

V.S. Industry (VSI MK)

Results exceed expectations

Positively surprised; upgrade to BUY

VSI's FY22 results came in above expectations, exceeding by 18%/15% of ours/consensus' full-year forecasts respectively. We maintain our FY23-24E's earnings estimates and introduce FY25E, while raising TP by 8% to MYR1.15 (from MYR1.07) on rolling forward valuation base year to FY24E. Our TP is derived by pegging VSI's fully-diluted FY24E EPS of 8sen to a PER multiple of 14.4x (at -0.5SD to its 5-year PER average of 16.9x), with the -0.5SD peg to reflect the increasing economic risks globally.

4QFY22 CNP improved by 55% QoQ on labour arrival

VSI's FY22 core net profit (CNP) came in at MYR215m (-22% YoY), after excluding negative one-off amounting to MYR46m, which consists of some loss from disposal and impairments. The earnings fall was mainly down to lower order deliveries due to labour/component shortages and higher depreciation costs. However, its 4QFY22 CNP of MYR82m (+55% QoQ, +18% YoY) came in higher QoQ, we believe, is largely attributed to the ramping up of production following the labour arrival since end-May.

Geographical performances breakdown

Zooming in on its geographical performance, Malaysia segment's FY22 PBT contracted by -29% YoY, due to the supply chain disruption and labour shortage issues, which have also led to unoptimized operations for the new facilities. Likewise, the Indonesia and China segment's performances were lacklustre, as a result of lower sales orders and diseconomies of scale respectively.

BUY on better visibility in operational recovery

We believe VSI has finally cruised through the pandemic-led disruptions (ie. labour and raw material shortages), and operations are slowly recovering with the arrival of foreign labour and normalising supply chain. While we remain cautious on headwinds such as inflationary pressure and consumer spending slowdown, which could drag VSI's future earnings, we believe these have been largely reflected in our conservative forecasts at this juncture. Upgrade to BUY on better visibility in operational recovery.

| FYE Jul (MYR m) | FY21A | FY22A | FY23E | FY24E | FY25E |
|------------------------------|-------|--------|-------|-------|----------|
| Revenue | 4,002 | 3,914 | 4,230 | 4,680 | 5,038 |
| EBITDA | 439 | 333 | 521 | 599 | 659 |
| Core net profit | 274 | 216 | 277 | 343 | 394 |
| Core FDEPS (sen) | 7.3 | 5.2 | 6.5 | 8.0 | 9.1 |
| Core FDEPS growth(%) | 161.1 | (28.6) | 26.0 | 22.2 | 13.8 |
| Net DPS (sen) | 3.7 | 2.2 | 2.9 | 3.6 | 4.1 |
| Core FD P/E (x) | 19.0 | 19.5 | 14.1 | 11.5 | 10.1 |
| P/BV (x) | 2.6 | 1.8 | 1.5 | 1.4 | 1.3 |
| Net dividend yield (%) | 2.7 | 2.2 | 3.2 | 3.9 | 4.5 |
| ROAE (%) | 13.1 | 8.0 | 12.2 | 13.9 | 14.7 |
| ROAA (%) | 8.5 | 5.7 | 6.8 | 8.0 | 8.6 |
| EV/EBITDA (x) | 12.2 | 13.0 | 7.4 | 6.2 | 5.4 |
| Net gearing (%) (incl perps) | 1.2 | 13.8 | 7.5 | 3.3 | net cash |
| Consensus net profit | - | - | 277 | 353 | na |
| MKE vs. Consensus (%) | - | - | 0.2 | (2.7) | na |

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BUY

[Prior:HOLD]

| | |
|-----------------------|-----------------|
| Share Price | MYR 0.94 |
| 12m Price Target | MYR 1.15 (+27%) |
| Previous Price Target | MYR 1.07 |

Company Description

VS Industry Bhd is the 26th largest EMS provider in the world by revenue, ranked according to Manufacturing Market Insider in 2020.

