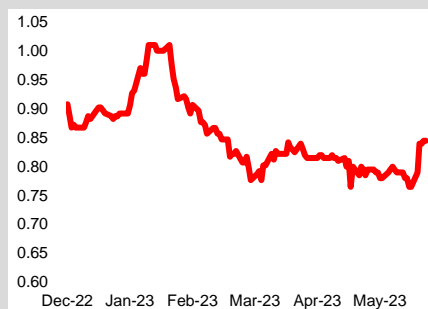


DESCRIPTION

Malaysia's largest Electronics Manufacturing Services (EMS) provider, 4th largest in ASEAN and top 50 in the world, is a vertically integrated corporation and possesses expertise to serve customers across various industries

12-month Target Price RM1.02
Current Price RM0.845
Expected Return +20.7%

Market Sector Main Industrial
Bursa Code 6963
Bloomberg Ticker VSI MK
Shariah-Compliant Yes

SHARE PRICE CHART


52 Week Range (RM) RM0.75 – RM1.11
3-Month Average Vol ('000) 4,043.2

SHARE PRICE PERFORMANCE

	1M	3M	12M
Absolute Returns	7.6	2.8	-14.5
Relative Returns	8.8	3.2	-14.2

KEY STOCK DATA

Market Capitalisation (RM m) 3,155.0
No. of Shares (m) 3,847.5

MAJOR SHAREHOLDERS

	%
Datuk Beh Kim Ling	15.1
Kumpulan Wang Persaraan	9.0
Datuk Gan Sem Yam	5.2

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Cost Pressures

The Group reported a headline net profit of RM26.8m (-47.8% YoY, -11.8% QoQ) for 3QFY23, the weaker YoY numbers due in part to higher material and operating costs, and notably higher finance costs as a result of its sukuk drawdown. Cumulative 9MFY23 core net profit of RM142.1m (+19.6% YoY), which excludes RM26.4m in foreign exchange losses and RM2.1m in asset disposal gains, is slightly behind at 69% and 70% of our and consensus full-year estimates respectively. Consumption spending has remained relatively steady, albeit marginally weaker, despite global monetary tightening. Costs have remained elevated nonetheless, pressuring margins in the process. We cut FY23/24/25 estimates by 9.0% on average to account for this, in addition to notably higher finance costs. We still like the longer-term investment merits of the company, underpinned by steady order flows from its key customers, and affirm our **Outperform** call though with a lowered PE-based target price of RM1.02 (RM1.14 previously). A third interim dividend of 0.4sen was declared, bringing cumulative year-to-date dividends to 1.2sen.

§ **3QFY23 revenue** of RM996.8m (+7.5% YoY, -13.1% QoQ) is stronger on annual basis due to higher sales orders from key customers, though expectedly weaker on a sequential basis due to subdued purchasing power globally as a result of the aforementioned monetary tightening.

By country of operations, Malaysia continues to underpin Group sales, making up ~70% of total revenue, with a 3QFY23 contribution of RM693.8m (+3.6% YoY). Revenue of RM235.1m (+44.4% YoY) for the Singapore segment (a US-based customer, previously classified under its Malaysian operations) was higher in line with improved sales orders from a key customer. The Indonesian operations saw a decline in revenue to RM59.1m (-29.5% YoY) due largely to lower sales orders during the Hari Raya period while China continued to de-scale its operations, with revenue at only RM8.6m (-24.6% YoY).

§ **3QFY23 reported net profit** of RM26.8m (-47.8% YoY, -11.8% QoQ) includes RM1.1m in foreign exchange (FX) loss. Excluding a cumulative RM26.4m in FX losses and RM2.1m in asset disposal gains, 9MFY23 core net profit would have come in at RM142.1m (+19.6% YoY) otherwise. Current year operations are largely impacted by higher electricity, labour and finance charges, as well as unfavorable FX rates, all of which have lowered net margins to 3.4% (9MFY23: 4.6%).

§ **Outlook.** Orders from key customers are expected to pick up over the medium to longer-term as inflationary pressures abate amid an easing in global monetary tightening as well. VSI's customers are mostly industry-leaders in their respective consumer spaces and less susceptible to down-trading and/or switching by customers. In addition, the Group's ample cash-pile will come in handy should merger and acquisition (M&A) activities be on the cards.

KEY FINANCIAL SUMMARY

FYE Jul (RM m)	2021A	2022A	2023F	2024F	2025F	CAGR
Revenue	4,002.3	3,914.1	4,058.4	4,645.2	4,761.2	4.4%
Gross Profit	527.2	404.6	447.2	511.9	524.7	-0.1%
Pre-tax Profit	329.1	201.4	233.9	279.1	287.2	-3.3%
Net Profit	245.3	169.7	182.0	217.7	224.1	-2.2%
EPS (Sen)	6.4	4.4	4.7	5.7	5.8	-2.2%
P/E (x)	13.2	19.1	17.8	14.9	14.5	
DPS (Sen)	3.8	2.7	2.8	3.4	3.5	
Dividend Yield (%)	4.5%	3.1%	3.4%	4.0%	4.1%	

