

V.S.INDUSTRY

(VSI MK EQUITY, VSID.KL)

BUY

(MAINTAINED)

Price: RM0.20

Target Price (% return): RM0.70 (254%)

52-week High/Low: RM0.92/RM0.19

Manufacturing

Rationale for report: Company Result

One step forward, one step backward

A setback, yes — but not a reset of the story. We had assumed the worst was behind VSI last quarter, only for weak festive season sales and external headwinds from forex swings to add insult to injury. That made the quarter look like another step back. But rather than signalling a collapse in the thesis, it looks more like a delayed recovery path. In that sense, this is one step forward, one step backward — frustrating, but still consistent with a cyclical trough rather than a structural impairment.

- **Retain BUY at lower TP of RM0.70/share (from RM0.85).** This is based on a target PE of 12.5x and CY27 EPS. Valuations have compressed meaningfully, with the group now trading more than 1sd below its 5-year average PE, PB and PS multiples.
- **Where we were wrong?** VSI's 2QFY26 came in below expectations, posting a core loss of RM31mil vs. consensus estimates for a profit, while revenue fell 29% QoQ. The shortfall came from Customer X, likely reflecting weaker festive season sales, while performance from other customers were broadly in line with forecasts. In addition, a weaker US dollar acted as an earnings headwind during the quarter. Separately, the Iran war has introduced fresh uncertainty, making an already fragile operating backdrop more challenging. On the back of this, we lower earnings by 21-80%. The big deviation reflects the impact of operating leverage, as revenues are reduced by only 5-9%.
- **Cyclical, not structural.** The thesis remains intact, but will now take longer to materialise. While forecasts could still change, Apr-Jul 2026 are shaping up to be better months as a number of new models enter production. Contract manufacturing consolidation is still happening in both the Philippines and Malaysia, which should continue to support VSI's market share gains over time. The stock trades at a forward PE of only 4.5x, on the assumption that revenues normalise.
- **Trading below distressed values.** We estimate distressed value at around RM873mil, with the group trading below it. More importantly, we do not view the group's assets as stranded. In an increasingly deglobalising environment, EMS capacity in markets such as Malaysia and the Philippines retains strategic value as customers continue to diversify production sources.

Analyst (s)

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Key Changes

Target Price: ⬇
EPS: ⬇

Stock and Financial Data

Shares Outstanding (million)	3,940.2
Market Cap (RMmil)	788.0
Book Value (RM/Share)	0.55
P/BV (x)	0.4
ROE (%)	1.7
Net Gearing (%)	-
Free Float	59.4
Avg Daily Value (RMmil)	14.2

Major Shareholders

Beh Kim Leng	(9.7%)
EPF	(6.7%)
Aberdeen	(6.7%)

Price performance	3mth	6mth	12mth
Absolute(%)	(58.8)	(66.7)	(76.7)
Relative(%)	(59.5)	(68.4)	(79.4)

Source: V.S.Industry, AmInvestment Bank Bhd.

YE to July	FY25	FY26F	FY27F	FY28F
Revenue (RM mil)	3,787.8	3,909.0	4,916.1	5,673.6
Core net profit (RM mil)	42.2	27.0	175.8	265.4
FD Core EPS (sen)	1.1	0.7	4.5	6.7
FD Core EPS growth (%)	(77.1)	(36.0)	549.9	51.0
Consensus Net Profit (RM mil)	-	-	-	-
DPS (sen)	2.0	0.3	2.2	3.4
PE (x)	18.7	29.1	4.5	3.0
EV/EBITDA (x)	3.2	5.1	3.0	2.4
Div yield (%)	2.5	0.4	2.8	4.2
ROE (%)	1.7	1.3	8.0	11.4
Net Gearing (%)	nm	nm	nm	nm

Source: V.S.Industry, AmInvestment Bank Bhd.

