



AmInvestment Bank

## Company Report

## V.S INDUSTRY

(VSI MK EQUITY, VSID.KL)

18 Jan 2024

Expect weaker sales orders in 2QFY24

**HOLD**

(Maintained)

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Rationale for report: Company Update

Price	RM0.785
Fair Value	RM0.67
52-week High/Low	RM1.05/RM0.75

## Key Changes

Fair value	⬇️
EPS	⬇️

YE to Jul	FY23	FY24F	FY25F	FY26F
Revenue (RM mil)	4,599.8	4,277.8	4,577.2	4,897.6
Core net profit (RM mil)	208.6	160.7	198.9	229.2
FD Core EPS (sen)	4.4	3.4	4.2	4.9
FD Core EPS growth (%)	(3.1)	(23.0)	23.8	15.2
Consensus Net Profit (RM mil)	-	203.1	247.2	289.0
DPS (sen)	2.2	1.7	2.1	2.4
PE (x)	17.7	23.0	18.6	16.1
EV/EBITDA (x)	8.1	9.6	8.2	7.3
Div yield (%)	2.8	2.1	2.6	3.0
ROE (%)	8.5	7.3	8.6	9.4
Net Gearing (%)	7.7	11.9	12.8	12.7

## Stock and Financial Data

Shares Outstanding (million)	3,852.2
Market Cap (RMmil)	3,024.0
Book Value (RM/share)	0.56
P/BV (x)	1.4
ROE (%)	8.5
Net Gearing (%)	7.7
Major Shareholders	Beh Hwee Sze (14.3%) KWAP (9.1%) Datuk Beh Kim Ling (7.7%)
Free Float	52.0%
Avg Daily Value (RMmil)	3.7

Price performance	3mth	6mth	12mth
Absolute (%)	(17.8)	(9.2)	(12.3)
Relative (%)	(20.4)	(14.4)	(11.8)



— VSI MK — FBMKLCI Index

## Investment Highlights

- We maintain HOLD recommendation on V.S. Industry (VSI) with a lower fair value (FV) of RM0.67/share (from RM0.73/share previously) to account for lower earnings estimates. Our FV is based on an unchanged CY24F target PE of 15x (Exhibit 1), at parity to the group's 5-year average. We made no adjustment to our neutral 3- star ESG rating.
- After an analyst briefing yesterday, we reduced FY24F-26F earnings by 12%/7%/9% to account for weaker sales orders from VSI's key customers and lower profit margin assumptions to reflect lower economies of scale.
- Specifically, VSI's 1HFY24F revenue will be impacted mainly by VSI's key customer, Customer X (which account for 25%-30% of VSI's FY24F revenue), as a result of its high inventory levels coupled with current weak consumer sentiments, especially in Western regions due to elevated inflation and interest rates. Nevertheless, this could be partially offset by new model launches by a USA-based customer together with a coffee brewer and pool cleaner.
- In view of lower plant utilisation rate, VSI will attempt to cushion profit margins by incorporating some in-house processes which were previously outsourced. Nevertheless, we believe this is insufficient to offset diminished economies of scale. Hence, we reduced FY24F-26F gross profit margin assumptions in to 3.8%/4.3%/4.7% from 4.0%/4.5%/4.9%.
- To recap, VSI progressively acquired 51% equity stake in HT Press Work (HTPW) back in May-Sep 2023 to capitalise on HTPW's potential RM100mil contract from a new US-based MNC. The MNC supplies consumer electronics and could allow HTPW to generate a double-digit gross profit margin (GPM) exceeding VSI's 9%-10% in FY23.
- We gathered that mass production of this RM100mil order could start in 3QFY24F, instead of 2QFY24F that was previously guided owing to steep learning curve. This is reflected in our revised FY24F-26F earnings.
- For other new customers, VSI has been in active negotiations, albeit without any clarity for now.
- Going forward, we anticipate a weaker 2QFY24F revenue and profit due to weaker demand from VSI's key customer. However, we believe a progressive recovery could commence in 2HFY24F on expectation of customers' depleting inventory levels.
- The stock is trading at CY24F PE of 17.5x, 17% above its 5-year average of 15x with a mild dividend yield of 2%, we see limited upside potential.

