



Company report

AmInvestment Bank

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V.S.INDUSTRY

(VSI MK EQUITY, VSID.KL)

15 Oct 2020

New factory for new customer Y

BUY

(Maintained)

Rationale for report: Company update

Price	RM2.33
Fair Value	RM2.75
52-week High/Low	RM2.46/RM0.60

Key Changes

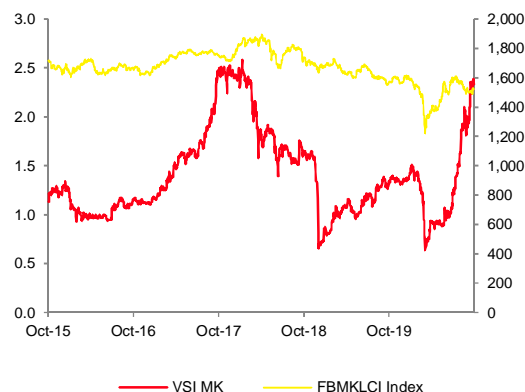
Fair value	⬆️
EPS	⬆️

YE to Jul	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	3,243.2	4,264.9	5,162.4	6,339.9
Core net profit (RM mil)	117.2	233.7	297.5	374.2
FD Core EPS (sen)	6.1	12.0	15.3	20.0
FD Core EPS growth (%)	(44.1)	97.7	27.0	30.7
Consensus Net Profit (RM mil)	-	228.1	293.1	330.4
DPS (sen)	2.6	5.1	3.1	3.8
PE (x)	38.3	19.4	15.2	11.7
EV/EBITDA (x)	16.9	9.7	7.9	6.4
Div yield (%)	1.1	2.2	1.3	1.7
ROE (%)	6.2	13.2	15.4	17.5
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	1,890.7
Market Cap (RMmil)	4,405.3
Book Value (RM/share)	0.92
P/BV (x)	2.5
ROE (%)	6.2
Net Gearing (%)	-
Major Shareholders	KWAP (10.9%) Datuk Beh Kim Ling (8.1%) Datin Gan Chu Cheng (6.9%)
Free Float	53.0
Avg Daily Value (RMmil)	47.2

Price performance	3mth	6mth	12mth
Absolute (%)	113.8	147.9	79.2
Relative (%)	124.4	123.2	84.4



Investment Highlights

- We maintain BUY on V.S. Industry (VSI) with a higher fair value of RM2.75/share (previously RM2.60/share), pegged to an unchanged FY22F PE of 18x after raising our FY22F-FY23F forecasts by 5-11% to account for its new customer, Customer Y's revenue contribution.

- We joined a conference call held by management and came away with the following key highlights:

➤ **Secured new factory:** The group announced that it has entered into a Sale and Purchase and Construction Agreement with Ipark Development Sdn. Bhd. to acquire six pieces of land with industrial buildings with a total land area of 413.7K sqft for a total consideration of RM98.8mil. The move will boost VSI's built area by 25% to ~50 acres.

➤ **...And new customer Y:** VSI also announced that it has secured a new US-customer producing home appliances referred to as Customer Y. Production will be housed in the new factory and start with one model beginning June 2021.

Customer Y is another customer that VSI cinched as a beneficiary from the US-China trade war diversion. Although beginning with the production of one model, Customer Y's contribution could be as sizeable as VSI's other US-based customer, estimated to reach approx. RM1bil topline contribution in the next two years, with a total of three models up for grabs.

➤ **HQ relocation for more production space:** While 300K sqft of the new factory space will be reserved for Customer Y, the remainder will be reserved to set up an R&D center and to place VSI's existing HQ. The current HQ space will be used to cater for Victory's production floor.

➤ **Negotiations on the backburner:** With facilities expected to be fully utilized by orders from existing and newly-secured customers, VSI has decided to focus on project execution and performance for its current customers instead of focusing on talks with prospective customers due to limited spare capacity.

➤ **FY20 capex:** We have factored in a higher FY20 capex of RM200mil - where RM100mil is for the new factory, RM50mil will be utilized to purchase new machinery, and the remainder for maintenance capex.

- We continue to like VSI due to its: (i) strong 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 opportunities to be secured from the US-China trade war.

