

VS Industry (VSI MK)

Gradual Recovery; Diversifying For Growth

Highlights

- VS is reshaping its business mix beyond consumer electronics, while optimising its existing manufacturing footprint and pursuing higher-margin opportunities. We expect improving utilisation and stronger order flows to support a return to profitability in FY27, with diversification providing a longer-term earnings growth avenue.
- VS trades at just 8.8x FY28F PE (-1SD below historical mean) and 0.5x FY28F P/B (-1.5SD), well below the trough valuations seen during the MCO period (0.83-0.88x P/B), suggesting limited downside with asymmetrical upside potential.
- Maintain BUY with a target price of RM0.35. Key re-rating catalysts include further order normalisation, improving capacity utilisation, sustained earnings recovery, and potential new customer wins.

Analysis

- Diversification to underpin the next leg of recovery.** VS Industry (VS) is entering a transition phase as management looks beyond consumer electronics (CE) to diversify its revenue base and better utilise its existing manufacturing footprint. This comes as the group ended FY26 as its first loss-making year since listing, despite 4QFY26 revenue recovering to around RM1b (+24% qoq, +16% yoy) and operations returning to profitability before a RM39.7m impairment.

Management remains cautious on the broader EMS recovery and is prioritising new customer wins and alternative end-markets to improve its utilisation and revenue mix. We understand that discussions with prospective new customers are still at an early stage. Given the time required for customer qualification, production setup and volume ramp-up, we expect meaningful contributions to become visible from FY28 onwards.

- Near-term seasonal demand points to sequential improvement.** We expect VS to deliver a sequentially stronger 1QFY27, supported by stronger orders and seasonal loading ahead of the year-end festive period. Key customers are also scheduled to launch new models in FY27, which should provide further production loading. That said, we expect this to support the initial earnings recovery, although a more sustained improvement will depend on order visibility and operating efficiency.

Key Financials

Year to 31 Jul (RMm)	2025	2026	2027F	2028F	2029F
Net turnover	3,788	3,651	4,003	4,562	4,772
EBITDA	223	119	236	306	332
Operating profit	96	(23)	110	176	200
Net profit (rep./act.)	37	(54)	72	121	139
Net profit (adj.)	51	(17)	72	121	139
EPS (sen)	1	(1)	2	3	4
PE (x)	18.0	(55.8)	14.7	8.8	7.6
P/B (x)	0.4	0.4	0.5	0.5	0.5
EV/EBITDA (x)	3.8	7.4	5.4	4.4	4.0
Dividend yield (%)	3.4	1.7	2.0	3.4	3.9
Net margin (%)	1.0	(1.5)	1.8	2.7	2.9
Net debt/(cash) to equity (%)	(6.1)	(5.1)	(5.1)	(5.1)	(5.1)
Interest cover (x)	11.4	8.8	14.0	18.1	19.7
ROE (%)	1.7	(2.6)	3.4	5.6	6.3
Consensus net profit			79.4	103.7	103.0
UOBKH/Consensus (x)			0.9	1.2	1.3

Source: VSI, Bloomberg, UOB Kay Hian

Analyst(s)

Desmond Chong

desmondchong@uobkh.com
+603 2147 1980

Lee Cai Yu

research@uobkh.com
+603 2147 1916

BUY (Maintained)

Share Price	RM0.27
Target Price	RM0.35
Upside	+29.6%

Stock Data

Sector	Information Technology
Bloomberg ticker	VSI MK
Shares issued (m)	3,854.5
Market cap (RMm)	1,040.7
Market cap (US\$m)	254.8
3-mth avg daily t'over (US\$m)	2.1

Price Performance (%)

52-week high/low				RM0.66/RM0.17
1mth	3mth	6mth	1yr	YTD
22.7	35.0	35.0	(55.0)	(44.3)

