Maybank IB Research

Technology

Malaysia

ViTrox Corp (VITRO MK)

Level up!

BUY *[Prior:HOLD]*

Share Price	MYR 4.14
12m Price Target	MYR 4.70 (+14%)
Previous Price Target	*MYR 3.80*

Better prospects; U/G to BUY

We turn upbeat on ViTrox' earnings visibility after yesterday's analyst briefing, especially on its AXI division which is geared up to capture the replacement demand of Agilent's old *5DX* equipment. Coupled with a higher USD/MYR assumption of 4.20 (from 4.05) we raise our FY17-19 net profit forecasts by 6%-20%. We re-rate valuations to a slightly higher PER multiple of 14.5x (+1SD) from 14x (justifiable by higher growth in FY18), roll forward base year to FY18 and derive a new TP of MYR4.70 (+24%).

A faster replacement cycle for AXI in 2017/18

ViTrox' service access to Agilent's customers for >300 units of AXI equipment (*5DX* model) will end by Dec 2018 and that has led to higher replacement demand in 2016 (~10 units of replacement demand out of 71 units sold). Software compatibility and strong relationship with these customers put ViTrox in the forefront to capture these replacement demands. Having said that, the advancement in technology will enable these customers to replace up to 2 units of the old *5DX* model with just 1 of ViTrox' high-speed AXI model. Constrained by current production bottleneck, we expect the replacement demand to peak only in FY18 after ViTrox moves into Campus 2.0 by 3Q17.

Raising FY17/18/19 earnings forecasts by 6%/20%/6%

The main upgrades to our earnings forecasts come from the AXI division whereby we have raised unit sales by 7%/29%/5% but also lowered ASPs by 3% yearly to account for competitive pricing strategy. Together with a change in our USD/MYR forex assumption, we now expect ViTrox to sustain its double-digit earnings growth to FY18 (12% 2-year earnings CAGR). Higher installed-base of equipment will also lead to stronger recurring service income. We expect this high-margin recurring revenue stream to balloon to 14%/15% of group revenue in FY17/18 (12% in FY16).

Unlocking a new potential with Campus 2.0

ViTrox remains on track to move into its new 450k sq ft Campus 2.0 by 3Q17 which is triple the size of its current manufacturing space. This will also allow ViTrox to double its workforce to 1k people (~400 currently). The ease in the current production bottleneck will take ViTrox to the next level of growth barring any unforeseen downturn of the sector.

FYE Dec (MYR m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	160	234	264	319	328
EBITDA	59	65	82	101	105
Core net profit	51	61	67	76	77
Core EPS (sen)	21.8	25.8	28.6	32.4	32.7
Core EPS growth (%)	1.9	18.4	11.0	13.2	1.0
Net DPS (sen)	5.0	6.4	7.2	8.1	8.2
Core P/E (x)	19.0	16.0	14.5	12.8	12.7
P/BV (x)	4.7	3.7	3.1	2.6	2.3
Net dividend yield (%)	1.2	1.6	1.7	2.0	2.0
ROAE (%)	23.2	27.6	23.5	22.4	19.3
ROAA (%)	21.2	19.2	15.7	14.4	12.5
EV/EBITDA (x)	12.7	12.2	11.4	9.1	8.3
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	61	66	na
MKE vs. Consensus (%)	-	-	11.1	15.3	na

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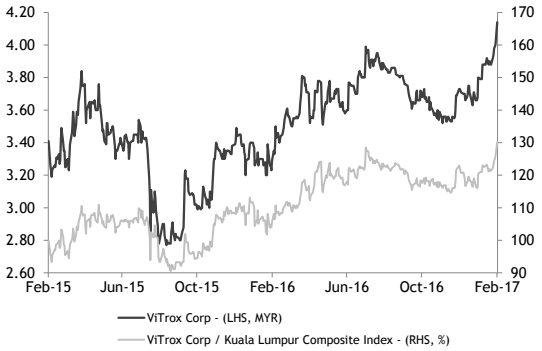
Statistics

Shariah status	Yes
52w high/low (MYR)	4.14/3.33
3m avg turnover (USDm)	0.0
Free float (%)	29.6
Issued shares (m)	235
Market capitalisation	MYR971.9M USD219M

Major shareholders:

