

Singapore

**ADD** (previously NOT RATED)

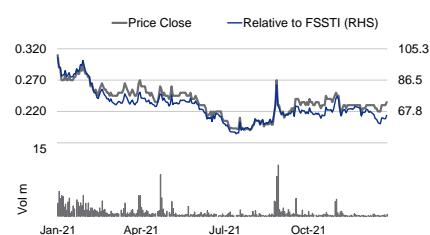
Consensus ratings\*: Buy 0 Hold 0 Sell 0

Current price:	S\$0.235
Target price:	S\$0.275
Previous target:	S\$
Up/downside:	17.1%
CGS-CIMB / Consensus:	na
Reuters:	VICP.SI
Bloomberg:	VPS SP
Market cap:	US\$89.34m
	S\$120.3m
Average daily turnover:	US\$0.07m
	S\$0.09m
Current shares o/s:	510.6m
Free float:	25.9%

\*Source: Bloomberg

**Key changes in this note**

➤ N/A



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.2	0	-26.6
Relative (%)	-3.4	-2.4	-36.4

**Major shareholders**

	% held
Venner Capital S.A.	54.9

# Vicplas International Ltd

## Tapping into medical contract manufacturing

- We initiate coverage of Vicplas with an Add rating and a P/E-derived TP of S\$0.28.
- We see EPS CAGR of 10.8% over FY7/22-24F for Vicplas, driven by growth in its medical business.
- Re-rating catalysts are stronger-than-expected earnings due to new customer/product wins. Downside risks: disruptions from Covid-19.

### 10.8% EPS CAGR over FY22-24F driven by its medical business

We project 10.8% EPS CAGR over FY22-24F for Vicplas, driven by growth in its medical business. Vicplas noted that the Medtech contract manufacturing market's revenue size is expected to grow by a CAGR of 11.4% over 2019 (US\$52.9bn) to 2025F (US\$100.8bn). The key drivers behind this growth are: a) an ageing population; b) increased demand for improved healthcare in developing markets; and c) increased willingness by product owners to outsource manufacturing to trusted partners that can fully support product and process innovation. To benefit from the industry growth, Vicplas aims to have a 7,000 sq m plant extension ready by end-2HFY22F in Changzhou (+100%; its current Changzhou plant occupies an approximate area of 7,024 sq m). According to its FY21 results presentation, the company is also considering the feasibility of acquiring or setting up a new plant near the US to provide additional manufacturing options to new and prospective customers.

### Pipes and piping fittings business is recovering

We note that Vicplas's pipes and pipe fittings business is also seeing a recovery. This is in line with the management's guidance that the construction industry in Singapore is gradually recovering from the impact of Covid-19 though labour shortages and supply chain disruptions remain key risks. Other than the residential property market, Vicplas has also focused its efforts on government driven infrastructure spending. This segment's profit (see Figure 18) grew to S\$3.2m in FY21 from S\$2.6m in FY20.

### Initiate coverage with an Add; TP of S\$0.28

We value Vicplas at 11x CY23F EPS, in line with the CY23F sector average P/E. We believe Vicplas will retain its earnings to grow the medical business and we expect dividend yields of 2.3-2.8% over FY22-24F. Re-rating catalysts are stronger-than-expected earnings due to new customer/product wins in FY22-23F. Downside risks include production disruptions from movement restrictions due to measures to contain the spread of Covid-19, and production disruptions due to power shortage at its China plants.

**Analyst(s)**



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**Financial Summary**

	Jul-20A	Jul-21A	Jul-22F	Jul-23F	Jul-24F
Revenue (S\$m)	88.8	113.9	125.0	137.3	151.0
Net Profit (S\$m)	4.81	10.40	11.06	12.20	13.57
Core EPS (S\$)	0.009	0.020	0.022	0.024	0.027
Core EPS Growth	15%	115%	6%	10%	11%
FD Core P/E (x)	24.74	11.50	10.85	9.83	8.84
Price To Sales (x)	1.34	1.05	0.96	0.87	0.79
DPS (S\$)	0.004	0.005	0.005	0.006	0.007
Dividend Yield	1.60%	1.91%	2.30%	2.54%	2.83%
EV/EBITDA (x)	9.24	6.50	5.47	4.80	4.16
P/FCFE (x)	20.83	6.79	8.68	9.21	8.27
Net Gearing	6.7%	5.3%	(2.3%)	(7.2%)	(12.1%)
P/BV (x)	1.93	1.67	1.50	1.35	1.21
ROE	7.9%	15.6%	14.6%	14.4%	14.4%
% Change In Core EPS Estimates					
CGS-CIMB/Consensus EPS (x)					

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

# Tapping into medical contract manufacturing

## Investment merits

### 1. Exposure to growing industry ▶

According to its FY21 results presentation slides, Vicplas noted that the Medtech contract manufacturing market's revenue size is expected to grow by a CAGR of 11.4% over 2019 (US\$52.9bn) to 2025F (US\$100.8bn). The key drivers behind this growth are: a) an ageing population; b) increased demand for improved healthcare in developing markets; and c) increased willingness by product owners to outsource manufacturing to trusted partners that can fully support product and process innovation.

We believe Vicplas aims to be a global medical device manufacturing partner. Management has guided that the company will be wholly-focused on contract manufacturing of medical devices. According to its FY21 results presentation, its expansion efforts in the medical business include :

- a) a 7,000 sq m plant extension targeted to be ready end-2HFY22F in Changzhou, China. Its current Changzhou plant occupies an approximate area of 7,024 sq m;
- b) possibly acquiring or setting up a new plant near the US to provide additional manufacturing options to new and prospective customers;
- c) further growing its presence in the European market via its wholly-owned subsidiary, Arrow Medical. Arrow Medical provides Vicplas with a low and cost-effective entry point into Europe and with a different customer base. Apart from ready production capacity, Arrow medical has significant expertise in areas such as silicone moulding and medical textiles, with capabilities in clean room assembly and specialised fabric sewing for medical products.

### 2. Recovery in pipes and pipe fittings business ▶

In management's views, Vicplas is an established player in the pipes and pipe fittings business. Management guided that the construction industry in Singapore is gradually recovering from the impact of Covid-19 but labour shortages and supply chain disruptions remain major contributors to project completion delays. Profit margin will be affected by increased operating costs and higher raw material prices in FY22F. Other than the residential property market, Vicplas has also focused its efforts on government driven infrastructure spending. Segmental profit (see Figure 18) grew to S\$3.2m in FY21 from S\$2.6m in FY20. Management guided that capex for this business is low as the group has built up sufficient production capacity since entering into this business in 1993.