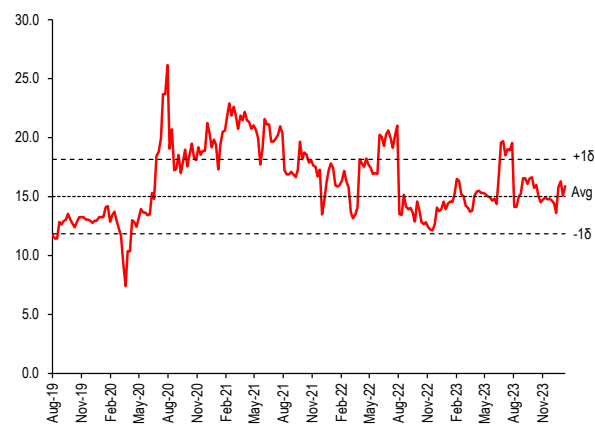
**EXHIBIT 1: VALUATION**

Outstanding share base (mil)	3,852.2
Full conversion of bonus warrants (mil)	761.8
Exercise price (RM)	1.38
Outstanding ESOS (mil)	89.3
Average exercise price (RM)	0.68
<b>Fully diluted share base (mil)</b>	<b>4,703.3</b>
CY24F net profit (RM'mil)	176.6
ESOS & warrants proceeds (RM'mil)	1,112.1
Notional interest income (RM'mil)	33.4
Target P/E(x)	<b>15.0</b>
Fair value (RM'mil)	3,149.8
<b>Fair value/share (RM)</b>	<b>0.67</b>

