

HLIB Research

PP 9484/12/2012 (031413)

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HOLD (Maintain)

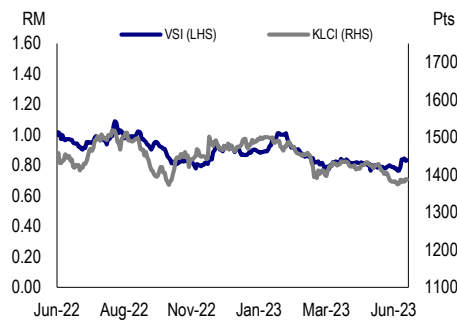
Target Price:	RM0.84
Previously:	RM0.88
Current Price:	RM0.835

Capital upside	0.6%
Dividend yield	2.7%
Expected total return	3.3%

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	6.4	1.2	-17.3
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)	3,221
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	174.5	239.0
EPS – core (sen)	5.2	4.5	6.2
P/E (x)	15.9	18.5	13.5

V.S. Industry

Expecting uptick from festive orders

Overall order outlook is still in cautious territory. However, management foresees demand uptick from the preparation for shipments in the upcoming holiday and festive seasons by end of CY23. This will also be boosted by the new product launches by brand owners after the wait and see approach. On a brighter note, VSI is in advance stage with one of its prospective new customers with contribution to kick in as early as 2QFY24. Despite the expectations from the uptick in sales, we reckon that margin would still be challenged especially from the increase in electricity cost coupled with the underutilisation of Customer Y in i-Park facility. We cut our FY23/24/25 forecasts by -18%/-13%/-6%, respectively to bake in softer margin. After earnings adjustment and rolling forward our valuation year to CY23 (from FY23) our TP decreases slightly to RM0.84 (previously RM0.88). Reiterate HOLD.

Recap. VSI results saw 3QFY23 core PATAMI of RM27.8m (-44% QoQ; -36% YoY), which brought 9MFY23's sum to RM142.1m (+20% YoY). This missed our and consensus full year forecasts. Despite better sales YoY, bottom-line slipped while margin showed sign of easing mainly due to higher opex.

Customer X. The order outlook is still crawling with the deceleration in demand for one of its home products. However, this is supported partially by the strong order from the beauty care segment. In order to clinch better margins, VSI is working to improve Customer X's value chain by creating a better vertical integration from the production of hair care components in house which simultaneously contributes to better plant utilisation.

The bottom is likely over. For the time being order forecast is still charting softer numbers, despite that it is expected to pick up from here especially for the preparation for the upcoming holiday and festive seasons by end of CY23. Despite the softness from US, coffee brewer and pool cleaning customers due to the recessionary fears, the group expects to benefit from the new product launches ahead of the festive season which would be able to lift up the momentum of sales orders. Recall that most brand owners delayed their product releases this year due to the inflationary pressure and softer consumer sentiment. As for Customer Y, management shared that there are signs of gradual increase in orders albeit at a slower pace. Despite the expectations from the uptick in sales, we reckon that margin would still be challenged especially from the increased in electricity cost coupled with the underutilisation of Customer Y in i-Park facility.

New customer. VSI is currently in advance stage of discussion with one of its new customers and expects to start production for the supply parts and components in the consumer electronic product. According to the projected timeline, orders should come in soon with contribution to kick in as early as 2QFY24. This new customer will occupy the existing facility and capex is expected to be minimal for the set-up of machinery. Despite the initial small order sales forecast, we understand that the margin contribution should be on the higher range when compared to its existing customers.

Forecast. We slashed our FY23/24/25 forecasts by -18%/-13%/-6%, respectively to bake in softer margin.

Maintain HOLD. After earnings adjustment and rolling forward our valuation year to CY23 (from FY23) our TP decreases slightly to **RM0.84** (previously RM0.88) based on unchanged 16x PE multiple. We reiterate our HOLD 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)	(3,970.0)	(4,346.3)	(4,825.3)
EBITDA	527.2	404.8	340.5	411.5	500.6
D&A	(101.5)	(121.4)	(101.8)	(101.7)	(101.5)
EBIT	425.8	303.3	238.7	309.9	399.1
Net Interest Income	(7.3)	(9.7)	(15.8)	(5.1)	(5.0)
Associates	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)
PBT	329.1	200.7	222.3	304.1	393.4
Tax	(87.5)	(53.7)	(55.6)	(73.0)	(94.4)
Net Profit	241.6	147.0	166.7	231.2	299.0
MI	3.7	19.8	7.8	7.8	7.8
PATAMI	245.4	166.8	174.5	239.0	306.8
Exceptionals	24.3	35.5	-	-	-
Core PATAMI	269.69	202.3	174.5	239.0	306.8
HLIB/Consensus			91%	96%	107%

Balance sheet

FYE Jul	FY21	FY22	FY23f	FY24f	FY25f
Cash	402.4	278.6	431.3	432.1	436.2
Receivables	992.1	1,092.3	1,074.7	1,186.2	1,327.8
Inventories	636.5	925.0	978.9	1,071.7	1,189.8
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	4,167.4	4,370.8	4,633.2
Payables	847.0	860.3	968.0	1,059.8	1,176.6
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	1,727.0	1,818.7	1,935.5
Shareholders' Funds	2,040.5	2,190.3	2,277.6	2,397.1	2,550.5
MI	177.0	170.7	162.8	155.0	147.1
Equity	2,217.5	2,361.0	2,440.4	2,552.1	2,697.6

Cash Flow Analysis

FYE Jul	FY21	FY22	FY23f	FY24f	FY25f
PBT	329.1	329.1	222.3	304.1	393.4
D&A	101.5	101.5	101.8	101.7	101.5
Working capital	(272.9)	(272.9)	71.4	(112.5)	(143.0)
Taxation	(100.7)	(100.7)	(55.6)	(73.0)	(94.4)
Others	66.9	66.9	-	-	-
CFO	123.9	123.9	340.0	220.3	257.6
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)	(87.3)	(119.5)	(153.4)
Others	189.9	189.9	-	-	-
CFF	84.1	84.1	(87.3)	(119.5)	(153.4)
Net CF	2.6	2.6	152.7	0.8	4.1
Beginning cash	361.2	361.2	278.6	431.3	432.1
Ending cash	402.4	402.4	431.3	432.1	436.2

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	4.5	6.2	8.0
P/E (x)	11.9	15.9	18.5	13.5	10.5
EV/EBITDA (x)	6.1	8.8	10.0	8.2	6.8
DPS (sen)	4.2	4.2	2.3	3.1	4.0
Dividend yield (%)	5.0	5.0	2.7	3.7	4.8
BVPS (RM)	0.5	0.6	0.6	0.6	0.7
P/B (x)	1.6	1.5	1.4	1.3	1.3
EBITDA margin	13.2	10.3	7.9	8.6	9.4
EBIT margin	10.6	7.7	5.5	6.5	7.5
PBT margin	8.2	5.1	5.2	6.4	7.4
Net margin	6.7	5.2	4.0	5.0	5.8
ROE (%)	13.2	9.2	7.7	10.0	12.0
ROA (%)	7.5	5.1	4.2	5.5	6.6
Net gearing	0.0	0.1	0.1	0.1	0.1

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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.

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