### 3. Potential corporate transactions ▶

#### Sale of land in Cambodia ▶

In May 2017, Vicplas formed a joint venture with a Cambodian partner (Vicplas has a 49% stake in this joint venture) with the intention of setting up a factory in Cambodia to produce pipes and pipe fittings for the construction industry there. According to the management (20 Nov 2021 public response to questions from the Securities Investors Association (Singapore) ahead of its AGM) due to the challenging market conditions in Cambodia, the joint venture has instead explored alternative uses for the land, including its sale. Vicplas noted that although the construction sector in Cambodia has gradually improved in 2021, general sentiment remains weak and the company will continue to sell pipes and pipe fittings products in Cambodia via distributors.

## Initiate with Add and P/E based TP of S\$0.28 ➤

We value Vicplas at 11x CY23F EPS, in line with the sector average P/E. We think Vicplas will retain its earnings to grow the medical business. Our projected dividend yields over FY22-24F are 2.3-2.8%. As Vicplas is a profitable growth company, we use P/E as our primary valuation method. Given the 19.8% potential upside to our TP, we initiate coverage on Vicplas with an Add recommendation.

The Singapore tech manufacturing sector currently trades at a CY23F average P/E of 11x (range: 6.5-20x). For CY22F, Vicplas is trading at a P/E of 8.4x versus the sector average of 12.4x (range: 7.4-24.5x).

Re-rating catalysts are stronger-than-expected earnings due to new customer/product wins in FY22-23F. Downside risks include production disruptions from movement restrictions due to measures to contain the spread of Covid-19, and production disruptions due to power shortage at its China plants.

**Figure 1: Target price derivation**

	CY23F	Comments
Forecasted EPS (S\$)	0.02502	
Target P/E (x)	11.0	Sector average
Target price (S\$)	0.28	
Last price (S\$)	0.235	
Forecasted DPS (S\$)	0.0063	
Potential share price upside (%)	17.10	
Forecasted dividend yield (%)	2.66	
Total potential return (%)	19.76	
Recommendation	Add	

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 2: Peer Comparison**

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	P/E (x)			3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)	Dividend Yield (%)
						CY21F	CY22F	CY23F		CY21F	CY22F		
Vicplas International Ltd	VPS SP	Add	0.24	0.28	89	11.2	10.4	9.4	21.7%	1.60	1.43	15.2%	2.1%
AEM Holdings Ltd	AEM SP	Add	4.97	7.90	1,142	16.1	12.1	11.0	8.4%	3.87	3.14	31.5%	1.4%
Aztech Global Ltd	AZTECH SP	Add	0.90	1.59	516	8.6	7.7	6.8	14.6%	2.45	2.00	50.1%	3.2%
Frencken Group Ltd	FRKN SP	Hold	1.67	2.44	530	11.7	10.0	9.2	17.2%	1.85	1.61	17.1%	1.8%
Fu Yu Corp Ltd	FUYU SP	Add	0.28	0.33	154	10.6	9.3	8.9	11.9%	1.34	1.26	12.2%	18.0%
Grand Venture Technology Ltd	GVTL SP	Add	0.99	1.74	243	15.8	11.3	9.0	71.5%	3.28	2.66	30.7%	1.1%
ISDN Holdings Ltd	ISDN SP	Add	0.67	1.00	218	11.2	9.7	8.6	17.4%	1.54	1.38	14.6%	2.3%
Nanofilm Technologies Int'l Ltd	NANO SP	Add	2.97	3.92	1,451	30.8	23.8	19.4	18.5%	4.08	3.61	14.0%	0.7%
UMS Holdings Ltd	UMSH SP	Add	1.29	1.63	639	13.2	11.8	11.5	18.9%	3.11	2.78	25.0%	4.7%
Valuetronics Holdings Ltd	VALUE SP	Reduce	0.53	0.53	172	10.6	10.8	9.3	-8.4%	0.98	0.94	9.4%	5.3%
Venture Corporation	VMS SP	Add	18.16	23.32	3,920	17.0	14.7	13.6	10.1%	1.97	1.87	11.7%	4.1%
<b>Simple average excluding Vicplas</b>						<b>14.6</b>	<b>12.1</b>	<b>10.7</b>	<b>18.0%</b>	<b>2.45</b>	<b>2.13</b>	<b>21.6%</b>	<b>4.2%</b>

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG  
DATA AS AT 25 JAN 2022

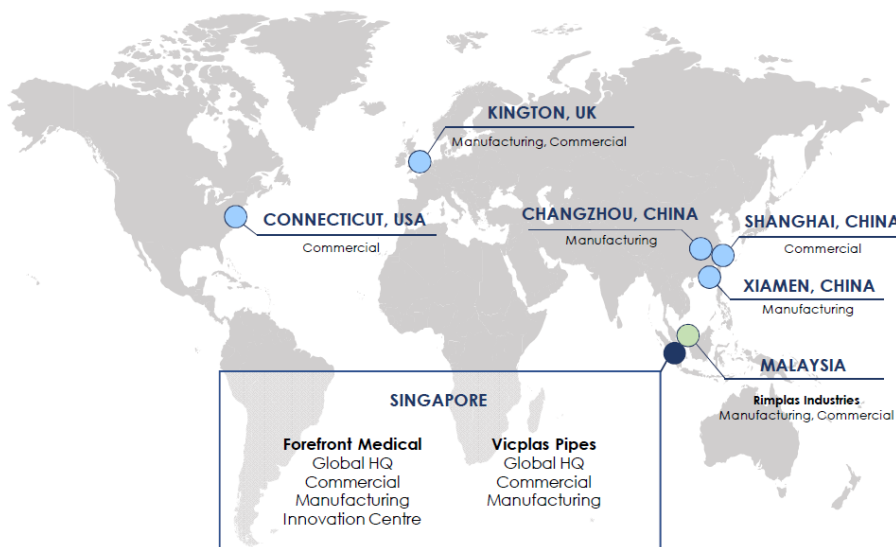
## COMPANY BACKGROUND

### Background >

Founded in 1993 and listed on the SGX Mainboard in 1999, Vicplas manufactures medical devices and provides piping systems. Vicplas operates in seven cities spanning four countries: Kington in UK; Connecticut in the US; Changzhou, Shanghai, and Xiamen in China; Johor, Malaysia; and Singapore. The company is headquartered in Singapore and has two business segments – Medical Devices and Pipes and Pipe Fittings.