Source: Company, PublicInvest Research estimates

Table 1: Results Summary

<u>FYE Jul (RMm)</u>	<u>3QFY23</u>	<u>3QFY22</u>	<u>2QFY23</u>	<u>YoY chg (%)</u>	<u>QoQ chg (%)</u>	<u>9M FY23</u>	<u>9M FY22</u>	<u>YoY chg (%)</u>	<u>Comments</u>
Revenue	996.8	927.6	1,147.0	7.5	-13.1	3,438.1	2,909.7	18.2	Weaker QoQ due to global slowdown Higher electricity and labour cost
Cost of sales	-918.8	-834.7	-1,038.1	10.1	-11.5	-3,117.2	-2,635.5	18.3	
Gross Profit	78.0	92.9	108.9	-16.0	-28.4	320.9	274.2	17.1	
Operating expense	-39.4	-35.8	-42.0	10.0	-6.2	-126.3	-118.5	6.6	
Net other income	0.1	8.6	-18.7	-98.7	-100.6	-20.2	19.0	-206.0	Foreign exchange loss
Operating profit	38.7	65.7	48.2	-41.1	-19.7	174.5	174.7	-0.2	
Finance cost	-10.6	-2.8	-11.4	278.5	-6.6	-30.2	-8.4	262.1	Drawdown of Sukuk
Interest income	2.7	0.4	1.9	617.9	43.6	6.1	2.2	180.4	
Associates	0.7	-0.4	0.1	-271.3	383.7	0.9	-1.3	-167.3	
Pre-tax profit	31.5	62.9	38.8	-49.9	-18.9	151.2	167.2	-9.6	
Income tax	-8.7	-14.8	-11.1	-41.3	-22.0	-41.4	-39.1	5.9	
Minorities	4.0	3.2	2.6	23.6	49.5	8.0	7.0	14.3	
Net profit	26.8	51.3	30.4	-47.8	-11.8	117.8	135.2	-12.8	
EPS (sen)	0.7	1.3	0.8	-47.8	-11.8	3.1	3.5	-12.8	
DPS (sen)	0.4	0.4	0.3			1.2	1.2		
Gross margin	7.8%	10.0%	9.5%			9.3%	9.4%		
Pretax margin	3.2%	6.8%	3.4%			4.4%	5.7%		
Net margin	2.7%	5.5%	2.6%			3.4%	4.6%		

Note: EPS based on current share base of 3,819m, n.a. = not applicable

KEY FINANCIAL DATA

INCOME STATEMENT DATA

FYE Jul (RM m)	2021A	2022A	2023F	2024F	2025F
Revenue	4,002.3	3,914.1	4,058.4	4,645.2	4,761.2
Cost of Sales	-3,475.1	-3,509.4	-3,611.2	-4,133.3	-4,236.5
Gross Profit	527.2	404.6	447.2	511.9	524.7
Other Income / (Expense)	-190.8	-193.5	-173.0	-198.2	-203.2
Finance Costs	-7.3	-9.7	-40.3	-34.5	-34.2
Pre-tax Profit	329.1	201.4	233.9	279.1	287.2
Income Tax	-87.5	-51.5	-49.1	-58.6	-60.3
Minorities	3.7	19.8	-2.8	-2.8	-2.8
Net Profit (core)	245.3	169.7	182.0	217.7	224.1
Growth (%)					
Revenue	23.4%	-2.2%	3.7%	14.5%	2.5%
Gross Profit	64.1%	-23.3%	10.5%	14.5%	2.5%
Net Profit	111.7%	-30.8%	7.2%	19.6%	2.9%

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Jul (RM m)	2021A	2022A	2023F	2024F	2025F
Property, Plant & Equipment	989.5	1,214.5	1,022.5	958.6	891.6
Trade Receivables	992.1	1,093.1	1,105.4	1,265.2	1,296.8
Inventories	828.8	1,063.6	856.7	980.5	1,005.0
Cash and Cash Equivalents	402.4	278.6	785.7	796.6	959.4
Other Assets	382.8	331.3	405.0	406.0	406.0
Total Assets	3,595.6	3,981.1	4,175.3	4,406.9	4,558.8
Trade and Other Payables	867.7	886.5	720.8	825.0	845.6
Borrowings	404.6	600.1	982.6	976.6	970.6
Other Liabilities	105.8	130.6	68.4	68.4	68.4
Total Liabilities	1,378.1	1,617.2	1,771.7	1,870.0	1,884.5
Shareholders' Equity	2,217.5	2,363.9	2,403.5	2,537.0	2,674.2
Total Equity and Liabilities	3,595.6	3,981.1	4,175.3	4,406.9	4,558.8

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Jul	2021A	2022A	2023F	2024F	2025F
Book Value Per Share	0.53	0.57	0.58	0.61	0.65
NTA Per Share	0.53	0.57	0.58	0.61	0.65
EPS (Sen)	6.4	4.4	4.7	5.7	5.8
DPS (Sen)	3.8	2.7	2.8	3.4	3.5
Payout Ratio	60.0%	60.0%	60.0%	60.0%	60.0%
ROA	6.8%	4.3%	4.4%	4.9%	4.9%
ROE	11.1%	7.2%	7.6%	8.6%	8.4%

Source: Company, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

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