EXHIBIT 1: PB BAND CHART

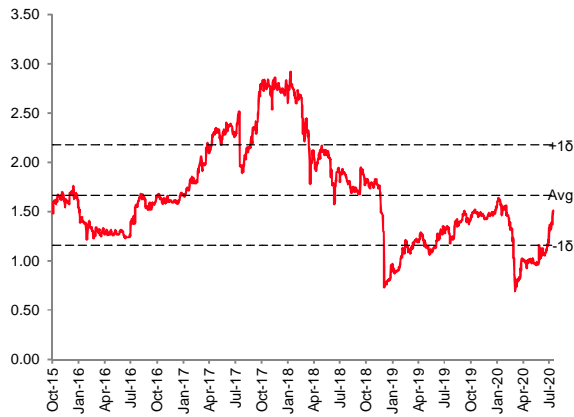


EXHIBIT 2: PE BAND CHART

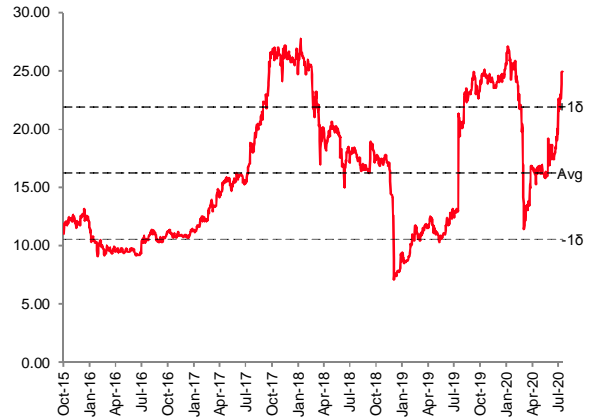


EXHIBIT 3: FINANCIAL DATA

Income Statement (RMmil, YE 31 Jul)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	3,978.4	3,243.2	4,264.9	5,162.4	6,339.9
EBITDA	302.3	251.4	418.2	502.2	606.6
Depreciation/Amortisation	(99.2)	(91.8)	(102.2)	(104.9)	(107.5)
Operating income (EBIT)	203.1	159.6	316.0	397.3	499.1
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	314.4	398.3	499.3
Taxation	(62.4)	(48.9)	(74.9)	(95.1)	(119.3)
Minorities/pref dividends	45.9	13.2	(5.8)	(5.8)	(5.8)
Net profit	165.4	102.9	233.7	297.5	374.2
Core net profit	193.8	117.2	233.7	297.5	374.2
Balance Sheet (RMmil, YE 31 Jul)	FY19	FY20	FY21F	FY22F	FY23F
Fixed assets	889.0	846.9	980.9	926.0	868.5
Intangible assets	-	-	-	-	-
Other long-term assets	243.8	258.7	255.6	257.8	259.9
Total non-current assets	1,132.7	1,105.6	1,236.5	1,183.8	1,128.5
Cash & equivalent	379.5	404.5	633.6	717.2	806.8
Stock	371.5	331.8	567.4	684.6	839.0
Trade debtors	994.8	877.6	1,086.7	1,315.4	1,615.4
Other current assets	0.2	2.3	1.0	1.0	1.0
Total current assets	1,745.9	1,616.2	2,288.7	2,718.1	3,262.3
Trade creditors	712.3	578.4	928.5	1,120.2	1,373.0
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	1,137.9	1,319.6	1,572.4
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	1,843.6	2,022.1	2,246.7
Minority interests	178.0	166.4	172.2	177.9	183.7
BV/share (RM)	0.90	0.92	1.00	1.09	1.22
Cash Flow (RMmil, YE 31 Jul)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	181.9	138.6	314.4	398.3	499.3
Depreciation/Amortisation	99.2	91.8	102.2	104.9	107.5
Net change in working capital	(65.5)	72.0	(92.2)	(154.1)	(201.7)
Others	8.9	20.2	(77.1)	(97.2)	(121.5)
Cash flow from operations	224.4	322.7	247.3	251.8	283.6
Capital expenditure	(117.0)	(120.6)	(200.0)	(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)	(200.0)	(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)	(93.5)	(119.0)	(149.7)
Others	(15.5)	13.3	-	-	-
Cash flow from financing	(170.6)	(204.2)	(42.3)	(124.0)	(149.7)
Net cash flow	(51.6)	28.8	5.0	77.8	83.9
Net cash/(debt) b/f	362.8	329.6	361.2	366.2	444.0
Net cash/(debt) c/f	313.8	361.2	366.2	444.0	527.9
Key Ratios (YE 31 Jul)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	(3.0)	(18.5)	31.5	21.0	22.8
EBITDA growth (%)	5.0	(16.8)	66.3	20.1	20.8
Pretax margin (%)	4.6	4.3	7.4	7.7	7.9
Net profit margin (%)	4.2	3.2	5.5	5.8	5.9
Interest cover (x)	10.7	15.6	83.6	334.5	254.3
Effective tax rate (%)	34.3	35.3	23.8	23.9	23.9
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	1,129	1,126	1,123
Creditors turnover (days)	1,553	1,306	1,848	1,842	1,838

Source: Company, AmInvestment Bank Bhd estimates

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