

ViTrox Corp (VITRO MK)

ABI segment resumes growth trajectory

Mixed developments in 2Q22, but thesis intact

Despite potential hiccups in ViTrox's MVS segment from subdued Chinese demand, the ABI segment is expected to fare sequentially better in 2Q22 following the resolution of supply bottlenecks last month. Our BUY call, TP (pegged to 41x FY23 PER, at +1SD to the 5Y mean) and earnings forecast are maintained. ViTrox remains our top MY ATE pick owing to its dominant position in machine vision tech, diversified customer base and exposure to high-growth sectors such as EVs/5G/IR4.0; accumulate on weakness.

AXI component shortage resolved in May

ViTrox's Automated Board Inspection (ABI) segment is expected to see strong sales growth momentum in 2Q22, underpinned by sustained AOI shipments and the resumption of AXI production following the resolution of acute component (motion control and driver) shortages in May. To recap, ABI (customers predominantly EMS/CMs in the telco infrastructure, automotive and computing sectors) was the fastest growing segment (+73% YoY) and contributed 56% of group revenue in 1Q22. As at end-April, ABI's backlog/funnel remained robust at MYR140m/254m respectively, with mgmt expecting it to contribute c.MYR95-115m to group turnover in 2Q22.

China lockdowns to weigh on MVS segment

In contrast to improving ABI fortunes, ViTrox's Machine Vision System (MVS) segment is expected to undergo sequential weakness in 2Q22 as slowing Chinese demand and rising material costs weigh on its customers' order outlook. Although mgmt is confident of managing near-term margin pressures via temporary cost pass-throughs, lockdowns in China could pose a drag on revenue growth as its China/Taiwan customers account for c.30-40% of the segment's total avg turnover (and a heftier 80% of the MVS-T sub-segment). However, revenue shortfall from China will likely be mitigated by strong automotive demand for MVS-S systems and at most, we opine the net decrease in MVS' total QoQ revenue growth to be c.25%.

Sustained ASP increases from value-add features

Notwithstanding the abovementioned temporary ASP adjustments to counter inflationary pressures, we're upbeat on mgmt's long-term strategy of incorporating value-add features such as AI/IoT capabilities (currently only available in <10% of portfolio) across its product range, as well as efforts to onboard customers to its in-house data analytics platform (VOne) in order to sustain longer-term ASP increases. Should it be successful, ViTrox's margin profile is likely to improve further.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	470	680	766	894	1,297
EBITDA	138	219	223	254	331
Core net profit	111	176	209	238	310
Core EPS (sen)	11.7	18.6	22.1	25.1	32.8
Core EPS growth (%)	(33.2)	58.6	18.8	13.4	30.6
Net DPS (sen)	6.1	9.6	5.7	6.5	8.4
Core P/E (x)	62.6	53.5	32.7	28.8	22.1
P/BV (x)	12.2	13.2	7.9	6.6	5.4
Net dividend yield (%)	0.8	1.0	0.8	0.9	1.2
ROAE (%)	20.1	26.4	26.5	24.9	26.8
ROAA (%)	16.1	20.7	20.5	19.7	21.2
EV/EBITDA (x)	48.8	42.1	29.3	25.3	19.3
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	201	235	287
MKE vs. Consensus (%)	-	-	4.2	1.1	8.0

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BUY

Share Price	MYR 7.24
12m Price Target	MYR 10.20 (+42%)
Previous Price Target	MYR 10.20

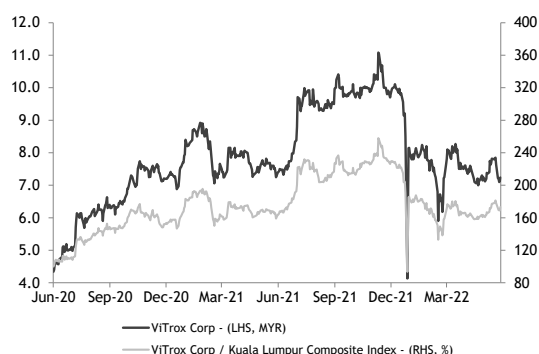
Statistics

52w high/low (MYR)	11.08/4.14
3m avg turnover (USDm)	1.0
Free float (%)	31.8
Issued shares (m)	945
Market capitalisation	MYR6.8B USD1.6B