CHU JENN WENG	27.3%
SIAW KOK TONG	19.4%
YEOH SHIH HOONG	10.4%

Price Performance



	-1M	-3M	-12M
Absolute (%)	9	15	26
Relative to index (%)	8	10	23

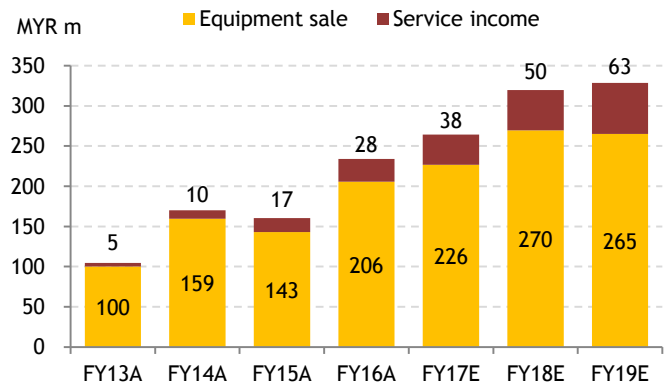
Source: FactSet

Revision to our revenue forecasts

Division	Revised unit sales			Initial unit sales			Revised revenue (MYR m) based on USD1/MYR4.20			Initial revenue (MYR m) based on USD1/MYR4.05		
	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E
MVS-S	1,350	1,400	1,400	1,125	1,200	1,275	38.5	40.5	41.3	33.3**	35.5	37.6
MVS-T*	45	50	55	45	50	55	52.1	58.9	66.1	50.7**	54.6	59.2
AOI*	130	145	170	130	150	170	51.9	58.2	68.2	49.5**	55.6	62.3
AXI*	80	110	100	75	85	95	116.6	156.7	147.7	116.8**	128.9	142.7
ECS	9,200	9,500	9,500	8,500	9,000	9,500	5.0	5.2	5.2	4.5**	4.8	5.1

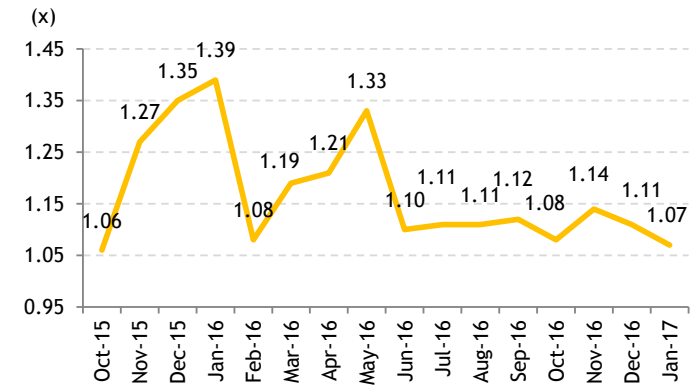
Source: Company, Maybank KE
*Note: *Divisions exposed to fluctuation in USD/MYR forex, ** Based on USD1/MYR4.15*

ViTrox Corp: Quarterly revenues



Source: Bursa, Maybank KE

ViTrox Corp: Book-to-bill ratio



Source: Company

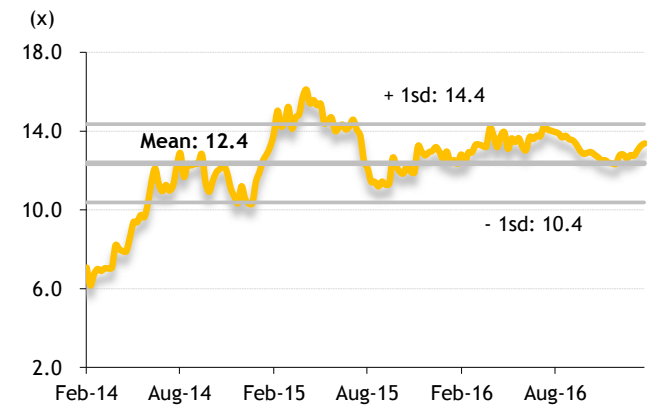
ViTrox Corp: Campus 2.0 progress (Feb 2017)

Source: Bursa, Maybank KE

ViTrox Corp: Campus 2.0 progress (Nov 2016)

