

V.S. Industry

RESULTS UPDATE

NEUTRAL

Closing Price	RM 0.90
Target Price	RM 0.93
Consensus Price	RM 1.05

Stock Return Information

KLCI	1,462.55
Expected share price return (%)	3.3
Expected dividend return (%)	2.2
Expected total return (%)	5.6

Key Statistics

Shariah Compliant	YES
Bloomberg Ticker	VSI MK
Msia Ticker / Stock Code	VS/6963
Shares Issued (m)	3,848.0
Market Capitalisation (RM m)	3,463.2
52 Week Hi/Lo Price (RM)	1.38/0.79
Avg Trading Volume (3-mth)	4,189,350
Est Free Float (%)	47.1
YTD Returns (%)	-34.3
Beta (x)	0.68

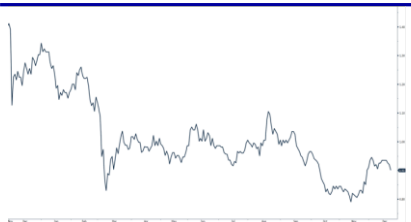
Share Price Performance (%)

Price change	Absolute	Relative
1 mth	8.43	6.96
3 mth	-5.26	-6.89
12 mth	-28.57	-26.05

Major Shareholders (%)

KWAP	8.8
Beh Kim Ling	7.7
Beh Hwee Sze	7.3

1-Year Share Price Performance



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Within Expectation

From the recent results briefing, we gather that the orders from VS' key clients exhibited only minimal changes despite the heightened recessionary fears. In addition, revenue contribution from a key customer (Customer A) ballooned, which was partially neutralised by the downsizing in other customers' order, as VS had ramped up the production of the key customer's other models. Nonetheless, we believe the current share price had largely factored in the above factors. Hence, we keep our **NEUTRAL** recommendation on VS with the same **TP** of **RM0.93** by pegging an unchanged 15.6x PER (0.5 SD below its 5-year average) to our revised FY23F EPS. We continue to favour VS for: 1) broad customer base in the EMS space, 2) healthy balance sheet, and 3) beneficiary of the US-China trade diversion. Key downside risks include: 1) higher-than-anticipated order cuts from clients, and 2) supply chain disruptions.

In line with expectations. Both 1QFY23 revenue and PATAMI came in within our expectation, accounting for 28.2% and 25.1% of our previous full year estimates respectively.

Y-o-Y. Revenue surged by 33.7% to RM1.29b in 1QFY23, from RM968.0m in the previous corresponding period, mainly due to increased orders from its key customer in Malaysia and Indonesia which was partially mitigated by the weak China operations. Its gross profit margin also improved slightly to 10.4% in the quarter, from 9.5% in the previous quarter, which we believe is attributed to the easing material costs and better economies of scale. In tune with the surge in revenue and margin expansion, its PATAMI improved by 54.1% to RM60.7m.

Q-o-Q. On similar grounds as above, its revenue expanded by 28.9%. However, its PATAMI increased by a higher magnitude of 75.6% due to absence of impairment on investment in associate and plant and equipment, which were both recognised in the preceding quarter.

Dividend. V.S. had declared a 1st interim dividend of 0.5 sen in 1QFY23, which is slightly higher than 1QFY22's 0.4 sen.

Forecasts. In our housekeeping exercise, we tweaked our FY23/24 earnings estimates downwards by 5.3%/15.1% respectively.

Figure 1: Historical and Forecast Financial Performance

FYE July (RM m)	FY20	FY21	FY22	FY23(F)	FY24(F)
Revenue	3,243.2	4,002.3	3,914.1	4,823.9	5,004.5
EBITDA	253.2	438.6	332.4	439.0	485.4
EBITDA margin (%)	7.8	11.0	8.5	9.1	9.7
PAT	104.5	241.6	147.0	208.1	222.4
PATAMI	116.5	245.4	166.8	228.9	244.6
PAT margin (%)	3.2	6.0	3.8	4.3	4.4
EPS (sen)	3.0	6.4	4.3	5.9	6.4
Earnings growth (%)	(29.6)	110.6	(32.0)	37.2	6.9
PER (x)	29.7	14.1	20.8	15.1	14.2
Diluted EPS (sen)*	2.5	5.3	3.6	5.0	5.3
Diluted PER (x)*	35.6	16.9	24.9	18.1	17.0
DPS (sen)	1.3	3.0	2.0	2.0	2.1
Dividend yield (%)	1.4	3.3	2.2	2.2	2.3
ROE (%)	7.0	13.1	7.9	10.1	10.0
Net gearing ratio	Net Cash	0.0	0.1	0.3	0.2
P/B (x)	2.0	1.7	1.6	1.5	1.4

Source: Company, Inter-Pacific Research

*Based on enlarged share capital of 4,609m outstanding shares (after conversion of warrants).

Outlook. Even though we believe that the lingering labour and material shortage issue has been rectified, a potential cut in orders from VS' key customers in light of a possible recession and the high fixed cost cannot be ruled out. If so, it could adversely impact the group's bottom line as the production space of their plants have already been allocated specifically to each key client.