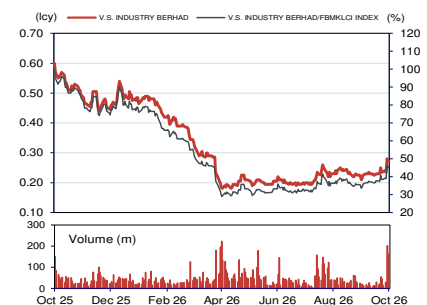
Major Shareholders (%)

Beh Hwee Sze	7.4
Beh Hwee Lee	7.4
Aberdeen	7.2

Balance Sheet Metrics

2027 NAV/Share (RM)	0.57
2027 Net Debt/Share (RM)	0.02

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 profitable; Philippines turning the corner.** Indonesia continues to see healthy growth, with an existing customer having loaded a new model which is expected to contribute more than RM100m sales p.a.. Meanwhile, the Philippines is nearing an inflection point as utilisation improved on additional models entering production. The plant reached breakeven in Aug 26, while the planned commencement of motorhead and PCBA production in 4Q26 should provide further utilisation upside and support margin improvement in FY27. While the current utilisation of its Philippines plant remains below 50%, VS is also pursuing new customers to fill the available capacity as its existing key customer's order remains broadly flat.
- **Available capacity provides flexibility to onboard higher-value opportunities.** Current group utilisation stands at around 60%, which is near management's operational breakeven threshold. With some capacity now available following weaker loading from existing customers, management sees an opportunity to reorganise and optimise its existing capacity towards higher-value opportunities. Both positive operating cash flow and available factory space give VS greater flexibility to meet urgent customers capacity needs without requiring significant near-term capex.
- **Positioning for the upcycle amid near-term headwinds.** Against a backdrop of tariff pressures, imminent minimum wage hike and subdued margins, VS is tightening its cost base through workforce and machinery rationalisation while selectively sharing part of the tariff burden with customers in exchange for firmer order commitments. We see this as supportive of customer retention and volume visibility, while the industry shake-out could create opportunities for VS to capture market share. Although margins are likely to remain under pressure in the near term, better utilisation, mix improvement and a gradual order recovery should support a progressive earnings recovery.

Earnings Revision/Risk

- **We cut our FY27-28 earnings forecasts by 7-32%** to reflect a more conservative margin assumptions, factoring in its ongoing cost-down initiative, gestation periods for new production, and higher labour cost.

Valuation/Recommendation

- **Maintain BUY with an unchanged target price of RM0.35**, based on a higher 15x 2027F PE (from 12x, in line with its 10-year mean) to account for the anticipated earnings recovery in FY27-28.

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.

Sales Assumption

(RMm)	FY26	FY27F	FY28F	FY29F
Sales	3,651	4,003	4,562	4,772
Key Customer	2,390	2,523	2,925	3,071
Customer Z	187	206	227	249
China	40	72	72	72
Indonesia	220	330	330	330
New Key Customers	300	500	600	600
Others	514	372	409	450
Core Net Margin	-0.5%	1.8%	2.7%	2.9%

Source: VS, UOB Kay Hian

Profit & Loss

Year to 31 Jul (RMm)	2026	2027F	2028F	2029F
Net turnover	3,651	4,003	4,562	4,772
EBITDA	119	236	306	332
Deprec. & amort.	142	126	130	132
EBIT	(23)	110	176	200
Associates	3	3	3	3
Net interest income/(expense)	(13)	(17)	(17)	(17)
Pre-tax profit	(33)	96	161	186
Tax	(22)	(25)	(42)	(49)
Minorities	1	1	2	2
Net profit	(54)	72	121	139
Net profit (adj.)	(17)	72	121	139

