

8 November 2022

Industrials Products & Services | Precision Engineering

YBS International (YBS MK)

Not Rated

In a US-China Trade Diversion Sweet Spot

Fair Value (Return): MYR0.93 (37.4%)
Price: MYR0.68
Market Cap: USD36.1m
Avg Daily Turnover (MYR/USD) 2.20m/0.48m

- **MYR0.93 FV based on 17x FY24F (Mar) P/E.** Supported by the strong demand arising from US-China tensions and sticky clientele, YBS International's new manufacturing plant is set to capture a larger market share from its existing and new multinational corporation (MNC) clients. Efforts to move up the value chain by producing higher value-added products and economies of scale should contribute to margin expansion. Coupled with strong growth potential (3-year earnings CAGR of 49.8%), we think its 12x FY24F P/E is attractive vs the sector average of 27x.
- **Engineering strength secures strong customer base.** YBS' precision machining and stamping unit (60-65% and 50% of group revenue and profit) serves global MNCs in the telecommunications, electrical & electronics (E&E), aerospace, and automotive industries. Its operations are supported by a large team of 100 engineers. Its ability to meet requirements in small and lightweight parts with precise tolerances is a key differentiator. It has also established >10 years of business relationships with key customers.
- **Beneficiary of the US-China trade diversion.** YBS has been in the sweet spot of the US-China trade war since 2019. Various customers, especially its telecommunications MNC clients, are sourcing for engineering support services in Malaysia to diversify at least 30% of supplies out of China to mitigate the growing risks. Hence, the newly built plant expansion at Penang Science Park is timely to grab the opportunities. The group is in talks with existing and new customers to capture extra market share by having some projects at its Penang and Vietnam plants. With a manufacturing presence in three locales, it is able to assure customers of its robust business continuity plan should there be supply constraints at any one of its sites.
- **Aggressive expansion plan to capture growth opportunities.** Its 10.03 acre Penang Science Park factory will cater for surface mount technology (SMT) line and printed circuit board assembly (PCBA) – it intends to become a one-stop contract manufacturer, machining and cable assembly, paper board packaging, as well as moulding and assembly provider. YBS has shifted a few machines from its Johor plants to Penang Science Park Plant and started mass production on precision machining and paper packaging. The group is striving to ramp up the utilisation rate of its current manufacturing lines to 80% from 50% currently. It is also adding another 600 workers in the next 2-3 years to support expansion and new projects.
- **Earnings forecasts and valuation.** With its additional production capacity and new customer orders, we are forecasting a 3-year earnings CAGR of 49.8%. We ascribe a 17x FY24F P/E to YBS – a 15% discount from the 20x P/E's we ascribe to other precision machining peers like Dufu Technology (DUFU MK, NR) and Coraza Integrated Technology (CORAZA MK, BUY, TP: MYR0.93) due to its smaller market cap. Key risks: Shortages of manpower and key components, dependence on a few major customers, as well as political, economic and regulatory risks.

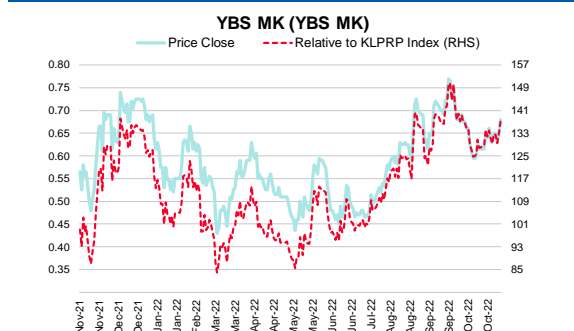
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(6.2)	3.0	13.3	37.4	29.5
Relative	5.4	1.6	16.1	50.0	47.4
52-wk Price low/high (MYR)				0.43 – 0.77	



Source: Bloomberg

Forecasts and Valuation	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Total turnover (MYRm)	63	80	110	140	189
Recurring net profit (MYRm)	2	6	8	14	21
Recurring net profit growth (%)	225.4	180.7	30.8	71.4	49.8
Recurring P/E (x)	77.88	27.75	21.20	12.37	8.26
P/B (x)	2.8	2.5	2.3	2.0	1.7
P/CF (x)	19.17	37.23	11.84	8.28	7.00
Dividend Yield (%)	na	na	0.9	1.6	2.4
EV/EBITDA (x)	21.98	15.11	11.13	7.27	5.01
Return on average equity (%)	3.7	9.4	11.1	17.0	21.7
Net debt to equity (%)	28.4	46.8	54.4	53.1	28.9

