b>3,438.1</b>	<b>18.2</b>
COGS	(834.7)	(1,038.1)	(918.8)	11.5	(10.1)	(2,635.5)	(3,117.2)	(18.3)
<b>Gross profit</b>	<b>92.9</b>	<b>108.9</b>	<b>78.0</b>	<b>(28.4)</b>	<b>(16.0)</b>	<b>274.2</b>	<b>320.9</b>	<b>17.1</b>
Operating expenses	(27.1)	(60.7)	(39.2)	35.3	(44.6)	(99.4)	(146.5)	(47.3)
<b>EBITDA</b>	<b>96.6</b>	<b>79.1</b>	<b>69.3</b>	<b>(12.4)</b>	<b>(28.2)</b>	<b>265.0</b>	<b>267.8</b>	<b>1.0</b>
Depreciation/Amortisation	(30.8)	(30.9)	(30.6)	1.0	0.8	(90.3)	(93.3)	(3.3)
<b>EBIT</b>	<b>65.7</b>	<b>48.2</b>	<b>38.7</b>	<b>(19.7)</b>	<b>(41.1)</b>	<b>174.7</b>	<b>174.5</b>	<b>(0.2)</b>
Net interest	(2.4)	(9.5)	(7.9)	16.5	(>100)	(6.2)	(24.1)	(>100)
Finance expense	(2.8)	(11.4)	(10.6)	6.6	(>100)	(8.4)	(30.2)	(>100)
Finance income	0.4	1.9	2.7	43.6	>100	2.2	6.1	>100
Associates	(0.4)	0.1	0.7	>100	>100	(1.3)	0.9	>100
Profit before tax	62.9	38.8	31.5	(18.9)	(49.9)	167.2	151.2	(9.6)
Tax	(14.8)	(11.1)	(8.7)	22.0	41.3	(39.1)	(41.4)	(5.9)
Minorities	3.2	2.6	4.0	49.5	23.6	7.0	8.0	14.3
<b>PATAMI</b>	<b>51.3</b>	<b>30.4</b>	<b>26.8</b>	<b>(11.8)</b>	<b>(47.8)</b>	<b>135.2</b>	<b>117.8</b>	<b>(12.8)</b>
Exceptional item (Gain (+) / Loss (+))	0.8	(19.6)	0.0	>100	(93.9)	1.5	(17.7)	(>100)
<b>Core PATAMI</b>	<b>50.5</b>	<b>50.0</b>	<b>26.7</b>	<b>(46.6)</b>	<b>(47.1)</b>	<b>133.6</b>	<b>135.5</b>	<b>1.4</b>
FD EPS (sen)	1.3	1.3	0.7	(46.5)	(47.1)	3.5	3.5	1.4
Gross DPS (sen)	0.4	0.3	0.4	33.3	0.0	1.2	1.2	0.0
Gross margin (%)	10.0	9.5	7.8	-1.7ppt	-2.2ppt	9.4	9.3	-0.1ppt
Core PATAMI margin (%)	5.4	4.4	2.7	-1.7ppt	-2.8ppt	4.6	3.9	-0.7ppt
Effective tax rate (%)	23.5	28.7	27.6	-1.1ppt	4.1ppt	23.4	27.4	4.0ppt
<b>Segmental Revenue (RMmil)</b>								
Malaysia	669.5	867.0	693.9	(20.0)	3.6	1,922.2	2,568.6	33.6
Indonesia	83.9	94.9	59.1	(37.7)	(29.5)	252.3	260.0	3.0
China	11.5	9.9	8.6	(12.4)	(24.6)	67.3	31.5	(53.1)
Others	162.8	175.2	235.1	34.2	44.4	667.9	578.0	(13.5)
<b>Segmental PBT (RMmil)</b>								
Malaysia	67.7	39.8	38.9	(2.3)	(42.5)	172.1	156.5	(9.1)
Indonesia	2.4	3.3	(1.4)	(>100)	(>100)	8.5	6.7	(20.6)
China	(6.5)	(5.3)	(8.0)	(51.0)	(23.1)	(15.2)	(16.1)	(6.1)
Others	(0.7)	1.0	2.0	98.7	>100	1.9	4.1	>100
<b>Segmental PBT margin (%)</b>								
Malaysia	8.2	4.6	5.6	1.0ppt	-2.6ppt	6.7	6.1	-0.6ppt
Indonesia	2.8	3.5	(2.4)	-5.9ppt	-5.2ppt	3.4	2.6	-0.8ppt
China	(56.9)	(53.9)	(92.9)	-39.0ppt	-36.0ppt	(22.6)	(51.1)	-28.5ppt
Others	(9.0)	0.6	0.8	0.3ppt	9.9ppt	12.5	0.7	-11.8ppt

