AmInvestment Bank

Company Report

Paul Yap Ee Xing, CFA
paul.ee-xing@ambankgroup.com
+603 2036 2281

MANUFACTURING

V.S.INDUSTRY

(VSI MK EQUITY, VSID.KL)

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In every crisis, there is opportunity

BUY

(Maintained)

Rationale for report: Company Result

Price	**RM0.60**
Fair Value	**RM0.85**
52-week High/Low	RM1.18/RM0.52

Key Changes

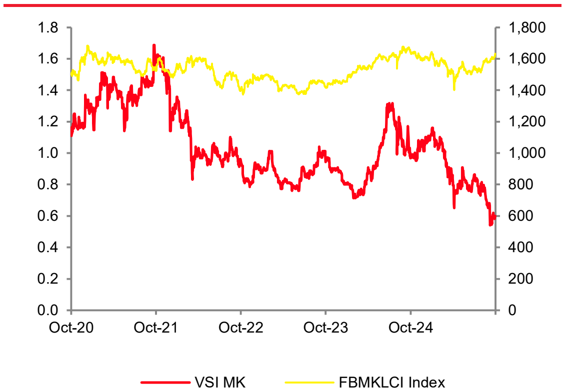
Fair value	↓
EPS	↓

YE to July	**FY25**	**FY26F**	**FY27F**	**FY28F**
Revenue (RM mil)	3,787.8	4,284.0	5,241.1	5,961.1
Core net profit (RM mil)	42.2	137.4	265.9	335.0
FD Core EPS (sen)	1.1	3.5	6.7	8.5
FD Core EPS growth (%)	(77.1)	225.4	93.5	26.0
Consensus Net Profit (RM mil)	-	-	-	-
DPS (sen)	2.0	1.7	3.4	4.3
PE (x)	56.0	17.2	8.9	7.1
EV/EBITDA (x)	10.2	7.8	5.5	4.7
Div yield (%)	2.5	2.2	4.2	5.3
ROE (%)	1.7	6.3	11.6	13.7
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	3,940.2
Market Cap (RMmil)	2,364.1
Book Value (RM/Share)	0.55
P/BV (x)	1.1
ROE (%)	1.7
Net Gearing (%)	-
Major Shareholders	EPF (8.6%) Beh Kim Leng (7.7%) Beh Hwee Sze (7.4%)
Free Float	59.4
Avg Daily Value (RMmil)	15.5

Price performance	**3mth**	**6mth**	**12mth**
Absolute (%)	(28.6)	(28.4)	(38.0)
Relative (%)	(32.4)	(33.3)	(37.9)



Investment Highlights

Let's get the bad news out of the way, 4QFY25 results were bad and tariffs had a harsher than expected impact. The opportunity - V.S. Industry is now trading at valuations not seen since Covid-19, with recent weakness artificially amplified by forced selling. As we believe the group will exit this episode on a stronger footing that before, valuations should be anchored to normalised FY27F earnings. We revise our TP to RM0.85 (from RM0.90), with a BUY and upside of +45%.

- **Once in a decade opportunity.** We retain BUY on VSI at a TP of RM0.85/share (from RM0.90), based on a target PE of 12.5x and FY27F earnings. Based on PS and PB, valuations are trading within the range of ten-year lows. Both metrics are useful in determining bottoms, helping correct for limitations when relying solely on PE valuation, in our view. PS normalises for margin volatility and a low PB reflects underpriced future revenue potential. Based on normalised earnings, we estimate PE is at 9x vs. its historical average of 13x.

- **After every slump comes a rebound.** We estimate higher FY26F and FY27F revenues at RM4.3bil and RM5.2bil. FY26F growth is driven by new models from Customer X, while we expect FY27F to benefit from a newly secured consumer customer and order normalisation. In terms of net margins, while we estimate it at 3% for FY26F, this is on the assumption of a weaker 1HFY26F. As volumes normalise and operating leverage kicks in, we expect FY27F net margins to rise to 5%. Overall, we cut FY26F and FY27F earnings by 45% and 16%, to reflect the impact of weaker demand from higher US tariffs. FY25 core earnings missed expectations, forming 35% of ours and 39% of consensus forecasts.

- **Artificially induced selling should subside.** 21% of trading volumes over the past month can be traced to selling by Datuk Beh and his son, Beh Chern Wei. Based on disclosures in the latest annual report, we believe this could have been triggered by pledged shares. If our assessment is correct, the bulk of selling has likely been completed. Encouragingly, Datuk Gan and his son, Gan Pee Yong, who are actively involved in day-to-day operations have accumulated 29mil and 2mil shares over the last two days.

