

HLIB Research

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Syifaa' Mahsuri Ismail
syifaa@hlib.hongleong.com.my

(603) 2083 1710

HOLD (Maintain)

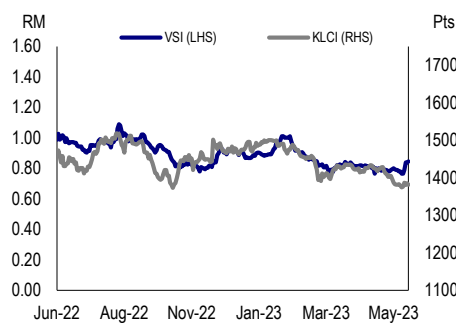
| | |
|-----------------------|----------------|
| Target Price: | RM0.88 |
| Previously: | RM0.88 |
| Current Price: | RM0.845 |

| | |
|-----------------------|------|
| 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


| | | | |
|------------------------------|-----------|-----------|------------|
| Historical return (%) | 1M | 3M | 12M |
| 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) |
| EBITDA | 527.2 | 404.8 | 390.1 | 456.7 | 527.3 |
| 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) |
| PBT | 329.1 | 200.7 | 271.8 | 349.9 | 421.1 |
| 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 |
| PATAMI | 245.4 | 166.8 | 211.7 | 273.8 | 327.9 |
| Exceptionals | 24.3 | 35.5 | - | - | - |
| Core PATAMI | 269.69 | 202.3 | 211.7 | 273.8 | 327.9 |
| 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 |
| Assets | 3,598.4 | 3,980.2 | 4,173.9 | 4,395.7 | 4,673.2 |
| 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 |
| Liabilities | 1,380.9 | 1,619.2 | 1,714.9 | 1,807.7 | 1,929.0 |
| 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 |
| Equity | 2,217.5 | 2,361.0 | 2,459.0 | 2,588.0 | 2,744.1 |

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 | - | - | - |
| CFO | 123.9 | 123.9 | 377.3 | 255.0 | 278.6 |
| Capex | (230.5) | (230.5) | (100.0) | (100.0) | (100.0) |
| Others | 13.6 | 13.6 | - | - | - |
| CFI | (217.0) | (217.0) | (100.0) | (100.0) | (100.0) |
| Dividends | (105.7) | (105.7) | (105.9) | (136.9) | (163.9) |
| Others | 189.9 | 189.9 | - | - | - |
| CFF | 84.1 | 84.1 | (105.9) | (136.9) | (163.9) |
| Net CF | 2.6 | 2.6 | 171.4 | 18.2 | 14.6 |
| 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) |
| EBITDA | 96.6 | 68.0 | 119.3 | 79.1 | 69.326 |
| 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 |
| PBT | 62.9 | 34.2 | 80.9 | 38.8 | 31.5 |
| 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 |
| PATAMI | 51.3 | 34.6 | 60.7 | 30.4 | 26.8 |
| Exceptionals | (8.2) | 47.3 | 3.6 | 19.6 | 1.027 |
| Core PATAMI | 43.1 | 81.9 | 64.3 | 50.0 | 27.8 |

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% |

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Hong Leong Investment Bank Berhad (10209-W)

Level 28, Menara Hong Leong,
No. 6, Jalan Damanlela,
Bukit Damansara,
50490 Kuala Lumpur
Tel: (603) 2083 1800
Fax: (603) 2083 1766

Stock rating guidelines

| | |
|---------------------|---|
| BUY | Expected absolute return of +10% or more over the next 12 months. |
| HOLD | Expected absolute return of -10% to +10% over the next 12 months. |
| SELL | Expected absolute return of -10% or less over the next 12 months. |
| UNDER REVIEW | Rating on the stock is temporarily under review which may or may not result to a change from the previous rating. |
| NOT RATED | Stock is not or no longer within regular coverage. |

Sector rating guidelines

| | |
|--------------------|---|
| OVERWEIGHT | Sector expected to outperform the market over the next 12 months. |
| NEUTRAL | Sector expected to perform in-line with the market over the next 12 months. |
| UNDERWEIGHT | Sector expected to underperform the market over the next 12 months. |

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