

Investment Idea



21 September 2022

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VSTECS Bhd

The leading ICT products distributor

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VSTECS distributes a comprehensive range of ICT products supported by a nationwide network of more than 4,600 resellers comprising of retailers, system integrators and corporate dealers. The company also provides value-added product support and technical services. We expect VSTECS to register net earnings of RM58.5m and RM65.1m for FY22 and FY23 respectively. **BUY** with a target price of RM1.63 based on 9x PER (3-year average) over FY23 EPS, premised on: (i) pent-up consumer demand for ICT products following the reopening of economy; (ii) growing cloud subscription and managed services under ICT Services segment to increase recurring earnings visibility; plus attractive dividend yields of 5.5% and 6.1% for FY22 and FY23 respectively.

VSTECS business segments comprise of (i) ICT Distribution; (ii) Enterprise System; and (iii) ICT Services. Over the years, VSTECS has been distributing IT hardware and software to over 4,600 resellers throughout Malaysia. With more than 160 personnel in sales, marketing, and support, the Company has a nationwide distribution network to serve resellers throughout Malaysia. As one of Malaysia's largest ICT product distributors, the company specialises in the marketing and distribution of many prestigious and leading brands of ICT products, namely, Apple, Asus, Dell, Epson, HPE, HPI, Huawei, Intel, Microsoft and many more. Management guided a shorter replacement cycle for devices should continue to bolster this segment.

VSTECS expects its enterprise services segment to be the key growth area. The company stands to benefit from both front end through distribution of 5G enabled devices and back end through network infrastructure opportunities. Meanwhile, growing cloud subscription and managed services under ICT Services segment to increase recurring earnings visibility. For public cloud, VSTECS is selling subscriptions for Microsoft Azure to customers such as Heitech Padu and Mesiniaga. As for the ICT Services, VSTECS manages more than 15 flagship stores on Lazada and Shopee, fulfilling its customers' needs for ICT products such as ink cartridges, printers, LCD screens, desktops and notebooks.

In its recent quarterly results, VSTECS 2QFY22 net earnings jumped 31% YoY to RM13m attributed to higher product demand within the Enterprise Systems Segment and ICT Services Segment. Balance sheet is strong with net cash of RM60.3m. We forecast VSTECS to pay dividend of 5.7sen and 6.3sen for FY22 and FY23 respectively based on payout ratio of 36%, translating into yields of 5.5% and 6.1% respectively.

Technically Speaking

Resistance level	RM1.14
Support level	RM1.03

**BUY**

Price: **RM1.07**
Target price: **RM1.63**



KLCI	1,461.1
YTD FBM KLCI change	-6.8%
YTD FBM SC Index change	-9.3%
YTD stock price change	-13.4%

Stock Information

Market Cap (RM'm)	381.5
Issued Shares (m)	356.56
52-week range (H)	1.45
52-week range (L)	0.99

Major Shareholders

VSTECS Holdings LTD	43.1%
Sengin SB	12.2%
Dasar Technologies SB	8.6%

Summary Earnings Table

FY Dec (RM'm)	2020A	2021A	2022F	2023F
Revenue	2,017.5	2,625.8	2,967.2	3,234.2
EBITDA	45.5	72.1	80.9	89.6
Pretax profit	48.5	74.4	79.1	87.9
Net profit	36.8	55.0	58.5	65.1
Core net profit	36.8	55.0	58.5	65.1
Consensus	-	-	125.0	103.0
Core EPS (sen)	10.3	15.4	16.3	18.1
EPS growth (%)	24.7%	49.5%	5.6%	11.1%
DPS (sen)	3.5	5.6	5.9	6.5
PER (x)	10.4	6.9	6.6	5.9
BV/Share (RM)	0.93	1.04	1.15	1.26
ROE (%)	11.5%	15.5%	16.4%	15.0%
Div. Yield (%)	3.2%	5.3%	5.5%	6.1%

Sources: Company, Rakuten Trade Research



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COMPANY	Definition
Buy	The stock return is expected to exceed the KLCI benchmark by more than 10% over the next 6-12 months.
Trading Buy	Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 10% over the next 3-6 months. Trading Buy is generally for investors who are willing to take on higher risks.
Take profit	The stock return previously recommended has gained by >10%
Hold	The stock return is expected to be in line with the KLCI benchmark (+/- 5%) over the next 6-12 months.
Sell	The stock return is expected to underperform the KLCI benchmark by more than 10% over the next 6-12 months.
SECTOR	
Overweight	Industry expected to outperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Neutral	Industry expected to perform in-line with the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Underweight	Industry expected to underperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.

Scoring model:

The in-house scoring model is derived from Rakuten Trade Research valuation matrix based on earnings growth, earnings visibility, business model, valuation, balance sheet, technical analysis, and shareholder value creation. Each parameter is given a specific weighting.

All buy calls are based on the research team's judgement. Investing is risky and trading is at your own risk. We advise investors to:

- read and understand the contents of the disclosure document or any relevant agreement or contract before investing;
- understand the risks involved in relation to the product or service;
- compare and consider the fees, charges and costs involved; and
- make your own risk assessment and seek professional advice, where necessary.

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