



AmInvestment Bank

Company report

V.S. INDUSTRY

(VSI MK EQUITY, VSID.KL)

17 Dec 2021

Weaker 1QFY22 but still long-term positive

BUY

(Maintained)

AmInvestment Bank

www.amequities.com

03-2036 2333

Rationale for report: Company results

Price	RM1.30
Fair Value	RM1.61
52-week High/Low	RM1.73/RM1.00

Key Changes

Fair value	⬇️
EPS	⬇️

YE to Jul	FY21	FY22F	FY23F	FY24F
Revenue (RM mil)	4,002.3	4,580.0	4,800.1	5,030.8
Core net profit (RM mil)	269.7	239.7	336.9	354.1
FD Core EPS (sen)	6.6	6.0	8.1	8.5
FD Core EPS growth (%)	81.6	(9.7)	36.4	4.6
Consensus Net Profit (RM mil)	-	331.7	390.9	420.8
DPS (sen)	2.8	2.5	3.4	3.6
PE (x)	19.7	21.8	16.0	15.3
EV/EBITDA (x)	10.4	10.3	7.5	7.2
Div yield (%)	2.1	1.9	2.7	2.8
ROE (%)	13.1	11.4	14.8	14.3
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	3,819.7
Market Cap (RM mil)	4,965.6
Book Value (RM/share)	0.54
P/BV (x)	2.4
ROE (%)	13.1
Net Gearing (%)	-

Major Shareholders	KWAP (8.8%) Datuk Beh Kim Ling (7.2%) OCBC Ltd (5.8%)
Free Float	59.6
Avg Daily Value (RM mil)	25.6

Price performance	3mth	6mth	12mth
Absolute (%)	(9.7)	(9.1)	(3.7)
Relative (%)	(5.4)	(3.4)	9.1



Investment Highlights

- We maintain our BUY recommendation on V.S. Industry (VSI) with a lower fair value of RM1.61/share (previously RM1.98/share), pegged to an unchanged 20x FY23F PE. We made no adjustment to our 3-star ESG rating (Exhibit 5).
- In view of the uncertainties arising from ongoing supply chain disruptions and some housekeeping adjustment, we have reduced our revenue growth assumption, lowering core earnings forecasts by 29% for FY22F, 20% for FY23F and 23% for FY24F.
- VSI's 1QFY22 core earnings were below expectations, accounting for 10% of our FY22F net profit and 11% of consensus. This stemmed from lower orders for printed circuits board assembly (PCBA) from key customers, coupled with continuous disruptions on component supply in Malaysia. These slashed the group's 1QFY22 core earnings by 43.3% QoQ and 47.3% YoY to RM35mil.
- 1QFY22 core profit margin fell to 4% (compared to previous quarter 7%), partially due to diseconomies of scale arising from lower orders booked from key customers.
- Zooming in on its Malaysian operation, VSI's PBT was affected by rising labour and raw materials costs, higher depreciation from new facilities and vaccination costs for its entire workforce.
- While the group managed to secure a new key customer, production has yet to achieve optimal level, resulting in lower operational efficiency. Coupled with the disruptions in supply chain, this cut 1QFY22 PBT margin to 5.2% from 9% in 1QFY21.
- As for its Indonesian segment, the group's 1QFY22 revenue increased 16% YoY to RM79mil from higher sales orders from a key customer, propelling PBT to RM2.1mil from just RM0.5mil in 1QFY21.
- Meanwhile, the China-based operation continues to remain underutilised in the absence of robust sales order due to the competitive landscape in the region. VSI remains focused on cost optimisation and streamlining initiatives to narrow losses.

- Looking forward, the group acknowledges the challenges in the EMS industry brought about by the Covid-19 pandemic and geopolitical uncertainties. The disruption in global supply chain has led to longer lead times and component shortages have driven up raw materials costs. Nonetheless, the group remains optimistic and is in active discussions with key customers on potential new orders. On the labour front, the group is stepping up the hiring of more locals following the ban on bringing in foreign workers since last year. We expect to gain more clarity on the group's FY22F outlook at VSI's upcoming conference call.
- We remain positive on VSI's longer-term outlook, underpinned by its: (i) ability to offer turnkey electronic manufacturing services solutions as a vertically integrated player; (ii) customer diversification efforts with opportunities arising from the US-China trade war diversion; and (iii) improving overseas operations underpinned by higher sales order from its Indonesian segment as well as improving cost rationalization initiatives in China.