Source: Company data, RHB

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Financial Exhibits

Asia	Financial summary (MYR)	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Malaysia	Recurring EPS	0.01	0.02	0.03	0.05	0.08
Industrials Products & Services	DPS	-	-	0.01	0.01	0.02
YBS International	BVPS	0.25	0.28	0.30	0.35	0.41
YBS MK	Return on average equity (%)	3.7	9.4	11.1	17.0	21.7
Buy						
	Valuation metrics	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Valuation basis	Recurring P/E (x)	77.88	27.75	21.20	12.37	8.26
17x P/E on FY24F EPS	P/B (x)	2.8	2.5	2.3	2.0	1.7
	FCF Yield (%)	3.7	(9.6)	(3.2)	0.4	14.3
Key drivers	Dividend Yield (%)	-	-	0.9	1.6	2.4
(i) Engineering strength secures strong customer base	EV/EBITDA (x)	21.98	15.11	11.13	7.27	5.01
(ii) Beneficiary of the US-China trade diversion	EV/EBIT (x)	52.61	24.27	16.82	9.88	6.38
(iii) New capacity to cater for future growth						
(iv) Secured orders for the next two years.						
	Income statement (MYRm)	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Key risks	Total turnover	63.1	79.5	109.9	140.3	189.4
i. (i) Shortage of manpower	Gross profit	11.9	16.5	23.1	35.1	47.4
ii. (ii) Shortage of key components	EBITDA	8.7	13.7	19.5	30.7	41.4
iii. (iii) dependence on few major customers	Depreciation and amortisation	(5.0)	(5.2)	(6.6)	(8.1)	(8.9)
iv. (iv) Political, economic and regulatory risks.	Operating profit	3.6	8.5	12.9	22.6	32.6
	Net interest	(0.5)	(1.4)	(2.2)	(3.2)	(3.6)
	Pre-tax profit	3.1	7.1	10.7	19.4	29.0
Company Profile	Taxation	(0.8)	(0.9)	(2.1)	(4.7)	(7.0)
YBS is principally engaged in precision machining and stamping of components, precision engineering and plastic injection moulding, manufacture & assembly of electronic components, and manufacture of paper honeycomb products.	Reported net profit	2.2	6.2	8.1	13.8	20.7
	Recurring net profit	2.2	6.2	8.1	13.8	20.7
	Cash flow (MYRm)	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
	Change in working capital	1.0	(3.7)	(2.9)	(5.4)	(10.0)
	Cash flow from operations	8.9	4.6	14.5	20.7	24.4
	Capex	(2.6)	(21.1)	(20.0)	(20.0)	0.0
	Cash flow from investing activities	(25.6)	(21.5)	(20.0)	(20.0)	0.0
	Dividends paid	0.0	0.0	(1.6)	(2.8)	(4.1)
	Cash flow from financing activities	19.9	18.0	16.2	9.0	(7.7)
	Cash at beginning of period	6.8	8.0	10.3	21.0	30.7
	Net change in cash	3.2	1.1	10.7	9.7	16.7
	Ending balance cash	10.0	9.1	21.0	30.7	47.4
	Balance sheet (MYRm)	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
	Total cash and equivalents	8	10	21	31	47
	Tangible fixed assets	60	78	91	103	94
	Total assets	107	133	164	195	220
	Short-term debt	4	8	18	23	23
	Total long-term debt	22	36	46	56	56
	Total liabilities	44	61	85	104	111
	Total equity	63	72	79	91	109
	Total liabilities & equity	107	133	164	195	220
	Key metrics	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
	Revenue growth (%)	(6.8)	25.9	38.2	27.7	35.0
	Recurrent EPS growth (%)	225.4	180.7	30.8	71.4	49.8
	Gross margin (%)	18.8	20.7	21.0	25.0	25.0
	Operating EBITDA margin (%)	13.7	17.2	17.7	21.9	21.9
	Net profit margin (%)	3.5	7.8	7.3	9.9	10.9
	Dividend payout ratio (%)	0.0	0.0	20.0	20.0	20.0
	Capex/sales (%)	4.1	26.5	18.2	14.3	0.0
	Interest cover (x)	7.46	6.02	5.98	7.03	9.17

Source: Company data, RHB

Investment Thesis

Integrated engineering supporting services provider. YBS is engaged in high-precision moulds, high-precision metal, plastics components, and sub-components assembly. The group currently has more than 100 engineers, each with 15 years or more of experience, and who constantly work closely with YBS' customers. Under the plastics division, it is capable of producing a full set of precision integrated circuit moulds, full design and fabrication of connector moulds, as well as precision plastic injection, insert, and extrusion moulding.

