

COMPANY RESULTS

VSTECs (VST MK)

1H24: Within Expectations; Expecting A Stronger 2H24

While VSTECs's 1H24 results only accounted for 40% of our full-year estimate, we deem the results to be within expectations as we anticipate stronger earnings in 2H24, driven by: a) higher contributions from Starlink and VMware, b) the rollout of AI PCs by 2H24, and c) a seasonally stronger performance in 2H24. Additionally, the group has been appointed as the sole distributor for the Google Pixel 9 range of smartphones with AI features in Malaysia. Maintain BUY. Target price: RM5.02.

2Q24 RESULTS

Year to 31 Dec (RMm)	2Q24	qoq% chg	yoy % chg	1H24	yoy % chg
Revenue	624.39	1.30	2.56	1,240.76	(2.57)
Gross Profit	37.50	(1.35)	5.06	75.51	2.59
EBITDA	18.82	5.50	(5.99)	36.65	(6.92)
EBIT	17.98	5.74	(6.65)	34.98	(7.60)
PBT	20.18	6.94	(2.66)	39.05	(3.87)
Tax expense	(4.93)	8.47	(2.91)	(9.48)	(6.34)
PATAMI	15.25	6.46	(2.58)	29.57	(3.05)
Core PATAMI	15.22	7.39	(2.80)	29.39	(3.82)
Margins (%)	qoq ppt chg	yoy ppt chg	yoy ppt chg		
Gross Profit	6.01	(0.16)	0.14	6.09	0.31
EBITDA	3.01	0.12	(0.27)	2.95	(0.14)
PBT	3.23	0.17	(0.17)	3.15	(0.04)
Core Net Profit	2.44	0.14	(0.13)	2.37	(0.03)

Source: VSTECs, UOB Kay Hian

RESULTS

• **Within expectations.** VSTECs' 2Q24 core net profit came in at RM15.2m (-3% yoy, +7% qoq). The sequential growth was mainly due to higher sales from ICT distribution and enterprise systems alongside a lower impairment of financial instruments. Meanwhile, the yoy drop in earnings was mainly due to higher operating expenses (+7.4%) and lower total forex fair value gain. Notably, 1H is also seasonally weaker for VSTECs. This brings 1H24 core net profit to RM29.4m (-4% yoy), accounting for 40% of our full-year estimates, and we deem the results within expectations. We expect a stronger 2H24 which will be anchored by: a) accelerated adoption of Starlink, b) stronger contribution from VMware under the new agreement, c) roll out of AI PCs by 2H24 to boost information and communications technology (ICT) demand, and d) seasonally stronger consumer and enterprise spending in 2H24.

KEY FINANCIALS

Year to 31 Dec (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	2770.6	2727.2	3035.6	3413.8	3868.3
EBITDA	79.5	82.7	89.0	111.8	135.9
Operating profit	76.6	79.6	92.2	113.4	136.9
Net profit (rep./act.)	59.7	67.4	72.9	89.5	107.9
Net profit (adj.)	59.4	62.0	72.9	89.5	107.9
EPS (sen)	16.7	17.4	20.4	25.1	30.3
PE (x)	24.0	23.0	19.6	15.9	13.2
P/B (x)	3.5	3.1	2.8	2.6	2.3
EV/EBITDA (x)	17.5	15.8	14.7	11.5	9.4
Dividend yield (%)	1.6	1.7	1.8	3.1	2.6
Net margin (%)	2.1	2.3	2.4	2.6	2.8
Net debt/(cash) to equity (%)	(8.1)	(25.7)	(23.1)	(25.2)	(25.4)
Interest cover (x)	151.4	62.7	72.6	89.4	107.8
ROE (%)	14.5	14.8	14.5	16.3	17.4

Source: VSTECs, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM3.52
Target Price	RM5.02
Upside	+42.6%

COMPANY DESCRIPTION

VSTECs Berhad, is the leading distributor of ICT products to consumers and enterprises in Malaysia. Founded in 1985, the Group distributes a wide range of ICT products to both consumer and enterprise and provides IT services in the form of pre-sales, integration, and post-sales in support of the brands represented.

STOCK DATA

GICS sector	ICT Distributor
Bloomberg ticker:	VSTECs MK
Shares issued (m):	356.6
Market cap (RMm):	1,255.2
Market cap (US\$m):	283.6
3-mth avg daily t'over (US\$m):	1.2

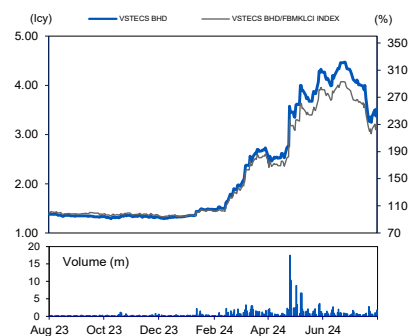
Price Performance (%)

