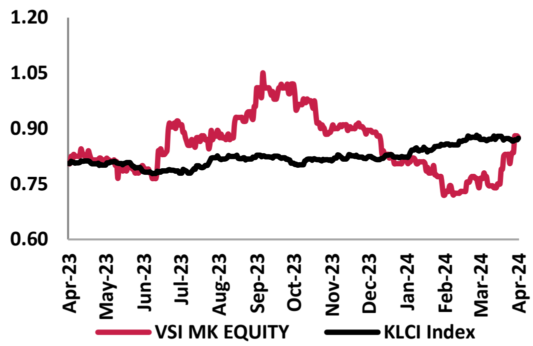
V.S Industry Berhad (VSI MK)

One of Malaysia's Largest EMS Provider

Non-Rated

Share Price	RM0.91
Target Price	N/A

Price Chart (RM)



- **V.S Industry (VSI) is one of Malaysia's largest electronic manufacturing service (EMS) provider that deploys a vertically integrated business model. It covers various stages of the production until final processes of packaging and logistics, hence minimising its supply chain risks.**
- **The company's strength also lies on its diversified customer base. Currently, it is looking to secure a new major client to mitigate the impact of subdued orders from existing clients.**
- **The company has a dividend policy of 40% of net profit, though it has been rewarding shareholders with a larger payout.**
- **The stock price is currently trading at 16.1x forward PER. This is below its 4-year average PER of 19x and 10% discount to peer average.**

One of Malaysia's Largest EMS Provider

VS Industry (VSI) was established in 1979 with plastic injection business (manufacturing cassettes and video tape components) in Singapore. Afterwards, VSI relocated to Johor, Malaysia in 1982. The group was listed on Bursa Malaysia in 1998 and expanded into China and Indonesia market in early 2000s. Currently, VSI is one of Malaysia's largest homegrown of Electronic Manufacturing Services (EMS) provider and it was ranked as 27th largest EMS player in the world. The group provides one-stop complete EMS such as Design and Engineering, supply chain management, manufacturing services, logistic and fulfilment and quality assurance. To date, VSI has served customer from various industries such as electronics, automotive, medical devices, industrial automation machinery and others.

Operates in Multiple Countries Globally

On international front, VSI's Indonesia (Jakarta) operations provide support to other contract manufacturers (CMs) and Original Equipment Manufacturers (OEMs) in the vicinity. Meanwhile, its manufacturing facility in Zhuhai, China is affected by underutilisation of capacity due to the highly challenging environment. Currently, VSI is exploring asset sale exercises for its entire China operations. Meanwhile, its Singapore operation generally serves as the marketing arm for operations in Malaysia. In summary, VSI have a total combined of >3mn sf built up space as well as additional land of 8.9-acre in Johor that the group acquired in Nov 2021 for future expansion.

Vertical Integration Services Strategy

VSI's business model is known as a complete vertically integrated EMS where the operation is streamlined through direct ownership of various stages of the production process rather than relying on external contractors or suppliers. This will ensure the reliability of its services as well as minimise supply chain risks.

Share Performance (%)	1m	3m	12m
Absolute	19.0	13.5	12.9
vs FBM KLCI	19.1	8.0	2.6

Stock Data	
Adjusted Beta	0.682
Mkt Cap (RM mn)	3,474.4
Free float (%)	75.0
Issued shares (mn)	3,818.07
52w H/L (RM)	1.05 / 0.71
3m avg daily volume	9,279,572

Major Shareholders (%)	
Kumpulan Wang Persaraan	9.3
EPF	7.9
Beh Kim Ling	7.7

FYE Jul (RM mn)	2019	2020	2021	2022	2023
Turnover	3,978	3,243	4,002	3,914	4,604
EBITDA	298	260	439	330	390
Pretax Profit	182	153	329	206	245
PAT	119	104	242	151	169
PATAMI	**165**	**116**	**245**	**171**	**179**
Core EPS (sen)	9.2	3.1	6.5	4.4	4.6
PER (x)	8.8	26.2	12.5	18.4	17.5
BVPS	1.0	0.5	0.6	0.6	0.6
P/B (x)	0.8	1.6	1.4	1.4	1.4
DPS (sen)	2.2	1.3	3.0	2.0	2.2
Div. Yield (%)	2.7	1.6	3.7	2.5	2.7
Net Gearing (%)	2.7	net cash	0.1	14.5	7.3
Key Ratios (%)					
ROE	9.2	3.1	6.5	4.4	4.6
EBITDA margin	7.5	8.0	11.0	8.4	8.5
Pretax margin	4.6	4.7	8.2	5.3	5.3
Net margin	4.2	3.6	6.1	4.4	3.9

