VS Industry (VSI MK)

Emerging From The Trough; Deep Value Beckons

BUY (Maintained)

Share Price	RM0.22
Target Price	RM0.34
Upside	+54.5%

Highlights

- Earnings are turning the corner, supported by stronger volume ramp-up across its customer base, narrowing losses from loss-making divisions, and early benefits from recently implemented strategic initiatives.
- VS trades at just 8.6x FY27F PE (-1SD below historical mean) and 0.4x FY27F P/BV (-2SD), well below even the trough valuations seen during the MCO period (0.83-0.88x P/BV), suggesting limited downside with asymmetrical upside potential.
- Current valuations more than compensate for risks. Maintain BUY with a target price of RM0.34. Key re-rating catalysts include further order normalisation, improving capacity utilisation, sustained earnings recovery, and potential new customer wins.

Analysis

- **Recovery gaining traction despite near-term supply disruptions.** VS Industry (VS) recorded two consecutive quarters of core losses in 2Q and 3QFY26, with order weakness observed across its customer base alongside margin compression. Following seven months of inventory correction, management highlighted encouraging signs of order ramp-up into 4QFY26 with monthly assembly revenue rising 30% mom from one of its key customers on new product launches. Although June was temporarily impacted by chip supply disruptions on this key customer, operations normalised in July with production returning May's healthy turnover. While management acknowledged limited visibility on whether component shortages will persist, it expects operations to remain broadly on track for now.
- **Seasonal ramp-up to anchor operational breakeven in 4QFY26.** Beyond the recovery of its key customer, overall plant utilisation is receiving a further boost from the typical year-end seasonal demand. While reported earnings in 4QFY26 could still be typically weighed down by a potential one-off impairment on underutilised assets, management expects a meaningful acceleration in volumes from May 26 onwards. This will be driven by: a) recovering orders from its coffee brewer and US-based customer segments, b) improving utilisation and narrowing losses at its Philippines operations as new programmes ramp up, and c) a gradual recovery in demand from the Indonesian market. Collectively, these drivers are expected to lift overall plant utilisation and support a return to operational breakeven in 4QFY26, marking an important inflection point in the group's earnings recovery.

Key Financials

Year to 31 Jul (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	4,248	3,788	3,474	4,003	4,562
EBITDA	413	223	133	285	322
Operating profit	287	96	3	156	188
Net profit (rep./act.)	246	37	(13)	101	125
Net profit (adj.)	210	51	(13)	101	125
EPS	6	1	(0)	3	3
PE	4.1	16.9	(67.6)	8.6	6.9
P/B	0.4	0.4	0.4	0.4	0.4
EV/EBITDA	2.5	3.6	6.4	3.3	3.1
Dividend yield	8.5	3.6	(0.4)	3.5	4.3
Net margin	5.8	1.0	(0.4)	2.5	2.7
Net debt/(cash) to equity	(5.8)	(6.1)	(5.1)	(5.1)	(5.1)
Interest cover	22.5	11.4	5.6	12.2	13.7
ROE	11.1	1.7	(0.6)	4.6	5.6
Consensus net profit			(28)	65	93
UOBKH/Consensus (x)			0.47	1.55	1.34

Source: VS, Bloomberg, UOB Kay Hian

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Stock Data

GICS sector	Information Technology
Bloomberg ticker:	VSI MK
Shares issued (m):	3,947.7
Market cap (RMm):	868.5
Market cap (US$m):	212.3
3-mth avg daily t'over (US$m):	3.1

Price Performance (%)

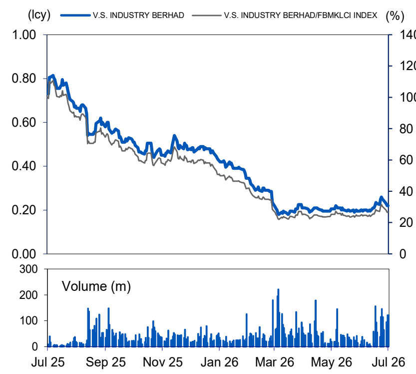
52-week high/low: RM0.87/RM0.17

1mth	3mth	6mth	1yr	YTD
10.0	4.8	(48.8)	(70.3)	(53.2)

Major Shareholders

Major Shareholders	%
Beh Hwee Sze	7.4
Beh Hwee Lee	7.4
Aberdeen	6.8

Price Chart



Source: Bloomberg

Company Description

VS Industry is involved in the manufacturing of plastic parts and components, contract manufacturing, precision mould making, the sub-assembly of electronic and electrical equipment and other secondary processes. It has plants in Malaysia, China, and Indonesia.

- **Indonesia and the Philippines emerging as key earnings turnaround stories.** Indonesia is expected to see revenue gap replacement following the exit of key PCBA customer, through increased orders from existing customers. Management expects the operation to recover in 4QFY26 and improve significantly in FY27 while returning to profitability. Meanwhile, the Philippines operations are approaching an inflection point. After recording approximately RM35m in cumulative losses over 9MFY26, utilisation has reached close to breakeven point despite ongoing chip shortages. The commencement of a third production line in August is expected to further improve utilisation and profitability. In addition, competitive intensity appears to be easing, with one programme reportedly transferred from another contract manufacturer to VS following weaker-than-expected execution by the competitor.
- **Positioning for the upcycle amid near-term headwinds.** VS continues to navigate a challenging EMS landscape marked by tariff-related pressures, excess industry capacity and subdued margins through a combination of diversification, cost optimisation and operational rationalisation. Beyond expanding into new non-consumer electronics programmes, the group is streamlining its cost base through workforce optimisation, machinery rationalisation and system upgrades, while maintaining positive operating cash flow to support ongoing investments.
- Importantly, management is strategically sharing part of the tariff burden with customers in exchange for higher order commitments, strengthening customer relationships and positioning VS to capture market share as weaker competitors exit the industry. While margins are expected to remain under pressure in the near term, improving utilisation and a gradual recovery in orders should underpin a progressive earnings recovery over the medium term.