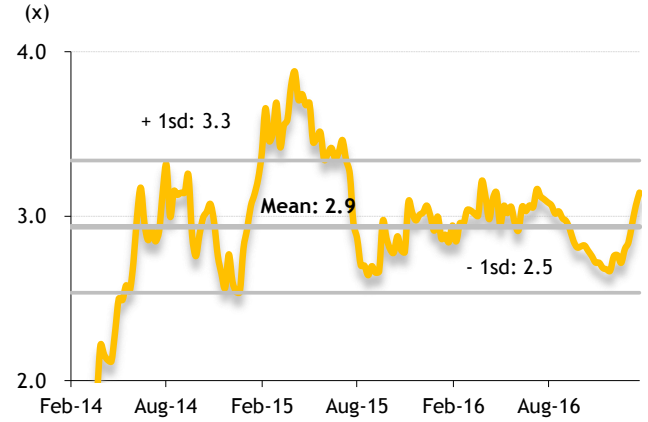
Source: Company

ViTrox Corp: Historical PER band



Source: Bloomberg, Maybank KE

ViTrox Corp: Historical PBV band



Source: Bloomberg, Maybank KE

FYE 31 Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Key Metrics					
P/E (reported) (x)	16.9	13.2	14.5	12.8	12.7
Core P/E (x)	19.0	16.0	14.5	12.8	12.7
P/BV (x)	4.7	3.7	3.1	2.6	2.3
P/NTA (x)	4.7	3.7	3.1	2.6	2.3
Net dividend yield (%)	1.2	1.6	1.7	2.0	2.0
FCF yield (%)	1.6	1.7	nm	3.5	6.3
EV/EBITDA (x)	12.7	12.2	11.4	9.1	8.3
EV/EBIT (x)	13.6	13.3	13.0	11.1	10.3
INCOME STATEMENT (MYR m)					
Revenue	160.3	234.0	264.1	319.5	328.5
Gross profit	109.7	143.0	171.6	207.7	213.5
EBITDA	59.1	65.2	81.7	101.4	105.2
Depreciation	(3.8)	(4.6)	(9.1)	(18.3)	(19.7)
Amortisation	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
EBIT	55.0	60.0	72.1	82.7	85.0
Net interest income /(exp)	0.9	0.9	0.3	0.2	0.5
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	55.9	60.9	72.4	82.9	85.5
Income tax	(11.4)	4.0	(5.0)	(6.6)	(8.4)
Minorities	0.0	0.0	0.0	0.0	0.0
Perpetual securities	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	44.5	65.0	67.4	76.3	77.1
Core net profit	51.3	60.8	67.4	76.3	77.1
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	64.0	110.1	128.2	167.5	234.5
Accounts receivable	75.9	102.6	120.0	144.3	148.2
Inventory	56.6	65.1	76.0	91.9	94.5
Property, Plant & Equip (net)	35.8	91.3	152.1	163.9	174.2
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	23.2	7.5	7.1	6.6	6.1
Total assets	**255.5**	**376.6**	**483.3**	**574.1**	**657.5**
ST interest bearing debt	1.7	4.7	4.7	4.7	4.7
Accounts payable	29.1	66.1	66.3	75.8	77.4
LT interest bearing debt	2.2	27.4	83.4	107.4	131.4
Other liabilities	14.0	16.0	16.0	16.0	16.0
Total Liabilities	**46.6**	**114.6**	**170.8**	**204.3**	**229.9**
Shareholders Equity	208.9	262.0	312.6	369.8	427.6
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	**208.9**	**262.0**	**312.6**	**369.8**	**427.6**
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	**255.5**	**376.6**	**483.3**	**574.1**	**657.5**
CASH FLOW (MYR m)					
Pretax profit	55.9	60.9	72.4	82.9	85.5
Depreciation & amortisation	4.3	5.1	9.6	18.7	20.1
Adj net interest (income)/exp	(0.9)	(0.9)	(0.3)	(0.2)	(0.5)
Change in working capital	(31.2)	1.8	(28.1)	(30.7)	(5.0)
Cash taxes paid	(6.0)	(3.7)	(5.0)	(6.6)	(8.4)
Other operating cash flow	(1.0)	12.9	0.0	0.0	0.0
Cash flow from operations	21.0	76.1	48.6	64.2	91.8
Capex	(5.3)	(59.2)	(70.0)	(30.0)	(30.0)
Free cash flow	15.7	16.9	(21.4)	34.2	61.8
Dividends paid	(14.0)	(11.7)	(16.9)	(19.1)	(19.3)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	0.0	27.5	56.0	24.0	24.0
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	2.0	0.9	0.3	0.2	0.5
Effect of exch rate changes	6.6	8.3	0.0	0.0	0.0
Net cash flow	10.3	41.9	18.1	39.3	67.0