Nevertheless, we note that the acquisition of an existing customer (Customer B) by a giant U.S. tech company may augur well for VS as the U.S tech company intends to consolidate their supply chain. Given its reputable track record in EMS space, we believe VS is in good stead to potentially secure a portion of the production contract if this materialises. Aside from that, VS' Indonesia operation is likely to chart a better growth trajectory moving forward, driven by a key client's production relocation as well as other customers' interest in migrating their production to Indonesia as part of their diversification strategy.

All in all, VS is likely to see improvements in orders from other key customer's in 3QFY23 or 4QFY23 and the RM500m sukuk wakalah could serve as a war chest if an economic downturn occurs, in our view.

Figure 2: Quarterly Results Comparison

FYE July (RM m)	1QFY23	1QFY22	YoY	4QFY22	QoQ
			%		%
Revenue	1,294.3	968.0	33.7	1,004.4	28.9
EBIT	87.5	52.9	65.5	36.9	>100
PBT	80.9	50.3	60.8	34.2	>100
PAT	59.3	37.8	57.1	21.7	>100
PATAMI	60.7	39.4	54.1	34.6	75.6
			<i>ppt</i>		<i>ppt</i>
EBIT margin (%)	6.8	5.5	1.3	3.7	3.1
PBT margin (%)	6.2	5.2	1.1	3.4	2.8
PAT margin (%)	4.6	3.9	0.7	2.2	2.4

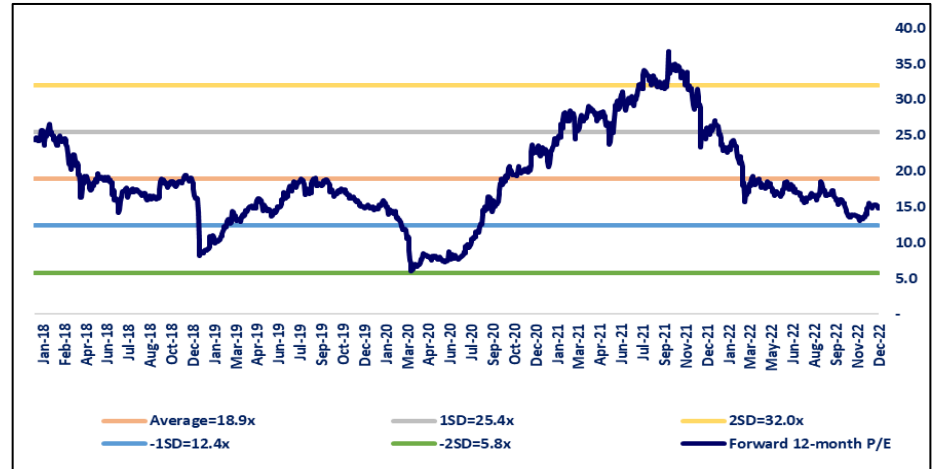
Source: Company, Inter-Pacific Research

Figure 3: Key Assumptions

FYE July (RM m)	FY22	FY23(F)	FY24(F)
Customer A	1,135.1	2,128.3	2,192.1
Other key customers	1,800.5	1,589.9	1,655.6
Customer B	234.8	352.3	387.5
Other customers	352.3	299.4	305.4
Indonesia	313.1	407.1	419.3
China	78.3	47.0	44.6

Source: Company, Inter-Pacific Research

Figure 4: VS' 12-Month Forward PER



Source: Company, Inter-Pacific Research

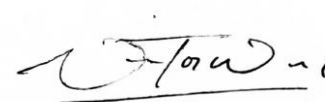
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Signed



Victor Wan Kum Seng
Head of Research
Inter-Pacific Research Sdn Bhd

Rating Systems

Ratings:	Description:
BUY	Total return is expected to exceed 15% in the next 12 months
TRADING BUY	Total return is expected to exceed 10% in the next 3 months
NEUTRAL	Total return is expected to be between -15% to 15% in the next 12 months
SELL	Total return is expected to be below -15% in the next 12 months
TRADING SELL	Total return is expected to be below -10% in the next 3 months
NOT RATED	The stock is not within regular research coverage

Abbreviation

Abbreviation	Definition	Abbreviation	Definition
PER	Price Earnings Ratio	CAGR	Compounded Annual Growth Rate
PEG	PER to Growth	CAPEX	Capital Expenditure
EPS	Earnings per Share	DPS	Dividend per Share
FYE	Financial Year End	ROA	Return on Asset
FY	Financial Year	ROE	Return on Equity
CY	Calendar Year	PBT	Profit Before Tax
MoM	Month-on-Month	PAT	Profit After Tax
QoQ	Quarter-on-Quarter	EV	Enterprise Value
YoY	Year-on-Year	EBIT	Earnings Before Interest & Tax
YTD	Year-to-Date	EBITDA	EBIT Depreciation & Amortisation
p.a.	Per Annum	WACC	Weighted Average Cost of Capital
DCF	Discounted Cash Flow	NTA	Net Tangible Asset
FCF	Free Cash Flow	BV	Book Value
NAV	Net Asset Value		

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