

VITROX CORPORATION – SETTING A NEW RECORD FY16

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Founded in 2000, Vitrox Corporation (Vitrox) designs and manufactures two-dimensional and three-dimensional vision inspection technology for the semiconductor and electronics assembly sectors. In just 16 years, Vitrox is now recognised as one of the world's leading automated machine vision inspection solution provider.

Towards the end of November 2013, Vitrox's share price took off from just under RM1, surging over three times to RM3.53 as of 6 December 2016. Despite losing momentum after touching the RM4 mark in July, the group's shares still added 2.6 percent year-to-date. Hence, let us dig deeper to see if there is more value to be uncovered.

The Business

Built on a long term strategy of research and development (R&D), the group aims to invest 15 percent of its revenue into R&D activities every year. Apart from Vitrox's main business in the vision inspection technology, the group also offers a range of electronics communication solutions through its wholly-owned subsidiary, ViE Technologies, as well as recently launching a unified suite of real-time performance monitoring solution to complement its core business.

Through its innovative, leading-edge and cost-effective solutions, the Malaysia-based company has achieved much success in overseas markets, with exports making up 71 percent of the group's sales in FY15. Through the expansions of sales channel partners and a greater internal sales force, Vitrox has increased its presence in the new markets such as China, the United States, Europe and Southeast Asia.

Financial Performance

In Vitrox's latest 9M16 financial results reported on 17 November, the group registered a 51.8 percent increase in revenue to RM170.3 million mainly due to higher demand from the wider customer base and product range.

Depending heavily on exports, approximately 85 percent of Vitrox's earnings are in US dollars, while 30 percent of the raw materials used are imported. As such, the strengthening of the dollar against the Malaysian ringgit is likely to have contributed to the improved margins as well as demand for export sales.

Vitrox	9M16	FY15	FY14	FY13	FY12	FY11
Revenue (RM'm)	170.3	160.3	169.9	106.1	88.9	79.2
Net Profit (RM'm)	45.9	44.3	49.1	24.1	24.5	22.2
Net Profit Margin (%)	27	27.6	32.8	22.7	27.6	28
Return On Equity (%)	18.5	21.2	28.1	18.3	17.9	22.9

The group's track record has improved greatly over the past four years. Net profit almost doubled from FY11 to FY15, while revenue grew at a compounded annual growth rate of 19.3 percent to RM160.3 million from just RM79.2 million in FY11. Vitrox's net profit margin and return on equity have remained largely stable over the years.

Coupled with the continued focus on developing new technologies and expansion of product offerings, 9M16 earnings grew by 31.1 percent to RM45.9 million, already exceeding FY15 net profit of RM44.3 million. Vitrox's 9M16 results set the stage for a record FY16 net profit, likely to even exceed the group's record in FY14.

Capacity Expansion

Early this year, Vitrox allocated RM120 million to expand its operations in Penang to meet the rising global demand for its products and solutions. The group's new 450,000 square feet facility in Batu Kawan is scheduled for operation in mid-2017 and expected to triple the present production capacity. According to the group's expansion plan, the second phase of the plant is expected to start in 2020. Meanwhile, plans to purchase production equipment for the existing plant in Bayan Lepas, which was 80 percent utilised are underway.

According to a market research report by Credence Research in April this year, the machine vision market is expected to expand to US\$14.9 billion by 2022, amid the rising need for global manufacturers to reduce labour costs and production errors.

Peer Comparisons

Based on a price of RM3.53 per share, Vitrox's shares are decently valued at a trailing twelve months (TTM) price-to-earnings ratio (P/E) of 14.9 times. Smaller market capitalisation peers engaging in the same industry such as Pentamaster Corporation and VisDynamics Holdings are trading at a TTM P/E of 8.9 times and 23.3 times respectively.

Furthermore, we also like that Vitrox has a net cash position (total cash and equivalents less total debt) of RM69.9 million as of 30 September 2016, which translates to approximately RM0.30 per share.

Key risks that Vitrox face include foreign exchange risks, due to export sales denominated in US dollars, as well as the challenge in replenishing its order book as sales are mostly one-off. As of September 2016, the factors hardly pose a challenge, as Vitrox has already shipped out inspection equipment worth over RM150 million, with another RM35 million worth of shipments to deliver over the next two months.

On the back of bright prospects ahead, the group is well on track to end FY16 with a double-digit growth.

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