- **Short term pain, for long term gain.** We believe the group should emerge from this tariff situation on a stronger footing. By sharing the burden of US tariffs with its customers, although short term margins will suffer, we believe it will be compensated through higher volumes and deeper customer stickiness. This is not management's first rodeo, having navigated the Global Financial Crisis in 2008, loss of orders from major customer in 2018 and more recently Covid-19. Evident by growing revenues, the group has a track record of resilience and continues to gain market share with customers.

EXHIBIT 1: 4QFY25 EARNINGS SUMMARY

FYE July (RMmil)	4QFY25	4QFY24	YoY (%)	3QFY25	QoQ (%)	FY25	FY24	YoY (%)
Revenue	859	1,213	-29.2	909	-5.6	3,788	4,248	-10.8
Ebitda	14	147	-90.6	71	-80.7	226	380	-40.6
Depreciation and amortisation	-36	-34	-7.6	-31	-16.0	-127	-126	-0.7
Ebit	-23	113	nm	40	nm	99	254	-61.1
Finance income	7	6	11.6	6	12.3	24	23	3.1
Finance costs	-12	-11	-11.4	-11	-11.4	-44	-42	-4.2
JV/Associates	0	0	nm	0	nm	-1	0	nm
EI	-3	-3	13.4	1	nm	-3	33	nm
Pbt	-31	105	nm	36	nm	75	268	-72.1
Taxation	-4	-29	86.8	-12	68.4	-42	-74	43.0
Discontinued operations	0	52	nm	0	nm	0	42	nm
MI	1	-1	nm	0	>100	4	9	-60.3
Patami	-33	127	nm	24	nm	37	246	-85.1
Core Patami	-30	84	nm	23	nm	42	173	-75.6
EPS (sen)	-0.9	3.3	nm	0.6	nm	1.0	6.4	-85.2
DPS (sen)	0.0	1.2	nm	0.0	nm	0.8	2.2	-63.6
Profitability ratio (%)								
Ebitda margin	1.6	12.1	-10.5	7.8	-6.2	6.0	9.0	-3.0
Ebit margin	-2.6	9.3	-11.9	4.4	-7.0	2.6	6.0	-3.4
Pbt margin	-3.6	8.6	-12.2	3.9	-7.5	2.0	6.3	-4.3
Tax rate	-12.4	27.8	-40.2	34.0	-46.4	55.2	27.4	27.8
Patami margin	-3.5	6.9	-10.4	2.5	-6.0	1.1	4.1	-3.0
Revenue and Pbt by country								
Revenue								
Malaysia	599	897	-33.2	716	-16.3	2,854	3,024	-5.6
Singapore	150	205	-26.6	135	11.2	586	875	-33.1
Indonesia	76	112	-32.4	58	29.5	314	349	-10.2
China	0	0	nm	0	nm	0	24	nm
Philippines	34	0	nm	0	nm	34	0	nm
Pbt								
Malaysia	-13	100	nm	40	nm	97	262	-63.0
Singapore	1	1	-37.4	2	-68.9	3	4	-15.5
Indonesia	2	6	-62.0	-3	nm	1	6	-82.4
China	0	0	nm	0	nm	0	-19	nm
Philippines	-20	0	nm	0	nm	-20	0	nm

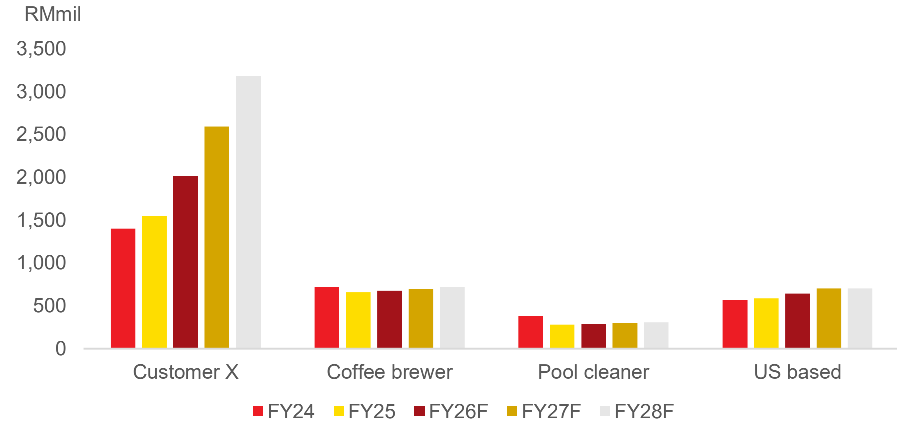
Source: VSI, AmInvestment Bank

EXHIBIT 2: CHANGE IN EARNINGS

		FY26F			FY27F	
RMmil	**Old**	**New**	**%**	**Old**	**New**	**%**
Revenue	4,914	4,284	-12.8	5,533	5,241	-5.3
Earnings	249	137	-44.9	315	266	-15.7
Customer X revenues	2,583	2,020	-21.8	3,070	2,595	-15.5
US based customer revenues	702	585	-16.7	702	644	-8.3
New customer	-	-	-	-	300	n/a