Figure 3: Vicplas's global presence (as on 24 Sep 2021)

### GLOBAL PRESENCE



#### Business Segments

##### Medical devices segment

Forefront Medical designs, develops and manufactures sterile and non-sterile medical devices

##### Pipes & pipe fittings segment

Vicplas Holdings ("Vicplas Pipes") manufactures and distributes piping systems for diverse industries

Total employees : 1,000+ worldwide



Singapore – Corporate HQ



Changzhou, China



Xiamen, China



### GLOBAL PRESENCE

#### Manufacturing Sites

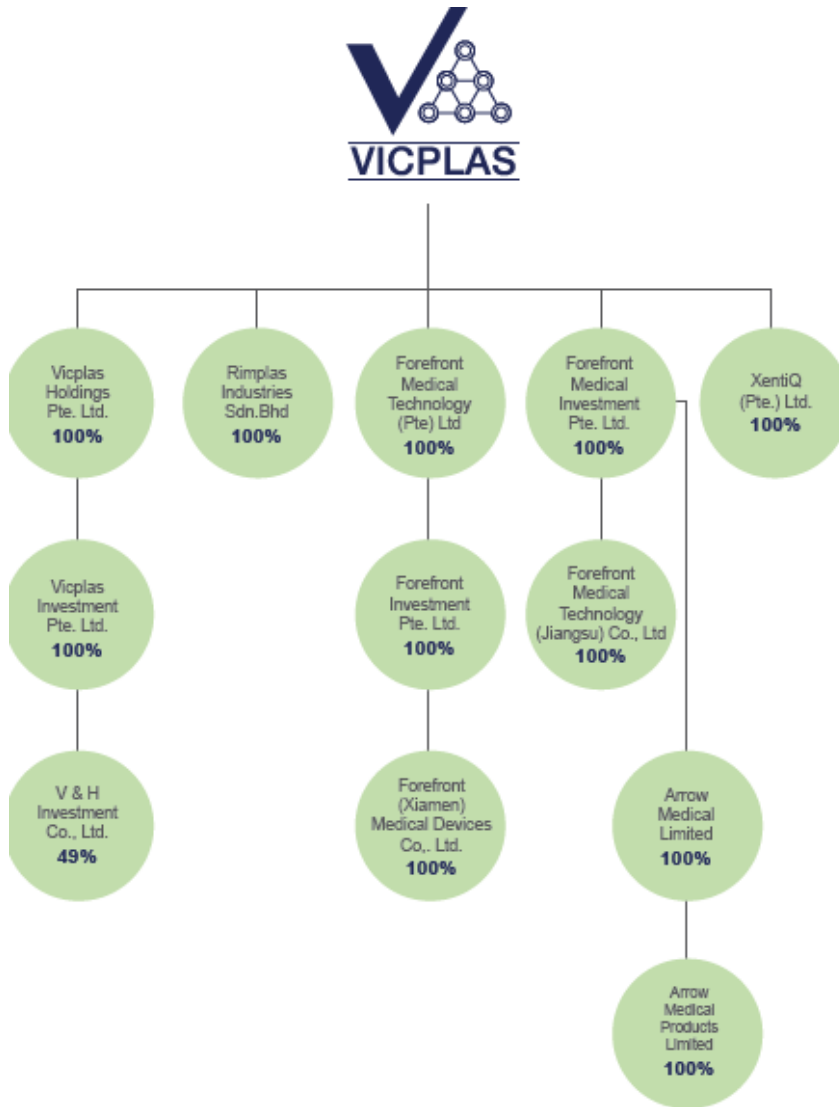
- Singapore – Corporate HQ (7,410m<sup>2</sup>)
- Xiamen, China (7,000m<sup>2</sup>)
- Changzhou, China (7,024m<sup>2</sup>)
- Changzhou, China (7,000m<sup>2</sup> extension opening in 2022)
- Kington, UK (2,600m<sup>2</sup>)

#### Commercial Offices

- Singapore
- Shanghai, China
- Connecticut, USA
- Kington, UK

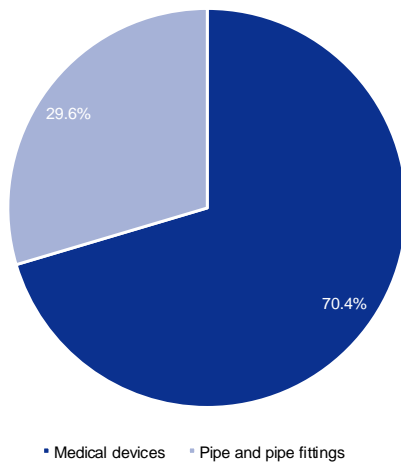
SOURCES: COMPANY REPORTS

Figure 4: Vicplas’s operating structure (as on 30 Dec 2021)



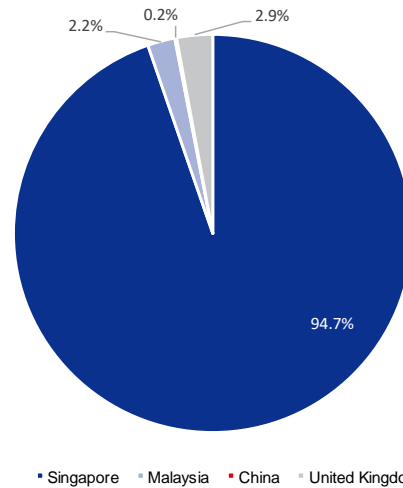
SOURCES: COMPANY REPORTS

Figure 5: Revenue breakdown by segment as at end-FY21



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 6: Revenue breakdown by geography as at end-FY21



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

### **Medical devices >**

Vicplas's medical devices segment designs, develops, and manufactures sterile and non-sterile medical devices. Vicplas aims to be the one-stop solution provider for customers. The company offers the following services:

1. Design;
2. Specialty materials;
3. Plastics;
4. Tooling;
5. Moulding;
6. Extrusion;
7. Assembly and packaging; and
8. Electromechanical design.

All of Vicplas subsidiaries have quality certifications of EN ISO13485:2016 and, with the exception of XentiQ, are registered under the United States Food and Drug Administration (FDA) as a "contract manufacturer for medical devices" and Accreditation certificate of foreign medical device manufacturer from Japan Ministry of Health, Labour and Welfare. Forefront Medical Investment Pte. Ltd. additionally has a Class A, B, C, D Medical Device manufacturer licence registered under Health Science Authority (HSA) Singapore and Forefront Medical Technology (Jiangsu) Co., Ltd additionally has a Class II Medical Device Manufacturing Licence in China.

**Figure 7: In-house capabilities**

Design & Development	<ul style="list-style-type: none"> <li>Product Concept &amp; Realisation</li> <li>Electronics, Software, Metal Parts</li> </ul>	
Rapid Prototyping		
Plastic & LSR Tooling	<ul style="list-style-type: none"> <li>In-house Toolroom &amp; Design Team</li> <li>Insert Mould</li> </ul>	<ul style="list-style-type: none"> <li>Micro Mould</li> <li>2K Mould</li> <li>Stack Mould</li> </ul>
Moulding Capabilities	<ul style="list-style-type: none"> <li>Wide Range of Materials</li> <li>Injection</li> <li>Extrusion</li> </ul>	<ul style="list-style-type: none"> <li>Injection Blow</li> <li>Extrusion Blow</li> </ul>
Production	<ul style="list-style-type: none"> <li>Cleanroom Facility</li> <li>Pilot/Trial Run</li> </ul>	<ul style="list-style-type: none"> <li>Low Mix High Volume</li> <li>High Mix Low Volume</li> </ul>
Quality	<ul style="list-style-type: none"> <li>ISO 13485</li> <li>FDA 510K</li> </ul>	<ul style="list-style-type: none"> <li>CE Mark</li> <li>IQ/OQ/PQ</li> </ul>
Assembly	<ul style="list-style-type: none"> <li>Manual Assembly</li> <li>High Speed Automation</li> </ul>	
Secondary Processes	<ul style="list-style-type: none"> <li>Hydrophilic Coating</li> <li>RF Tipping &amp; Forming</li> </ul>	<ul style="list-style-type: none"> <li>Pad Printing</li> <li>Bonding &amp; Welding</li> </ul>
Packing	<ul style="list-style-type: none"> <li>Rigid Blister</li> <li>Soft Blister</li> </ul>	<ul style="list-style-type: none"> <li>Tyvek Pouch</li> <li>Pallet Optimisation</li> </ul>
Sterilization	<ul style="list-style-type: none"> <li>Eto</li> <li>Gamma</li> </ul>	<ul style="list-style-type: none"> <li>Autoclave</li> <li>E-Beam</li> </ul>

