



AmInvestment Bank

Company Report

VITROX CORPORATION

(VITRO MK EQUITY, VTRX.KL)

29 Apr 2024

Aggressively tapping into China market despite short term challenges

BUY

(Maintained)

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Rationale for report: Company Update

Price	RM7.40
Fair Value	RM9.00
52-week High/Low	RM8.58/RM6.72

Key Changes

Fair value	↔
EPS	↔

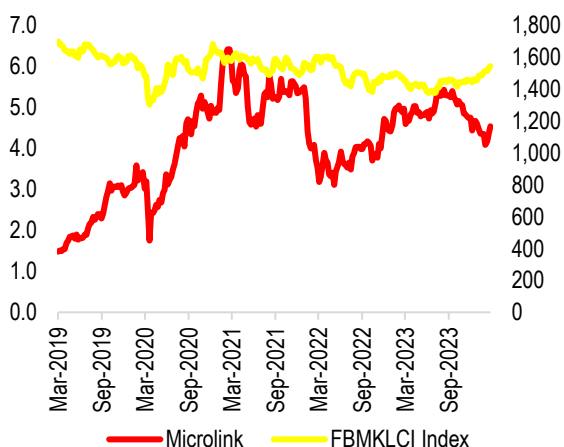
YE to Dec	FY23	FY24F	FY25F	FY26F
Revenue (RM mil)	574.9	623.0	742.3	844.6
Core net profit (RM mil)	133.2	162.3	206.0	219.6
FD Core EPS (sen)	14.1	17.2	21.8	23.2
FD Core EPS growth (%)	(37.2)	21.8	26.9	6.6
Consensus Net Profit (RM mil)	-	169.5	215.7	252.8
DPS (sen)	3.4	4.3	5.4	5.8
PE (x)	52.5	43.1	33.9	31.8
EV/EBITDA (x)	45.5	38.2	30.0	27.9
Div yield (%)	0.5	0.6	0.7	0.8
ROE (%)	14.0	15.8	17.6	16.5
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	945.4
Market Cap (RMmil)	6,996.1
Book Value (RM/Share)	1.01
P/BV (x)	7.3
ROE (%)	14.0
Net Gearing (%)	-

Major Shareholders	Chu Jenn Weng (26.4%) Siaw Kok Tong (18.0%) Yeoh Shin Hoong (9.4%)
Free Float	46.2
Avg Daily Value (RMmil)	3.7

Price performance	3mth	6mth	12mth
Absolute (%)	6.8	2.8	(7.4)
Relative (%)	2.1	(6.0)	(16.8)



Investment Highlights

- We maintain BUY call on ViTrox Corp with an unchanged FV of RM9.00/share, pegged to FY25F PE of 40x, 1 std deviation above the 5-year mean of 33x. We ascribe an unchanged 4-star ESG rating which incorporates a 3% premium to our valuation (Exhibit 4).
- Our forecasts are maintained following an analyst briefing last Friday. Key takeaways from the briefing are:
 - To recap 1QFY24 results, Vitrox's core net profit decline of 30% QoQ was mainly due to higher R&D expenditure for new product introductions (RM4mil), lower automated board inspection (ABI) demand (-12% QoQ) from Mexico and lower machine vision system (MVS) purchases (-25% QoQ) and higher service cost on component parts failure for service contract customers (RM3-5mil).
 - In the near term, we are still seeing a pickup in business activities but orders are still slow in the consumer electronics and back-end semiconductor sectors due to economic uncertainties. Vitrox guided for a revenue of RM121-140mil in 2QFY24 (MVS:40% and ABI:60%), supported by deliveries of new and some existing orders that have been pushed back in 1QFY24.
 - We understand that Vitrox is facing certain challenges for all segments such as (i) shipment deferrals due to a slowdown in automotive demand, with deliveries likely to occur in 2HCY24, and (ii) intensive competition in China to gain market share.
 - Vitrox plans to address these challenges by revising its selling prices and develop new and more cost-effective models for its MVS tray (MVS-T) and ABI segment to compete with local Chinese players. Consequently, we anticipate a short-term margin squeeze resulting from lower average selling price and an increase in R&D costs for new models.
 - However, we maintain a positive outlook on the industry's gradual recovery in 2HCY24 and beyond. We are comforted by the group's well-diversified revenue streams beyond China and its aggressive pursuit of market share within China.
 - Vitrox anticipates a stronger 2HCY24 compared to 1HCY24 due to:
 - higher sales from MVST segment, driven by strong demand from Chinese smartphone players,
 - development of new models with AI features under MVS-T segment gaining traction, especially in the memory, high-performance computing and radio frequency segments for Chinese semiconductor suppliers, and
 - recovery of pretax profit margin above 20% in subsequent quarters vs. 16% in 1QFY24 from a better product mix and recovery in service segment margin.