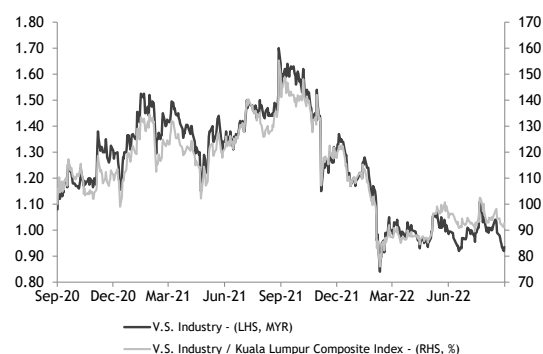
Statistics

| | |
|------------------------|--------------------|
| 52w high/low (MYR) | 1.64/0.84 |
| 3m avg turnover (USDm) | 1.1 |
| Free float (%) | 65.1 |
| Issued shares (m) | 3,847 |
| Market capitalisation | MYR3.5B USD768M |

Major shareholders:

| | |
|-------------------------|------|
| Kumpulan Wang Persaraan | 8.6% |
| BEH KIM LING | 7.7% |
| BEH HWEE SZE | 7.3% |

Price Performance



| | | | |
|-----------------------|------|-----|------|
| | -1M | -3M | -12M |
| Absolute (%) | (11) | (8) | (44) |
| Relative to index (%) | (5) | (6) | (39) |