Price Chart

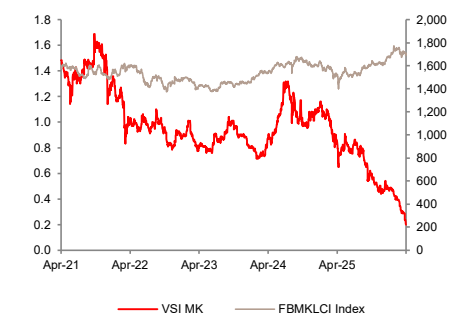
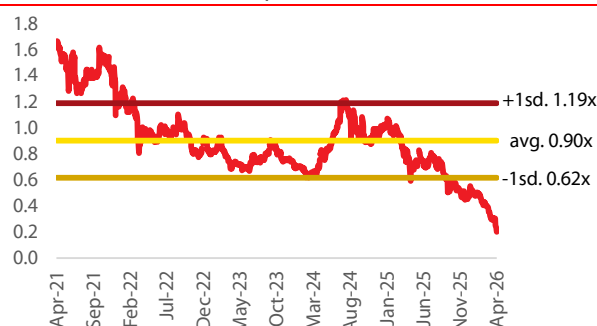


EXHIBIT 1. 2Q26 Earnings Summary

FYE July (RMmil)	2QFY26	2QFY25	YoY (%)	1QFY26	QoQ (%)	1HFY26	1HFY25	YoY (%)
Revenue	770	909	-15.3	1,079	-28.7	1,848	2,020	-8.5
Ebitda	-1	44	nm	68	nm	67	124	-45.9
Depreciation and amortisation	-33	-30	-10.9	-34	1.6	-67	-59	-13.7
Ebit	-34	14	nm	34	nm	0	65	-99.9
Finance income	5	6	-16.9	6	-14.8	11	12	-9.7
Finance costs	0	6	nm	6	nm	6	-5	nm
JV/Associates	0	-1	nm	1	-91.9	1	-1	nm
EI	1	1	2.4	3	-45.2	4	-1	nm
Pbt	-28	26	nm	49	nm	21	70	-70.3
Taxation	-2	-11	83.2	-18	89.6	-20	-26	21.8
Discontinued operations	0	0	nm	0	nm	0	0	nm
MI	0	1	-22.6	0	61.2	1	2	-68.2
Patami	-30	15	nm	31	nm	1	46	-97.7
Core Patami	-31	14	nm	28	nm	-3	47	nm
EPS (sen)	-0.8	0.4	nm	0.8	nm	0.0	1.2	-98.3
DPS (sen)	0.0	0.4	nm	0.4	nm	0.4	0.8	-50.0
Profitability ratio (%)								
Ebitda margin	-0.1	4.9	-5.0	6.3	-6.5	3.6	6.2	-2.5
Ebit margin	-4.5	1.6	-6.0	3.2	-7.7	0.0	3.2	-3.2
Pbt margin	-3.6	2.9	-6.5	4.5	-8.2	1.1	3.5	-2.3
Tax rate	-6.8	41.6	-48.4	38.2	-45.0	100.7	36.5	64.2
Patami margin	-4.0	1.5	-5.6	2.6	-6.6	-0.2	2.3	-2.5
Revenue and Pbt by country								
Revenue								
Malaysia + Singapore + Philippines	705	840	-16.1	1,002	-29.6	1,707	1,840	-7.2
Indonesia	64	69	-6.5	77	-16.7	141	180	-21.4
Pbt								
Malaysia + Singapore + Philippines	-27	33	nm	46	nm	19	71	-72.8
Indonesia	-1	-4	83.7	2	nm	1	2	-39.6

Source: V.S. Industry, AmInvestment Bank Bhd.

EXHIBIT 2. 5-Year forward P/S

Source: V.S. Industry, AmInvestment Bank Bhd.

EXHIBIT 3. 5-Year forward P/B

Source: V.S. Industry, AmInvestment Bank Bhd.