Source: Bloomberg, BIMB Securities

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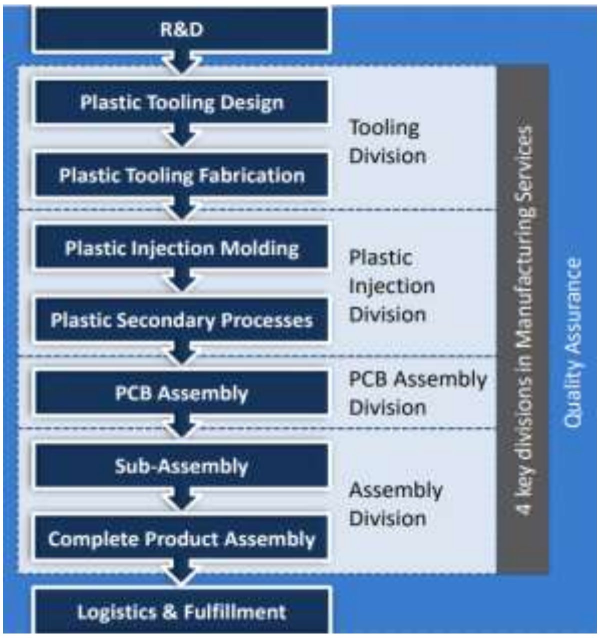
Non-Rated Report
Technology
Equity

The Group provides services from Research and Development (R&D) stage up to Logistics and Fulfilment phase (Figure 1). In 2023, VSI acquired 51% stake in HT Press Work (HTPW) which specializes in metal stamping, tools and die design, and machining as part of its vertical integration business strategy. To note, VSI and HTPW serves the same customer – namely customer X (hold 47% of VSI's revenue in FY23). This acquisition is viewed as a strategic move by VSI to expand its profit margin as it can now insourcing directly with HTPW's supplies and expertise.

Figure 1: VSI Vertically Integrated EMS



Source: Company

Figure 2: VSI Renowned MNC Brands Customers

Source: Company

Figure 3: VSI's Diversified Customer Base

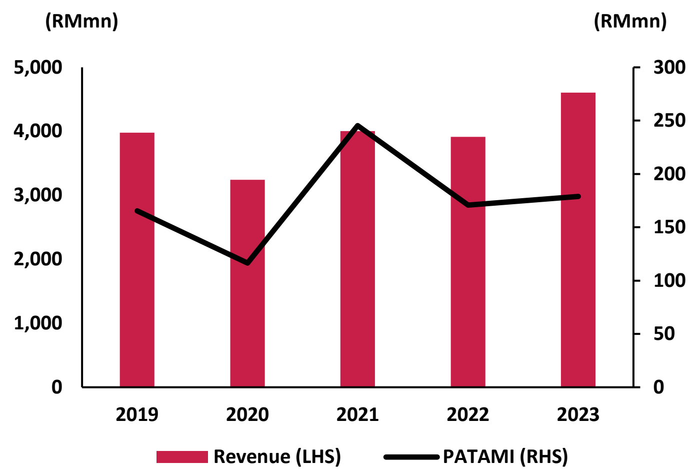
Source: Company

Financial Highlights

VSI revenue fell by 18% YoY to RM3.2bn in FY20 (Chart 1) attributed by temporary stoppage in production stemming from imposition of Movement Control Order (MCO) in Malaysia as well as lower order volume from key customers. Afterwards, revenue normalised to

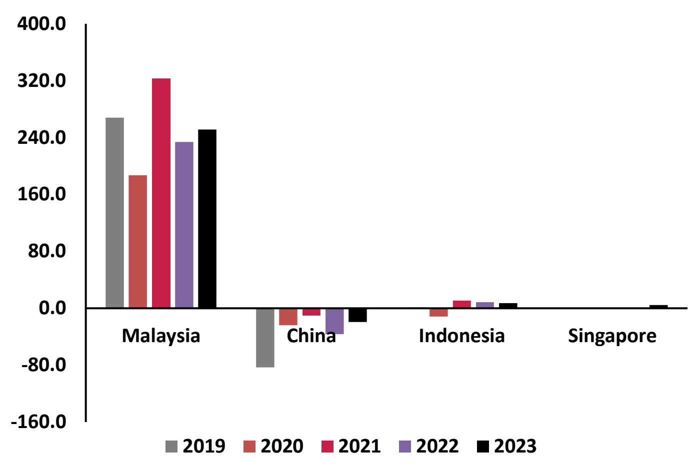
RM4bn in FY21 and FY22 before it rose further by 15% YoY to RM4.6bn FY23 thanks to rising orders from existing and new customers. However, earnings were flattish in FY22-FY23 as operational costs remained heightened with higher labour cost, electricity tariff and financing cost.