Major shareholders:

CHU JENN WENG	26.9%
SIAW KOK TONG	19.0%
YEOH SHIH HOONG	10.2%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(0)	0	(2)
Relative to index (%)	6	10	5

Source: FactSet

Acronyms

5G - fifth-gen cellular broadband network
 ABI - Automated Board Inspection
 AI - artificial intelligence
 AOI - Advanced Optical Inspection
 ASP - average selling price
 ATE - automatic test equipment
 AXI - Advanced X-Ray Inspection
 CM - contract manufacturer
 EMS - electronics manufacturing services
 EV - electric vehicle
 IoT - Internet of Things
 IR4.0 - Industrial Revolution 4.0
 MVS - Machine Vision System
 MVS-S - Machine Vision System (Standard)
 MVS-T - Machine Vision System (Tray-based)

ESG@MAYBANK IBG
 Tear Sheet Insert

Risk Rating & Score ¹	24.6 (Medium)
Score Momentum ²	-1.1
Last Updated	03 Jul 2021
Controversy Score ³ (Updated: 28 May 2018)	0 - No reported incidents

Business Model & Industry Issues

- ViTrox has been at the forefront of vision inspection and solutions for the semiconductor and electronic packaging industry. It has 20 years of experience in the industry and an expansive customer base spanning 17 countries. Its products, critical in detecting micro-defects, are used by major chip and circuit board manufacturers in their production lines. In December 2021, the company was added to the FTSE4Good Bursa Malaysia (F4GBM) Index.
- In our view, the company has thus far gone above and beyond to ensure strict compliance with the various environmental, occupational safety & health and corporate governance requirements. With a management team that's driven to create shareholder value, maintain customer satisfaction and ensure the best working environment for its employees, ViTrox is arguably well-placed to maintain its position as one of the market leaders in the industry.

Material E issues

- Took the proactive step of splitting its Environmental Policy from the combined Environmental Safety & Health Policy on 1st September 2019. All relevant environmental permits have also been obtained and maintained, with reporting requirements strictly adhered to.
- Scheduled waste: For FY21, company was well within the limits as outlined in the Environmental Quality Regulations 2005 of the Environmental Quality Act 1974.
- Installed a 458kW industrial-scale solar photovoltaic system at its Batu Kawan factory in August 2018 that generated 688,200 kWh in FY21 - the equivalent of a 440 tonne reduction in CO2 emissions.
- Introduced various green initiatives for its employees such as V-Carpooling, V-Farm (on-campus programme to produce pesticide-free vegetables, herbs, and fruits for employee consumption, with the excesses donated to charity), and the lauded V-Meal program that utilises the V-Farm produce to provide free and nutritious vegetarian lunches to all employees 4 days a week (117k meals prepared in FY21).