SOURCES: COMPANY REPORTS

### **Medical device portfolio**

Its medical device portfolio spans:

1. Vascular products;
2. Pharmaceutical bottles;
3. Surgical devices;
4. Respiratory;
5. Orthodontics;
6. Airway management;
7. PPE gowns/nasal swabs;
8. Endoscopy;
9. Drug delivery; and
10. Diagnostics.

According to the management (in the 20 Nov 2021 public response to questions from the Securities Investors Association (Singapore) ahead of its AGM), complete devices comprised more than 90% of the group's medical device revenue in FY21. Complete devices refer to products that the group manufactures and assemble, examples being infusion sets, jejunal & naso-gastric feeding tube, endotracheal tube, and a scanbox for use in dentistry applications.

**Figure 8: Examples of Vicplas’s products – safety wing infusion set and jejunal & naso-gastric feeding tube**

**SAFETY WING INFUSION SET**

Injection | Secondary Process | Assembly | Packaging



Assembly Automation Line in Class 7 (10k) Assembly Cleanroom

**JEJUNAL & NASO-GASTRIC FEEDING TUBE**

Product Development | Injection | Extrusion | Assembly | Packaging | Sterilisation



SOURCES: COMPANY REPORTS

**Figure 9: Examples of Vicplas’s products – endotracheal tube and scanbox for AI and orthodontics**

**ENDOTRACHEAL TUBE**

Injection | Extrusion | Blow | Assembly | Packaging | Sterilisation



**FULL DEVICE – SCANBOX (AI & ORTHODONTICS)**

Injection | Assembly | Packaging



SOURCES: COMPANY REPORTS

The remaining 10% of its medical portfolio comprises moulding and extrusion capabilities. These refer to designing and manufacturing parts for various medical devices, broken down into two broad categories:

1. Injection moulded medical components; and
2. Extrusion medical tubing components.

**Figure 10: Moulding and extrusion capabilities**

**MOULDING & EXTRUSION CAPABILITIES**

**INJECTION MOULDED MEDICAL COMPONENTS**

- Micro-Molding
- Insert Molding
  - Plastics & Metals
- Co-Injection
- Multi-Shot Molding
- Unscrew Molding
- Tooling Capabilities
  - Stack Mold
  - Spin-Stack Mold
  - In-Mold Assembly

**EXTRUSION MEDICAL TUBING COMPONENTS**

- Multi-Lumen Tubes
- Braided Tubes
- Co Extrusion
- Multi Color / Layer Extrusion
- Small Bore Tubes
  - Catheters
  - Specialty Tubes
- Radio Opaque Additives Added Tube



SOURCES: COMPANY REPORTS

**Geographical presence and future expansion**

Vicplas operates four manufacturing sites in Singapore (7,410 sq m), Xiamen (7,000 sq m), Changzhou (7,024 sq m), and Kington (7,000 sq m). Management plans for its 7,000 sq m extension in Changzhou to be completed in 2H22F (post extension, the Changzhou site could total 14,024 sq m). According to its FY21 results presentation, Forefront Medical invested S\$1.5m into the refurbishment of the Singapore plant’s clean rooms.



**Pipes and pipe fittings >**

In the pipes and pipe fittings segment, Vicplas manufactures and distributes piping systems for diverse industries including waste and potable water systems for residential homes, schools, commercial and industrial buildings; underground electrical and internal building wire piping systems; and data and signal line piping systems for telecommunications companies. The key operating wholly-owned subsidiaries in this business segment are Vicplas Holdings Pte Ltd in Singapore and Rimplas Industries Sdn. Bhd. in Malaysia. Both subsidiaries have quality certification of ISO9001:2015.

Vicplas is also the first Unplasticized Polyvinyl Chloride (uPVC) pipe producer in Singapore to receive one Green Check Mark certification from the Singapore Green Building Council (SGBC). This is due to its efforts to reformulate all its plastic product lines to be heavy metal free since 2016. The group is currently pursuing the second and third Check Marks from the SGBC.

**Figure 11: Product applications of Vicplas manufactured pipes**



## SWOT analysis ►

**Figure 12: SWOT analysis**

Strengths:	Opportunities:
1. Experienced management team with proven track record.	1. Growing medical technology contract manufacturing industry due to ageing population in developed markets.
2. 100% focused on medical business.	2. Increasing demands for better healthcare in developing markets.
Weakness:	Threats:
1. Pipes and pipe fitting segment is dependent on Singapore's construction industry which has been negatively impacted by delays in construction projects due to labour shortages arising from the Covid-19 pandemic.	1. Fluctuations in raw material prices.
	2. Uncertainties due to geopolitics and the ongoing Covid-19 pandemic .
	3. Low entry barriers in the pipes and pipe fittings business.

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

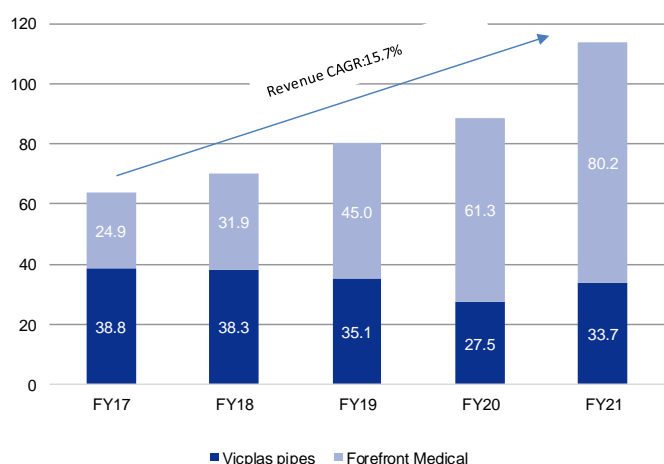
## Financials

### Growing contribution from medical business ►

Over FY17-21, revenue grew at a CAGR of 15.7% driven by growth in the medical segment (under Forefront Medical). The medical segment's contribution to revenue grew from 39.1% in FY17 to 70.4% of FY21 revenue.

