

V.S. Industry Bhd

Results Update

TRADING BUY

Current Price	RM 1.40
Target Price	RM 1.52
Consensus Price	RM 1.62

Stock Return Information

KLCI	1,581.37
Expected share price return (%)	8.6
Expected dividend return (%)	2.3
Expected total return (%)	10.8

Key Statistics

Shariah Compliant	YES
Bloomberg Ticker	VSI MK
Masa Ticker / Stock Code	VS/6963
Shares Issued (m)	3,808.6
Market Capitalisation (RM'm)	5,332.0
52 Week Hi/Lo Price (RM)	1.57/0.47
Avg Trading Volume (3-mth)	10,876,020
Est Free Float (%)	59.6
YTD Returns (%)	8.1
Beta (x)	1.13

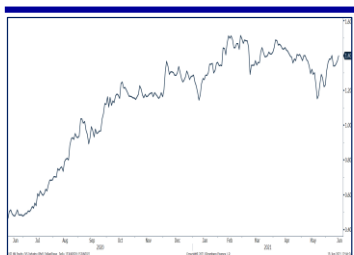
Share Price Performance (%)

Price change	Absolute	Relative
1 mth	6.06	6.13
3 mth	3.70	6.14
12 mth	197.87	192.37

Major Shareholders (%)

Kumpulan Wang Persaraan	8.8
Beh Kim Ling	7.2

1-Year Share Price Performance



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MCO May Dent Prospects Again

We maintain our **TRADING BUY** recommendation on **V.S. Industry Bhd (VS)**, but with a lower TP of RM1.52 (from RM1.55 ex-bonus) by ascribing to an unchanged target PER of 19x, to its forecast FY22 EPS of 8.0 sen as earnings momentum is expected to remain strong in the coming financial year, helped by robust order flows from existing customers, albeit operational challenges remain due to the ongoing pandemic. The target PER, which is at premium to domestic peers (about 14.0x-18.0x) is justified, in our view, due to VS' larger market leader position and broader customer portfolio.

Downside risks to our recommendation are: i) slower-than-expected vaccine deployment, and ii) renewed lockdown regulations amid new variants of coronavirus globally affecting its operations.

Result Update

Net profit sequentially higher – The group's 3QFY21 net profit rose 15.0% Q-o-Q to RM73.4m, from RM63.8m previously, helped by better product mix, while revenue grew 7.6% Q-o-Q to reach more than RM1.0b.

Even stronger on annual basis – Quarterly net profit surged by more than four-fold, alongside revenue (+112.6% Y-o-Y) after coming off from a low base last year, following the first Movement Control Order (MCO) imposed in March 2020.

Consequently, cumulative 9MFY21 earnings jumped slightly more than 3.0x to RM203.9m, from RM61.7m previously, on the back of solid revenue growth (+29.7% Y-o-Y to RM3.06b), thanks to increased sales volume from existing customers and better product mix. The group has also declared a third interim dividend of 0.8 sen per share, payable on July 30.

Verdict

Both 9MFY21 net profit and revenue were largely in-line with our previous estimates, accounting for 81.1%/72.3% of the forecast of RM251.3m and RM4.23b respectively. Even so, we tweaked our FY21 net profit and topline forecast lower by -2.4%/-7.3% to account for capped productivity during the FMCO that was imposed earlier in May. Our FY22 projections, meanwhile, is marginally lower by less than 2.0% after minor adjustments in finance income estimates.

TABLE 1: FINANCIAL HIGHLIGHTS & EARNINGS FORECASTS

FYE July (RM'm)	FY18	FY19	FY20	FY21F	FY22F
Revenue	4100.7	3978.4	3243.2	3921.5	5060.5
EBITDA	287.8	302.3	253.2	431.4	521.2
Net profit	151.1	165.4	116.5	245.3	304.7
EPS (sen)	4.0	4.3	3.1	6.4	8.0
Diluted EPS (sen)*	3.3	3.6	2.5	5.4	6.7
PER (x)	35.3	32.2	45.8	21.7	17.5
Diluted PER (x)*	42.4	38.7	55.0	26.1	21.0
Dividend yield (%)	3.4	3.1	1.9	2.3	2.8
BV/share (RM)	0.28	0.38	0.42	0.45	0.49
P/B (x)	5.0	3.7	3.3	3.1	2.8
ROE (%)	12.2	9.1	9.3	6.2	12.1

*based on enlarged share capital of 4576.9 mln outstanding shares (ex-warrants conversion)

Source: Company, Inter-Pacific Research

Prospects

Once again, Malaysian businesses are expected to be hit by the recent Covid-19 movement restrictions, i.e.: FMCO ('total lockdown') that is scheduled for almost the entire month of June, albeit selected manufacturing operators are allowed to operate with reduced workforce.