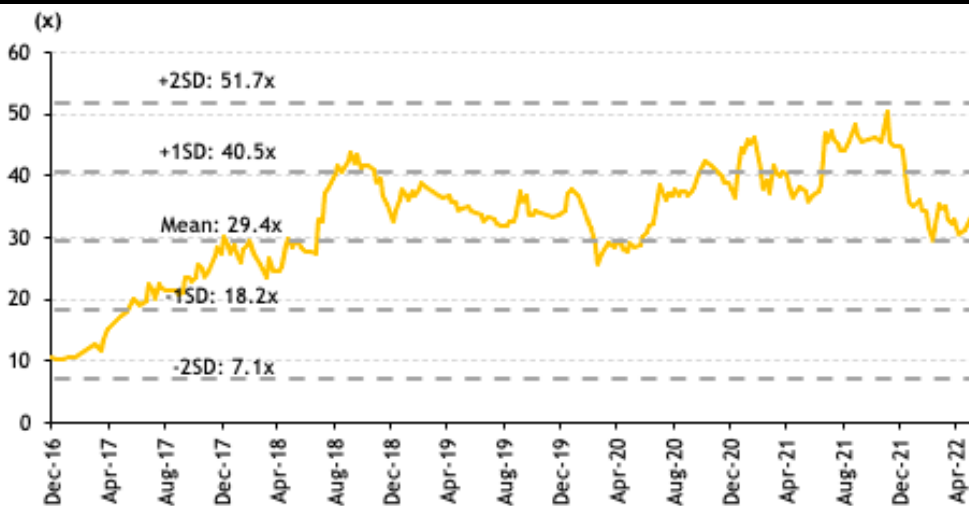
Material S issues

- Gender diversity: Despite an increase in the number of employees from 679 in FY20 to 799 in FY21, its female ratio also improved from 29.90% to 30.04% YoY.
- Occupational safety & health: In FY21, the incident rate (IR) and lost time incident frequency rate (LTIFR) were both lower YoY at 2.37 (FY20: 3.11) and 1.19 (FY20: 2.37) per 1 million hours worked.
- Training: Recorded a total of 32,762 training hours in FY21 (FY20: 23,332 hours). Average training hours per employee also increased from 34 in FY20 to 41 in FY21.
- CSR: Contributed MYR1,939k in FY21 (FY20: MYR903k) to various charities and educational initiatives.

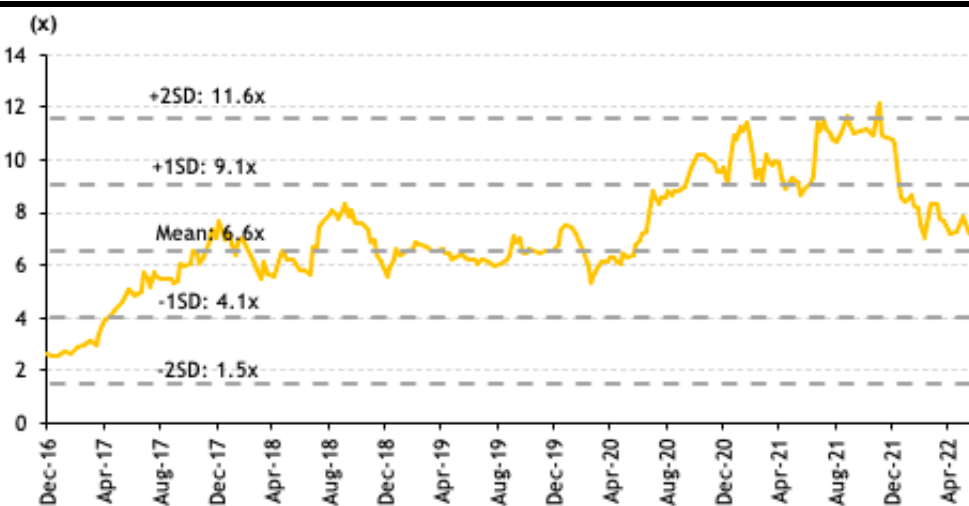
Key G metrics and issues

- Independent directors currently form 57.1% of the Board with 4 of the 7 members, including the Chairman - composition is in line with the desired Malaysian Code on Corporate Governance practise of having at least half the Board comprising of independents.
- Average tenure amongst the independent Board members is 13.8 years (longest-serving at 17.3 years and shortest at 4.6 years). Leadership churn risk is very low with only a single independent director who had served for 10 years retiring on 1 Aug 2020. The board has not adopted a policy to limit the tenure of its independent directors to 9 years.
- All 4 board committees are chaired by independent directors. Both key board committees - audit & nomination - comprise solely of independents while the remuneration committee is comprised of an independent majority (2 of 3 members). The ESOS committee is the only board committee that has a non-independent majority (3 of 5 members).
- 28.6% or 2 of 7 of the Board are female (up from 25% following the resignation of a male non-independent director in Aug 2020). All key senior management are male.
- Director's remuneration stands at 2.4% and 1.5% of total group-wide employee compensation and FY21 net profit respectively.
- Crowe Malaysia (formerly Crowe Horwath) has been the external auditor for 15 years (since 2007).
- No related party transaction of note since listing.
- No notable controversial or value-dilutive merger and acquisition since listing.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Fig. 1: ViTrox Corp's 12M forward PER band (currently trading at 30.7x)


Source: Bloomberg, Maybank IBG Research

Fig. 2: ViTrox Corp's 12M forward PBV band (currently trading at 7.2x)


