

ViTrox poised to win more market share

Vitrox Corp Bhd
(March 30, RM5.35)

Maintain hold with an unchanged target price (TP) of RM5.85: In our recent company visit, we gathered some positive key takeaways as management appeared confident to bring Vitrox Corp Bhd (ViTrox) to another new height in FY18.

Although it ended FY17 at parity, bill-to-book ratio has been gaining momentum, reaching 1.1 times in February mainly driven by solid demands for machine vision system (MVS-S), advanced X-ray inspection (AXI) and advanced optical inspection (AOI) products. These were more than sufficient to offset machine vision system tray's (MVS-T) softness which usually experiences stronger orders towards year end.

Guidance: On track to meet its 1QFY18 revenue guidance that is likely to be the strongest first quarter in its history despite the seasonal weakness. To recap, 1Q18 sales were guided to expand 9% year-on-year (y-o-y) but decline by 21% quarter-on-quarter (q-o-q) to RM76 million.

Auto was the largest top-line contributor at 30% in FY17, but telecommunication infrastructure and data centre are likely to take the lead in FY18. The proliferation of blockchain technology has also spurred greater demand for vision inspection for motherboards and graphic display cards.

On wafer inspection, ViTrox delivered two units of Wi8i in FY17 and target to double the unit shipments in FY18 as part of the aspiration to move up in the semiconductor supply chain which may yield better margin.

Material shortage. Previously ViTrox shared that there was a major shortage of Japanese precision mechanical parts which require up to 400-day lead time. This issue is now resolved by changing product design to use alternative parts.

Raw material prices, such as steel, aluminum and copper have been increasing since 2H17 but ViTrox is able to pass on the price hike to customers and protect its profit margin. Besides, the stronger ringgit against the greenback also partly cushioned this negative impact.

Batu Kawan expansion. The move to Campus 2.0 has been delayed since December 2017 mainly due to regulatory requirements. Currently, the Certification of Completion and Compliance is pending only for the water department's approval. It plans to start moving to the new facility in April and complete by May. With more space, ViTrox will expand its headcount by 25% from the existing 481 (70% with engineering background).

Our rating is to "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 majority of sales are non-recurring. — Hong Leong Investment Bank Research, March 30

<http://www.theedgemarkets.com/article/vitrox-set-grow-market-share>