Under its metal division, YBS has the manufacturing capability to produce stamped electromagnetic interference or EMI shield gaskets, computer-aided manufacturing or CAM turned precision parts, computer numerical control (CNC) turned precision 5-axis parts, CNC milled precision parts, sub-assembly parts, high-speed stamped precision parts, and CNC 5-axis milling precision parts.

YBS can meet high requirements in small and lightweight parts with precise tolerances of up to c.3 microns variation only. Moreover, the group has strong in-house plating capabilities, which makes it stand out among other precision engineering providers. Its plating capabilities includes hard gold, electroless nickel, nickel sulphamate, copper plating, alkaline zinc nickel plating, and reel-to-reel steel use stainless or SUS washing lines. Under its electronics manufacturing services or EMS division, YBS carries out the production of PCBAs, product assembly, cable assembly, and full box builds.

Strong stickiness with existing customers. YBS supplies high precision moulds, tools and dies, jigs and fixtures, and plastic injection moulding parts to the connector, aerospace (2022-2030 CAGR: 4.0%), automotive (2022-2029 CAGR: 5.3%), E&E, computer and peripherals, and telecommunications industries (2021-2029 CAGR: 5.4%). YBS has built more than 10 years of business relationships with its key customers. It produces sub-modular mechanical parts such as cloud storage and high-speed connectivity components in high volumes by assembling its manufactured metal parts and plastic parts for its existing telecommunications and IT customers.

YBS sees rising demand from the automotive industry, especially as carmakers are venturing into electric and autonomous vehicles. Management sees continued strong demand from the automotive industry, with higher precision and manufacturing requirements, which allows it to fetch higher margins.

The group is also producing avionics and connector modules such as power and data transmission components for electric and autonomous vehicles. In tandem with the strong demand for precision components, YBS has recently received inquiries on different models of connector modules. On the other hand, orders from its existing aerospace and security customers to produce high-mix low-volume signal and energy connection components continue to grow.

Beneficiary of the US-China trade diversion. YBS' key customers in the telecommunications and IT industries are moving their manufacturing arms out of China to South-East Asian countries. It has been in a sweet spot, benefitting from the US-China trade war since 2019. The customers are sourcing for engineering supporting services providers in Malaysia in order to diversify and move at least 30% of manufacturing arms out of China. Therefore, the group's plant expansion in the Penang Science Park is timely to grab such opportunities. Its existing customers are also trying to utilise manufacturing lines in Vietnam and other South-East Asian countries for geographical diversification. YBS is in talks with existing customers to capture a larger market share by supporting them via its Vietnam plant. With a manufacturing presence in three countries, the group is able to assure customers with a business continuity plan, should there be supply constraints at one of the sites.

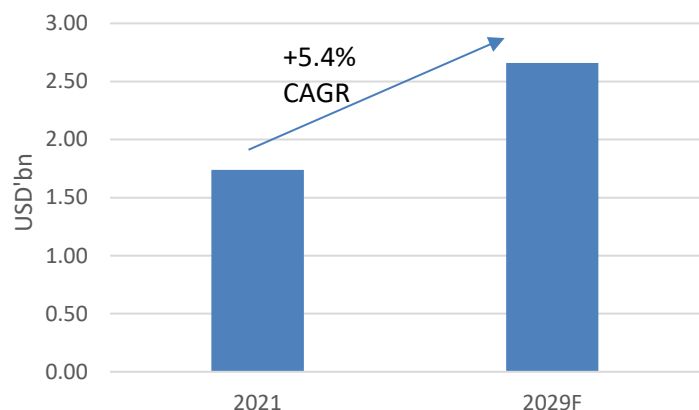
Aggressive expansion plans to capture immense growth opportunities. In early 2020, YBS, through its wholly owned subsidiary Oriental Fastech Manufacturing, acquired a 10.03-acre industrial land in Penang Science Park. Its production space has nearly doubled after the acquisition. There will be four plants in the Penang Science Park factory – Plant 1 for SMT line and PCBA; Plant 2 for machining and cable assembly; Plant 3 for paper board packaging; and Plant 4 for moulding and assembly.

