



Company report

V.S. INDUSTRY

(VSI MK EQUITY, VSID.KL)

1 July 2022

Diversified customer base to offset US slowdown

BUY

(Maintained)

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Rationale for report: Company update

Price	RM1.00
Fair Value	RM1.27
52-week High/Low	RM1.73/RM0.83

Key Changes

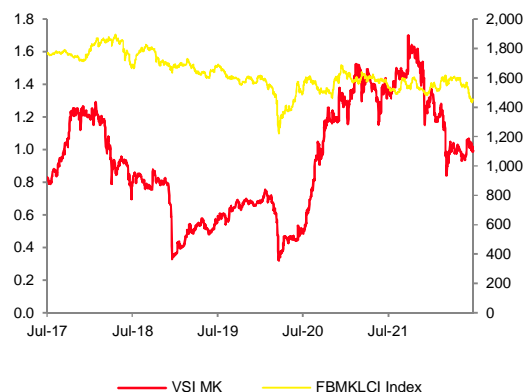
Fair value	↔
EPS	↔

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	187.5	336.9	354.1
FD Core EPS (sen)	6.5	4.8	8.0	8.4
FD Core EPS growth (%)	80.5	(26.5)	67.1	4.5
Consensus Net Profit (RM mil)	-	189.5	298.6	355.7
DPS (sen)	2.8	1.9	3.4	3.6
PE (x)	15.2	20.7	12.4	11.8
EV/EBITDA (x)	7.8	9.1	5.4	5.2
Div yield (%)	2.8	1.9	3.4	3.6
ROE (%)	13.1	9.0	15.0	14.5
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	3,817.6
Market Cap (RM mil)	3,798.5
Book Value (RM/share)	0.54
P/BV (x)	1.9
ROE (%)	13.1
Net Gearing (%)	-
Major Shareholders	KWAP (8.6%) Datuk Beh Kim Ling (7.7%) Beh Hwee Sze (7.3%)
Free Float	48.5
Avg Daily Value (RM mil)	5.5

Price performance	3mth	6mth	12mth
Absolute (%)	1.0	(25.2)	(26.3)
Relative (%)	10.2	(20.4)	(21.4)



Investment Highlights

- We maintain our BUY recommendation on V.S. Industry (VSI) with an unchanged fair value of RM1.27/share, pegged to an FY23F PE of 16x. Our target PE is based on 1 standard deviation above VSI's 3-year average. We make no adjustment to our neutral 3-star ESG rating (Exhibit 3).
- Our forecasts are maintained following VSI's 3QFY22 results briefing. Below are the key takeaways:
 - Management expects 2,000 migrant workers from Myanmar to arrive by the end of FY22F with another 1,700 workers joining by September. The additional workforce of 3,700 should allow VSI to sustain its fulfilment of orders until the December 2022.
 - Supply chain disruptions remain a key operational headwind to the group. However, management noticed that the bottleneck is easing. The group continues to be prudent in its inventory management, particularly on printed circuit board components.
 - Our FY23F revenue of RM4.8bil is in line with management guidance range of RM4.5bil to RM4.8bil. While we expect its coffee brewer and US-based clients' revenue to trend lower, increasing orders from customers X and Y may be able to offset the declines.
 - Notably, the group has received 4 additional models for assembly from customer X, in which production is expected to double from the existing level. This has been incorporated into our FY23F assumption.
 - In terms of the independent review on labour practices by PwC Consulting, the group highlighted that the results of the audit should be available by mid-July. We do not expect any surprises as the group has been proactive in updating ESG-related issues. Recall that the review commenced on 3 March 2022 with completion expected in 4 months.
- While we are upbeat on the improving labour situation, we remain cautious on other challenges brought about by the Covid-19 pandemic and Russia-Ukraine conflict. These include persistent supply chain disruptions and a stagflationary outlook, leading to weaker demand for discretionary goods.

- Nonetheless, 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) improving overseas operations supported by higher sales orders as well as better cost rationalisation initiatives in China; and
 - (iii) ongoing commitment to better ESG standards, particularly on improving employees' welfare.
- The stock currently trades at a compelling FY23F PE of 12x vs. its 5-year average of 14x and peaks of over 20x.