- Vitrox's 1QFY24 book-to-bill ratio is at 1.0x. Moving forward, we expect book-to-bill ratio continue to hover at 0.9-1.0x quarterly driven by short orders and slow recovery in the industry.
- From a valuation perspective, the stock currently trades at an attractive FY25F PE of 34x vs. its 5-year peak of over 66x.

EXHIBIT 3: ESG RATING

	Environmental assessment	Parameters	Weightage	Rating				Rationale
				*	*	*	*	
1	Carbon emissions reduction	45% CO2 reduction by 2030	40%	*	*	*	*	Maintained at 2022
2	Scope 1 GHG Emissions	Co2e reduction	10%	*	*	*		85% increase in 2023 due to increased participation in exhibitions and trade fair
3	Scope 2 GHG Emissions	Co2e reduction	10%	*	*	*		5% reduction in 2023
4	Scope 3 GHG Emissions	Co2e reduction	5%	*				Just started tracking in 2023
5	V-Meal Programme	earth-friendly meals served	10%	*	*	*	*	34% increase in 2022
6	Conversion of new vehicles to EV	# of Evs	5%	*	*	*		EV buggy car, electric forklift and 14 parking lots for EV
7	Air, noise & water quality	% reduction in water withdrawal from municipal suppliers	10%	*	*	*		21% increase in 2023
8	Minimise waste generation	kg	10%	*	*			Significant increase due to business growth
	Weighted score for environmental assessment		100%	*	*	*	*	
	Social assessment							
1	Employee turnover	No of workforce changes	20%	*	*	*		5% in 2023
2	Health, safety & well-being	incident rate	20%	*	*	*		6.3% in 2023
3	Women in workforce	% of total workforce	20%	*	*	*		31% in workforce & 30% in senior management
4	Investment in employee training	RM	10%	*	*	*	*	RM0.7mil - similar as 2022
5	Procurement sourcing from local vendors	% of total procurement	15%	*	*	*	*	60% in 2023
6	CSR programmes	# of interns conversion rate	15%	*	*	*	*	19% conversion rate & own Vitrox academy & college
	Weighted score for social assessment		100%	*	*	*	*	
	Governance assessment							
1	Board age diversity	% under 60 years old	15%	*	*	*		55%
2	Board women representation	% of total board directors	15%	*	*	*		44% representation
3	Directors with tenure below 6 years	% below 6 years category	15%	*	*	*		33%
4	Independent board directors	% of total board directors	15%	*	*	*	*	33% - independent non-exec
5	Remuneration to directors	% of total staff costs	20%	*	*	*	*	RM1.4mil - 1% of 2023 staff costs
6	Corruption investigations	Confirmed incidents	20%	*	*	*	*	zero cases
	Weighted score for governance assessment		100%	*	*	*	*	
	Environmental score		30%	*	*	*		
	Social score		35%	*	*	*		
	Governance score		35%	*	*	*	*	
	Overall ESG Score		100%	*	*	*	*	