Source: AmlInvestment Bank/Bursa Malaysia/VSI

**EXHIBIT 2: VALUATION**

Outstanding share base (mil)	3,773.6
Full conversion of bonus warrants (mil)	761.8
Exercise price (RM)	1.38
Outstanding ESOS (mil)	156.6
Average exercise price (RM)	0.64
<b>Fully diluted share base (mil)</b>	<b>4,692.1</b>
CY23F net profit (RM'mil)	217.3
ESOS & warrants proceeds (RM'mil)	1,151.3
Notional interest income (RM'mil)	34.5
Target P/E(x)	15.0
Fair value (RM'mil)	3,752.9
<b>Fair value/share (RM)</b>	<b>0.80</b>

**EXHIBIT 3: ESG RATING**

<b>Overall</b>	★	★	★		
Energy efficiency	★	★	★		
Recycling & waste management	★	★	★		
Reliance on local suppliers	★	★	★		
Employee wellbeing	★	★	★	★	
Human capital development	★	★	★		
Corporate social responsibility	★	★	★		
Board diversity	★	★	★		
Accessibility & transparency	★	★	★		

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

**EXHIBIT 4: PB BAND CHART**



**EXHIBIT 5: PE BAND CHART**



## EXHIBIT 6: FINANCIAL DATA

Income Statement (RM mil, YE 31 Jul)	FY21	FY22	FY23F	FY24F	FY25F
Revenue	4,002.3	3,914.1	4,310.5	4,740.5	5,072.3
EBITDA	438.6	333.1	352.8	404.3	444.5
Depreciation/Amortisation	(101.5)	(121.4)	(120.2)	(125.5)	(136.1)
Operating income (EBIT)	337.1	211.6	232.6	278.7	308.4
Other income & associates	28.3	45.1	19.3	(0.5)	(0.5)
Net interest	(7.3)	(9.7)	(12.9)	(6.2)	(5.7)
Exceptional items	(28.9)	(45.6)	(19.8)	-	-
<b>Pretax profit</b>	<b>329.1</b>	<b>201.4</b>	<b>219.1</b>	<b>272.0</b>	<b>302.2</b>
Taxation	(87.5)	(51.5)	(48.0)	(65.4)	(72.6)
Minorities/pref dividends	3.7	19.8	19.8	19.8	19.8
<b>Net profit</b>	<b>245.3</b>	<b>169.7</b>	<b>191.0</b>	<b>226.5</b>	<b>249.4</b>
<b>Core net profit</b>	<b>274.3</b>	<b>215.3</b>	<b>210.8</b>	<b>226.5</b>	<b>249.4</b>
Balance Sheet (RM mil, YE 31 Jul)	FY21	FY22	FY23F	FY24F	FY25F
Fixed assets	989.5	1,214.5	1,184.2	1,162.3	1,229.8
Intangible assets	-	-	-	-	-
Other long-term assets	376.4	299.4	298.9	298.4	297.8
<b>Total non-current assets</b>	<b>1,365.9</b>	<b>1,513.9</b>	<b>1,483.0</b>	<b>1,460.6</b>	<b>1,527.6</b>
Cash & equivalent	402.4	278.6	187.5	238.4	190.8
Stock	636.5	925.7	908.5	935.1	998.3
Trade debtors	992.1	1,093.1	1,098.3	1,207.9	1,292.4
Other current assets	201.4	169.8	137.9	-	-
<b>Total current assets</b>	<b>2,232.5</b>	<b>2,467.2</b>	<b>2,332.2</b>	<b>2,381.3</b>	<b>2,481.5</b>
Trade creditors	847.0	860.4	961.9	1,052.0	1,123.1