Chart 1: V.S Industry Revenue and PATAMI, FY19 - FY23



Source: Company, BIMB Securities

Chart 2: V.S Industry Segmental Results



Source: Company, BIMB Securities

To recap on its latest financial result for 1HFY24, VSI earnings declined by 29% vs 1HFY23 to RM65mn no thanks to continued subdued demand from key customer (particularly from Customer X in 2QFY24). This has led to poor plant utilization rates for the quarter. Despite that, VSI declared a second interim dividend of 0.3 sen per share, payable on April 30, 2024.

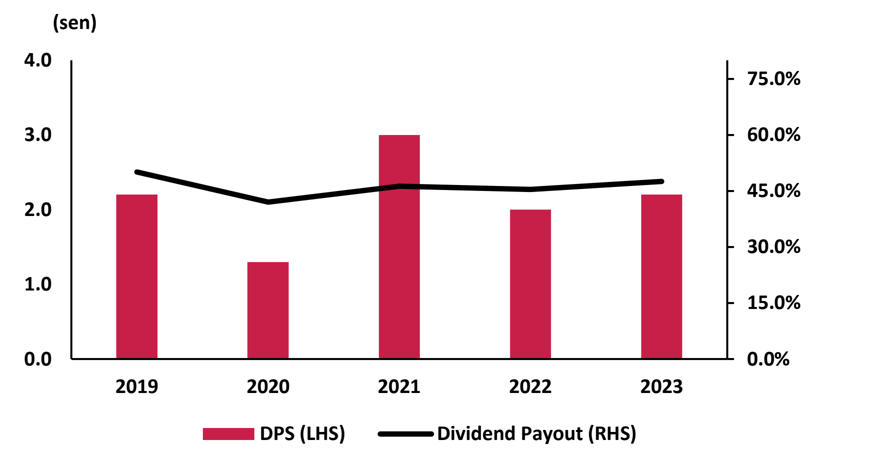
Healthy Balance Sheet with Low Gearing

As of FYE23, VSI possessed RM689mn in cash and a net gearing of 0.07x. In view of low gearing, VSI is in a good position to pursue more mergers and acquisitions (M&A) opportunities in future.

Dividend Policy

The group has consistently rewarded its shareholder for the past 10 years, inline with its dividend policy to pay at least 40% of net profit payout. In FY23, its dividend payout ratio was at 48% as VSI declared a total dividend of 2.2sen. This translated to a yield of 2.7% based on current price.

Chart 3: VSI Dividend Payout FY19-FY23



Source: Bloomberg, BIMB Securities

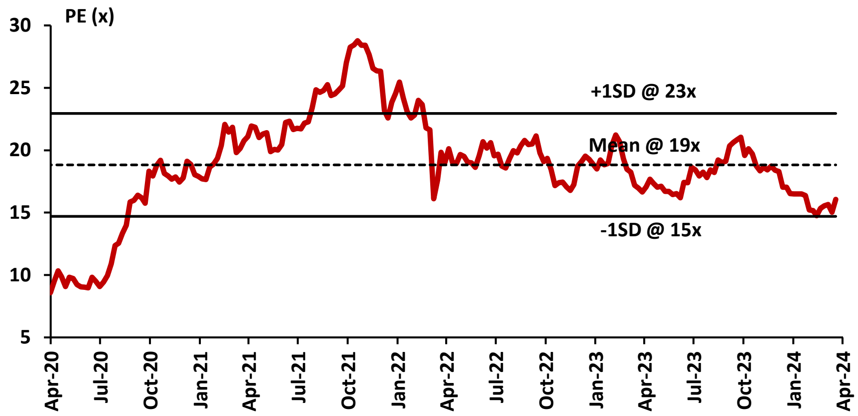
Business Outlook

Looking ahead, the group foresees a gradual recovery fuelled by increased orders from key customers as well as potential of securing a new major customer by the end of CY24. Additionally, VSI guided that it has strengthened its supply chain management by enhancing its in-house capabilities for supply of certain components which will be ready for mass production in FY25F, potentially boosting its margin.

Current Valuation: Trading Below Mean

The stock price is currently trading at PER of 16.5x (Chart 4) which is below its 4-year historical average PER of 19x. We think this is due to market being cautious on its near term outlook amidst sluggish electronics demand coupled with inventory rationalisation from its largest clients.

Chart 4: V.S Industry Historical forward PE Band



Source: Bloomberg, BIMB Securities

Generally, its peer companies include SKP Resource, Nationgate Holdings, PIE industrial and Kumpulan Perangsang Selangor (KPS). Notably, Nationgate is traded at higher PE ratio of 49.2x CY23 as compared to its peers' average P/E of 31.5x as it is expected to benefit from global secular trends owing to its exposure to data centre.