Subsequently, VS is not expected to take the full brunt of the lockdown as production was allowed to run at reduced capacity during the FMCO, albeit we do expect to see weaker topline and net profit growth in the 4QFY21 as the group continues to incur fixed costs even at lower floor productivity.

Meanwhile, over at China, we think that the situation is not quite out of the woods yet, as the group continues to suffer from the lack of sufficient orders of the right size to sustain its operational cost. On that note, we expect domestic sales to remain as the key earnings growth driver in the near-term, benefiting from new customers signed-on in the last two years.

Moving forward, VS is expected to continue operating at lower capacity, contingent on the pace of the national vaccination campaign and the evolution of more contagious COVID-19 variants as an acceleration to the vaccination programme could mean faster-than-expected economic re-openings and back to business as usual.

FINANCIAL INSIGHTS

FYE July (RM'm)	3QFY21	3QFY20	YoY (%)	2QFY21	QoQ (%)	9MFY21	9MFY20	YTD (%)
Revenue	1074.8	505.7	>100%	999.3	7.6	3061.2	2360.6	29.7
EBITDA	127.3	0.5	>100%	111.5	14.2	354.2	160.8	120.3
PBT	99.6	-26.9	>100%	85.2	16.9	273.3	80.3	240.3
Net profit	73.4	-19.5	>100%	63.8	15.0	203.9	61.7	230.2
EPS (sen)	1.9	-0.5	>100%	1.7	15.0	5.4	1.6	230.2
EBITDA margin (%)	11.8	0.1	N/A	11.2	N/A	11.6	6.8	N/A
PBT margin (%)	9.3	-5.3	N/A	8.5	N/A	8.9	3.4	N/A
Net profit margin (%)	6.8	-3.9	N/A	6.4	N/A	6.7	2.6	N/A

Source: Inter-Pacific Research, Company

FYE July (RM'm)	FY18	FY19	FY20	FY21F	FY22F
Income statement (RM'm)					
Revenue	4100.7	3978.4	3243.2	3921.5	5060.5
EBITDA	287.8	302.3	253.2	431.4	521.2
Depreciation and amortisation	-81.7	-99.2	-91.8	-100.0	-102.8
Net interest (expense)/income	-23.3	-19.0	-10.2	-7.1	-4.8
PBT	176.2	181.9	153.4	324.2	414.6
Tax	-38.7	-62.4	-48.9	-84.3	-116.1
Net profit	151.1	165.4	116.5	245.3	304.7
EPS (sen)	4.0	4.3	3.1	6.4	8.0

Source: Inter-Pacific Research, Company

FYE July (RM'm)	FY18	FY19	FY20	FY21F	FY22F
Key metrics					
Revenue growth (%)	25.0	-3.0	-18.5	20.9	29.0
EBITDA growth (%)	-10.4	5.0	-16.2	70.4	20.8
Net profit growth (%)	-3.4	9.5	-29.6	110.6	24.2
EBITDA margin (%)	7.0	7.6	7.8	11.0	10.3
Net profit margin (%)	3.7	4.2	3.6	6.3	6.0
Gearing (x)	0.4	0.2	0.1	0.1	0.1
Net gearing (x)	0.1	0.0	Net Cash	Net Cash	Net Cash
ROA (%)	4.8	5.4	4.1	8.2	8.7
ROIC (%)	6.6	7.5	5.5	11.0	12.7

Source: Inter-Pacific Research, Company

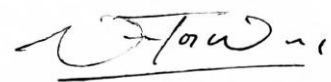
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Signed



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

Ratings System

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 And 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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