



Company report

V.S. INDUSTRY

(VSI MK EQUITY, VSID.KL)

29 Sep 2020

Rebound stronger than expected

HOLD

(Maintained)

AmInvestment Bank

www.amequities.com.my

03-2036 2333

Rationale for report: Company results

Price	RM2.16
Fair Value	RM2.21
52-week High/Low	RM2.20/RM0.60

Key Changes

Fair value	↕
EPS	↔

YE to Jul	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	3,243.2	3,929.3	4,836.2	6,031.9
Core net profit (RM mil)	117.2	200.7	253.8	305.1
FD Core EPS (sen)	6.1	10.3	13.0	16.4
FD Core EPS growth (%)	(44.3)	69.6	26.1	25.8
Consensus Net Profit (RM mil)	-	192.9	251.5	-
DPS (sen)	2.6	4.3	2.6	3.1
PE (x)	35.5	20.9	16.6	13.2
EV/EBITDA (x)	15.5	9.5	7.9	6.7
Div yield (%)	1.2	2.0	1.2	1.5
ROE (%)	6.2	11.4	13.4	14.8
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	1,880.7
Market Cap (RM mil)	4,062.2
Book Value (RM/share)	0.92
P/BV (x)	2.3
ROE (%)	6.2
Net Gearing (%)	-
Major Shareholders	KWAP (11.1%) Datuk Beh Kim Ling (8.2%) Datin Gan Chu Cheng (6.9%)
Free Float	52.4
Avg Daily Value (RM mil)	37.6

Price performance	3mth	6mth	12mth
Absolute (%)	120.4	188.0	58.8
Relative (%)	117.0	155.9	66.4



Investment Highlights

- **We maintain our HOLD recommendation on V.S. Industry (VSI), with a higher fair value of RM2.21/share, pegged to a higher rolled-forward FY22F PE of 17x (previously RM1.80/share pegged to a CY21F PE of 14x).**
- The higher PE is in line with VSI's 3-year historical average PE, due to the group's positive growth trajectory supported by its position as a beneficiary from the US-China trade diversion. The group plans to secure a 400K sq ft factory to house potential job wins.
- **VSI's 4QFY20 came in above expectations at a core profit of RM67mil, bringing FY20 core profit to RM130mil after excluding one-off net losses amounting RM14mil mainly from impairment losses on PPE. The results exceeded both our and consensus' full-year estimates by 39% largely due to better 4QFY20 results as order rebound for its Malaysia segment was much stronger than expected, likely due to stronger orders from VSI's US customers' which offset lower orders from its key UK customer.**
- **YoY:** FY20 core profit dropped by 27% due to group revenue falling 19% largely due to factory closures impacting VSI's Malaysian operations in 3QFY20 amid the movement control order (MCO) and wider losses from its Indonesian segment which were offset by narrower losses seen in China.
- **Segmental analysis:**
 - **Malaysia:** PBT slumped 31% as production was impacted by the MCO from 18 March 2020 till late April 2020 which had caused revenue to drop by 23% and was unable to offset fixed operating costs incurred. Furthermore, declines were also contributed by lower orders from its key customer as some products reached end-of-product life cycle.
 - **Indonesia:** An LBT of RM11mil was recorded as revenue fell 3% due to lower sales orders leading to underutilization of facilities, and also impairment loss on receivables and inventories written off amounting RM5.6mil as a customer ceased its business.
 - **China:** Revenue slid 26% due to less sales orders completed, but losses narrowed to RM24mil (vs. RM83mil loss in the previous year) on lower operating expenses following the group's streamlining activities.
- **QoQ:** VSI's core profit of RM71mil was boosted by a 75% increase in revenue as the previous quarter had been impacted by MCO-related factory closures.

- We remain positive on VSI's diversification efforts and capacity expansion plan in preparation for additional opportunities to be secured by the group but deem that the market has already priced in the earnings growth at the current price. VSI's positive prospects arise from: (i) sturdy box-build order growth supported by its key customers' product launches; (ii) its ability to offer turnkey EMS solutions as a vertically-integrated player; and (iii) its efforts to diversify its customer base with potential opportunities to be secured from the US-China trade war.