Source: AmInvestment Bank

EXHIBIT 3: REVENUE BREAKDOWN



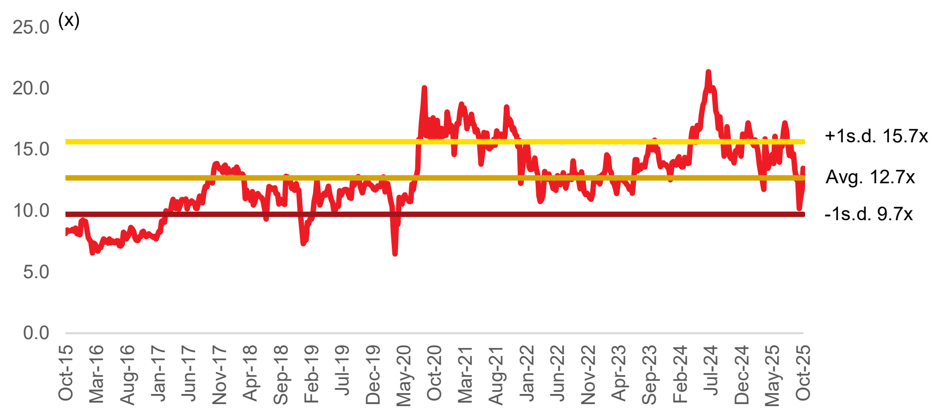
Source: AmInvestment Bank

EXHIBIT 4: VALUATIONS

Target PE (x)	12.5x
FY27F EPS	6.7sen (from 7.0sen)
ESG premium	-
12-month target price	RM0.85/share (from RM0.90)

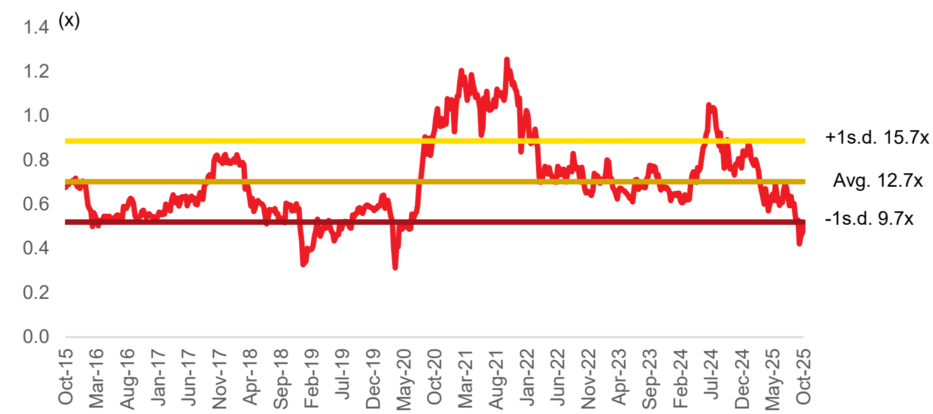
Source: AmInvestment Bank

EXHIBIT 5: 10-YEAR FORWARD PE



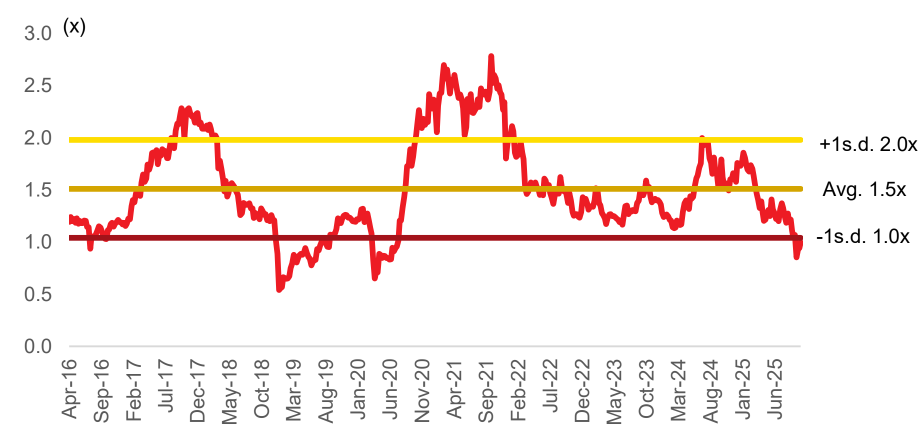
Source: Bloomberg, AmInvestment Bank

EXHIBIT 6: 10-YEAR FORWARD P/S



Source: Bloomberg, AmInvestment Bank

EXHIBIT 7: 10-YEAR FORWARD P/B



Source: Bloomberg, AmInvestment Bank

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 methodology

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 trade war 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.