Source: AmlInvestment Bank

EXHIBIT 1: PB BAND CHART

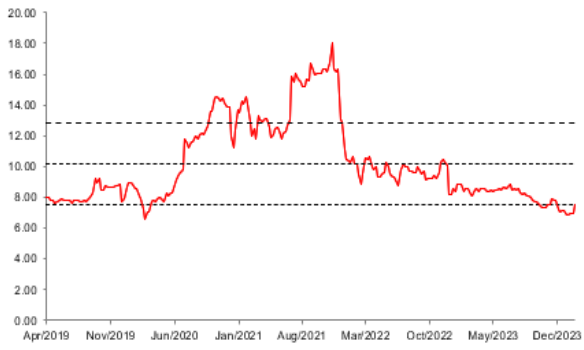


EXHIBIT 2: PE BAND CHART

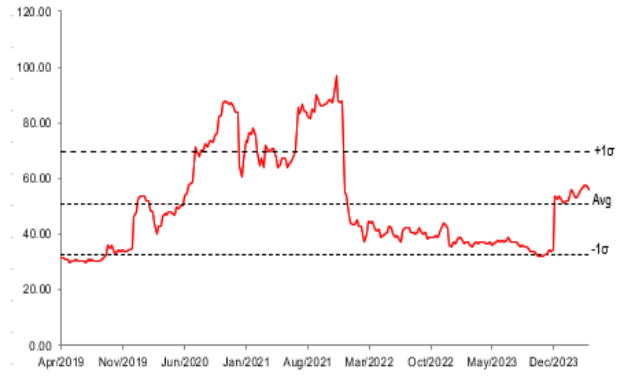


EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Revenue	750.2	574.9	623.0	742.3	844.6
EBITDA	214.4	146.5	172.3	217.2	231.3
Depreciation/Amortisation	(8.5)	(11.1)	(10.4)	(11.5)	(12.9)
Operating income (EBIT)	205.9	135.4	161.9	205.6	218.5
Other income & associates	-	-	-	-	-
Net interest	0.4	6.2	6.3	8.2	9.5
Exceptional items	(11.1)	(4.9)	-	-	-
Pretax profit	206.2	141.6	168.2	213.8	228.0
Taxation	(5.9)	(14.0)	(5.9)	(7.5)	(8.0)
Minorities/pref dividends	0.5	0.7	-	(0.3)	(0.4)
Net profit	200.8	128.3	162.3	206.0	219.6
Core net profit	211.9	133.2	162.3	206.0	219.6
Balance Sheet (RMmil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Fixed assets	144.7	210.3	138.5	149.2	161.7
Intangible assets	-	-	-	-	-
Other long-term assets	152.2	150.8	192.4	216.3	276.6
Total non-current assets	296.8	361.1	330.9	365.5	438.3
Cash & equivalent	370.4	389.0	471.1	531.5	592.6
Stock	202.7	198.6	181.6	208.0	235.8
Trade debtors	253.0	191.1	204.8	244.0	280.0
Other current assets	15.2	26.6	25.8	25.8	26.8
Total current assets	841.3	805.3	883.4	1,009.4	1,135.2
Trade creditors	153.4	115.2	150.6	168.9	197.5
Short-term borrowings	12.9	13.5	12.8	12.2	11.5
Other current liabilities	34.4	25.7	28.0	30.8	34.2
Total current liabilities	200.7	154.3	191.4	211.9	243.2
Long-term borrowings	59.6	48.9	46.5	44.2	42.0
Other long-term liabilities	4.2	5.7	6.4	7.1	7.9
Total long-term liabilities	63.9	54.7	52.9	51.3	49.9
Shareholders' funds	874.3	958.9	1,095.8	1,250.3	1,416.1
Minority interests	-	-	-	-	-
BV/share (RM)	0.93	1.01	1.16	1.32	1.50
Cash Flow (RMmil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Pretax profit	206.2	141.6	168.2	213.8	228.0
Depreciation/Amortisation	8.5	11.1	10.4	11.5	12.9
Net change in working capital	(58.1)	3.5	(34.4)	(86.6)	(95.4)
Others	11.2	(12.2)	(12.2)	(15.6)	(17.5)
Cash flow from operations	167.9	144.0	132.0	123.1	127.9
Capital expenditure	(43.0)	(75.1)	(18.7)	(22.3)	(25.3)
Net investments & sale of fixed assets	0.7	-	-	-	-
Others	(0.8)	16.8	8.4	10.1	11.4
Cash flow from investing	(43.1)	(58.3)	(10.3)	(12.1)	(13.9)
Debt raised/(repaid)	(40.8)	(12.6)	-	-	-
Equity raised/(repaid)	0.4	0.6	-	-	-
Dividends paid	(43.3)	(51.0)	(40.6)	(51.5)	(54.9)
Others	75.9	(4.3)	-	-	-
Cash flow from financing	(7.7)	(67.2)	(39.6)	(50.5)	(52.9)
Net cash flow	117.1	18.5	82.1	60.4	61.1
Net cash/(debt) b/f	255.9	370.4	389.0	471.1	531.5
Net cash/(debt) c/f	370.4	389.0	471.1	531.5	592.6
Key Ratios (YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Revenue growth (%)	10.3	(23.4)	8.4	19.2	13.8
EBITDA growth (%)	17.8	(31.7)	17.6	26.0	6.5
Pretax margin (%)	27.5	24.6	27.0	28.8	27.0
Net profit margin (%)	26.8	22.3	26.1	27.8	26.0
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	2.9	9.9	3.5	3.5	3.5
Dividend payout (%)	25.4	25.0	25.0	25.0	25.0
Debtors turnover (days)	118	141	116	110	113
Stock turnover (days)	97	127	111	96	96
Creditors turnover (days)	78	85	78	79	79

SOURCE: COMPANY, AMINVESTMENT BANK BHD ESTIMATES

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