Plant 1 of the new Penang Science Park factory is catered for production of PCBA for its automotive customers, with Class 100,000 cleanroom environment and one SMT line at the moment. Management expects to add two more SMT lines in the near future. Its expansion plan in this segment should help YBS become a one-stop contract manufacturing service provider for some of its current projects, especially for its automotive and IT customers.

YBS has shifted some machines from its Johor plants to Penang Science Park Plant 2 and started mass production on precision machining. Production capacity of the machining equipment will be ramped up progressively in the near future. The group is also transferring most of its paper packaging manufacturing lines to Plant 3 of Penang Science Park factory. Its manufacturing lines of green product – paper honeycomb – is carrying out mass production with optimal capacity at the moment and generating MYR300-400k of sales per month. It is also striving to ramp up the utilisation rate of its new corrugated paper packaging manufacturing lines. With this, we expect the paper packaging business to grow together with other segments.

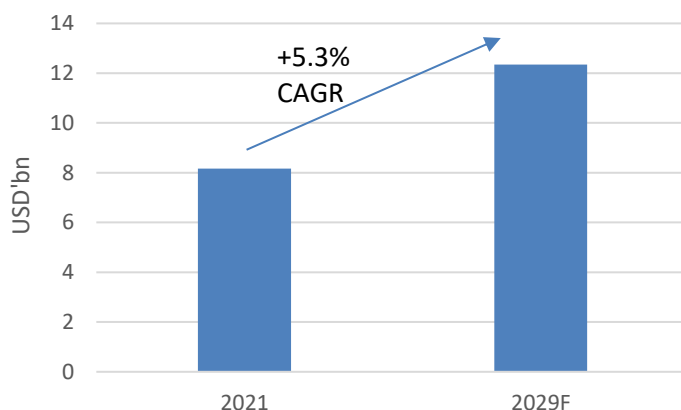
On another note, YBS is also adding another 600 workers in the next 2-3 years to the current c.700 workforce.