EXHIBIT 8: FINANCIAL DATA

Income Statement (RMmil, YE 31 July)	FY24	FY25	FY26F	FY27F	FY28F
Revenue	4,248.1	3,787.8	4,284.0	5,241.1	5,961.1
EBITDA	399.7	225.8	328.0	491.9	577.0
Depreciation/Amortisation	(126.2)	(127.0)	(126.1)	(120.2)	(115.1)
Operating income (EBIT)	273.5	98.8	202.0	371.7	461.9
Other income & associates	-	(1.1)	1.5	1.5	1.5
Net interest	(18.4)	(19.5)	(12.4)	(15.2)	(15.7)
Exceptional items	13.4	(3.2)	-	-	-
Pretax profit	**268.5**	**75.0**	**191.1**	**358.0**	**447.7**
Taxation	(73.7)	(42.0)	(53.7)	(92.1)	(112.7)
Minorities/pref dividends	9.4	3.7	0.1	0.1	0.1
Net profit	**204.3**	**36.7**	**137.4**	**265.9**	**335.0**
Core net profit	184.6	42.2	137.4	265.9	335.0

Balance Sheet (RMmil, YE 31 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	515.1	318.0	231.0
Stock	848.1	600.1	855.3	1,046.4	1,190.1
Trade debtors	1,283.6	1,040.6	1,294.5	1,583.7	1,801.2
Other current assets	16.5	20.6	20.6	20.6	20.6
Total current assets	**2,903.3**	**2,520.0**	**2,685.5**	**2,968.7**	**3,242.9**
Trade creditors	814.1	688.9	820.9	1,004.4	1,142.3
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**	**1,096.7**	**1,253.9**	**1,368.2**
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**	**2,221.8**	**2,354.8**	**2,522.3**
Minority interests	(0.4)	(1.7)	(1.8)	(1.8)	(1.9)
BV/share (RM)	0.58	0.55	0.56	0.60	0.64

Cash Flow (RMmil, YE 31 July)	FY24	FY25	FY26F	FY27F	FY28F
Pretax profit	268.5	75.0	191.1	358.0	447.7
Depreciation/Amortisation	126.2	127.0	126.1	120.2	115.1
Net change in working capital	(36.0)	336.9	(377.0)	(296.9)	(223.3)
Others	(59.7)	(8.0)	(29.1)	(70.1)	(93.0)
Cash flow from operations	**299.0**	**530.8**	**(89.0)**	**111.2**	**246.4**
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)	(68.7)	(133.0)	(167.5)
Others	0.7	(1.6)	(26.2)	(23.6)	(21.2)
Cash flow from financing	**(49.5)**	**(258.4)**	**(173.6)**	**(227.4)**	**(252.5)**
Net cash flow	**66.5**	**133.4**	**(343.6)**	**(197.1)**	**(87.0)**
Net cash/(debt) b/f	**689.3**	**755.0**	**858.7**	**515.1**	**318.0**
Net cash/(debt) c/f	**755.0**	**858.7**	**515.1**	**318.0**	**231.0**

Key Ratios (YE 31 July)	FY24	FY25	FY26F	FY27F	FY28F
Revenue growth (%)	(6.7)	(10.8)	13.1	22.3	13.7
EBITDA growth (%)	(5.6)	(43.5)	45.3	49.9	17.3
Pretax margin (%)	6.3	2.0	4.5	6.8	7.5
Net profit margin (%)	4.8	1.0	3.2	5.1	5.6
Interest cover (x)	14.9	5.1	16.2	24.4	29.4
Effective tax rate (%)	27.4	56.0	28.1	25.7	25.2
Dividend payout (%)	37.6	210.7	50.0	50.0	50.0
Debtors turnover (days)	106	112	99	100	104
Stock turnover (days)	74	70	62	66	68
Creditors turnover (days)	69	72	64	64	66

Source: Company, AmInvestment Bank Bhd estimates

DISCLOSURE AND DISCLAIMER