**EXHIBIT 2: 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 3: PB BAND CHART****EXHIBIT 4: PE BAND CHART**

## EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Jul)	FY22	FY23	FY24F	FY25F	FY26F
Revenue	3,914.1	4,599.8	4,277.8	4,577.2	4,897.6
EBITDA	333.1	393.9	342.1	404.6	456.0
Depreciation/Amortisation	(121.4)	(120.1)	(124.8)	(135.4)	(146.0)
Operating income (EBIT)	211.6	273.8	217.3	269.1	310.0
Other income & associates	45.1	26.2	1.5	1.5	1.5
Net interest	(9.7)	(29.7)	(19.1)	(19.5)	(19.5)
Exceptional items	(45.6)	(24.6)	-	-	-
<b>Pretax profit</b>	<b>201.4</b>	<b>245.6</b>	<b>199.7</b>	<b>251.2</b>	<b>292.1</b>
Taxation	(51.5)	(71.2)	(47.6)	(59.9)	(69.7)
Minorities/pref dividends	19.8	9.5	8.5	7.7	6.9
<b>Net profit</b>	<b>169.7</b>	<b>183.9</b>	<b>160.7</b>	<b>198.9</b>	<b>229.2</b>
Core net profit	215.3	208.6	160.7	198.9	229.2
Balance Sheet (RMmil, YE 31 Jul)	FY22	FY23	FY24F	FY25F	FY26F
Fixed assets	1,214.5	985.4	1,133.3	1,201.5	1,259.0
Intangible assets	-	-	-	-	-
Other long-term assets	298.4	271.1	270.6	270.0	269.5
<b>Total non-current assets</b>	<b>1,512.9</b>	<b>1,256.5</b>	<b>1,403.8</b>	<b>1,471.5</b>	<b>1,528.6</b>
Cash & equivalent	278.6	689.3	425.0	424.3	437.1
Stock	925.7	703.8	989.9	1,058.6	1,132.7
Trade debtors	1,093.1	1,201.1	1,283.2	1,373.0	1,469.1
Other current assets	169.8	196.8	193.4	206.9	221.4
<b>Total current assets</b>	<b>2,467.2</b>	<b>2,791.0</b>	<b>2,891.5</b>	<b>3,062.8</b>	<b>3,260.3</b>
Trade creditors	860.4	797.5	866.4	926.6	991.4
Short-term borrowings	476.3	269.8	270.0	270.0	270.0
Other current liabilities	27.0	45.7	46.4	47.0	47.6
<b>Total current liabilities</b>	<b>1,363.6</b>	<b>1,112.9</b>	<b>1,182.8</b>	<b>1,243.5</b>	<b>1,309.1</b>
Long-term borrowings	123.8	585.2	600.0	600.0	600.0
Other long-term liabilities	129.8	63.9	63.9	63.9	63.9
<b>Total long-term liabilities</b>	<b>253.6</b>	<b>649.1</b>	<b>663.9</b>	<b>663.9</b>	<b>663.9</b>
<b>Shareholders' funds</b>	<b>2,193.2</b>	<b>2,153.7</b>	<b>2,297.1</b>	<b>2,455.5</b>	<b>2,624.7</b>
Minority interests	170.7	131.7	151.5	171.4	191.2
BV/share (RM)	0.57	0.56	0.60	0.64	0.68
Cash Flow (RMmil, YE 31 Jul)	FY22	FY23	FY24F	FY25F	FY26F
Pretax profit	201.4	245.6	288.5	321.5	345.0
Depreciation/Amortisation	121.4	120.1	124.8	135.4	146.0
Net change in working capital	(484.9)	38.0	(249.3)	(48.4)	(55.3)
Others	100.4	22.6	(57.6)	(65.5)	(71.1)
<b>Cash flow from operations</b>	<b>(61.6)</b>	<b>426.4</b>	<b>106.4</b>	<b>343.0</b>	<b>364.6</b>
Capital expenditure	(215.1)	(136.0)	(100.0)	(200.0)	(200.0)
Net investments & sale of fixed assets	-	(1.2)	-	-	-
Others	-	-	-	-	-
<b>Cash flow from investing</b>	<b>(215.1)</b>	<b>(137.2)</b>	<b>(100.0)</b>	<b>(200.0)</b>	<b>(200.0)</b>
Debt raised/(repaid)	195.5	212.3	15.1	-	-
Equity raised/(repaid)	12.9	13.0	-	-	-
Dividends paid	(84.0)	(76.9)	(95.6)	(105.6)	(112.8)
Others	(12.3)	(2.6)	(34.5)	(26.1)	(26.1)
<b>Cash flow from financing</b>	<b>112.1</b>	<b>133.9</b>	<b>(115.0)</b>	<b>(131.7)</b>	<b>(138.9)</b>
<b>Net cash flow</b>	<b>(126.4)</b>	<b>412.1</b>	<b>(108.6)</b>	<b>11.3</b>	<b>25.7</b>
<b>Net cash/(debt) b/f</b>	<b>371.4</b>	<b>274.6</b>	<b>687.6</b>	<b>579.0</b>	<b>590.3</b>
<b>Net cash/(debt) c/f</b>	<b>250.8</b>	<b>685.2</b>	<b>579.0</b>	<b>590.3</b>	<b>616.0</b>
Key Ratios (YE 31 Jul)	FY22	FY23	FY24F	FY25F	FY26F
Revenue growth (%)	(2.2)	17.5	9.5	7.0	7.0
EBITDA growth (%)	(24.1)	18.3	11.0	8.0	7.2
Pretax margin (%)	5.1	5.3	5.7	6.0	6.0
Net profit margin (%)	4.3	4.0	4.7	4.9	4.9
Interest cover (x)	21.8	9.2	13.4	22.7	24.3
Effective tax rate (%)	25.6	29.0	24.0	24.0	24.0
Dividend payout (%)	45.3	46.5	40.0	40.0	40.0
Debtors turnover (days)	97.2	91.0	90.0	90.0	90.0
Stock turnover (days)	81.2	71.5	68.4	77.4	77.4
Creditors turnover (days)	88.8	72.8	67.2	67.7	67.7

Source: Company, AmlInvestment Bank Bhd estimates

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