Figure 1: Global telecommunications market



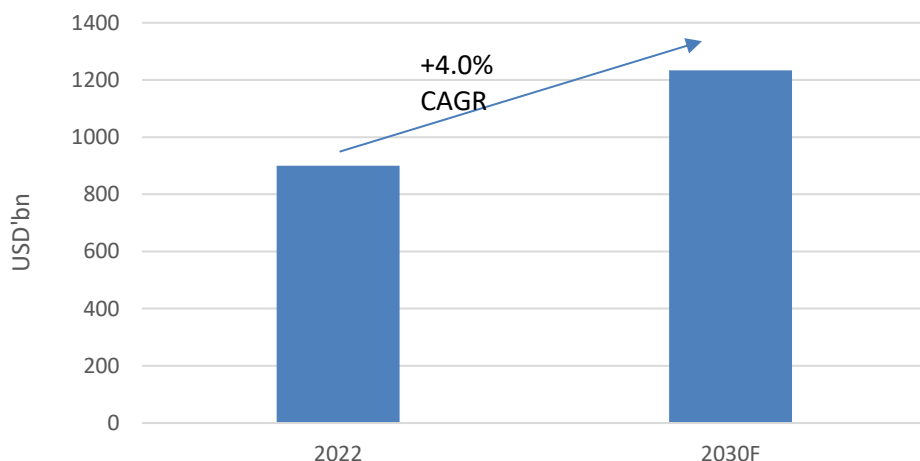
Source: Fortune Business Insights, RHB

Figure 2: Global automotive market



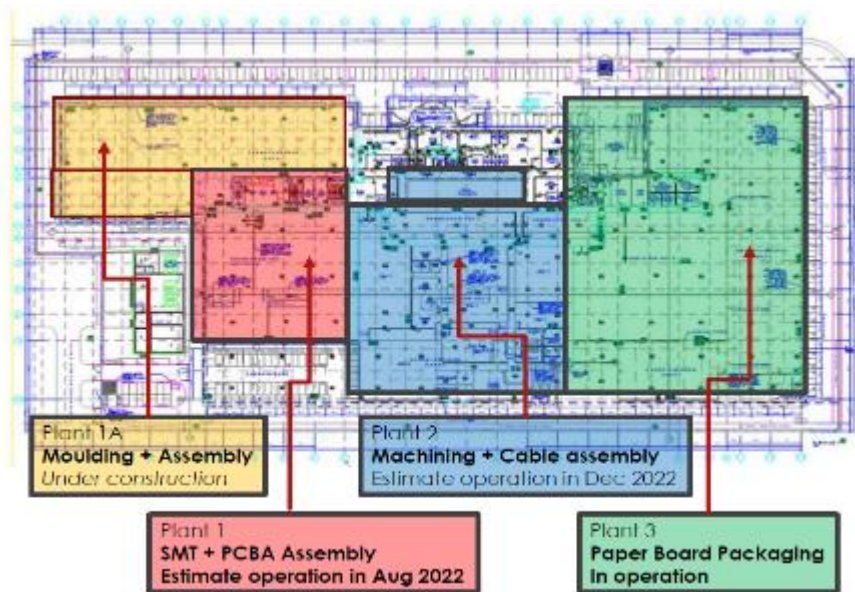
Source: Globe Newswire, RHB

Figure 3: Global aerospace parts manufacturing market size



Source: Grand View Research, RHB

Figure 4: YBS' Penang Science Park factory plants



Source: Company

Figure 5: Key segments served

	Aerospace & Security	Automotive & Transport	Telecom. & IT	Office & Home Appliances	Semiconductor & Life Sciences
Category	Signal + Energy Connection Component	Power + Data Transmission Components	Cloud Storage + Highspeed Connectivity Components	Renewable Power Management System	Final Testing Pallets
Product					

Source: Company

Financial Overview And Valuation

Results highlights. YBS reported 1QFY23 revenue of MYR 20.2m (-0.4% QoQ, +1.76% YoY). The softer QoQ sales is mainly due to a shortage of key components (namely high-end chips) by customers, resulting in customers postponing the order delivery. It is also attributable to seasonality as the group's 1Q-2Q sales are usually softer than 3Q-4Q sales. As a result of the decreased revenue, it recorded a lower net profit of MYR2.1m as compared to the preceding quarter of RM2.7m.

Despite flat YoY sales growth, net profit jumped 127.7% YoY, due to better product mix, mainly driven by higher mix of high-margin telco-related and EV-related products. Net margin improved to 10.4% (1QFY22: 4.2%) on recovery in economies of scale and production of higher value-added products.

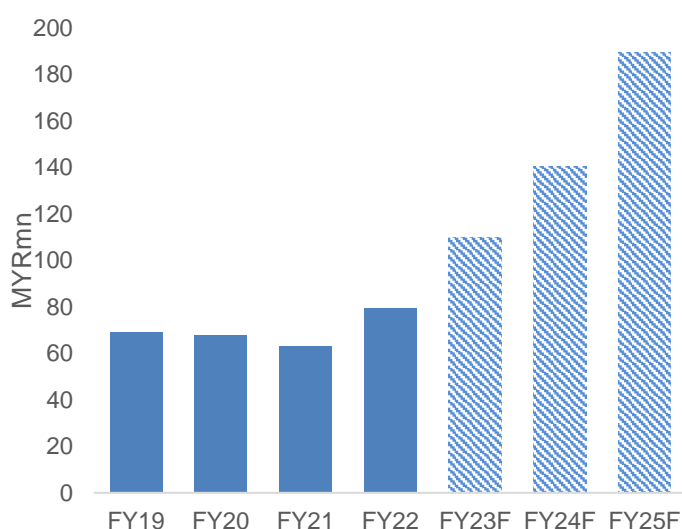
Balance sheet/cash flow. YBS has a net gearing ratio of 0.48x as at FY22. There are additional borrowings of MYR18m in FY22 as compared to FY21. The borrowings were mainly attributable to renovation and extension of factory building projects as part of the group's expansion plan. It continued to generate healthy cash flow from its operating activities with a net cash of MYR4.6m in FY22.

Dividends. YBS has not paid dividend since 2018 to conserve cash for capital expenditure. Management expects to resume dividend payments from FY23F. We are assuming a dividend payout ratio of 20% on PAT and hence, forecasting a dividend yield of 1% and 1.7% in FY23F and FY24F.