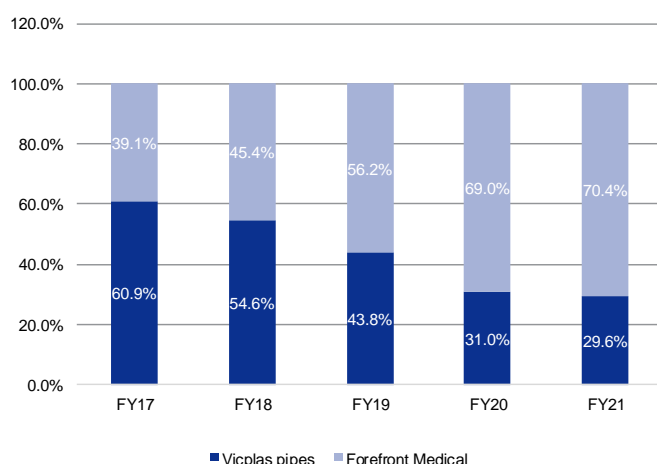
In the management's view, the pipes and pipe fitting business (under Vicplas pipes) provides the group with a stable foundation (management believes Vicplas pipes is an industry leader in the mature pipes and pipe fittings business in Singapore) while the medical business will provide future growth opportunities.

**Figure 13: 5-year historical revenue (S\$ m) trend**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 14: 5-year historical revenue breakdown trend**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

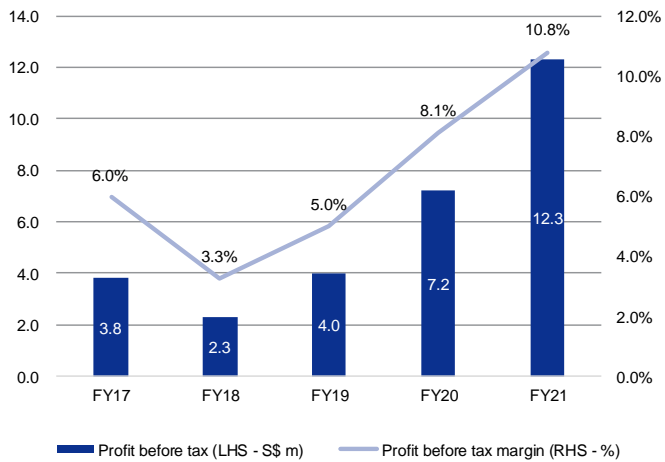
The increasing revenue contribution from the medical business has led to a net profit CAGR of 34.6% over FY17-21. Net profit grew from S\$2.3m in FY17 to S\$10.4m in FY21 while net profit margin hit 9.1% in FY21 after being range-bound at 5.0-5.5% over FY17-20.

The medical business suffered losses in FY17-18 before turning profitable in FY19. Segmental profit margin has improved from 6.2% in FY19 to 15.1% in FY21. For

Vicplas pipes, segmental profit margin has declined from 19.3% in FY17 to 9.5% in FY20-21.

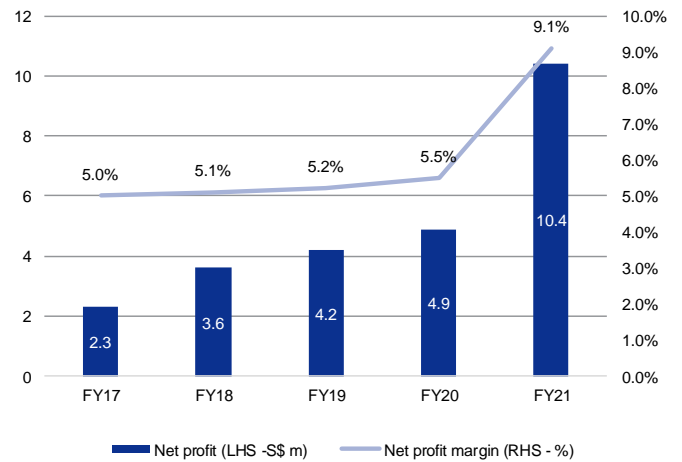
We think Forefront Medical's profitability will continue to grow as the company adds new projects. Vicplas pipes will also likely see continued net profit recovery as construction activities gather pace

Figure 15: 5-year pretax profit trend



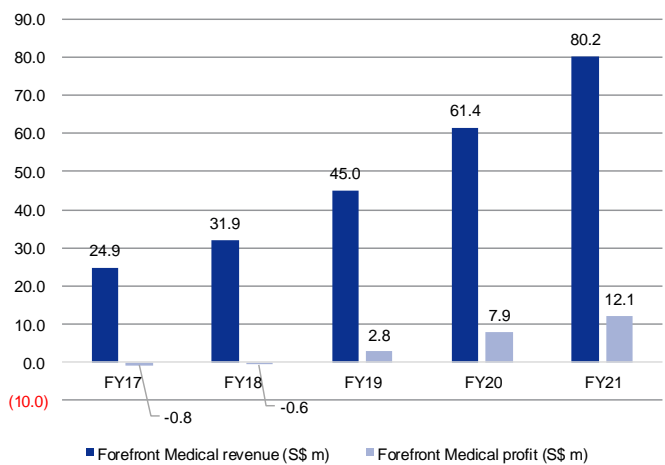
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 16: 5-year net profit trend



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

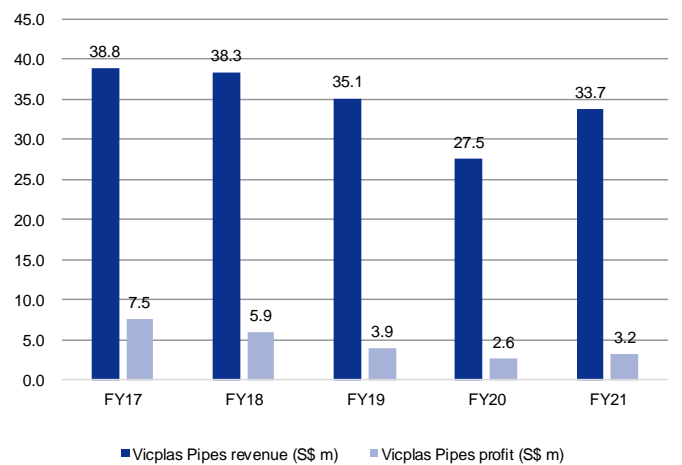
Figure 17: 5-year segmental revenue/profit\* trend



SOURCES: COMPANY REPORTS

\* profit before corporate expenses, interest income, interest expense and tax expense