EXHIBIT 4. 5-Year forward P/E

Source: V.S. Industry, AmInvestment Bank Bhd.

EXHIBIT 5. Distressed asset valuation

	Value (RMmil)	
PPE and investment properties	RM486mil	50% discount
Receivables	RM758mil	Assume 90% recoverable
Inventory	RM213mil	50% discount
Cash	RM712mil	
	<u>RM2,168mil</u>	
Less: Total liabilities	<u>(RM1,295mil)</u>	
Distressed value	<u>RM873mil</u>	Equivalent to 22sen/share

Source: AmInvestment Bank Bhd.

EXHIBIT 6. Change in earnings

RMmil	Old	FY26F New	%	Old	FY27F New	%	Old	FY28F New	%
Revenue	4,284	3,909	-9%	5,241	4,916	-6.2%	5,961	5,674	-4.8%
Earnings	137	27	-80%	266	176	-33.9%	335	265	-20.8%
Customer X revenues	2,020	1,645	-18.6%	2,595	2,270	-12.5%	3,183	2,895	-9.0%

Source: AmInvestment Bank Bhd.

EXHIBIT 7. Valuations

Target PE (x)	12.5x
CY27 EPS	5.4 (from 6.7sen)
Target price	RM0.70 (from RM0.85)

Source: AmInvestment Bank Bhd.

Company profile

V.S. Industry is a top 50 EMS (electronics manufacturing services) provider. Manufacturing facilities are located in Malaysia, Indonesia, China and Vietnam. Recently, the group also announced plans to enter Philippines.

The group's main customers are Customer X (household appliance), US based (household appliance), coffee brewer and pool cleaner. Combined, they contributed to 76% of FY24 revenues.

To differentiate itself, the group offers vertically integrated services to its customers, which include mould design & fabrication, PCBA (printed circuit board assembly), plastic injection moulding, final assembly and supply chain management.

Investment thesis and catalysts

Recovery expected. We forecast revenue to rebound in FY26F and FY27F, driven by new models and customer wins. Margins are expected to improve to 5% as volumes normalise, benefitting from operating leverage.

Insider Selling Likely Over. Recent selling pressure was largely due to pledged shares by Datuk Beh and his son. This appears mostly done, while Datuk Gan and his son, who is more involved in day-to-day operations, have been buying shares, signaling confidence.

Stronger Long-Term Outlook. Despite short-term margin pain from tariff sharing, the group is expected to emerge stronger with deeper customer ties. Management's crisis track record and growing revenues suggest continued market share gains.

Valuation

We value VSI based on a target PE of 12.5x and FY27F EPS. Our target PE is one standard deviation below its five-year historical average, reflecting present demand, forex and war related uncertainties.

Risk factors

As its main customers contribute to 76% of FY24 revenues, any downward revisions in customer orders can impact revenues.

For costs and currency fluctuations, the group has a cost pass through mechanism in place with customers, albeit at a roughly two quarters time lag.

Financial Summary

Income Statement (RMmil)

YE to July	FY24	FY25	FY26F	FY27F	FY28F
Revenue	4,248.1	3,787.8	3,909.0	4,916.1	5,673.6
EBITDA	399.7	225.8	180.8	371.9	484.8
Depreciation/Amortisation	(126.2)	(127.0)	(126.1)	(120.2)	(115.1)
Operating income (EBIT)	273.5	98.8	54.7	251.7	369.7
Other income & associates	-	(1.1)	1.5	1.5	1.5
Net interest	(18.4)	(19.5)	(11.8)	(14.6)	(16.2)
Exceptional items	13.4	(3.2)	-	-	-
Pretax profit	268.5	75.0	44.4	238.6	355.0
Taxation	(73.7)	(42.0)	(17.4)	(62.9)	(89.7)
Minorities/pref dividends	9.4	3.7	0.1	0.1	0.1
Net profit	204.3	36.7	27.0	175.8	265.4
Core net profit	184.6	42.2	27.0	175.8	265.4