Source: Bloomberg, Maybank IBG Research

Risk statement

There are several risk factors for our earnings estimates, target price and rating for ViTrox. A sharp downturn in the global markets for electronics will affect the capex spending of OSAT and EMS players involved and this will result in softer demand for ViTrox's inspection equipment. Additionally, forex volatility, especially USD/MYR, will also affect ViTrox's earnings, as over 2/3 of its revenue and about 1/3 of its COGs are denominated in USD. Lastly, aggressive monetary policy will have an adverse impact on the tech sector that tends to have rich valuations.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	47.9	48.8	32.7	28.8	22.1
Core P/E (x)	62.6	53.5	32.7	28.8	22.1
P/BV (x)	12.2	13.2	7.9	6.6	5.4
P/NTA (x)	12.2	13.2	7.9	6.6	5.4
Net dividend yield (%)	0.8	1.0	0.8	0.9	1.2
FCF yield (%)	1.3	1.1	2.2	2.4	1.6
EV/EBITDA (x)	48.8	42.1	29.3	25.3	19.3
EV/EBIT (x)	51.7	43.6	30.4	26.2	19.9
INCOME STATEMENT (MYR m)					
Revenue	470.4	680.1	765.7	893.9	1,297.2
EBITDA	137.9	218.6	222.9	253.6	330.8
Depreciation	(6.8)	(6.6)	(7.5)	(8.3)	(9.0)
Amortisation	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)
EBIT	130.4	211.3	214.7	244.6	321.1
Net interest income / (exp)	3.0	5.7	6.2	5.7	5.3
Associates & JV	(1.2)	(1.5)	(1.5)	(1.5)	(1.5)
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	(21.9)	(37.3)	0.0	0.0	0.0
Pretax profit	110.3	178.2	219.4	248.8	324.8
Income tax	(4.7)	(8.8)	(9.9)	(11.2)	(14.7)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	105.6	169.4	209.5	237.6	310.2
Core net profit	111.2	176.3	209.5	237.6	310.2
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	258.1	255.9	370.8	498.0	546.2
Accounts receivable	177.9	231.6	199.5	231.9	333.9
Inventory	136.1	194.1	235.3	274.7	421.4
Property, Plant & Equip (net)	96.5	109.4	120.7	131.1	140.9
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	91.3	156.6	173.3	171.8	170.3
Total assets	760.0	947.6	1,099.6	1,307.6	1,612.6
ST interest bearing debt	7.1	7.4	7.4	7.4	7.4
Accounts payable	131.3	168.0	147.9	163.8	222.8
LT interest bearing debt	33.5	27.5	42.5	57.5	72.5
Other liabilities	19.0	33.0	34.0	35.0	36.0
Total Liabilities	191.0	235.7	232.1	263.7	338.4
Shareholders Equity	569.0	712.2	867.7	1,044.1	1,274.4
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	569.0	712.2	867.7	1,044.1	1,274.4
Total liabilities and equity	760.0	947.6	1,099.6	1,307.6	1,612.6
CASH FLOW (MYR m)					
Pretax profit	110.3	178.2	219.4	248.8	324.8
Depreciation & amortisation	7.5	7.3	8.2	9.0	9.7
Adj net interest (income)/exp	(3.0)	(5.7)	(6.2)	(5.7)	(5.3)
Change in working capital	(20.2)	(80.0)	(46.2)	(55.9)	(189.6)
Cash taxes paid	(4.7)	(8.0)	(9.9)	(11.2)	(14.7)
Other operating cash flow	0.6	31.9	1.5	1.5	1.5
Cash flow from operations	90.6	123.7	166.8	186.4	126.5
Capex	(3.5)	(18.3)	(18.8)	(18.8)	(18.8)
Free cash flow	87.0	105.3	148.0	167.7	107.8
Dividends paid	(20.3)	(26.9)	(53.9)	(61.2)	(79.9)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(5.7)	(6.9)	15.0	15.0	15.0
Other invest/financing cash flow	2.9	(60.6)	6.2	5.7	5.3
Effect of exch rate changes	(0.0)	0.4	0.0	0.0	0.0
Net cash flow	64.0	11.4	115.3	127.2	48.1