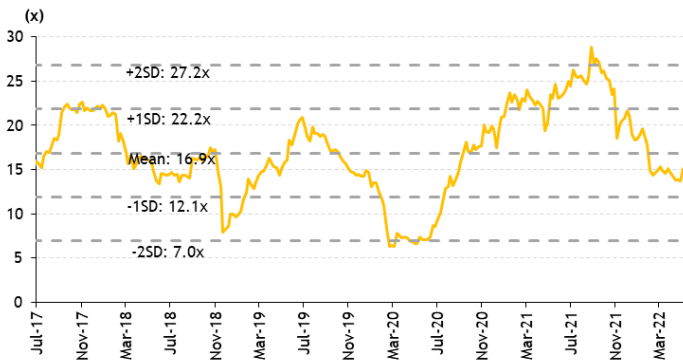
Source: FactSet

Figure 1: V.S. Industry results summary

| FY Jul (MYR m) | Quarterly results | | | | | Cumulative results | | |
|----------------------------------|-------------------|--------------|----------------|--------------|----------------|--------------------|----------------|----------------|
| | 4Q22 | 3Q22 | %QoQ | 4Q21 | %YoY | 12M22 | 12M21 | %YoY |
| Turnover | 1,004.4 | 927.6 | 8.3 | 941.1 | 6.7 | 3,914.1 | 4,002.3 | (2.2) |
| EBIT | 36.9 | 65.6 | (43.8) | 56.7 | (35.0) | 211.6 | 337.1 | (37.2) |
| Interest expense | (3.9) | (2.8) | 39.9 | (3.1) | 25.9 | (12.3) | (11.3) | 8.8 |
| Interest income | 0.4 | 0.4 | 12.8 | 0.9 | (53.6) | 2.6 | 4.0 | (34.5) |
| Associate | 0.8 | (0.4) | NM | 1.3 | (39.7) | (0.5) | (0.7) | (21.6) |
| Pre-tax profit | 34.2 | 62.8 | (45.6) | 55.9 | (38.8) | 201.4 | 329.1 | (38.8) |
| Taxation | (12.4) | (14.8) | (16.0) | (14.1) | (12.0) | (51.5) | (87.5) | (41.1) |
| Minority interest | 12.8 | 5.4 | >100 | (0.3) | NM | 19.8 | 3.7 | >100 |
| Net profit | 34.6 | 53.4 | (35.2) | 41.5 | (16.7) | 169.7 | 245.3 | (30.8) |
| Exceptional items | 47.1 | (0.8) | NM | 27.6 | 70.7 | 45.6 | 28.9 | 57.5 |
| Core net profit | 81.7 | 52.6 | 55.4 | 69.1 | 18.2 | 215.3 | 274.3 | (21.5) |
| | 4Q22 | 3Q22 | +/- ppt | 4Q21 | +/- ppt | 12M22 | 12M21 | +/- ppt |
| Core net profit margin (%) | 8.1 | 5.7 | 2.5 | 7.3 | 0.8 | 5.5 | 6.9 | (1.4) |
| Tax rate (%) | 36.4 | 23.6 | 12.8 | 25.3 | 11.1 | 25.6 | 26.6 | (1.0) |
| | 4Q22 | 3Q22 | %QoQ | 4Q21 | %YoY | 12M22 | 12M21 | %YoY |
| Revenue (MYR m) | 1,004.4 | 927.6 | 8.3 | 941.1 | 6.7 | 3,914.1 | 4,002.3 | (2.2) |
| Malaysia | 908.3 | 825.1 | 10.1 | 816.7 | 11.2 | 3,483.4 | 3,475.4 | 0.2 |
| Indonesia | 75.4 | 83.9 | (10.1) | 81.3 | (7.2) | 327.8 | 350.0 | (6.4) |
| China | 12.4 | 11.5 | 8.7 | 37.1 | (66.4) | 79.7 | 160.9 | (50.5) |
| Others | 8.2 | 7.2 | 14.4 | 6.1 | 35.5 | 23.2 | 16.0 | 44.6 |
| | 4Q22 | 3Q22 | (45.6) | 55.9 | (38.8) | 201.4 | 329.1 | (38.8) |
| Pretax profit (MYR m) | 34.2 | 62.8 | (45.6) | 55.9 | (38.8) | 201.4 | 329.1 | (38.8) |
| Malaysia | 58.6 | 67.7 | (13.4) | 52.1 | 12.6 | 230.7 | 323.3 | (28.6) |
| Indonesia | (0.1) | 2.4 | NM | 2.9 | NM | 8.4 | 11.0 | (24.3) |
| China | (22.2) | (6.5) | >100 | (2.3) | >100 | (37.4) | (10.2) | >100 |
| Others | (2.1) | (0.8) | >100 | 3.2 | NM | (0.2) | 5.0 | NM |
| | 4Q22 | 3Q22 | +/- ppt | 4Q21 | +/- ppt | 12M22 | 12M21 | +/- ppt |
| Pretax profit margins (%) | 4Q22 | 3Q22 | +/- ppt | 4Q21 | +/- ppt | 12M22 | 12M21 | +/- ppt |
| Malaysia | 6.5 | 8.2 | (1.7) | 6.4 | 0.1 | 6.6 | 9.3 | (2.7) |
| Indonesia | NM | 2.8 | NM | 3.5 | NM | 2.6 | 3.2 | (0.6) |
| China | NM | NM | NM | NM | NM | NM | NM | NM |

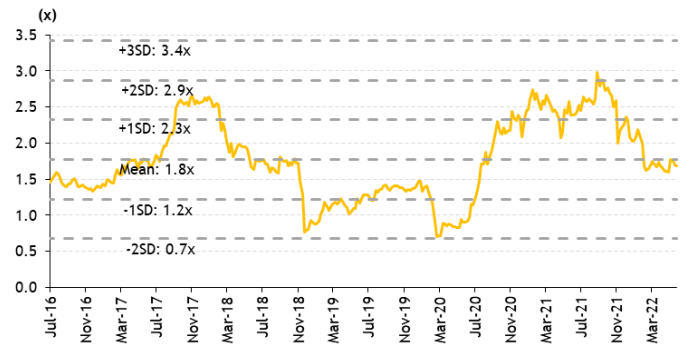
Source: Company, Maybank IBG Research

Figure 2: VSI's 12M forward PER (currently trades at 12.5x)



Source: Bloomberg, Maybank IBG Research

Figure 3: VSI's 12M forward P/BV (currently trades at 1.7x)