FYE 31 Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Key Ratios					
Growth ratios (%)					
Revenue growth	(5.7)	46.0	12.8	21.0	2.8
EBITDA growth	10.4	10.3	25.4	24.1	3.7
EBIT growth	11.5	9.2	20.0	14.7	2.8
Pretax growth	11.8	9.0	18.8	14.5	3.1
Reported net profit growth	(9.4)	45.9	3.8	13.2	1.0
Core net profit growth	1.9	18.4	11.0	13.2	1.0
Profitability ratios (%)					
EBITDA margin	36.9	27.8	30.9	31.7	32.0
EBIT margin	34.3	25.7	27.3	25.9	25.9
Pretax profit margin	34.9	26.0	27.4	25.9	26.0
Payout ratio	26.5	23.4	25.0	25.0	25.0
DuPont analysis					
Net profit margin (%)	27.8	27.8	25.5	23.9	23.5
Revenue/Assets (x)	0.6	0.6	0.5	0.6	0.5
Assets/Equity (x)	1.2	1.4	1.5	1.6	1.5
ROAE (%)	23.2	27.6	23.5	22.4	19.3
ROAA (%)	21.2	19.2	15.7	14.4	12.5
Liquidity & Efficiency					
Cash conversion cycle	302.0	189.5	168.7	190.4	212.2
Days receivable outstanding	163.7	137.3	151.7	148.9	160.3
Days inventory outstanding	379.9	240.7	274.8	270.2	291.8
Days payables outstanding	241.6	188.4	257.9	228.7	239.9
Dividend cover (x)	3.8	4.3	4.0	4.0	4.0
Current ratio (x)	5.4	3.4	4.0	4.4	5.2
Leverage & Expense Analysis					
Asset/Liability (x)	5.5	3.3	2.8	2.8	2.9
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)	0.1	0.5	1.1	1.1	1.3
Capex/revenue (%)	3.3	25.3	26.5	9.4	9.1
Net debt/ (net cash)	(60.1)	(78.0)	(40.1)	(55.4)	(98.4)

Source: Company; Maybank

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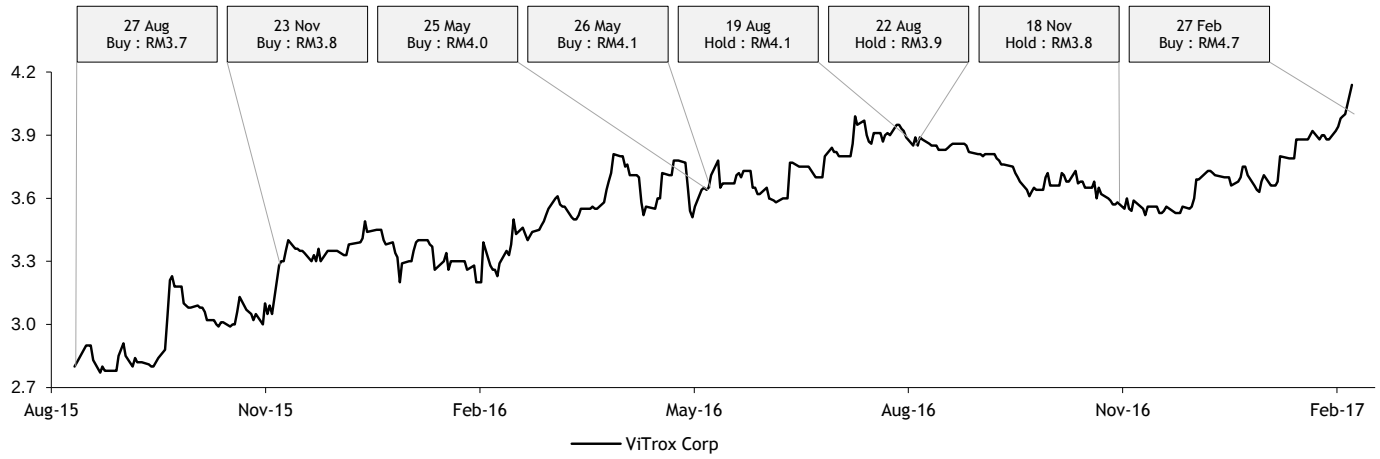

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