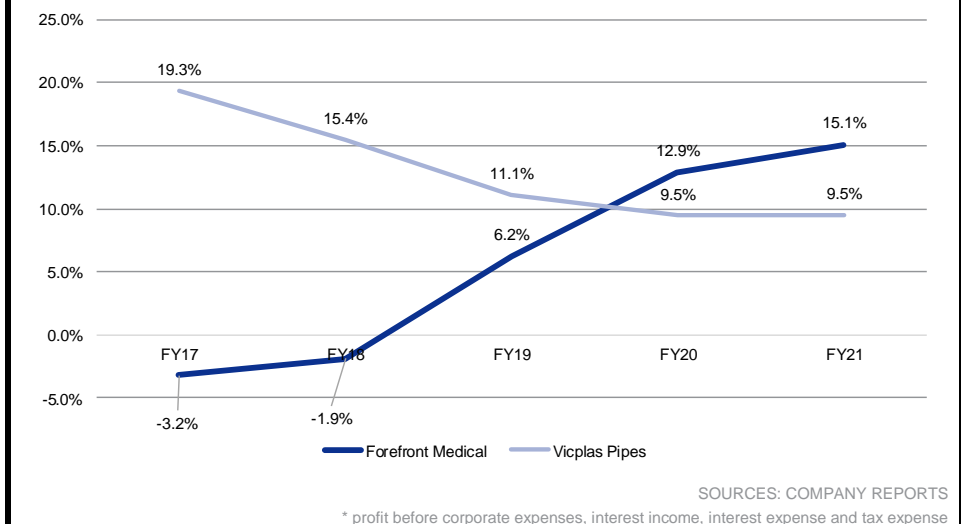
Figure 18: 5-year segmental revenue/profit\* trend



SOURCES: COMPANY REPORTS

\* profit before corporate expenses, interest income, interest expense and tax expense

**Figure 19: 5-year segmental profit\* margin trend**

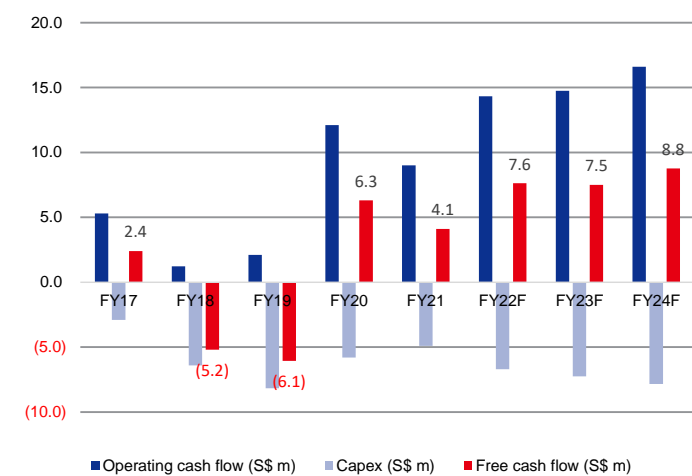


**Free cash flow positive in FY20-21 ➤**

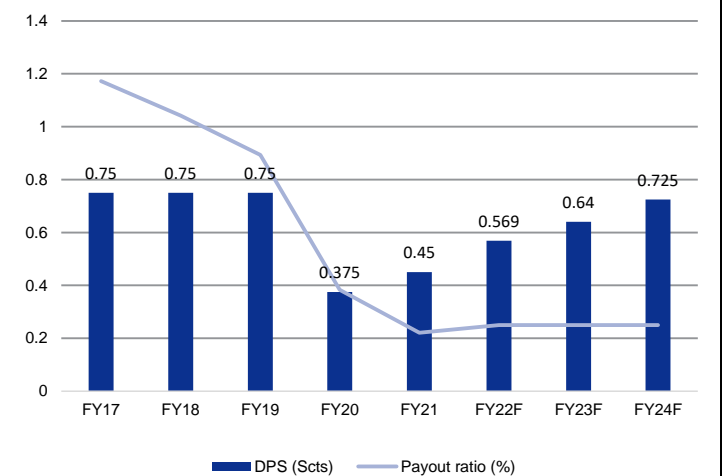
Over FY17-21, most of the capex was spent on growing its medical business. The group was free cash flow negative over FY18-19 to support growth in its medical business. In FY20-21, Vicplas was free cash flow positive despite further investments in its medical business. Balance sheet wise, Vicplas was in a net cash position in FY17-18 and had negligible net gearing of over FY19-21 (FY19 and FY20: 0.07x and FY21: 0.05x).

Given the negligible net gearing, Vicplas has been paying dividends over the past 5 years. DPS for FY17-19 was 0.75 Scts and was reduced to 0.375 in FY20 out of prudence due to the Covid-19 situation. With the better FY21 performance, DPS was raised to 0.45 Scts. The company has guided that it would balance dividend payout with the aim of growing its medical business.

**Figure 20: Free cash flow trend**



**Figure 21: Dividend trend**



## Forecast assumptions

### Medical business to drive growth ►

Our key forecast assumptions are as follow:

- a. We think the medical business's revenue could grow 12% per annum over FY22-24F as management has guided that the company's plant expansion in China is backed by demand from customers.
- b. For the pipes and pipe fitting business, we assume that this segment's revenue could grow 4.3% yoy over FY22-24F (using our house 2022F GDP forecast of 4.3% for Singapore as a proxy) as construction activities resume.
- c. We think operating expenses could grow 10% yoy over FY22-24F as Vicplas adds production workforce to meet customer demand, and incurs higher depreciation expenses as more production equipment is added to support revenue growth.
- d. We assume tax rates could move higher towards 20% over FY22-24F as tax loss credits in China are fully utilised.
- e. We assume that Vicplas's business model helps the company defend against significant margin erosion as medical products do not change frequently, and safety and quality are paramount for these products. Hence, we think net margins over FY22-24F could still be within the 8.8-9.0% range as revenue growth offsets the higher operating expenses.
- f. In FY21, Vicplas's payout ratio was 22.1%. For FY22-24F, we have assumed a 25% dividend payout ratio as we think Vicplas will retain earnings to grow its medical business.

## Risks

### Vulnerable to slowdown in construction activities ►

Vicplas's pipes and pipe fittings segment relies mainly on the construction industry (public and private housing projects as well as government infrastructure spending). Vicplas mainly deals with subcontractors who tender for projects from main contractors, who in turn tender for public projects from statutory bodies, such as the Housing Development Board (HDB). Hence, the group is indirectly dependent on the number and size of HDB projects available as well as private housing projects. Such activities have been affected by the ongoing Covid-19 pandemic situation.

### Low barriers to entry in the pipes and pipes fitting segment ►

According to Vicplas, the technology involved in the manufacture of pipes and pipe fittings is readily available and easily replicated. This lowers the barrier to entry for competitors who may want to ride on the recovery of the construction and infrastructure industry in Singapore, following the reopening measures.

### Medical devices segment cater to elective procedures ►

Vicplas's medical devices, such as the safety wing infusion set and endotracheal tube, cater mostly to elective procedures and/or surgeries. In the Covid-19 environment, most elective surgeries have been delayed or cancelled and this can affect the company's revenue performance as the medical segment accounted for c.70% of group revenue in FY21.