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	38.5	44.6	12.6	16.7	45.1
EBITDA growth	46.4	58.5	2.0	13.8	30.4
EBIT growth	53.0	62.0	1.6	13.9	31.3
Pretax growth	35.4	61.5	23.1	13.4	30.6
Reported net profit growth	32.6	60.4	23.7	13.4	30.6
Core net profit growth	34.4	58.6	18.8	13.4	30.6
Profitability ratios (%)					
EBITDA margin	29.3	32.1	29.1	28.4	25.5
EBIT margin	27.7	31.1	28.0	27.4	24.7
Pretax profit margin	23.5	26.2	28.7	27.8	25.0
Payout ratio	54.4	53.5	25.8	25.8	25.8
DuPont analysis					
Net profit margin (%)	22.5	24.9	27.4	26.6	23.9
Revenue/Assets (x)	0.6	0.7	0.7	0.7	0.8
Assets/Equity (x)	1.3	1.3	1.3	1.3	1.3
ROAE (%)	20.1	26.4	26.5	24.9	26.8
ROAA (%)	16.1	20.7	20.5	19.7	21.2
Liquidity & Efficiency					
Cash conversion cycle	172.1	133.5	177.6	201.0	194.6
Days receivable outstanding	116.4	108.4	101.4	86.9	78.5
Days inventory outstanding	287.1	268.9	288.4	293.4	261.0
Days payables outstanding	231.4	243.7	212.2	179.3	145.0
Dividend cover (x)	1.8	1.9	3.9	3.9	3.9
Current ratio (x)	3.8	3.4	4.4	5.1	5.1
Leverage & Expense Analysis					
Asset/Liability (x)	4.0	4.0	4.7	5.0	4.8
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.3	0.2	0.2	0.3	0.2
Capex/revenue (%)	0.7	2.7	2.5	2.1	1.4
Net debt/ (net cash)	(217.5)	(221.0)	(320.9)	(433.1)	(466.2)

Source: Company; Maybank IBG Research

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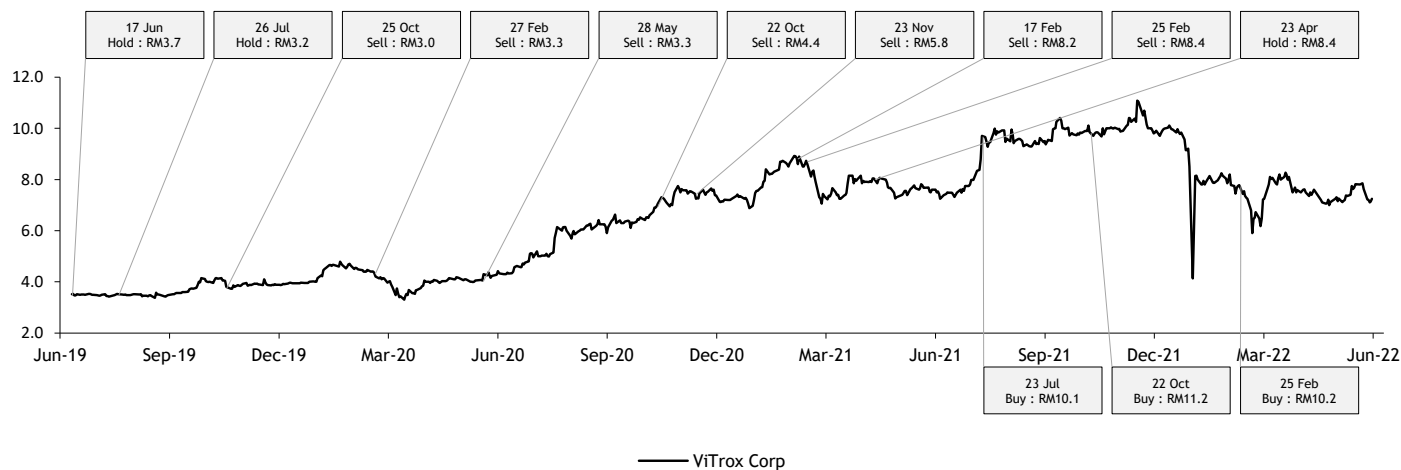
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