Balance Sheet (RMmil)

YE to July	FY24	FY25	FY26F	FY27F	FY28F
Fixed assets	909.9	1,008.1	963.0	923.8	889.7
Intangible assets	2.0	-	-	-	-
Other long-term assets	262.8	197.4	199.0	200.5	202.1
Total non-current assets	1,174.7	1,205.5	1,162.0	1,124.3	1,091.8
Cash & equivalent	755.0	858.7	576.3	318.5	185.0
Stock	848.1	600.1	780.4	981.5	1,132.7
Trade debtors	1,283.6	1,040.6	1,181.1	1,485.5	1,714.3
Other current assets	16.5	20.6	20.6	20.6	20.6
Total current assets	2,903.3	2,520.0	2,558.5	2,806.1	3,052.7
Trade creditors	814.1	688.9	749.1	942.1	1,087.2
Short-term borrowings	336.8	454.3	262.7	236.5	212.8
Other current liabilities	14.3	13.0	13.0	13.0	13.0
Total current liabilities	1,165.1	1,156.2	1,024.9	1,191.6	1,313.1
Long-term borrowings	571.3	332.9	445.7	401.1	361.0
Other long-term liabilities	48.8	85.0	85.0	85.0	85.0
Total long-term liabilities	620.1	417.9	530.7	486.2	446.0
Shareholders' funds	2,293.1	2,153.1	2,166.6	2,254.5	2,387.2
Minority interests	(0.4)	(1.7)	(1.8)	(1.8)	(1.9)
BV/share (RM)	0.58	0.55	0.55	0.57	0.61

Cash Flow (RMmil)

YE to July	FY24	FY25	FY26F	FY27F	FY28F
Pretax profit	268.5	75.0	44.4	238.6	355.0
Depreciation/Amortisation	126.2	127.0	126.1	120.2	115.1
Net change in working capital	(36.0)	336.9	(260.7)	(312.4)	(234.9)
Others	(59.7)	(8.0)	7.2	(40.9)	(70.0)
Cash flow from operations	299.0	530.8	(83.0)	5.5	165.1
Capital expenditure	(147.4)	(188.3)	(81.0)	(81.0)	(81.0)
Net investments & sale of fixed assets	(35.7)	49.3	-	-	-
Others	-	-	-	-	-
Cash flow from investing	(183.1)	(139.1)	(81.0)	(81.0)	(81.0)
Debt raised/(repaid)	10.2	(160.3)	(78.7)	(70.8)	(63.8)
Equity raised/(repaid)	45.1	19.1	-	-	-
Dividends paid	(76.8)	(77.3)	(13.5)	(87.9)	(132.7)
Others	0.7	(1.6)	(26.2)	(23.6)	(21.2)
Cash flow from financing	(49.5)	(258.4)	(118.4)	(182.3)	(217.7)
Net cash flow	66.5	133.4	(282.4)	(257.7)	(133.5)
Net cash/(debt) b/f	689.3	755.0	858.7	576.3	318.5
Net cash/(debt) c/f	755.0	858.7	576.3	318.5	185.0

Key Ratios

YE to July	FY24	FY25	FY26F	FY27F	FY28F
Revenue growth (%)	(6.7)	(10.8)	3.2	25.8	15.4
EBITDA growth (%)	(5.6)	(43.5)	(20.0)	105.7	30.3
Pretax margin (%)	6.3	2.0	1.1	4.9	6.3
Net profit margin (%)	4.8	1.0	0.7	3.6	4.7
Interest cover (x)	14.9	5.1	4.6	17.2	22.9
Effective tax rate (%)	27.4	56.0	39.2	26.4	25.3
Dividend payout (%)	37.6	210.7	50.0	50.0	50.0
Debtors turnover (days)	106	112	104	99	103
Stock turnover (days)	74	70	64	65	68
Creditors turnover (days)	69	72	67	63	65

Source: Company, AmInvestment Bank Bhd.

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