EXHIBIT 1: FINANCIAL RESULTS SUMMARY

FYE July (RM mil)	FY19	FY20	YoY (%)	4QFY19	3QFY20	4QFY20	QoQ (%)	YoY (%)
Revenue	3,978.4	3,243.2	(18.5)	1,038.2	505.7	882.6	74.5	(15.0)
EBITDA	315.1	265.7	(15.7)	104.6	4.3	108.2	2414.8	3.5
Depreciation	(99.2)	(91.8)	7.4	(29.1)	(25.0)	(21.4)	14.2	26.3
EBIT	215.9	173.9	(19.5)	75.5	(20.7)	86.8	(520.0)	14.9
<i>EBITDA Margin (%)</i>	<i>7.9</i>	<i>8.2</i>		<i>10.1</i>	<i>0.9</i>	<i>12.3</i>		
Interest expense	(27.0)	(17.3)	36.1	(5.5)	(4.0)	(2.7)	34.1	51.5
Interest income	8.0	7.0	(12.3)	2.1	1.7	1.4	(15.3)	(33.4)
Associates	(2.2)	2.2	(199.3)	(6.7)	0.5	(1.4)	(357.8)	(79.6)
Exceptionals	(20.7)	(14.2)	(31.2)	(24.4)	(4.4)	(12.9)	196.0	(47.1)
Pretax profit/(loss)	174.0	151.6	(12.9)	41.0	(26.9)	71.3	(365.1)	73.6
<i>Pretax Margin (%)</i>	<i>4.4</i>	<i>4.7</i>		<i>4.0</i>	<i>(5.3)</i>	<i>8.1</i>		
Tax	(62.4)	(48.9)	(21.7)	(19.6)	5.7	(25.0)	(537.9)	27.6
<i>Effective tax rate (%)</i>	<i>35.9</i>	<i>32.2</i>		<i>47.8</i>	<i>21.3</i>	<i>35.1</i>		
Minority Interest	45.9	13.2	(71.3)	27.0	1.7	7.9	373.1	(70.7)
Net Profit/(Loss)	157.5	115.9	(26.5)	48.4	(19.5)	54.1	(377.7)	11.8
Core Profit/(Loss)	178.2	130.1	(27.0)	72.8	(15.1)	67.0	(543.4)	(8.0)
<i>Core Profit/(Loss) Margin</i>	<i>4.5</i>	<i>4.0</i>		<i>7.0</i>	<i>-3.0</i>	<i>7.6</i>		
Basic EPS (sen)	9.3	6.3	(32.4)	3.1	(1.1)	2.9	378.1	(5.8)
DPS (sen)	4.4	2.6	(40.9)	0.8	0.0	1.6	n.m.	100.0
BVPS (sen)	0.9	0.9	4.5	0.9	0.9	0.9	4.5	4.5

Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: QUARTERLY SEGMENTAL BREAKDOWN

FYE July (RM 'mil)	FY19	FY20	YoY (%)	4QFY19	3QFY20	4QFY20	QoQ (%)	YoY (%)
Revenue								
Malaysia	3,337.7	2,568.3	(23.1)	893.0	361.1	667.2	84.8	(25.3)
Indonesia	245.6	237.2	(3.4)	64.9	56.2	49.9	(11.2)	(23.1)
China	388.1	288.2	(25.7)	77.7	65.2	79.5	21.9	2.3
Pretax profit								
Malaysia	267.8	185.4	(30.8)	103.6	(19.7)	93.0	(572.1)	(10.2)
Indonesia	1.0	(11.4)	(1253.3)	1.6	(3.9)	(7.0)	78.4	(539.1)
China	(83.0)	(23.9)	(71.1)	(49.4)	(3.1)	(14.3)	(366.5)	(71.0)
Pretax profit margin (%)								
Malaysia	8.0	7.2		11.6	(5.5)	13.9		
Indonesia	0.4	(4.8)		2.5	(7.0)	(14.1)		
China	(21.4)	(8.3)		(63.6)	(4.7)	(18.0)		

