



AmInvestment Bank

Company report

V.S.INDUSTRY

(VSI MK EQUITY, VSID.KL)

20 June 2023

Expect order recovery in 4QFY23

HOLD

(Maintained)

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Rationale for Report: Company Update

Price	RM0.835
Fair Value	RM0.82
52-week High/Low	RM1.11/RM0.75

Key Changes

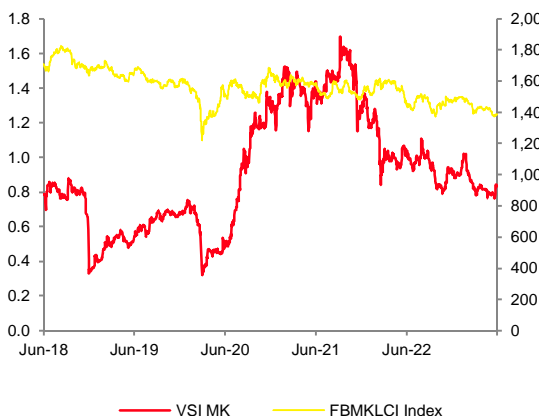
Fair value	i
EPS	i

YE to Jul	FY22	FY23F	FY24F	FY25F
Revenue (RM mil)	3,914.1	4,579.4	5,036.3	5,388.8
Core net profit (RM mil)	215.3	213.1	239.7	264.0
FD Core EPS (sen)	4.6	4.5	5.1	5.6
FD Core EPS growth (%)	(21.5)	(1.0)	12.4	10.1
Consensus Net Profit (RM mil)	-	192.8	249.3	287.5
DPS (sen)	2.0	1.8	2.8	3.1
PE (x)	18.2	18.4	16.3	14.8
EV/EBITDA (x)	10.4	9.3	7.7	7.1
Div yield (%)	2.4	2.2	3.3	3.7
ROE (%)	8.0	8.6	10.2	10.7
Net Gearing (%)	14.7	7.0	3.6	4.8

Stock and Financial Data

Shares Outstanding (million)	3,773.6
Market Cap (RMmil)	3,151.0
Book Value (RM/share)	0.58
P/BV (x)	1.4
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	45.1
Avg Daily Value (RMmil)	3.5

Price performance	3mth	6mth	12mth
Absolute (%)	0.6	(9.7)	(17.3)
Relative (%)	2.4	(3.9)	(13.2)



Investment Highlights

- We maintain HOLD recommendation on V.S. Industry (VSI) with a higher fair value of RM0.82/share (from RM0.80/share previously) due to higher earnings expectations albeit an unchanged 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.
- After yesterday result briefing, we raised FY23F-FY25F earnings forecasts by 1%/6%/6% to account for a rebound in demand from VSI's largest customer.
- We gathered that orders from clients generally remained intact, with Customer X (VSI's largest customer by revenue in 9MFY23) signalling a rebound in demand in its most recent guidance to VSI.
- Hence, barring unforeseen circumstances, revenue and net profit are expected to gradually improve starting from 4QFY23F, further boosted by new model launches by a customer and coffee brewer in US. Notably, most of the customers have delayed new model launches since 2022 due to the challenging macroeconomic environment.
- On top of that, the group is also in the midst of enhancing its value chain by incorporating some in-house processes which were previously outsourced. This is expected to be an earnings-accretive exercise and could be reflected in VSI's bottom line by FY24F. The capex requirement for this exercise is estimated at RM40mil.
- Meanwhile, Customer Y 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.
- Separately, VSI reported yesterday that the group has recently secured a potential customer and is currently in pre-production phase i.e., producing samples for the customer's review prior to order finalisation.
- The customer is a US-based multinational corporation that supplies consumer electronics. The gross profit margin (GPM) of the products that VSI supplies to the customer could exceed the group's 9MFY23 GPM of 9%-10%.
- Although contribution is expected in 1Q-2QFY24F, we have not factored in this development in FY24F-25F revenue, pending an official announcement.
- With the stock trading at FY24F PE of 16.3x, 9% above its 5-year average of 15x, we see limited upside potential.