Earnings forecasts. With its additional production capacity and higher orderbook, we are projecting a 3-year revenue CAGR of 42.2%. YBS is in the midst of ramping up capacity progressively with two years of secured orderbook. It has also just started mass production of the corrugated paper packaging business in Aug 2022, and hence, we expect higher sales growth from its paper packaging segment in the near term. Production of higher value-added products and solutions should continue to support margin expansion as shown in the past results where EBITDA margin improved to 17.2% in FY22 from 9.6% in FY20. As sales increase progressively leading to improved operating leverage and economies of scales, we are forecasting a 3-year earnings CAGR of 49.8%. The magnitude of growth should exceed industry growth rates due to its aggressive expansion plans, resulting in higher capacity and capabilities.

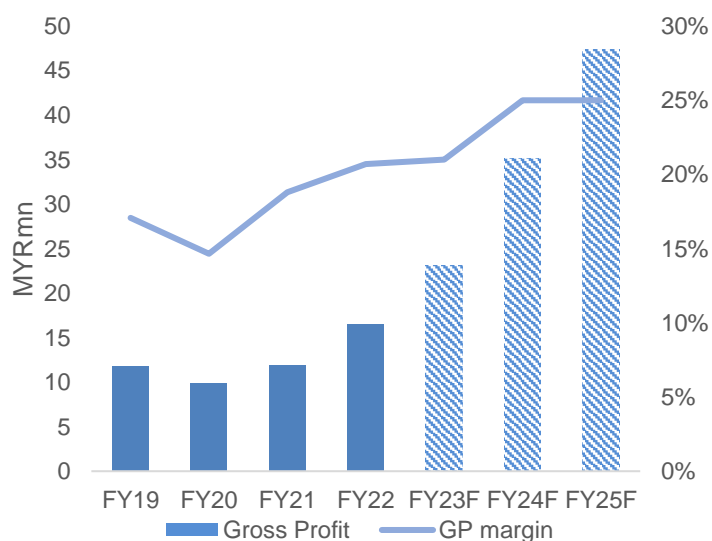
Fair value. We ascribe a 17x FY24F P/E to YBS, a 15% discount from 20x P/E, which we ascribe to other precision machining peers including DUFU and CORAZA due to its smaller market capitalisation. Nevertheless, we do not discount the possibility of a higher valuation being ascribed, should the group achieve stronger-than-expected earnings growth going forward, or migrate to the Bursa Malaysia Main Board.

Figure 6: Revenue trend



Source: Company data, RHB

Figure 7: Core profit trend



Source: Company data, RHB

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Figure 8: Peer comparison

Company	Country	FYE	Mkt Cap (USDm)	Price	P/E (x)			Div. Yld (%)	ROE (%)	EV/ EBITDA	NP Growth (%)		PEG
				4 Nov-22 (Local Currency)	Actual	1 Yr Fwd	2 Yr Fwd	1 Yr Fwd	1 Yr Fwd	1 Yr Fwd	1 Yr Fwd	2 Yr Fwd	
YBS International	MA	Mar	34.5	0.65	23.3								
Peers													
SFP Tech Holdings	MA	12/2022	267.9	1.59	57.2	41.2	31.6	0.5	22.3	34.7	38.7	30.4	1.0
UWC	MA	07/2023	842.0	3.63	33.5	31.5	26.5	0.6	21.1	22.0	6.2	18.8	1.4
Dufu Technology Corp	MA	12/2022	190.9	1.71	10.7								
Wong Engineering Corp	MA	10/2022	19.7	0.38	8.0								
Coraza Integrated Technology	MA	12/2022	56.8	0.63	18.3	17.0	13.0	1.4	21.5	9.9	7.7	30.6	0.4
Notion VTEC	MA	09/2022	32.6	0.30	-17.2								
JCY International	MA	09/2022	55.6	0.13	-6.5								
Mkt. Cap Weighted Avg.			562.9		31.3	33.0	27.0	0.6	21.4	24.3	13.7	22.0	1.3
Simple Avg.			209.4		14.9	29.9	23.7	0.9	21.6	22.2	17.5	26.6	1.0
Regional													
Frencen Group	SG	12/2022	265.8	0.9	6.1	6.9	6.1	4.3	70.7	4.2	-11.9	12.7	0.5
Kunshan Kersen Science & T-A	CH	12/2022	579.5	7.5	10.1								
Mkt. Cap Weighted Avg.			480.9		8.9	6.9	6.1	4.3	70.7	4.2	-11.9	12.7	0.5
Simple Avg.			422.7		8.1	6.9	6.1	4.3	70.7	4.2	-11.9	12.7	0.5

