

### SMALL/MID CAP HIGHLIGHTS

#### VSTECs (VST MK)

The Key Supplier Of The Thriving Digital Revolution

**VSTECs, a leading distributor of ICT products and enterprise solution which registered a three-year CAGR core net profit of 22% in 2023, is reaping fruition from its inexorable expansion vertically and horizontally. On top of the organic growth from device refreshment cycle, it is enjoying low hanging fruit from the burgeoning data centre expansion and cloud migration in Malaysia. It is trading at 12.6x 2023 PE, an undemanding valuation which is at a 19% discount compared with peers.**

#### INVESTMENT HIGHLIGHTS

- Spearheading growth via portfolio expansion.** Since its inception as a distributor of personal computers in 1985, VSTECs has evolved into an established distributor of ICT products, enterprise systems and ICT services provider, boasting a diverse clientele base spanning various industries and encompassing near to 4,000 resellers and channel partners. VSTECs has achieved an uninterrupted profitability for the past 38 years by effectively managing a vast inventory of more than 100,000 SKUs. It has a market share of 50-60% of the brands it represents. Note that the group registered a record-high profit in its recently-concluded 2023 results on a robust three-year CAGR core net profit of 22%. Not resting its laurels, the group has been constantly forging strategic partnerships with global IT giants (about 50 brands principal) such as Apple, Nvidia, Intel, IBM, Microsoft and more, solidifying its position as a leading distributor in Malaysia.
- Diversified customer base with recurring income contribution.** VSTECs benefits from a diverse end customer base encompassing the retail market, financial, telecommunications, public sector, energy, and other sectors, with the top five clients contributing about only 25% of its revenue. This diversification ensures stability throughout economic cycles, supporting the company's solid financial performance. Additionally, VSTECs also has recurring income mainly derived from cloud subscriptions under Enterprise Systems and maintenance and support services under ICT services, constituting 6-7% of its 2023 revenue. According to management, VSTECs has secured distributorships with hyperscalers and is progressing well in terms of adoption. Due to the low base, we anticipate that the contribution of recurring revenue will gradually increase, driven by the strong adoption with a low penetration rate of cloud in Malaysia.
- Capitalising on Malaysia's data centre (DC) industry.** Notably, DC-related revenue contributes 40-50% of its enterprise services segment. According to Knight Frank Malaysia, there are over 40 DCs operating in Malaysia with capacities ranging at 100-150MW, and an additional capacity of 1,400MW anticipated over the next 5-10 years (excluding global hyperscalers' digital infrastructure companies) which present a blue ocean for VSTECs. Note that the group is always at the forefront in clinching distributorship on cutting-edge technology products. Given its undefeated strong reputation and track record in staying ahead of the curve in bringing in technology products to Malaysia, it has solidified its market share and charted steady growth over the past years.

#### KEY FINANCIALS

Year to 31 Oct (RMm)	2019	2020	2021	2022	2023
Net turnover	1802.3	2017.5	2625.8	2770.6	2727.2
EBITDA	39.1	47.4	73.4	79.5	82.7
Operating profit	36.1	44.2	70.6	76.6	79.6
Net profit (rep./act.)	29.6	36.8	55.0	59.7	67.4
Net profit (adj.)	29.6	36.8	55.0	59.7	67.4
EPS (sen)	8.3	10.3	15.4	16.7	18.9
PE (x)	28.3	22.8	15.2	14.0	12.4
P/B (x)	2.7	2.5	2.2	2.0	1.8
EV/EBITDA (x)	19.7	15.7	10.5	10.0	8.3
Dividend yield (%)	0.6%	0.5	1.9	1.0	0.9
Net margin (%)	1.6%	1.8	2.1	2.2	2.5
Net debt/(cash) to equity (%)	-22.2%	-28.3	-17.5	-9.5	-32.5
Interest cover (x)	68.6	362.0	325.4	151.4	62.7
ROE (%)	9.6%	11.0	14.6	14.5	14.8

Source: CLOUDPT, Bloomberg, UOB Kay Hian

### NOT RATED

Share Price	RM2.38
Target Price	n.a.
Upside	n.a.