### **Customer concentration risk** ➤

There is one major medical customer that accounted for 52.6% of the medical segment's revenue in FY21. This customer accounted for 37.0% of the group's FY21 revenue. Other than this major customer, Vicplas did not have any other customer that accounted for more than 10.0% of the group's revenue in FY20 and FY21. According to management, Vicplas makes products for multiple divisions of this customer.

## Appendix

**Figure 22: Key management team as of 20 Jan 2021**

Position	Name	Joined in	Background
Group Chief Executive Officer	Mr Cheng Liang	1993	Mr Cheng is a founding member of the Group. He served as the Group's Executive Director from 1998 to 2008, before assuming the role of a Managing Director for the pipes and pipe fittings segment between 2009 to 2014. He was appointed Acting Group Chief Executive Officer (CEO) in Oct 2014 and assumed the permanent role of Group CEO in Nov 2018.
Will step down as Group CEO on 1 Aug 2022			
Group Operations Director	Mr Cheng Hsheng @ Zhang Zixian	2001	Son of Mr Cheng Liang, Mr Cheng joined Vicplas in 2001 as an Engineer, and was also involved in Production, Operations, and Business Development. He was appointed Group Operations Director in April 2016, overseeing the Group's operational aspects and ensures operational support for development of the Group's markets, products, and businesses.
Deputy Group CEO (effective 1 Feb 2022)	Mr Walter Tarca	2016	Mr Tarca held senior leadership positions in healthcare businesses in APAC prior to joining Vicplas. He has a track record of building and expanding healthcare businesses in a sustainable manner, with focus on collaborative customer relationships, operating excellence, and an engaged workforce.
Will be appointed to Group CEO beginning 1 Aug 2022			
President of the Medical Devices segment			
Chief Financial Officer	Ms Gan Ying Hui	2008	Ms Gan worked as an audit manager prior to joining Vicplas in 2008 as a Financial Controller. She resumed the role of Chief Financial Officer (CFO) in Apr 2016 after leaving the Group briefly in Dec 2014.
Technical Director	Mr Toon Chin Liang	2014	Mr Toon was a Quality Engineering Manager in a Swiss pharmaceutical and medical devices company prior to joining the Group in May 2014. He was appointed as the Technical Director in May 2015.

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS



## ESG in a nutshell

Vicplas has been tracking the progress of its ESG performance. FY21 marks the fourth year that Vicplas has been reporting on its ESG performance. Vicplas issues a sustainability report yearly according to the Singapore Exchange's Sustainability Reporting. Vicplas also references the United Nations 2030 Agenda for Sustainable Development and uses United Nations Sustainable Development Goals. Vicplas aims to have its sustainability report externally assessed in the future.

### Keep your eye on

Commitment to safety of its medical products.

### Implications

Vicplas is committed to providing medical-use products with the highest level of quality and product safety. In FY21, Vicplas did not have any incidents of product recall or incidents of non-compliance with regulations and voluntary codes concerning the health and safety impact of its products and services. Currently, given its track record, no valuation discount has been imputed for this.

### ESG highlights

Corruption is a risk to watch out for as it can undermine legitimate business activities, distort competition, and damage the company's reputation.

### Implications

As a listed company on the Singapore Exchange (SGX), Vicplas adopts the Code of Corporate Governance as required in the Listing Rules. This framework covers ethics and compliance through a Code of Conduct as well as action guidelines which Vicplas expects its employees to adhere to. Vicplas has a dedicated officer who maintains a register of incidences regarding ethics and compliance issues and escalates to the Board, Audit and Risk Committee and/or management, as appropriate.

In FY21, there were no cases of corruption, no employees were dismissed or disciplined for corruption, and no contracts with business partners were terminated due to violations related to corruption.

### Trends

Carbon footprint has reduced.

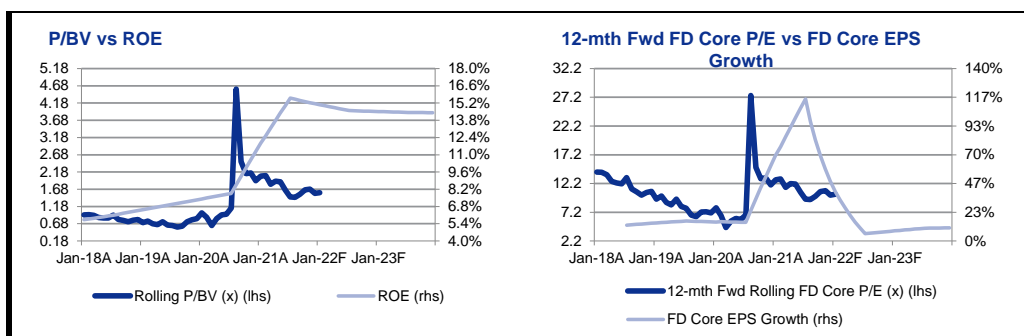
### Implications

According to its FY21 Sustainability Report, Vicplas's greenhouse gas emission intensity for the pipes and pipe fittings segment declined 5.2% yoy while greenhouse gas emission intensity for the medical segment fell 19.1%.

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, REFINITIV



## BY THE NUMBERS



### Profit & Loss

(\$m)	Jul-20A	Jul-21A	Jul-22F	Jul-23F	Jul-24F
<b>Total Net Revenues</b>	<b>94.08</b>	<b>121.11</b>	<b>131.89</b>	<b>144.17</b>	<b>157.75</b>
<b>Gross Profit</b>	<b>54.03</b>	<b>68.73</b>	<b>74.51</b>	<b>80.32</b>	<b>86.75</b>
<b>Operating EBITDA</b>	<b>13.35</b>	<b>19.03</b>	<b>21.62</b>	<b>23.63</b>	<b>25.97</b>
Depreciation And Amortisation	(5.57)	(6.20)	(7.22)	(7.80)	(8.43)
<b>Operating EBIT</b>	<b>7.78</b>	<b>12.83</b>	<b>14.40</b>	<b>15.83</b>	<b>17.55</b>
Financial Income/(Expense)	(0.61)	(0.53)	(0.58)	(0.58)	(0.58)
Pretax Income/(Loss) from Assoc.	0.00	0.00	0.00	0.00	0.00
Non-Operating Income/(Expense)	0.00	0.00	0.00	0.00	0.00
<b>Profit Before Tax (pre-EI)</b>	<b>7.17</b>	<b>12.30</b>	<b>13.82</b>	<b>15.25</b>	<b>16.97</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>7.17</b>	<b>12.30</b>	<b>13.82</b>	<b>15.25</b>	<b>16.97</b>
Taxation	(2.27)	(1.90)	(2.76)	(3.05)	(3.39)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>4.90</b>	<b>10.40</b>	<b>11.06</b>	<b>12.20</b>	<b>13.57</b>
Minority Interests	(0.09)	0.00	0.00	0.00	0.00
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>4.81</b>	<b>10.40</b>	<b>11.06</b>	<b>12.20</b>	<b>13.57</b>
Recurring Net Profit	4.81	10.40	11.06	12.20	13.57
<b>Fully Diluted Recurring Net Profit</b>	<b>4.81</b>	<b>10.40</b>	<b>11.06</b>	<b>12.20</b>	<b>13.57</b>