Table 1: Peers comparison

Company	Rec.	Price^	Mkt cap (RM mn)	EPS (sen)		PER (x)		PB (x)		ROE (%)		EBITDA margin (%)		Dividend yield (%)	
				CY23	CY24	CY23	CY24	CY23	CY24	CY23	CY24	CY23	CY24	CY23	CY24
VS Industry	n.a	0.91	3,474	4.8	4.8	19.0	19.0	1.5	1.5	8.0	7.7	8.8	9.0	2.2	2.2
SKP Resources	n.a	0.92	1,430	8.9	6.0	10.3	15.2	1.6	1.6	16.1	10.2	8.8	9.2	-	3.3
Nationgate	n.a	1.60	3,318	3.2	6.5	49.2	24.7	14.5	9.7	29.4	39.2	18.3	17.2	0.6	0.6
PIE Industries	n.a	3.54	1,360	16.7	20.6	21.1	17.1	2.4	2.2	11.5	12.9	8.8	8.9	1.7	2.0
KPS	n.a	0.81	435	1.8	3.9	45.3	20.5	0.4	0.4	0.8	1.7	9.0	9.4	3.7	2.5
Sector			1,636	7.7	9.3	31.5	19.4	4.7	3.5	14.4	16.0	11.2	11.2	1.5	2.1

Note: ^Closing price as of 3rd April 2024
Source: Bloomberg, Companies, BIMB Securities

Table 2: VSI SWOT analysis

Strength	Weakness
1) Vertical integrated business model 2) Diversified customer base 3) Strong financial position and solid balance sheet	1) Foreign worker reliance
Opportunities	**Threat**
1) Trade diversion from China	1) Intense competition from other EMS player 2) Foreign exchange movement

Source: BIMB Securities

Income Statement

FYE Jul (RM mn)	2019	2020	2021	2022	2023
Turnover	**3,978**	**3,243**	**4,002**	**3,914**	**4,604**
Operating costs	-3,680	-2,983	-3,563	-3,584	-4,215
EBITDA	**298**	**260**	**439**	**330**	**390**
Depreciation & amortisation	-97	-89	-99	-115	-115
EBIT	**201**	**171**	**340**	**215**	**275**
Net interest expense	-19	-17	-11	-10	-30
Associates & JVs	-2	2	-1	-1	2
Exceptional items	-	-	-	-	-
Pretax profit	**182**	**153**	**329**	**206**	**245**
Taxation	-62	-49	-88	-54	-76
Minority interest	-46	-12	-4	-19	-9
PAT	**119**	**104**	**242**	**151**	**169**
PATAMI	**165**	**116**	**245**	**171**	**179**

Balance Sheet

FYE Jul (RM mn)	2019	2020	2021	2022	2023
Non-current assets	**1,133**	**1,107**	**1,366**	**1,325**	**1,264**
Current assets	**1,905**	**1,727**	**2,232**	**2,467**	**2,778**
Total Assets	**3,038**	**2,833**	**3,598**	**3,792**	**4,043**
Non-current liabilities	**152**	**117**	**181**	**209**	**654**
Current liabilities	**1,101**	**839**	**1,200**	**1,364**	**1,110**
Total liabilities	**1,253**	**957**	**1,381**	**1,573**	**1,764**
Total Equity	**1,784.5**	**1,876.6**	**2,217.5**	**2,219.6**	**2,278.9**
Total Liabilities & Shareholders' Funds	**3,038**	**2,833**	**3,598**	**3,792**	**4,043**

Cash Flow

FYE Jul (RM mn)	2019	2020	2021	2022	2023
Cash flow from operating activities (CFO)	**224**	**-204**	**84**	**-65**	**430**
Cash flow from investing activities (CFI)	**-102**	**-109**	**-217**	**-189**	**-145**
Cash flow from financing activities (CFF)	**-171**	**-204**	**84**	**110**	**134**
Net change in cash & cash equivalent	**-48**	**-517**	**-49**	**-144**	**418**

Source: Company, BIMB Securities

DEFINITION OF RATINGS

BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

BUY	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
TRADING BUY	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
HOLD	Share price may fall within the range of +/- 10% over the next 12 months
TAKE PROFIT	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
TRADING SELL	Share price may fall by more than 15% in the next 3 months.
SELL	Share price may fall by more than 10% over the next 12 months.
NOT RATED	Stock is not within regular research coverage.

SECTOR RECOMMENDATION

OVERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
NEUTRAL	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
UNDERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

Applicability of ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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