

V.S.INDUSTRY

(VSI MK EQUITY, VSID.KL)

BUY

(MAINTAINED)

Price: RM0.27

Target Price (% return): RM0.60 (+122%)

52-week High/Low: RM0.66/RM0.17

Manufacturing

Rationale for report: Company Result

Metamorphosis

VSI is undergoing a metamorphosis, with investors increasingly looking beyond its consumer electronics roots towards a higher-value manufacturing future. Strong free cash flows, which should improve further as Capex normalises, provide the financial flexibility and time for this transformation to play out. That longer-term optionality overshadowed an otherwise cautious FY27 outlook. While 4QFY26 results beat consensus, management guided for only a gradual recovery while flagging potential minimum wage pressures, leading us to cut FY27/28 earnings forecasts by 43/33%.

- **Retain BUY at lower TP of RM0.60/share (from RM0.70/share).** This is based on unchanged target PE of 12.5x and rolling forward valuation to FY28F EPS. Our valuation translates to an implied PB of 1.1x
- **Conservative guidance of flattish outlook from major customers.** We cut FY27/28 earnings forecasts by 43%/33% after management guided for broadly flattish demand from its key customers. Given its high operating leverage, modest revenue changes can drive outsized earnings swings. We believe the guidance is intentionally conservative, reflecting the seasonal and volatile nature of customer forecasts. Upside could emerge as new production models ramp up at its Philippines operations. 4QFY26 core net profit of RM16mil (excluding a RM40mil impairment) marked a return to profitability, beating consensus while broadly meeting our expectations.
- **Strategic pivot beyond consumer electronics gathers pace.** Management is accelerating its diversification, targeting non-consumer electronics to account for 50% of revenue over time. It has secured a new PCBA customer, expected to contribute RM200mil in revenue over the next year, with further developments likely within six months. The pivot comes as consumer electronics demand remains subdued and should reduce labour dependency while supporting structurally higher margins.
- **Financial strength buys time.** Despite reporting its first loss since listing in 1998, the group remained FCF positive at RM49mil, supported by sizeable depreciation of RM142mil. With profitability expected to recover in FY27F and capex in the Philippines normalising, we expect FCF to strengthen to RM148mil. Coupled with a net gearing of just 0.1%, the group is far from financial distress and has the balance sheet flexibility to fund its transformation while allowing its longer-term growth initiatives to play out.

YE to July	FY26	FY27F	FY28F	FY29F
Revenue (RM mil)	3,650.8	4,337.3	4,990.5	5,395.8
Core net profit (RM mil)	(20.0)	102.0	182.9	260.9
FD Core EPS (sen)	(0.5)	2.6	4.6	6.6
FD Core EPS growth (%)	(147.3)	(610.4)	79.4	42.6
Consensus Net Profit (RM mil)	-	79.4	103.7	103.2
DPS (sen)	0.4	1.3	2.3	3.3
PE (x)	nm	10.8	6.0	4.2
EV/EBITDA (x)	7.8	3.6	2.7	1.9
Div yield (%)	0.5	1.6	2.9	4.2
ROE (%)	(2.6)	4.9	8.5	11.5
Net Gearing (%)	nm	nm	nm	nm

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

Analyst (s)

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Key Changes

Target Price:	➔
EPS:	➔

Stock and Financial Data

Shares Outstanding (million)	3,940.2
Market Cap (RMmil)	1,103.3
Book Value (RM/Share)	0.52
P/BV (x)	0.5
ROE (%)	(2.6)
Net Gearing (%)	-
Free Float	59.4
Avg Daily Value (RMmil)	8.6

Major Shareholders

Sze Beh Hwee	(7.4%)
Lee Beh Hwee	(7.4%)
Aberdeen	(7.2%)

Price performance	3mth	6mth	12mth
Absolute(%)	40.0	36.6	(52.5)
Relative(%)	41.1	39.8	(53.7)