EXHIBIT 1: VALUATION

Outstanding share base (mil)	3,773.6
Full conversion of bonus warrants (mil)	761.8
Exercise price (RM/share)	1.38
Outstanding ESOS (mil)	156.6
Average exercise price (RM/share)	0.64
Fully diluted share base (mil)	4,692.1
CY23F net profit (RM'mil)	224.2
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)	3,855.2
Fair value/share (RM)	0.82

EXHIBIT 2: ESG RATING

Overall	★	★	★		
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 3: PB BAND CHART**EXHIBIT 4: PE BAND CHART**

EXHIBIT 5: FINANCIAL DATA

Income Statement (RM mil, YE 31 Jul)	FY21	FY22	FY23F	FY24F	FY25F
Revenue	4,002.3	3,914.1	4,579.4	5,036.3	5,388.8
EBITDA	438.6	333.1	355.8	421.6	463.7
Depreciation/Amortisation	(101.5)	(121.4)	(120.2)	(125.5)	(136.1)
Operating income (EBIT)	337.1	211.6	235.6	296.1	327.6
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)	-	-
Pretax profit	329.1	201.4	222.2	289.4	321.4
Taxation	(87.5)	(51.5)	(48.7)	(69.6)	(77.3)
Minorities/pref dividends	3.7	19.8	19.8	19.8	19.8
Net profit	245.3	169.7	193.3	239.7	264.0
Core net profit	274.3	215.3	213.1	239.7	264.0
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
Total non-current assets	1,365.9	1,513.9	1,483.0	1,460.6	1,527.6
Cash & equivalent	402.4	278.6	149.8	204.2	159.3
Stock	636.5	925.7	967.8	993.5	1,060.6
Trade debtors	992.1	1,093.1	1,166.8	1,283.2	1,373.0
Other current assets	6.4	31.9	-	-	-
Total current assets	2,232.5	2,467.2	2,422.3	2,618.8	2,730.9
Trade creditors	847.0	860.4	1,024.7	1,117.6	1,193.2
Short-term borrowings	315.8	476.3	170.0	150.0	140.0
Other current liabilities	37.4	27.0	27.0	27.0	27.0
Total current liabilities	1,200.1	1,363.6	1,221.7	1,294.6	1,360.2
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
Total long-term liabilities	180.8	253.6	243.4	243.4	243.4
Shareholders' funds	2,040.5	2,193.2	2,289.5	2,410.5	2,543.8
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	222.2	289.4	321.4
Depreciation/Amortisation	101.5	121.4	120.2	125.5	136.1
Net change in working capital	(581.0)	(484.9)	98.5	0.9	(31.4)
Others	274.2	100.4	(68.0)	(69.1)	(76.7)
Cash flow from operations	123.9	(61.6)	372.9	346.7	349.3
Capital expenditure	(233.3)	(215.1)	(100.0)	(100.0)	(204.6)
Net investments & sale of fixed assets	-	-	-	-	-
Others	-	-	-	-	-
Cash flow from investing	(233.3)	(215.1)	(100.0)	(100.0)	(204.6)
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)	(77.3)	(118.6)	(130.7)
Others	-	-	-	-	-
Cash flow from financing	110.8	124.4	(392.4)	(138.6)	(140.7)
Net cash flow	12.9	(114.1)	(119.5)	108.1	4.1
Net cash/(debt) b/f	361.2	371.4	274.6	155.2	263.3
Net cash/(debt) c/f	381.8	263.1	155.2	263.3	267.4
Key Ratios (YE 31 Jul)	FY21	FY22	FY23F	FY24F	FY25F
Revenue growth (%)	23.4	(2.2)	17.0	10.0	7.0
EBITDA growth (%)	73.3	(24.1)	6.8	18.5	10.0
Pretax margin (%)	8.2	5.1	4.9	5.7	6.0
Net profit margin (%)	6.1	4.3	4.2	4.8	4.9
Interest cover (x)	46.0	21.8	18.3	47.7	57.2
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	90	89	90
Stock turnover (days)	51	81	83	79	77
Creditors turnover (days)	75	89	83	86	87

Source: Company, AmInvestment Bank Bhd estimates

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