52-week high/low	RM4.52/RM1.28			
1mth	3mth	6mth	1yr	YTD
(18.7)	4.1	139.5	155.1	164.7

Major Shareholders

	%
VSTECs Holding Ltd	45.6
Sengin Sdn Bhd	12.2
Dasar Technologies Sdn Bhd	8.6
2023 NAV/Share (RM)	1.22
2023 Net Cash/Share (RM)	0.42

PRICE CHART



Source: Bloomberg

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- 1H24 sales dropped 3% yoy** due to lower public sector enterprise projects sales but was mitigated by some recovery from consumer sales. Core net profit dropped 4% yoy in tandem with lower sales, higher operating expenses (+6.4% yoy) and lower total forex fair value gain. Note that the higher operating expenses was partially due to increased staff costs arising from absorbing service personnel from VMware under the new distributorship agreement.
- New distributorship with Google marks debut of AI smartphones in Malaysia.** VSTECS has been appointed as the sole distributor for the highly anticipated Google Pixel 9 range of smartphones in Malaysia. This includes the Pixel 9 phones, Pixel Watch 3, and Pixel Buds Pro 2. The new Pixel 9 phones, equipped with Google Gemini AI capabilities, offer access to all of Google's unique AI-powered experiences. We believe this new distributorship, along with the earlier partnership with Starlink, will significantly boost its ICT distribution growth beyond traditional ICT products. Furthermore, the anticipated rollout of AI PCs in 2H24 is expected to further accelerate ICT distribution growth.

STOCK IMPACT

- Margin and market share expansion through new distributorship agreement with VMware.** Under the new agreement, VSTECS will now have a 100% market share for the distribution of VMware solutions in Malaysia (from 50% previously) with improved margins from service components. Additionally, VSTECS will expand its role to provide technical support capabilities for select products and customers. We gathered that 20-30% of the VMware solution distribution will potentially translate to post-sales ICT services, which typically have better margins. With these factors in play, management expects the contribution from VMware to grow by multiple legs, despite having to incur talent acquisition cost from absorbing service personnel.
- Potential order from colocation DCs for IT equipment.** This order has yet to be reflected in our valuation. VSTECS targets the colocation DCs market, which typically secures its IT equipment from distributor like VSTECS. According to C_TEC and the US Chamber of Commerce, approximately 73% of initial DC capex is attributed to IT equipment. Based on our channel checks, the estimated cost of IT equipment per megawatt (MW) is RM40m-50m. With 200MW of colocation DCs currently under construction, this presents a total addressable market of around RM10b. It is worth noting that VSTECS holds a market share of 50% in the enterprise systems distribution in Malaysia, indicating a significant opportunity in this blue-ocean market segment. Note that the majority of colocation DCs in Malaysia are still in the construction and mechanical and electrical (M&E) phase. VSTECS has already engaged in this phase by providing UPS systems and smart cooling systems. Typically, this phase takes 1-2 years to complete before transitioning to the installation of IT equipment.

VALUATION/RECOMMENDATION

- Maintain BUY with an unchanged target price of RM5.02**, based on 20.0x 2025F PE. Given the lack of local listed peers for valuation benchmarking, we use a 1.0x PEG ratio (compared with 2.0x PEG ratio which is the average peak PEG valuation of tech names during the 2021 tech run), reflecting a three-year net profit CAGR of 20% from 2023. The booming DC industry in Malaysia, reminiscent of the tech bull cycle in 2021, supports this valuation.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<ul style="list-style-type: none"> Environmental <ul style="list-style-type: none"> Electricity withdrawal from main grid reduced by 20% yoy in 2023. Solar power constituted 41% of total electricity consumed in 2023. 26% reduction in paper consumption. Social <ul style="list-style-type: none"> Maintaining a 50% male-female composition among total employees. The group recorded zero work fatalities over the past nine years. 100% local employees. Governance <ul style="list-style-type: none"> Zero confirmed corruption or harassments cases reported. Zero fines or penalties from regulatory authorities.

KEY PRINCIPAL RELATIONSHIPS

STRONG PRINCIPAL RELATIONSHIPS



Source: VSTECS

INDUSTRIES SERVED AND JOB SCOPE

INDUSTRIES	%	SCOPE
Financial Services	22%	Cloud, Enterprise Software, Cybersecurity
Telco	20%	Telco Equipment, DC & Network Infra
Public sector	18%	DC, Network Infra & Cybersecurity
Education	12%	Client Computing
Energy	10%	Enterprise Software, Client Computing
Healthcare	8%	DC, hyperconverged computing
Transportation	5%	DC & Network Infra & Cybersecurity
Others	5%	Various

