

# VSTECs sees better days, steadies ship with diversified portfolio

BY LIEW JIA TENG

Main Market-listed technology firm VSTECs Bhd has been a proxy for the growing information and communications technology (ICT) spending over the past three years, owing to the digital imperative drive accelerated by the Covid-19 pandemic.

The information technology (IT) hardware and software distributor saw its earnings double from RM29.6 million in the financial year ended Dec 31, 2019 (FY2019) to RM59.7 million in FY2022.

VSTECs' sturdy financial performance was attributed to strong consumer buying trends, which drove growth at the group's ICT distribution segment, as well as the ramp-up in digitalisation efforts by businesses, which propelled its enterprise systems division.

Following a strong period of sales during the pandemic, however, the Malaysian personal computer (PC) market started to decline in the second half of 2022 as demand normalised.

Nevertheless, VSTECs executive director and CEO Soong Jan Hsung remains unfazed as the group has a comprehensive portfolio across consumers and enterprises, noting that its complementary business segments could capitalise on different business cycles.

"With the new and increasing portfolio, coupled with the growing enterprise segment, the government pushing for further digitalisation and replacement cycle kicking in for the ICT distribution, things are looking positive in all angles for us," Soong, 59, tells *The Edge* in an interview.

As VSTECs is a leading ICT player in Malaysia, Soong believes the company will be able to capitalise on these opportunities to continue growing and improving its financial performance.

"Our network and channels have been built over three decades and it will be very tough for any new entrants to come in over the short term. Our profits have almost doubled over the last three years and we believe the best is yet to come," he says.

Soong, who was appointed director in 1997, has more than 30 years' experience in the ICT distribution market.

He recalls that during the Covid-19 lockdowns in 2020 and 2021, people were rushing to buy smart devices and upgrade their broadband plans because of remote working.

As the world returned to normalcy in the post-Covid-19 era, however, the demand for consumer electronic products moderated in the second half of last year.

"Having said that, our sales volume for PC, notebook and tablets remained at over 50% above pre-pandemic levels (FY2022 versus FY2019). To us, the ICT distribution business is very much a replacement market," he says.

On average, he adds, one person will buy a new notebook only once every three to four years.

"So, three years since the pandemic, I believe the demand for consumer products will start to regain momentum over the next two years when the replacement cycle kicks in," Soong says.

VSTECs was co-founded by the late Foo Sen Chin and the late Datuk Teo Chiang Quan in 1986, following a management buyout of VSTECs KU Sdn Bhd.



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The company, which started as a small peripherals distributor, grew rapidly to become one of the largest ICT product distributors in the country. In 2010, the company — then known as ECS ICT Bhd — was listed on Bursa Malaysia.

In 2021, VSTECs faced the loss of both its founders. Teo, the company's first chairman from 2010 to 2015, died in May at the age of 72 after a short illness. About six months later, Foo passed away at the age of 73.

## Higher contribution from enterprise systems

VSTECs distributes a comprehensive range of ICT products to more than 40 principals through a nationwide network of more than 4,600 resellers comprising retailers, systems integrators and corporate dealers.

For many years, VSTECs' ICT distribution division had been the main contributor to the group's revenue. Since FY2022, however, its enterprise systems division had overtaken the ICT distribution division as the largest contributor, making up 58% of the group's gross profit and 61% of its profit before tax.

Soong expects its enterprise systems division to continue to take the lead in the near future, until the next ICT replacement cycle kicks in, which will lift the financial performance of VSTECs' ICT distribution division.

"Our strategy of building the enterprise business five years ago has now started to bear fruit and complements the ICT distribution business, as the [respective] cycles can counterbalance each other," he explains.

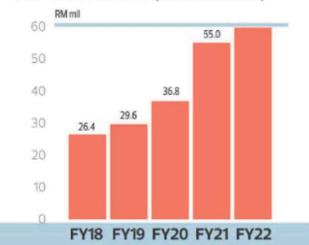
During the pandemic, VSTECs also saw a surge in demand for cloud services. In 2021, the group accelerated its cloud business, which has subsequently started to yield positive results for its enterprise systems division.