Source: Bloomberg, RHB

Figure 9: Operating metrics

Company	Revenue 3-year CAGR	Net Profit 3-year CAGR	Gross Profit Margin	EBITDA margin	Net profit margin	Net gearing (Latest)
YBS International	1.2%	170.1%	20.7%	16.9%	7.8%	49.2
Regional						
SFP Tech Holdings	22.2%	27.9%	53.8%	54.5%	38.5%	18.6
UWC	36.3%	50.7%		42.4%	30.9%	Net Cash
Dufu Technology Corp	13.5%	12.4%		29.0%	20.9%	Net Cash
Wong Engineering Corp	11.5%	5.6%	25.7%	22.3%	12.2%	Net Cash
Coraza Integrated Technology	23.7%	55.0%	28.6%	19.1%	12.1%	45.5
Notion VTEC	11.3%	-154.8%	11.2%	7.1%	-2.2%	11.2
JCY International	-8.8%	-31.9%	-1.4%	1.4%	-3.4%	Net Cash
International						
Kunshan Kersen Science & T-A	7.0%	25.1%	16.8%	12.8%	7.7%	Net Cash
Frencen Group	19.9%	43.6%	18.3%	13.3%	8.9%	44.9
Mkt. Cap Weighted Avg.	16.5%	27.9%	13.2%	17.9%	11.8%	
Simple Avg.	14.3%	0.7%	16.5%	18.4%	10.9%	

Source: Bloomberg, RHB

Company Overview

YBS is principally engaged in high precision mould, high precision metal, plastic components and sub-components assembly. The group aimed to be a reputable global source for precision connector solutions with its innovative approach in design, and processing methods, using the latest technology.

The group's business segments comprise of the following:

- i. **Precision engineering and plastic injection moulding (30.9% of FY22 revenue):** Involved in the design and manufacture of high precision moulds, tools and dies, jigs and fixtures, plastic injection moulding and sub-assembly;
- ii. **Precision machining and stamping (63.3% of FY22 revenue):** Involved in the manufacture and sale of precision machining and stamping components for the telecommunications, industrial sensors, switches, electronic equipment and other industries as well as the provision of related specialised engineering services;
- iii. **Electronic manufacturing services (0.7% of FY22 revenue):** Involved in the manufacture and assembly of electronic components;
- iv. **Paper products (5.1% of FY22 revenue):** Involved in the manufacture of paper honeycomb products.

Figure 10: End products from precision engineering and plastic injection moulding



Source: Company

Figure 11: Cable and connector assembly products



Source: Company

Figure 12: End products from precision machining and stamping



Source: Company

Figure 13: PCBA from the EMS segment



Source: Company

Figure 14: Paper pallets, paper cartons, paper honeycomb products from the paper packaging division