Cash Flow

Year to 31 Jul (RMm)	2026	2027F	2028F	2029F
Operating	207	(49)	136	242
Pre-tax profit	(33)	96	161	186
Tax	(18)	(25)	(42)	(49)
Deprec. & amort.	142	126	130	132
Working capital changes	54	(290)	(156)	(70)
Non-cash items	38	38	38	38
Other operating cashflows	25	6	6	6
Investing	(159)	(150)	(150)	(150)
Capex (growth)	(163)	(150)	(150)	(150)
Investments	(2)	0	0	0
Proceeds from sale of assets	6	0	0	0
Others	0	0	0	0
Financing	(235)	(57)	(72)	(78)
Dividend payments	(15)	(21)	(36)	(41)
Issue of shares	0	1	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	(198)	(15)	(15)	(15)
Others/interest paid	(21)	(21)	(21)	(21)
Net cash inflow (outflow)	(186)	(257)	(86)	15
Beginning cash & cash equivalent	859	663	406	320
Changes due to forex impact	(14)	0	0	0
Ending cash & cash equivalent	659	406	320	335

Balance Sheet

Year to 31 Jul (RMm)	2026	2027F	2028F	2029F
Fixed assets	930	955	975	993
Other LT assets	294	296	299	301
Cash/ST investment	663	415	338	361
Other current assets	1,786	1,926	2,162	2,251
Total assets	3,673	3,591	3,773	3,906
ST debt	310	310	310	310
Other current liabilities	930	799	898	935
LT debt	311	311	311	311
Other LT liabilities	61	61	61	61
Shareholders' equity	2,062	2,113	2,198	2,296
Minority interest	(2)	(3)	(4)	(6)
Total liabilities & equity	3,673	3,591	3,773	3,906

Key Metric

Year to 31 Jul (%)	2026	2027F	2028F	2029F
Profitability				
EBITDA margin	3.3	5.9	6.7	7.0
Pre-tax margin	(0.9)	2.4	3.5	3.9
Net margin	(1.5)	1.8	2.7	2.9
ROA	(1.5)	2.0	3.2	3.7
ROE	(2.6)	3.4	5.6	6.3
Growth				
Turnover	(5.1)	7.9	28.6	36.4
EBITDA	(65.3)	8.3	52.2	68.8
Pre-tax profit	(201.5)	38.8	161.5	207.5
Net profit	(345.3)	134.6	321.2	391.3
Net profit (adj.)	(132.3)	334.7	67.9	15.2
EPS	(185.2)	56.5	190.0	240.1
Leverage				
Debt to total capital	30.1	29.4	28.3	27.1
Debt to equity	30.1	29.4	28.3	27.1
Net debt/(cash) to equity	(0.0)	9.8	12.9	11.3
Interest cover	8.8	14.0	18.1	19.7

IMPORTANT NOTICE - DISCLOSURES AND DISCLAIMERS

This report is provided subject to various disclosures and disclaimers (the "Disclosures / Disclaimers") which form an integral part of this report and are available at [this link](#) or by scanning the QR code below:



The Disclosures / Disclaimers contain important information, including without limitation, (a) exclusions of liability, (b) confidentiality obligations, (c) restrictions on publication, circulation, reproduction, distribution and use of the report, (d) potential conflicts of interest, and (e) disclosures and requirements specific to recipients in the United States and other applicable jurisdictions.

Specifically, this report is intended for general circulation and informational purposes only and does not take into account the specific investment objectives, financial situation, or particular needs of any individual person. It is not intended to constitute personal investment advice or a recommendation to buy or sell any investment product or security. You should independently evaluate the information and, where necessary, seek advice from a qualified financial adviser regarding the suitability of any investment, taking into account your specific objectives, financial situation and needs, before making any investment decision. Analyst certifications required under applicable regulations, including SEC Regulation AC (where relevant), are included in this report.

Recipients of this report must carefully read, review and understand the full Disclosures / Disclaimers before using or relying on any information in this report. By accessing, receiving or using this report, you acknowledge and confirm that you have read, understood, accepted and agreed to be bound by the Disclosures / Disclaimers (as may be amended or updated from time to time) in full."