## A solid track record

Revenue CAGR of 14% (2018 to 2022)



PAT CAGR of 24% (2018 to 2022)



"The world is facing a chip shortage, which means enterprises do not have sufficient hardware equipment to run their applications. So, what did they do? They had to find alternative ways. And migrating to the cloud is the most sensible way. We came into the cloud space at the right time," Soong says.

Currently, VSTECs' cloud segment, which is under the enterprise systems division, is making only single-digit contributions to the group.

"We expect our cloud segment to contribute 15% to 20% of the group's revenue in the next five years. By then, we should be able to classify it into a separate business division. The overall business environment is very conducive," he says.

VSTECs has been selling cloud services for hyperscalers, or large cloud service providers, including the likes of Microsoft Azure and Alibaba Cloud. As such, the group hopes to secure more distributorships from other public cloud providers.

"Currently, we employ a dozen cloud engineers. We will have to grow our cloud team according to our business needs. We see a lot of opportunities among the hyperscalers, which had been selling their products directly to their end-customers but have now decided to scale up their businesses by engaging distributors like us," says Soong.

VSTECs is an associate of VSTECs Holdings (Singapore) Ltd, one of the largest ICT distributors in Asia-Pacific, and held by Hong Kong-listed VSTECs Holdings Ltd.

As at March 16, VSTECs was 43.47%-owned by VSTECs Holdings (Singapore), 12.39%-owned by Foo's widow Lee Marn Fong @ Wu Marn Fong and 8.63%-owned by Dasar Technologies Sdn Bhd. Other prominent shareholders include Tokyo-listed IT firm Melco Holdings Inc and Kenanga funds.

So far this year, shares in VSTECs had gained 17 sen, or 14%, to settle at RM1.35 last Wednesday, giving it a market capitalisation of RM486 million. The counter is currently trading at a historical price-earnings ratio (PER) of eight times, while offering a dividend yield of 5%.

## Venturing into power solutions market

As data centres have become more critical to the operations of businesses and organisations, the demand for reliable and continuous power supply has also increased.

On March 22, VSTECs announced that the group was authorised to distribute Schneider Electric's uninterruptible power supply (UPS) devices, sold under its flagship brand, APC, an industry leader in physical infrastructure and software solutions.

Soong highlights that power solutions and UPS are important and represent a significant market in the data centre industry.

"This year, we will be entering the power solutions market. This is highly complementary to the core offerings of VSTECs' enterprise systems segment, where our clients require a reliable and uninterrupted power supply to ensure continuous operation of their mission-critical IT infrastructure," he stresses.

For the longest time, says Soong, VSTECs never supplied power-related products to its customers, whereas the UPS systems and equipment manufacturers had been selling their products through the electric power distributors.

"But now, VSTECs will be going into this space from the IT perspective. We have close to 5,000 resellers, about 2,000 of which are systems integrators, which have been supplying IT equipment for servers and storage. It will be very synergistic if we could ask them to sell UPS products as well because they are serving the same customer base anyway," he points out.

On top of UPS, VSTECs will also be covering the renewable energy (RE) and electric vehicle (EV) charging businesses in the power solutions space.

"VSTECs also wishes to play a role in the RE space. Today, data centres around the world are consuming huge amounts of electricity. There are many hyperscalers investing in data centre infrastructure in Malaysia and this is where we see the opportunity," Soong says.

As regional data centres are expected to flock to Malaysia in a big way, Soong says other than supplying the ICT products and offering enterprise systems to its customers, the group also intends to sell power solutions and green energy products.

"We could help data centres measure their power usage and we could offer intelligent green solutions such as portioning out certain parts to RE. We could also install solar panels on the roof of data centres to capture the power for daily consumption, which could help them save on their electricity bills, or to store the energy in the UPS, which is essentially a battery backup," he notes.

In a nutshell, says Soong, VSTECs' smart power supply solutions could help data centres go greener. "We also expect that in the coming years, everybody will need an EV charger at home. We believe EV chargers are the next big thing. It will become a consumer product."

Soong adds that despite the product portfolio diversification, VSTECs is not going into uncharted territory.

"Yes, it is a greenfield, but this is still our turf because we are selling value-added power solutions to IT-related clients and increasing our value proposition," he says.