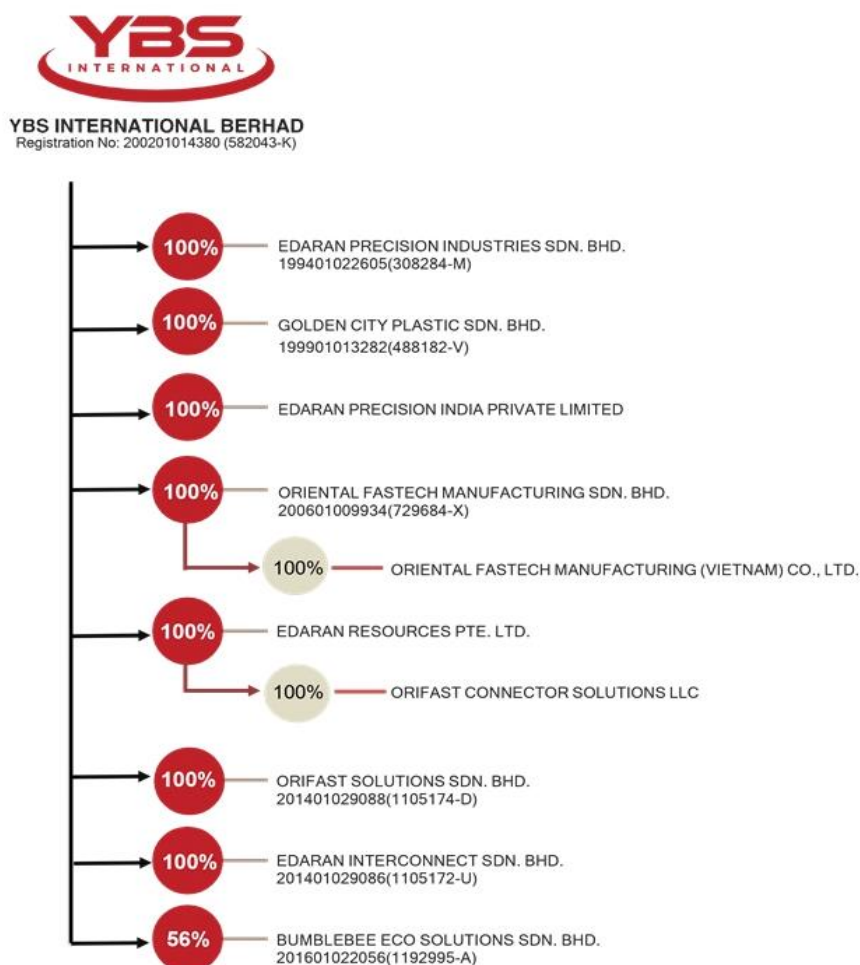


Source: Company

Over the years, YBS has diversified its core businesses comprising high precision engineering and plastic injection moulding services to include the precision machining and stamping as well as electronic manufacturing services segments. In 2017, the group further expanded its activities to manufacturing paper honeycomb products.

Currently, YBS has seven manufacturing operations, of which three are located in Johor, two in Penang, one in Ho Chi Minh City, Vietnam and one in Kerala, India. For a more effective marketing network, it has also set up marketing offices in the US and Singapore to explore and penetrate new markets.

Figure 15: Corporate structure



Source: Company

YBS is led by an experienced management team. Managing Director Yong Chan Cheah has over 18 years of experience in the marketing of metal and plastics components. Yew Li Fang, the finance manager is responsible for financial reporting, statutory reporting, corporate governance, and risk management. They are supported by the rest of the senior management team, who all have over 20 years of experience in the field.

Figure 16: Key shareholders

Key Shareholders	Direct	%
Cheah Jik Capital	36,247,579	14.4
Indowang	36,247,578	14.4

Note: Company Annual Report FY22

Source: Company data

Key Risks

Shortage of manpower. As YBS is expanding its production floor space together with manufacturing lines progressively in Malaysia and other South East Asian countries, sourcing more manpower to match its higher production needs is inevitably important for the group. From 2017 to 2019, it has been implementing automation and robotic manufacturing lines to reduce manpower by 300 workers. In addition, there is also an online or real time system – Enterprise Resources Process (ERP) II to reduce the workload.

Currently, YBS has about 700 manpower with more than 100 engineers. It is looking to hire another 600 more workers locally and from overseas in the next 2-3 years to capture higher orders from both existing and new customers. Intensive training is also given to newly hired technicians.

Shortage of key components. As YBS only manufacture parts for end customers, any shortage of key components for the end product will have an impact on the shipment to customers. There has been some high-end component (chip) shortage at the end customer side. Although its orderbook and capacity are ready, there could be a controlled slowdown in shipment by the customer. Hence, product mix might adjust according to material available.

Dependence on few major customers. The group is dependent on a few major customers for a significant portion of its revenue. The ability to retain the major customers and attract new customers is essential for its continued growth. Management guided to intensify efforts to develop its new customer base and explore different product segments to reduce its dependence on the major customers. It will also focus on upgrading to new technologies, machineries and equipment as well as the practice of stringent quality management to fulfill customer requirements.

Political, economic and regulatory risks. Any adverse political and economic conditions and regulatory developments in Malaysia and other countries where the group operates could negatively effect on its financial performance. Political and economic uncertainties include but are not limited to:

- i. The risk of war;
- ii. Changes in political leadership;
- iii. Global economic downturn;
- iv. Unfavourable changes in government policies that comprise interest rates, method and rate of taxation, currency exchange control or introduction of new regulations, import duties and tariffs.

Hence, the group will continue to adopt measures such as prudent management and efficient operating procedures to mitigate any negative impact and optimise outcomes. It expects the operating and business environment for the industry to be very volatile and challenging in the coming financial year.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-11-08			

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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