Sales Assumption

(RMm)	FY25	FY26F	FY27F	FY28F
Sales	3,788	3,474	4,003	4,562
Key customer	2,256	2,390	2,523	2,925
Customer Z	264	187	206	227
China	30	40	72	72
Indonesia	314	220	330	330
New key customers	586	300	500	600
Others	339	338	372	409
Core net margin (%)	1.4%	-0.4%	2.5%	2.7%

Source: Company, UOB Kay Hian

Valuation/Recommendation

- **Maintain BUY with an unchanged target price of RM0.34,** based on 12x 2027F PE (which is -0.5SD to the 10-year mean).

Earnings Revision/Risk

- **Earnings revision:** We trim our FY26 earnings forecast to a core loss of RM12.8m to reflect softer-than-expected margins in 4QFY26, while leaving our FY27 assumptions unchanged.

Environmental, Social, Governance (ESG) Updates

Environmental

- VS has been certified with the ISO 14001:2015 Environment Management System for assembly services for mechanical and electrical products.

Social

- VS held an In-House Vaccination Programme in Aug 21 and achieved a 99.8% vaccination record for the entire workforce.
- It is proactively engaging with migrant worker rights specialists and independent auditors to improve the welfare of migrant workers in Malaysia.

Governance

- The company has in place an Anti-Corruption Framework which fulfils the requirements in the Guidelines on Adequate Procedures to Section 17A (5) of the Malaysian Anti-Corruption Commission Act 2009.

Profit & Loss

Year to 31 Jul (RMm)	2025	2026F	2027F	2028F
Net turnover	3,788	3,474	4,003	4,562
EBITDA	223	133	285	322
Deprec. & amort.	127	130	130	133
EBIT	96	3	156	188
Associate contributions	(1)	3	3	3
Net interest income/(expense)	(20)	(23)	(23)	(23)
Pre-tax profit	75	(18)	135	167
Tax	(42)	5	(35)	(44)
Minorities	4	(0)	1	2
Net profit	37	(13)	101	125
Net profit (adj.)	51	(13)	101	125

Balance Sheet

Year to 31 Jul (RMm)	2025	2026F	2027F	2028F
Fixed assets	944	964	984	1,001
Other LT assets	262	264	267	269
Cash/ST investment	859	801	711	643
Other current assets	1,661	1,696	1,906	2,147
Total assets	3,726	3,725	3,869	4,061
ST debt	454	454	454	454
Other current liabilities	702	710	785	890
LT debt	333	333	333	333
Other LT liabilities	85	85	85	85
Shareholders' equity	2,153	2,144	2,215	2,303
Minority interest	(2)	(2)	(3)	(5)
Total liabilities & equity	3,726	3,725	3,869	4,061

Cash Flow

Year to 31 Jul (RMm)	2025	2026F	2027F	2028F
Operating	531	191	194	222
Pre-tax profit	75	(18)	135	167
Tax	(64)	5	(35)	(44)
Deprec. & amort.	127	130	130	133
Working capital changes	337	53	(56)	(56)
Non-cash items	16	16	16	16
Other operating cashflows	41	6	6	6
Investing	(139)	(200)	(200)	(200)
Capex (growth)	(188)	(150)	(150)	(150)
Investments	47	0	0	0
Proceeds from sale of assets	2	0	0	0
Others	0	(50)	(50)	(50)
Financing	(257)	(50)	(83)	(91)
Dividend payments	(77)	4	(30)	(37)
Issue of shares	19	20	1	0
Proceeds from borrowings	0	0	0	0
Loan repayment	(160)	(35)	(15)	(15)
Others/interest paid	(39)	(39)	(39)	(39)
Net cash inflow (outflow)	135	(58)	(89)	(68)
Beginning cash & cash equivalent	755	859	801	712
Changes due to forex impact	(31)	0	0	0
Ending cash & cash equivalent	859	801	712	643

Key Metrics

Year to 31 Jul (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	5.9	3.8	7.1	7.1
Pre-tax margin	2.0	(0.5)	3.4	3.7
Net margin	1.0	(0.4)	2.5	2.7
ROA	0.9	(0.3)	2.7	3.2
ROE	1.7	(0.6)	4.6	5.6
Growth				
Turnover	(14.1)	(11.6)	7.9	28.6
EBITDA	(59.9)	(56.6)	39.5	62.4
Pre-tax profit	(93.7)	(173.8)	111.5	172.6
Net profit	(110.6)	(188.8)	245.2	338.2
Net profit (adj.)	(75.5)	(124.9)	(889.4)	24.1
EPS	(98.2)	(174.9)	135.6	202.1
Leverage				
Debt to total capital	36.6	36.7	35.6	34.3
Debt to equity	36.6	36.7	35.5	34.2
Net debt/(cash) to equity	6.2	5.3	3.4	6.2
Interest cover	11.4	5.6	12.2	13.7