Source: Bloomberg, Maybank IBG Research

Risk statement

There are several risk factors for our earnings estimates, target price and rating for VSI. Key risks are: (i) weaker-than-expected consumer demand for VSI assembled products (on weakening economics outlook); (ii) lower-than-expected costs pass through (as the mechanism depends on the company's negotiation with its clients); (iii) persistent operational disruptions from labour issues and/or components shortage (on new rounds of China lockdown); and (iv) USD/MYR forex volatility (we estimate for every +/-1% change in USD/MYR, bottom line impact is +/-0.5%).

| FYE 31 Jul | FY21A | FY22A | FY23E | FY24E | FY25E |
|------------------------|-------|-------|-------|-------|-------|
| Key Metrics | | | | | |
| P/E (reported) (x) | 19.1 | 27.5 | 12.6 | 10.2 | 8.9 |
| Core P/E (x) | 18.7 | 17.8 | 12.6 | 10.2 | 8.9 |
| Core FD P/E (x) | 19.0 | 19.5 | 14.1 | 11.5 | 10.1 |
| P/BV (x) | 2.6 | 1.8 | 1.5 | 1.4 | 1.3 |
| P/NTA (x) | 2.6 | 1.8 | 1.5 | 1.4 | 1.3 |
| Net dividend yield (%) | 2.7 | 2.2 | 3.2 | 3.9 | 4.5 |
| FCF yield (%) | nm | 2.2 | 7.3 | 7.8 | 9.9 |
| EV/EBITDA (x) | 12.2 | 13.0 | 7.4 | 6.2 | 5.4 |
| EV/EBIT (x) | 15.8 | 20.5 | 10.3 | 8.2 | 6.8 |

INCOME STATEMENT (MYR m)

| | | | | | |
|-----------------------------|---------|---------|---------|---------|---------|
| Revenue | 4,002.3 | 3,914.1 | 4,229.8 | 4,680.2 | 5,037.5 |
| EBITDA | 438.6 | 333.1 | 521.0 | 598.7 | 658.8 |
| Depreciation | (99.1) | (118.7) | (145.7) | (140.3) | (135.4) |
| Amortisation | (2.3) | (2.3) | (2.3) | (2.3) | (2.3) |
| EBIT | 337.1 | 212.0 | 372.9 | 456.2 | 521.0 |
| Net interest income / (exp) | (7.3) | (9.7) | (33.8) | (29.8) | (28.5) |
| Associates & JV | (0.7) | (0.5) | (0.5) | (0.5) | (0.5) |
| Other pretax income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pretax profit | 329.1 | 201.8 | 338.6 | 425.8 | 492.1 |
| Income tax | (87.5) | (51.5) | (81.3) | (102.2) | (118.1) |
| Minorities | 3.7 | 19.8 | 19.8 | 19.8 | 19.8 |
| Discontinued operations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reported net profit | 245.3 | 170.1 | 277.2 | 343.5 | 393.8 |
| Core net profit | 274.3 | 215.7 | 277.2 | 343.5 | 393.8 |

BALANCE SHEET (MYR m)

| | | | | | |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Cash & Short Term Investments | 402.4 | 278.6 | 415.2 | 485.9 | 643.4 |
| Accounts receivable | 992.1 | 1,093.1 | 1,181.3 | 1,307.1 | 1,406.9 |
| Inventory | 633.8 | 925.7 | 967.2 | 1,064.1 | 1,141.2 |
| Reinsurance assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Property, Plant & Equip (net) | 989.5 | 1,214.5 | 1,168.8 | 1,128.5 | 1,092.1 |
| Intangible assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Investment in Associates & JVs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other assets | 577.8 | 469.2 | 433.7 | 427.8 | 418.0 |
| Total assets | 3,595.6 | 3,981.1 | 4,166.2 | 4,413.5 | 4,701.6 |
| ST interest bearing debt | 318.8 | 478.6 | 478.6 | 478.6 | 478.6 |
| Accounts payable | 844.2 | 860.4 | 899.0 | 989.0 | 1,060.7 |
| Insurance contract liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| LT interest bearing debt | 109.4 | 125.2 | 125.2 | 96.2 | 96.2 |
| Other liabilities | 106.0 | 153.0 | 153.0 | 153.0 | 153.0 |
| Total Liabilities | 1,378.1 | 1,617.2 | 1,655.9 | 1,716.8 | 1,788.6 |
| Shareholders Equity | 2,040.5 | 2,193.2 | 2,359.6 | 2,565.6 | 2,801.9 |
| Minority Interest | 177.0 | 170.7 | 150.8 | 131.0 | 111.1 |
| Total shareholder equity | 2,217.5 | 2,363.9 | 2,510.4 | 2,696.6 | 2,913.1 |
| Total liabilities and equity | 3,595.6 | 3,981.1 | 4,166.2 | 4,413.5 | 4,701.6 |