### Cash Flow

(\$m)	Jul-20A	Jul-21A	Jul-22F	Jul-23F	Jul-24F
<b>EBITDA</b>	<b>13.35</b>	<b>19.03</b>	<b>21.62</b>	<b>23.63</b>	<b>25.97</b>
Cash Flow from Inv. & Assoc.					
Change In Working Capital					
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(0.61)	(0.53)	(0.58)	(0.58)	(0.58)
Tax Paid	(0.24)	(0.74)	(1.90)	(2.76)	(3.05)
<b>Cashflow From Operations</b>	<b>12.49</b>	<b>17.77</b>	<b>19.14</b>	<b>20.29</b>	<b>22.34</b>
Capex	(6.29)	(5.15)	(6.71)	(7.25)	(7.84)
Disposals Of FAs/subsidiaries	0.00	0.00	0.00	0.00	0.00
Acq. Of Subsidiaries/investments	(0.04)	0.00	0.00	0.00	0.00
Other Investing Cashflow	(0.21)	(0.02)	0.00	0.00	0.00
<b>Cash Flow From Investing</b>	<b>(6.54)</b>	<b>(5.16)</b>	<b>(6.71)</b>	<b>(7.25)</b>	<b>(7.84)</b>
Debt Raised/(repaid)	(0.25)	5.00	1.41	0.00	0.00
Proceeds From Issue Of Shares	0.00	0.00	0.00	0.00	0.00
Shares Repurchased	0.00	0.00	0.00	0.00	0.00
Dividends Paid	(3.80)	(1.91)	(2.76)	(3.05)	(3.39)
Preferred Dividends					
Other Financing Cashflow	(1.33)	(0.89)	0.00	0.00	0.00
<b>Cash Flow From Financing</b>	<b>(5.38)</b>	<b>2.19</b>	<b>(1.36)</b>	<b>(3.05)</b>	<b>(3.39)</b>
Total Cash Generated	0.58	14.80	11.06	9.98	11.11
<b>Free Cashflow To Equity</b>	<b>5.71</b>	<b>17.60</b>	<b>13.83</b>	<b>13.03</b>	<b>14.50</b>
<b>Free Cashflow To Firm</b>	<b>6.57</b>	<b>13.13</b>	<b>13.00</b>	<b>13.61</b>	<b>15.08</b>

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## BY THE NUMBERS... cont'd

### Balance Sheet

(S\$m)	Jul-20A	Jul-21A	Jul-22F	Jul-23F	Jul-24F
Total Cash And Equivalents	4.48	9.87	16.84	21.49	27.00
Total Debtors	24.82	31.37	35.82	40.14	44.64
Inventories	14.61	16.69	17.29	19.24	21.40
Total Other Current Assets	5.56	9.46	9.46	9.46	9.46
<b>Total Current Assets</b>	<b>49.47</b>	<b>67.40</b>	<b>79.41</b>	<b>90.34</b>	<b>102.50</b>
Fixed Assets	37.49	40.65	40.14	39.60	39.01
Total Investments	1.80	1.80	1.80	1.80	1.80
Intangible Assets	1.29	1.24	1.24	1.24	1.24
Total Other Non-Current Assets	1.10	0.58	0.58	0.58	0.58
<b>Total Non-current Assets</b>	<b>41.67</b>	<b>44.26</b>	<b>43.76</b>	<b>43.21</b>	<b>42.62</b>
Short-term Debt	8.63	5.04	5.04	5.04	5.04
Current Portion of Long-Term Debt					
Total Creditors	5.05	8.64	9.59	10.53	11.58
Other Current Liabilities	9.49	9.97	10.84	11.12	11.47
<b>Total Current Liabilities</b>	<b>23.18</b>	<b>23.65</b>	<b>25.46</b>	<b>26.69</b>	<b>28.08</b>
Total Long-term Debt	0.00	8.60	10.00	10.00	10.00
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	4.33	5.32	5.32	5.32	5.32
<b>Total Non-current Liabilities</b>	<b>4.33</b>	<b>13.91</b>	<b>15.32</b>	<b>15.32</b>	<b>15.32</b>
Total Provisions	1.90	2.45	2.45	2.45	2.45
<b>Total Liabilities</b>	<b>29.41</b>	<b>40.01</b>	<b>43.23</b>	<b>44.46</b>	<b>45.85</b>
Shareholders' Equity	61.72	71.64	79.93	89.09	99.27
Minority Interests	0.00	0.00	0.00	0.00	0.00
<b>Total Equity</b>	<b>61.72</b>	<b>71.64</b>	<b>79.93</b>	<b>89.09</b>	<b>99.27</b>

### Key Ratios

	Jul-20A	Jul-21A	Jul-22F	Jul-23F	Jul-24F
Revenue Growth	10.8%	28.2%	9.7%	9.8%	9.9%
Operating EBITDA Growth	61.6%	42.6%	13.6%	9.3%	9.9%
Operating EBITDA Margin	15.0%	16.7%	17.3%	17.2%	17.2%
Net Cash Per Share (S\$)	(0.008)	(0.007)	0.004	0.013	0.023
BVPS (S\$)	0.12	0.14	0.16	0.17	0.19
Gross Interest Cover	12.73	24.39	24.82	27.29	30.24
Effective Tax Rate	31.7%	15.5%	20.0%	20.0%	20.0%
Net Dividend Payout Ratio	79.1%	18.4%	25.0%	25.0%	25.0%
Accounts Receivables Days	94.55	79.35	88.51	92.25	94.83
Inventory Days	111.6	109.1	108.1	104.4	104.8
Accounts Payables Days	42.60	47.70	57.97	57.52	57.00
ROIC (%)	15.8%	21.1%	21.2%	22.6%	23.8%
ROCE (%)	10.9%	16.0%	15.6%	15.5%	15.7%
Return On Average Assets	6.6%	10.9%	10.0%	10.0%	10.2%

### Key Drivers

	Jul-20A	Jul-21A	Jul-22F	Jul-23F	Jul-24F
Revenue growth (%)	N/A	N/A	28.2%	9.7%	9.8%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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<b>Description:</b>	Excellent	Very Good	Good	N/A	N/A

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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2021		
619 companies under coverage for quarter ended on 31 December 2021		
	Rating Distribution (%)	Investment Banking clients (%)
Add	71.1%	1.5%
Hold	21.8%	0.0%
Reduce	7.1%	0.0%

### Spitzer Chart for stock being researched ( 2 year data )



### Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021

**ADVANC** – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENDEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** – Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** – Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, n/a, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** – Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** – Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TOP** – Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2021 from Thai Institute of Directors Association (IOD)

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#### Recommendation Framework

##### Stock Ratings

Definition:

Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

##### Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

##### Country Ratings

Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.