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

Price Chart



EXHIBIT 1. 4Q26 Earnings Summary

FYE July (RMmil)	4QFY26	4QFY25	YoY (%)	3QFY26	QoQ (%)	FY26	FY25	YoY (%)
Revenue	999	859	16.3	804	24.2	3,651	3,788	-3.6
Ebitda	55	-5	nm	-12	nm	111	174	-36.5
Depreciation and amortisation	-41	-36	-12.8	-33	-24.1	-142	-127	-11.4
Ebit	14	-41	nm	-45	nm	-31	47	nm
Finance income	5	7	-32.0	4	1.5	19	24	-19.5
Finance costs	0	7	nm	0	nm	6	8	-26.5
JV/Associates	2	0	>100	1	61.7	3	-1	nm
El	-38	-3	-1,145.7	4	nm	-31	-3	-832.5
Pbt	-18	-31	40.1	-35	48.2	-33	75	nm
Taxation	-4	-4	-3.2	2	nm	-22	-42	46.8
Discontinued operations	0	0	nm	0	nm	0	0	nm
MI	0	1	-78.1	0	-38.0	1	4	-61.6
Patami	-22	-33	33.5	-33	33.2	-54	37	nm
Core Patami	16	-30	nm	-37	nm	-20	40	nm
EPS (sen)	-0.6	-0.9	33.7	-0.9	32.9	-1.4	1.0	nm
DPS (sen)	0.0	0.0	nm	0.0	nm	0.4	0.8	-50.0
Profitability ratio (%)								
Ebitda margin	5.5	-0.5	6.0	-1.4	7.0	3.0	4.6	-1.6
Ebit margin	1.4	-4.8	6.2	-5.6	7.0	-0.8	1.3	-2.1
Pbt margin	-1.8	-3.6	1.7	-4.4	2.6	-0.9	2.0	-2.9
Tax rate	-19.8	-12.4	-7.4	5.4	-25.2	-61.6	55.2	-116.8
Patami margin	1.6	-3.5	5.1	-4.6	6.2	-0.6	1.1	-1.7

Breakdown**Revenue**

Malaysia + Singapore + Philippines	776	749	3.6	534	45.2	3,017	3,440	-12.3
Indonesia	86	76	13.3	62	38.0	289	314	-7.9
Philippines	137	34	>100	94	46.5	345	34	>100

Pbt

Malaysia + Singapore	-14	-15	2.4	-29	51.4	-2	98	nm
Indonesia	3	2	8.0	-1	nm	3	1	>100
Philippines	-3	-19	84.2	-7	57.7	-38	-23	-64.7

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

EXHIBIT 2. Change in earnings

RMmil	Old	FY27F New	%	Old	FY28F New	%	Old	FY29F New	%
Revenue	4,916	4,337	-11.8%	5,674	4,991	-12%	-	5,396	NEW
Earnings	176	102	-43.3%	265	183	-33.2%	-	261	NEW

Revenue breakdown

Customer X (Malaysia)	1,520	1,345	-12%	1,695	1,433	-15%	-	1,520	NEW
Coffee brewer	676	714	+6%	696	736	+6%	-	758	NEW
Pool-cleaning	288	226	-22%	297	232	-22%	-	239	NEW
US-based customer	644	585	-9%	702	644	-8%	-	702	NEW
Others (MY)	693	372	-46%	728	391	-46%	-	411	NEW
Indonesia	345	345	-	355	355	-	-	366	NEW
Philippines	-	750	-	-	1,200	-	-	1,400	NEW

Source: AmlInvestment Bank Bhd.

EXHIBIT 3. Valuations

Target PE (x)	12.5x
FY28F EPS	4.6 sen
Target price	RM0.60 (from RMM0.70)

Source: AmlInvestment 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 expanded into Philippines.

The group's main customers are Customer X (household appliance), US based (household appliance), coffee brewer and pool cleaner. Combined, they contributed to 81% of FY25 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, driven by new models and customer wins. Margins are expected to improve to 4% 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 FY28F EPS. Our target PE is one standard deviation below its five-year historical average, reflecting present trade war uncertainties.

Risk factors

As its main customers contribute to 81% of FY25 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	FY25	FY26	FY27F	FY28F	FY29F
Revenue	3,787.8	3,650.8	4,337.3	4,990.5	5,395.8
EBITDA	225.8	136.6	272.0	366.3	460.1
Depreciation/Amortisation	(127.0)	(127.0)	(123.3)	(115.7)	(109.1)
Operating income (EBIT)	98.8	9.6	148.7	250.6	351.0
Other income & associates	(1.1)	3.3	1.5	1.5	1.5
Net interest	(19.5)	(13.5)	(7.3)	(5.5)	(3.7)
Exceptional items	(3.2)	(32.3)	-	-	-
Pretax profit	75.0	(32.9)	143.0	246.6	348.8
Taxation	(42.0)	(22.3)	(41.1)	(63.7)	(88.0)
Minorities/pref dividends	3.7	1.4	0.1	0.1	0.1
Net profit	36.7	(53.8)	102.0	182.9	260.9
Core net profit	42.2	(20.0)	102.0	182.9	260.9