CASH FLOW (MYR m)

| | | | | | |
|----------------------------------|---------|---------|---------|---------|---------|
| Pretax profit | 329.1 | 201.8 | 338.6 | 425.8 | 492.1 |
| Depreciation & amortisation | 101.5 | 121.1 | 148.1 | 142.6 | 137.7 |
| Adj net interest (income)/exp | 7.3 | 9.7 | 33.8 | 29.8 | 28.5 |
| Change in working capital | (266.9) | (105.3) | (85.2) | (124.6) | (95.9) |
| Cash taxes paid | (87.5) | (44.3) | (81.3) | (102.2) | (118.1) |
| Other operating cash flow | (167.1) | 0.5 | 0.5 | 0.5 | 0.5 |
| Cash flow from operations | (83.6) | 183.4 | 354.5 | 371.9 | 444.8 |
| Capex | (227.3) | (100.0) | (100.0) | (100.0) | (99.0) |
| Free cash flow | (310.9) | 83.4 | 254.5 | 271.9 | 345.8 |
| Dividends paid | (105.7) | (84.0) | (110.9) | (137.4) | (157.5) |
| Equity raised / (purchased) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in Debt | 19.2 | 0.0 | 0.0 | (29.0) | 0.0 |
| Other invest/financing cash flow | (18.1) | (36.7) | (36.7) | (34.8) | (30.8) |
| Effect of exch rate changes | 19.1 | 44.1 | 0.0 | 0.0 | 0.0 |
| Net cash flow | (396.4) | 6.8 | 106.9 | 70.7 | 157.5 |