EXHIBIT 1: PB BAND CHART

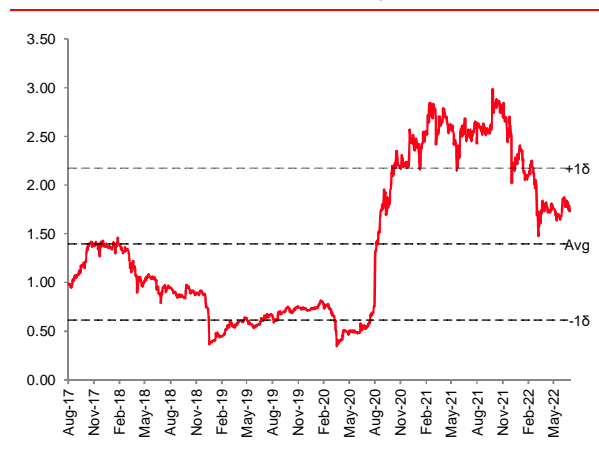


EXHIBIT 2: PE BAND CHART

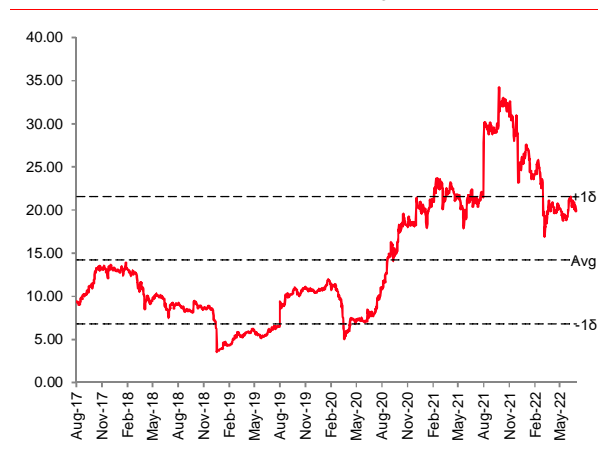


EXHIBIT 3: ESG RATING

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.

EXHIBIT 4: 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	349.6	549.7	575.3
Depreciation/Amortisation	(91.8)	(101.5)	(101.7)	(104.4)	(108.6)
Operating income (EBIT)	161.3	337.1	247.9	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	242.0	438.6	461.2
Taxation	(48.9)	(87.5)	(58.2)	(105.4)	(110.8)
Minorities/pref dividends	12.0	3.7	3.7	3.7	3.7
Net profit	116.5	245.3	187.5	336.9	354.1
Core net profit	131.5	269.7	187.5	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	911.1	1,092.0	1,086.3
Stock	331.8	523.6	626.0	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	2,705.0	2,944.1	3,027.3
Trade creditors	578.4	856.9	1,024.3	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	1,223.7	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	2,148.2	2,339.9	2,541.4
Minority interests	167.6	177.0	173.3	169.5	165.8
BV/share (RM)	0.92	0.54	0.57	0.62	0.67
Cash Flow (RMmil, YE 31 Jul)	FY20	FY21	FY22F	FY23F	FY24F
Pretax profit	153.4	329.1	242.0	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)	(82.1)	(54.8)	(39.6)
Others	6.3	267.1	(57.6)	(104.8)	(110.2)
Cash flow from operations	322.7	116.7	204.1	383.5	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)	(80.8)	(145.2)	(152.6)
Others	(3.3)	-	-	-	-
Cash flow from financing	(204.2)	(3.8)	(85.8)	(145.2)	(172.6)
Net cash flow	28.8	(75.5)	68.3	188.2	167.5
Net cash/(debt) b/f	329.6	361.2	371.4	439.7	627.9
Net cash/(debt) c/f	361.2	293.3	439.7	627.9	795.4
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	(20.3)	57.2	4.7
Pretax margin (%)	4.7	8.2	5.3	9.1	9.2
Net profit margin (%)	3.6	6.1	4.1	7.0	7.0
Interest cover (x)	15.8	46.0	47.3	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	1,284	1,225	1,225
Creditors turnover (days)	1,320	1,645	2,101	2,005	2,005

Source: Company, AmInvestment Bank Bhd estimates

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