Short-term borrowings	315.8	476.3	170.0	150.0	140.0
Other current liabilities	37.4	27.0	1.1	1.1	1.1
<b>Total current liabilities</b>	<b>1,200.1</b>	<b>1,363.6</b>	<b>1,133.0</b>	<b>1,203.1</b>	<b>1,264.3</b>
Long-term borrowings	88.9	123.8	115.0	115.0	115.0
Other long-term liabilities	91.9	129.8	128.4	128.4	128.4
<b>Total long-term liabilities</b>	<b>180.8</b>	<b>253.6</b>	<b>243.4</b>	<b>243.4</b>	<b>243.4</b>
<b>Shareholders' funds</b>	<b>2,040.5</b>	<b>2,193.2</b>	<b>2,288.1</b>	<b>2,402.4</b>	<b>2,528.3</b>
Minority interests	177.0	170.7	150.8	131.0	111.1
BV/share (RM)	0.54	0.58	0.61	0.64	0.67
Cash Flow (RM mil, YE 31 Jul)	FY21	FY22	FY23F	FY24F	FY25F
Pretax profit	329.1	201.4	219.1	272.0	302.2
Depreciation/Amortisation	101.5	121.4	120.2	125.5	136.1
Net change in working capital	(581.0)	(484.9)	163.6	3.9	(26.6)
Others	274.2	100.4	(67.2)	(64.9)	(72.1)
<b>Cash flow from operations</b>	<b>123.9</b>	<b>(61.6)</b>	<b>435.7</b>	<b>336.5</b>	<b>339.5</b>
Capital expenditure	(233.3)	(215.1)	(100.0)	(100.0)	(204.6)
Net investments & sale of fixed assets	-	-	-	-	-
Others	-	-	102.7	(53.6)	(49.1)
<b>Cash flow from investing</b>	<b>(233.3)</b>	<b>(215.1)</b>	<b>2.7</b>	<b>(153.6)</b>	<b>(253.6)</b>
Debt raised/(repaid)	157.2	195.5	(315.1)	(20.0)	(10.0)
Equity raised/(repaid)	59.4	12.9	-	-	-
Dividends paid	(105.7)	(84.0)	(76.4)	(112.1)	(123.4)
Others	-	-	-	-	-
<b>Cash flow from financing</b>	<b>110.8</b>	<b>124.4</b>	<b>(391.5)</b>	<b>(132.1)</b>	<b>(133.4)</b>
<b>Net cash flow</b>	<b>12.9</b>	<b>(114.1)</b>	<b>46.9</b>	<b>50.8</b>	<b>(47.5)</b>
<b>Net cash/(debt) b/f</b>	<b>361.2</b>	<b>371.4</b>	<b>274.6</b>	<b>321.5</b>	<b>372.3</b>
<b>Net cash/(debt) c/f</b>	<b>381.8</b>	<b>263.1</b>	<b>321.5</b>	<b>372.3</b>	<b>324.8</b>
Key Ratios (YE 31 Jul)	FY21	FY22	FY23F	FY24F	FY25F
Revenue growth (%)	23.4	(2.2)	10.1	10.0	7.0
EBITDA growth (%)	73.3	(24.1)	5.9	14.6	10.0
Pretax margin (%)	8.2	5.1	5.1	5.7	6.0
Net profit margin (%)	6.1	4.3	4.4	4.8	4.9
Interest cover (x)	46.0	21.8	18.0	44.9	53.9
Effective tax rate (%)	26.6	25.6	21.9	24.0	24.0
Dividend payout (%)	43.1	44.5	35.3	43.7	43.7
Debtors turnover (days)	86	97	93	89	90
Stock turnover (days)	51	81	86	79	77
Creditors turnover (days)	75	89	85	86	87

Source: Company, AmlInvestment Bank Bhd estimates

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