EXHIBIT 1: RESULTS SUMMARY

FYE July (RM mil)	1QFY21	4QFY21	1QFY22	QoQ (%)	YoY (%)
Revenue	987.1	941.1	968.0	+2.9%	-1.9%
EBITDA	115.3	103.4	78.1	-24.5%	-32.3%
Depreciation	(24.9)	(25.7)	(29.2)	+13.7%	+17.5%
EBIT	90.5	77.7	48.9	-37.1%	-46.0%
<i>EBITDA Margin (%)</i>	11.7	11.0	8.1		
Interest expense	(3.2)	(3.1)	(2.9)	-6.3%	-8.6%
Interest income	1.1	0.9	0.9	+2.2%	-17.4%
Pretax profit	88.4	55.9	50.3	-10.0%	-43.1%
<i>Pretax Margin (%)</i>	9.0	5.9	5.2		
Tax	(24.5)	(14.1)	(12.5)	-11.3%	-48.9%
<i>Effective tax rate (%)</i>	27.8	25.3	24.9		
Minority Interest	2.8	(0.3)	1.6	nm	-41.5%
Net Profit	66.7	41.5	39.4	-5.0%	-40.9%
Core Profit	67.2	62.5	35.4	-43.3%	-47.3%
<i>Core Profit Margin (%)</i>	6.8	6.6	3.7		
Basic EPS (sen)	1.8	1.1	1.0	-5.5%	-42.1%
DPS (sen)	1.2	1.0	0.4	-60.0%	-66.7%

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 2: SEGMENTAL BREAKDOWN

FYE July (RM 'mil)	1QFY21	4QFY21	1QFY22	QoQ (%)	YoY (%)
Revenue					
Malaysia	873.4	816.7	854.5	4.6	(2.2)
Indonesia	68.4	81.3	79.4	(2.3)	16.1
China	42.2	37.1	31.9	(13.9)	(24.3)
Pretax profit					
Malaysia	92.0	52.1	50.4	(3.3)	(45.3)
Indonesia	0.5	2.9	2.1	(26.8)	>100
China	(5.5)	(2.3)	(3.2)	36.6	(42.5)
Pretax profit margin (%)					
Malaysia	10.5	6.4	5.9		
Indonesia	0.7	3.5	2.7		
China	(13.1)	(6.3)	(9.9)		

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 3: PB BAND CHART

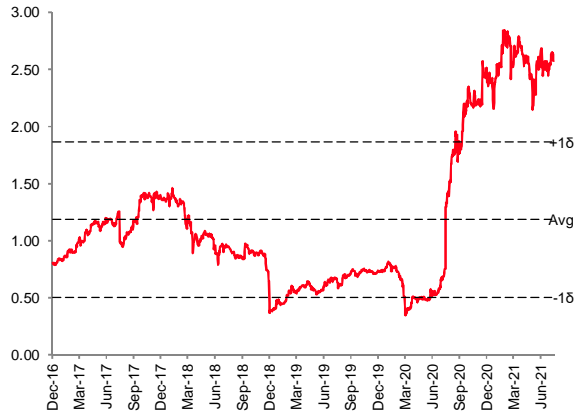


EXHIBIT 4: PE BAND CHART



EXHIBIT 5: 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.