| FYE 31 Jul | FY21A | FY22A | FY23E | FY24E | FY25E |
|----------------------------------------|-------|--------|-------|-------|----------|
| Key Ratios | | | | | |
| Growth ratios (%) | | | | | |
| Revenue growth | 23.4 | (2.2) | 8.1 | 10.6 | 7.6 |
| EBITDA growth | 93.5 | (24.1) | 56.4 | 14.9 | 10.0 |
| EBIT growth | 149.9 | (37.1) | 75.9 | 22.3 | 14.2 |
| Pretax growth | 159.3 | (38.7) | 67.8 | 25.8 | 15.6 |
| Reported net profit growth | 172.5 | (30.7) | 62.9 | 23.9 | 14.7 |
| Core net profit growth | 162.2 | (21.4) | 28.5 | 23.9 | 14.7 |
| Profitability ratios (%) | | | | | |
| EBITDA margin | 11.0 | 8.5 | 12.3 | 12.8 | 13.1 |
| EBIT margin | 8.4 | 5.4 | 8.8 | 9.7 | 10.3 |
| Pretax profit margin | 8.2 | 5.2 | 8.0 | 9.1 | 9.8 |
| Payout ratio | 56.2 | 49.4 | 40.0 | 40.0 | 40.0 |
| DuPont analysis | | | | | |
| Net profit margin (%) | 6.1 | 4.3 | 6.6 | 7.3 | 7.8 |
| Revenue/Assets (x) | 1.1 | 1.0 | 1.0 | 1.1 | 1.1 |
| Assets/Equity (x) | 1.8 | 1.8 | 1.8 | 1.7 | 1.7 |
| ROAE (%) | 13.1 | 8.0 | 12.2 | 13.9 | 14.7 |
| ROAA (%) | 8.5 | 5.7 | 6.8 | 8.0 | 8.6 |
| Liquidity & Efficiency | | | | | |
| Cash conversion cycle | 60.5 | 88.5 | 103.3 | 102.1 | 103.4 |
| Days receivable outstanding | 84.1 | 95.9 | 96.8 | 95.7 | 97.0 |
| Days inventory outstanding | 50.0 | 80.0 | 92.9 | 90.6 | 91.7 |
| Days payables outstanding | 73.6 | 87.4 | 86.4 | 84.2 | 85.3 |
| Dividend cover (x) | 1.8 | 2.0 | 2.5 | 2.5 | 2.5 |
| Current ratio (x) | 1.9 | 1.8 | 1.9 | 2.0 | 2.1 |
| Leverage & Expense Analysis | | | | | |
| Asset/Liability (x) | 2.6 | 2.5 | 2.5 | 2.6 | 2.6 |
| Net gearing (%) (incl perps) | 1.2 | 13.8 | 7.5 | 3.3 | net cash |
| Net gearing (%) (excl. perps) | 1.2 | 13.8 | 7.5 | 3.3 | net cash |
| Net interest cover (x) | 46.0 | 21.9 | 11.0 | 15.3 | 18.3 |
| Debt/EBITDA (x) | 1.0 | 1.8 | 1.2 | 1.0 | 0.9 |
| Capex/revenue (%) | 5.7 | 2.6 | 2.4 | 2.1 | 2.0 |
| Net debt/ (net cash) | 25.8 | 325.2 | 188.6 | 88.8 | (68.6) |

Source: Company; Maybank IBG Research

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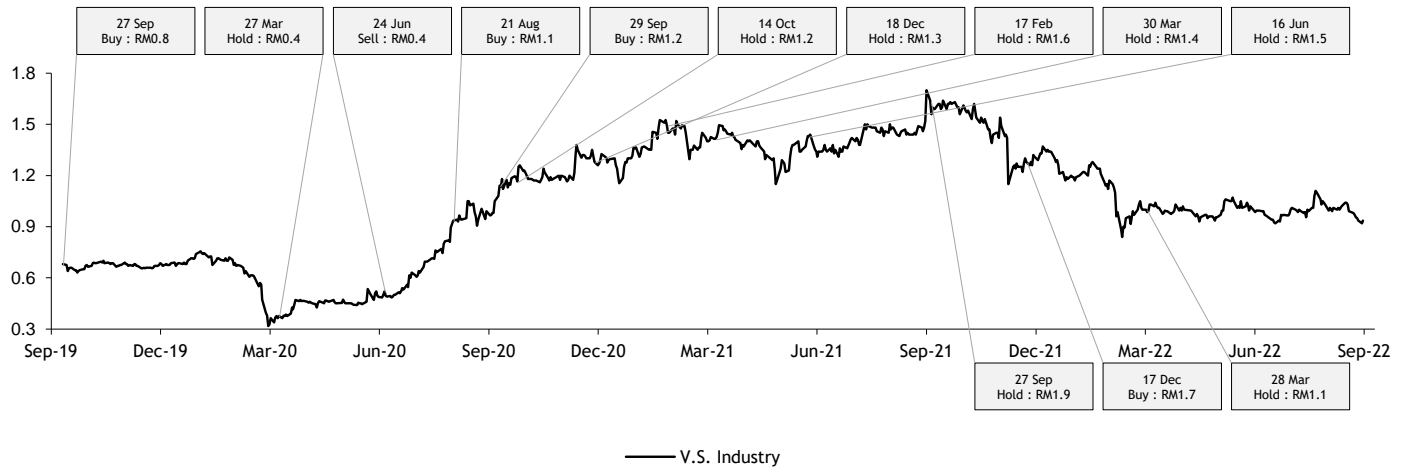
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