Source: Company, AmInvestment Bank Bhd

EXHIBIT 3: PB BAND CHART

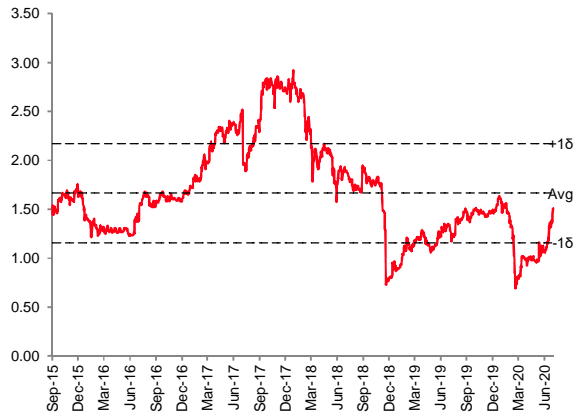


EXHIBIT 4: PE BAND CHART

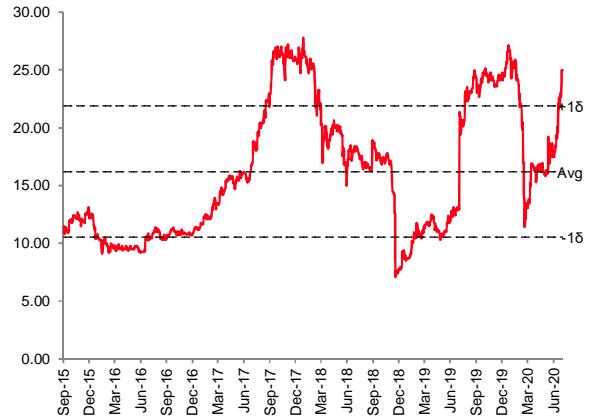


EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Jul)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	3,978.4	3,243.2	3,929.3	4,836.2	6,031.9
EBITDA	302.3	251.4	381.2	451.2	522.2
Depreciation/Amortisation	(99.2)	(91.8)	(103.3)	(106.1)	(108.8)
Operating income (EBIT)	203.1	159.6	277.9	345.1	413.4
Other income & associates	26.2	3.5	(2.2)	(2.2)	(2.2)
Net interest	(19.0)	(10.2)	(3.8)	(1.2)	(2.0)
Exceptional items	(28.4)	(14.2)	-	-	-
Pretax profit	181.9	138.6	272.0	341.8	409.3
Taxation	(62.4)	(48.9)	(65.8)	(82.5)	(98.8)
Minorities/pref dividends	45.9	13.2	(5.4)	(5.4)	(5.4)
Net profit	165.4	102.9	200.7	253.8	305.1
Core net profit	193.8	117.2	200.7	253.8	305.1
Balance Sheet (RMmil, YE 31 Jul)	FY19	FY20	FY21F	FY22F	FY23F
Fixed assets	889.0	846.9	929.8	873.7	814.9
Intangible assets	-	-	-	-	-
Other long-term assets	243.8	258.7	251.3	249.1	246.9
Total non-current assets	1,132.7	1,105.6	1,181.0	1,122.8	1,061.8
Cash & equivalent	379.5	404.5	721.9	782.8	834.7
Stock	371.5	331.8	516.7	635.5	795.2
Trade debtors	994.8	877.6	1,001.2	1,232.2	1,536.9
Other current assets	0.2	2.3	1.0	1.0	1.0
Total current assets	1,745.9	1,616.2	2,240.8	2,651.6	3,167.8
Trade creditors	712.3	578.4	845.6	1,040.0	1,301.3
Short-term borrowings	361.5	215.4	180.0	170.0	170.0
Other current liabilities	17.1	29.4	29.4	29.4	29.4
Total current liabilities	1,090.9	823.1	1,055.0	1,239.4	1,500.7
Long-term borrowings	66.9	23.4	110.0	115.0	115.0
Other long-term liabilities	85.1	89.3	89.3	89.3	89.3
Total long-term liabilities	152.0	112.8	199.3	204.3	204.3
Shareholders' funds	1,606.5	1,702.4	1,823.9	1,976.1	2,159.2
Minority interests	178.0	166.4	171.8	177.3	182.7
BV/share (RM)	0.90	0.92	0.99	1.07	1.17
Cash Flow (RMmil, YE 31 Jul)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	181.9	138.6	272.0	341.8	409.3
Depreciation/Amortisation	99.2	91.8	103.3	106.1	108.8
Net change in working capital	(65.5)	72.0	(38.9)	(155.5)	(203.0)
Others	8.9	20.2	(63.6)	(80.4)	(96.6)
Cash flow from operations	224.4	322.7	272.7	212.0	218.5
Capital expenditure	(117.0)	(120.6)	(150.0)	(50.0)	(50.0)
Net investments & sale of fixed assets	(15.0)	8.0	-	-	-
Others	14.2	3.7	-	-	-
Cash flow from investing	(117.8)	(108.9)	(150.0)	(50.0)	(50.0)
Debt raised/(repaid)	(223.5)	(189.9)	51.2	(5.0)	-
Equity raised/(repaid)	143.5	20.5	-	-	-
Dividends paid	(71.9)	(48.1)	(80.3)	(101.5)	(122.0)
Others	(15.5)	13.3	-	-	-
Cash flow from financing	(170.6)	(204.2)	(29.1)	(106.5)	(122.0)
Net cash flow	(51.6)	28.8	93.6	55.5	46.5
Net cash/(debt) b/f	362.8	329.6	361.2	454.8	510.3
Net cash/(debt) c/f	313.8	361.2	454.8	510.3	556.7
Key Ratios (YE 31 Jul)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	(3.0)	(18.5)	21.2	23.1	24.7
EBITDA growth (%)	5.0	(16.8)	51.6	18.4	15.7
Pretax margin (%)	4.6	4.3	6.9	7.1	6.8
Net profit margin (%)	4.2	3.2	5.1	5.2	5.1
Interest cover (x)	10.7	15.6	73.5	290.5	210.6
Effective tax rate (%)	34.3	35.3	24.2	24.2	24.1
Dividend payout (%)	47.4	46.7	40.0	19.0	19.0
Debtors turnover (days)	91	99	93	93	93
Stock turnover (days)	810	749	849	849	851
Creditors turnover (days)	1,553	1,306	1,390	1,389	1,393

Source: Company, AmInvestment Bank Bhd estimates

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