Balance Sheet (RMmil)

YE to July	FY25	FY26	FY27F	FY28F	FY29F
Fixed assets	1,008.1	986.4	928.2	877.5	833.3
Intangible assets	-	25.5	25.5	25.5	25.5
Other long-term assets	197.4	212.1	213.6	215.2	216.7
Total non-current assets	1,205.5	1,224.0	1,167.3	1,118.1	1,075.5
Cash & equivalent	858.7	662.9	677.0	631.0	672.5
Stock	600.1	770.1	867.5	998.1	1,079.2
Trade debtors	1,040.6	978.7	1,084.3	1,247.6	1,348.9
Other current assets	20.6	6.8	6.8	6.8	6.8
Total current assets	2,520.0	2,418.5	2,635.7	2,883.5	3,107.5
Trade creditors	688.9	912.2	1,083.8	1,247.0	1,348.2
Short-term borrowings	454.3	309.7	278.8	250.9	225.8
Other current liabilities	13.0	17.8	17.8	17.8	17.8
Total current liabilities	1,156.2	1,239.8	1,380.3	1,515.7	1,591.8
Long-term borrowings	332.9	311.4	280.3	252.2	227.0
Other long-term liabilities	85.0	60.8	60.8	60.8	60.8
Total long-term liabilities	417.9	372.3	341.1	313.1	287.9
Shareholders' funds	2,153.1	2,062.3	2,113.3	2,204.7	2,335.2
Minority interests	(1.7)	(1.6)	(1.6)	(1.7)	(1.7)
BV/share (RM)	0.55	0.52	0.54	0.56	0.59

Cash Flow (RMmil)

YE to July	FY25	FY26	FY27F	FY28F	FY29F
Pretax profit	75.0	(32.9)	143.0	246.6	348.8
Depreciation/Amortisation	127.0	127.0	123.3	115.7	109.1
Net change in working capital	336.9	53.8	(31.5)	(130.7)	(81.1)
Others	(8.0)	63.6	(22.0)	(46.7)	(72.8)
Cash flow from operations	530.8	211.5	212.8	184.9	304.1
Capital expenditure	(188.3)	(162.6)	(65.0)	(65.0)	(65.0)
Net investments & sale of fixed assets	49.3	5.7	-	-	-
Others	-	(1.9)	-	-	-
Cash flow from investing	(139.1)	(158.7)	(65.0)	(65.0)	(65.0)
Debt raised/(repaid)	(160.3)	(197.8)	(62.1)	(55.9)	(50.3)
Equity raised/(repaid)	19.1	-	-	-	-
Dividends paid	(77.3)	(15.4)	(51.0)	(91.5)	(130.5)
Others	(1.6)	(10.8)	(20.7)	(18.6)	(16.7)
Cash flow from financing	(258.4)	(234.7)	(133.8)	(166.0)	(197.5)
Net cash flow	133.4	(181.9)	14.1	(46.1)	41.6
Net cash/(debt) b/f	755.0	858.7	662.9	677.0	631.0
Net cash/(debt) c/f	858.7	662.9	677.0	631.0	672.5

Key Ratios

YE to July	FY25	FY26	FY27F	FY28F	FY29F
Revenue growth (%)	(10.8)	(3.6)	18.8	15.1	8.1
EBITDA growth (%)	(43.5)	(39.5)	99.1	34.7	25.6
Pretax margin (%)	2.0	(0.9)	3.3	4.9	6.5
Net profit margin (%)	1.0	(1.5)	2.4	3.7	4.8
Interest cover (x)	5.1	0.7	20.5	45.5	95.0
Effective tax rate (%)	56.0	67.9	28.7	25.8	25.2
Dividend payout (%)	210.7	nm	50.0	50.0	50.0
Debtors turnover (days)	112	101	87	85	88
Stock turnover (days)	70	68	69	68	70
Creditors turnover (days)	72	80	84	85	88

Source: Company, AmInvestment Bank Bhd.

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