Source: AmInvestment Bank Bhd

EXHIBIT 6: FINANCIAL DATA

Income Statement (RMmil, YE 31 Jul)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	3,243.2	4,002.3	4,580.0	4,800.1	5,030.8
EBITDA	253.2	438.6	418.3	549.7	575.3
Depreciation/Amortisation	(91.8)	(101.5)	(101.7)	(104.4)	(108.6)
Operating income (EBIT)	161.3	337.1	316.6	445.3	466.7
Other income & associates	17.3	23.7	(0.7)	(0.7)	(0.7)
Net interest	(10.2)	(7.3)	(5.2)	(6.0)	(4.8)
Exceptional items	(15.0)	(24.3)	-	-	-
Pretax profit	153.4	329.1	310.7	438.6	461.2
Taxation	(48.9)	(87.5)	(74.7)	(105.4)	(110.8)
Minorities/pref dividends	12.0	3.7	3.7	3.7	3.7
Net profit	116.5	245.3	239.7	336.9	354.1
Core net profit	131.5	269.7	239.7	336.9	354.1
Balance Sheet (RMmil, YE 31 Jul)	FY20	FY21	FY22F	FY23F	FY24F
Fixed assets	846.9	1,012.8	964.6	913.9	888.8
Intangible assets	-	-	-	-	-
Other long-term assets	259.7	253.8	253.1	252.4	251.8
Total non-current assets	1,106.6	1,266.5	1,217.7	1,166.3	1,140.6
Cash & equivalent	404.5	686.3	934.2	1,121.7	1,116.0
Stock	331.8	523.6	615.6	628.0	658.2
Trade debtors	884.4	1,019.8	1,167.0	1,223.0	1,281.8
Other current assets	2.3	1.0	1.0	1.0	1.0
Total current assets	1,623.0	2,230.7	2,717.8	2,973.8	3,057.0
Trade creditors	578.4	856.9	1,007.4	1,027.7	1,077.1
Short-term borrowings	224.0	180.0	170.0	170.0	150.0
Other current liabilities	29.4	29.4	29.4	29.4	29.4
Total current liabilities	831.8	1,066.3	1,206.8	1,227.1	1,256.5
Long-term borrowings	23.4	110.0	115.0	115.0	115.0
Other long-term liabilities	89.3	89.3	89.3	89.3	89.3
Total long-term liabilities	112.8	199.3	204.3	204.3	204.3
Shareholders' funds	1,709.0	2,041.5	2,177.9	2,369.6	2,571.1
Minority interests	167.6	177.0	173.3	169.5	165.8
BV/share (RM)	0.92	0.54	0.58	0.63	0.68
Cash Flow (RMmil, YE 31 Jul)	FY20	FY21	FY22F	FY23F	FY24F
Pretax profit	153.4	329.1	310.7	438.6	461.2
Depreciation/Amortisation	91.8	101.5	101.7	104.4	108.6
Net change in working capital	71.2	(581.0)	(88.7)	(48.2)	(39.6)
Others	6.3	267.1	(74.1)	(104.8)	(110.2)
Cash flow from operations	322.7	116.7	249.7	390.0	420.1
Capital expenditure	(120.6)	(200.0)	(50.0)	(50.0)	(80.0)
Net investments & sale of fixed assets	8.0	-	-	-	-
Others	3.7	-	-	-	-
Cash flow from investing	(108.9)	(200.0)	(50.0)	(50.0)	(80.0)
Debt raised/(repaid)	(173.3)	42.5	(5.0)	-	(20.0)
Equity raised/(repaid)	20.5	59.4	-	-	-
Dividends paid	(48.1)	(105.7)	(103.3)	(145.2)	(152.6)
Others	(3.3)	-	-	-	-
Cash flow from financing	(204.2)	(3.8)	(108.3)	(145.2)	(172.6)
Net cash flow	28.8	(75.5)	91.4	194.8	167.5
Net cash/(debt) b/f	329.6	361.2	371.4	462.8	657.6
Net cash/(debt) c/f	361.2	293.3	462.8	657.6	825.1
Key Ratios (YE 31 Jul)	FY20	FY21	FY22F	FY23F	FY24F
Revenue growth (%)	(18.5)	23.4	14.4	4.8	4.8
EBITDA growth (%)	(16.2)	73.3	(4.6)	31.4	4.7
Pretax margin (%)	4.7	8.2	6.8	9.1	9.2
Net profit margin (%)	3.6	6.1	5.2	7.0	7.0
Interest cover (x)	15.8	46.0	60.5	74.1	96.5
Effective tax rate (%)	31.9	26.6	24.1	24.0	24.0
Dividend payout (%)	41.3	43.1	38.6	38.6	38.6
Debtors turnover (days)	100	93	93	93	93
Stock turnover (days)	757	1,005	1,263	1,225	1,225
Creditors turnover (days)	1,320	1,645	2,067	2,005	2,005

Source: Company, AmInvestment Bank Bhd estimates

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