

ViTrox poised to win more market share

ViTrox Corp Bhd
(Feb 26, RM6.49)

Maintain hold with an unchanged target price of RM5.85: Despite seasonal weakness, ViTrox Corp Bhd guided its first-quarter 2018 (1Q18) to be the strongest ever first quarter in its history. While this good head start may indicate another bullish year, we are not overly excited and believe that this has been priced in. Challenges remain including US dollar depreciation, raw material sourcing, floor space constraints, seasonal closure and relocation to new Batu Kawan Campus 2.0.

The company's 4Q17 sales grew 4% year-on-year (y-o-y) and contributed 16% of overall sales. 1Q18 order backlog was strongest at 553 (5.5 months lead time) versus 488 systems in 4Q17. 1QFY18 is expected to be rather flattish with a turnover projection of RM10 million to RM12 million (midpoint: -4% quarter-on-quarter [q-o-q] but +9% y-o-y). There are plans to grow its wafer vision inspection solutions in Malaysia and participate in the Semicon Southeast Asia exhibition. It is facing challenges in material sourcing, such as cameras.

MVS-T: 4Q17 sales expanded 394% y-o-y and 99% q-o-q, accounting for 19% of overall sales. This extraordinary gain was achieved with a lower average selling price which led to the lower overall group gross profit margin in 4Q17. Expect to deliver 10 to 15 units in 1Q18 versus 25 in 4Q17 and 11 in 1Q17. Order book is forecasted at 15 machines (versus 23 in 4Q17) in the next three months with a moderate demand from customers from Southeast Asia and Taiwan. 1Q18 revenue is projected to be ranging from RM10 million to RM15 million (midpoint: -53% q-o-q and +4% y-o-y). Special emphasis on China by engaging new strategic channel partners (SCPs) and establishing technical support presence at strategic locations.

Automated board inspection (ABI): Sales surged by 2% q-o-q and 27% y-o-y to account for 63% of 4Q17 turnover. Backlog on Jan 31, 2018 stood at RM39.5 million broken down into 24 and 10 machines of 3D advanced optical inspection (AOI) and 3D advanced X-ray inspection (AXI) respectively. 1Q18 revenue is estimated at RM50 million to RM53 million (midpoint: -9% q-o-q and +12% y-o-y). Plans to penetrate India are by acquiring new SCPs to reach non-corporate multinational companies with high growth opportunity. Its machine-to-machine capability is expected to garner strong interest as customers are moving towards Industry 4.0.

By summing the midpoints of guidance above and assuming flat sequential growth in its electronic communication system, 1Q18 sales could potentially expand 9% y-o-y, but decline by 21% q-o-q to RM76 million. ViTrox's book-to-bill ratio remains healthy at 1.0 in December 2017. Risks foreign exchange, downturn in semiconductor demand and equipment spending, patent infringement and technology imitation. Forecasts unchanged. Rating hold; TP: RM5.85. ViTrox is poised to win more market share in the advent of global semiconductor growth leveraging on its technology leadership in machine inspection, especially in 3D-AOI and AXI. However, MVS-S sales are highly dependent on single customer and the majority of sales are non-recurring. Valuation, pegged to price-earnings ratio multiples of 22 times of financial year 2019 earnings per share. — Hong Leong Investment Research, Feb 26

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