Source: VSTECS

DC PRODUCTS AND SOLUTIONS

DC PRODUCTS & SOLUTIONS	
NETWORKING <ul style="list-style-type: none"> Highly scalable up to 400 AI Machine Learning ready Leaders in DC Networking Fast deployment and simple O&M 	
CYBER SECURITY <ul style="list-style-type: none"> Next generation firewall Multi-layered segmentation Full layer 7 protection against malware Leaders in magic quadrant for firewalls 	
SERVERS <ul style="list-style-type: none"> Nvidia certified GPU servers Accelerated computing, energy efficiency Direct water-cooling server 	
STORAGE <ul style="list-style-type: none"> Full flash/hybrid mode available High service, fault tolerant Integration with backup software 	
SOFTWARE <ul style="list-style-type: none"> Virtualisation, resource optimisation High availability, disaster recovery Cloud integration, near-genAI 	
ENERGY <ul style="list-style-type: none"> Modular data center systems Digital control lithium power UPS Smart cooling system 	

Source: VSTECS

PROFIT & LOSS

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Net Turnover	2,727.2	3,035.6	3,413.8	3,868.3
EBITDA	82.7	89.0	111.8	135.9
Depreciation & Amortisation	(3.1)	(3.1)	(1.6)	(1.0)
EBIT	79.6	92.2	113.4	136.9
Associate Contributions				
Net Interest Income/(Expense)	(1.3)	(1.3)	(1.3)	(1.3)
Pre-tax Profit	82.8	95.9	117.8	142.0
Tax	(15.4)	(23.0)	(28.3)	(34.1)
Minorities	0.0	0.0	0.0	0.0
Net Profit	67.4	72.9	89.5	107.9
Net Profit (Adjusted)	62.0	72.9	89.5	107.9

CASH FLOW

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Operating	107.6	25.6	67.4	58.1
Pre-tax Profit	82.8	95.9	117.8	142.0
Tax	(22.8)	(23.0)	(28.3)	(34.1)
Depreciation & Amortisation	1.7	3.1	1.6	1.0
Associates	0.0	0.0	1.0	2.0
Working Capital Changes	49.4	(55.4)	(29.3)	(57.2)
Other Operating Cashflows	(1.8)	8.1	7.2	7.4
Investing	0.3	(1.0)	(1.0)	(1.0)
Capex (Growth)	(3.0)	(1.0)	(1.0)	(1.0)
Investments	0.0	0.0	0.0	0.0
Proceeds from Sale of Assets	0.1	0.0	0.0	0.0
Others	3.1	0.0	0.0	0.0
Financing	(3.6)	(25.6)	(44.8)	(37.8)
Dividend Payments	(22.1)	(25.5)	(44.8)	(37.8)
Issue of Shares	0.0	0.0	0.0	0.0
Proceeds from Borrowings	(0.8)	(1.3)	(1.3)	(1.3)
Loan Repayment	0.0	0.0	0.0	0.0
Others/Interest Paid	0.6	(0.1)	(0.1)	(0.1)
Net Cash Inflow (Outflow)	104.3	(1.0)	21.6	19.2
Beginning Cash & Cash Equivalent	46.6	150.9	149.9	171.4
Changes Due to Forex Impact	0.0	0.0	0.0	0.0
Ending Cash & Cash Equivalent	150.9	149.9	171.4	190.7

BALANCE SHEET

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Fixed Assets	3.7	1.6	1.0	1.0
Other LT Assets	57.1	57.1	57.1	57.1
Cash/ST Investment	150.9	149.9	171.4	190.7
Other Current Assets	600.3	674.8	759.2	860.5
Total Assets	812.0	883.3	988.7	1,109.2
ST Debt	2.5	1.7	1.7	1.7
Other Current Liabilities	315.6	326.7	378.6	420.4
LT Debt	0.0	0.0	0.0	0.0
Other LT Liabilities	4.1	4.1	4.1	4.1
Shareholders' Equity	456.4	503.8	548.6	618.7
Minority Interest	0.0	0.0	0.0	0.0
Total Liabilities & Equity	812.0	872.2	968.9	1,080.8

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
Profitability				
EBITDA Margin	3.0	2.9	3.3	3.5
Pre-tax Margin	3.0	3.2	3.4	3.7
Net Margin	2.3	2.4	2.6	2.8
ROA	8.3	8.3	9.1	9.7
ROE	14.8	14.5	16.3	17.4
Growth				
Turnover	(1.6)	11.3	12.5	13.3
EBITDA	4.0	7.6	25.6	21.5
Pre-tax Profit	3.4	15.8	22.8	20.5
Net Profit	13.0	8.1	22.8	20.5
Net Profit (Adjusted)	4.5	17.5	22.8	20.5
EPS	4.5	17.5	22.8	20.5
Leverage				
Debt to Total Capital	0.3	3.8	3.4	3.0
Debt to Equity	0.0	6.6	6.1	5.4
Net Debt/(Cash) to Equity	(25.7)	(23.1)	(25.2)	(25.4)
Interest Cover (x)	62.7	72.6	89.4	107.8

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