#### 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 and provides IT services in the form of pre-sales, integration, and post-sales in support of the brands represented. The three key business segments are ICT Distribution, Enterprise Systems, and ICT Services.

#### STOCK DATA

GICS sector	Automation Maker
Bloomberg ticker:	VST MK
Shares issued (m):	356.6
Market cap (RMm):	848.6
Market cap (US\$m):	179.2
3-mth avg daily t'over (US\$m):	0.2

#### Price Performance (%)

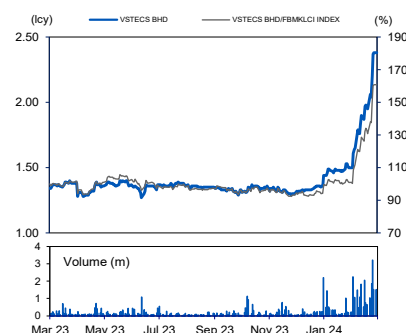
52-week high/low					
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>	
57.6	83.1	76.3	78.9	80.3	

#### Major Shareholders

	%
VSTECs Holding Ltd	44.9
Sengin Sdn Bhd	12.2
Dasar Technologies Sdn Bhd	8.6

FY23 NAV/Share (RM)	1.22
FY23 Net Cash/Share (RM)	0.42

#### PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- Revolutionised internet landscape in Malaysia with Starlink.** In Jan 24, VSTECS signed a Distribution Agreement with Starlink (a US unicorn valued at around US\$150b as of its share sale around Jun 23), to become its authorised distributor for the retail segment in Malaysia. VSTECS will distribute Starlink's hardware to provide internet connectivity to Tier 2, 3, and 4 cities, rural areas and East Malaysia, leveraging Starlink's low Earth orbit (LEO) satellites. This initiative aligns with the government's vision to achieve a 100% internet penetration rate in Malaysia. According to Malaysian Communications And Multimedia Commission, the fixed broadband penetration rate in Malaysia was around 50.6% as of 4Q23, indicating an untapped market of approximately 4.5m commercial and consumer customers. With the basic hardware of Starlink selling at RM2,300 each, this could translate to a total addressable market (TAM) of RM10.4b over the years.
- Resurgence of PC & notebook cycle in 2024.** According to IDC, global PC shipments are projected to increase in 2024 following a slump in 2023. We believe this signals the beginning of the demand cycle after the booming demand for PCs and notebooks in 2020 during the COVID-19 pandemic, as PCs and notebooks typically have a lifecycle of about four years. While soft demand for ICT consumer products is expected to continue in 1H24 due to an SST hike, we believe that the rollout of new AI chipset notebooks by both Intel and AMD in 2H24, alongside replacement cycles of endpoint devices, will help spur demand. Note that VSTECS holds a market share of 50-60% in Malaysia, thus enjoying better economies of scale compared with its competitors, resulting in better margins.

### EARNINGS REVISION/RISK

- None.

### VALUATION/RECOMMENDATION

- Not-rated.** Trading at 12.6x 2023 PE, while comparing its three-year CAGR core net profit of 22%, it is still trading at an undemanding valuation which is at 19% discount compared to peers, notwithstanding there are still many catalysts in play ahead (ie. DC, Cloud and Starlink penetration in Malaysia). With its foresight in building enterprise capability more than five years ago, it now possesses several growth engines to counter cyclicality to deliver consistent organic growth
- Re-rating catalysts:** a) additional orders from existing customers, b) new customers acquisition, c) better products mix leading to higher margin, d) higher adoption of cloud in Malaysia, e) stronger demand for DCs in Malaysia, and f) higher contribution from recurring income.

### BUSINESS ACTIVITIES

<b>ICT DISTRIBUTION</b>	Laptops / Tablets	Smartphones	Peripherals	Wearables	IoT
<b>ENTERPRISE SYSTEMS</b>	Servers	Analytics	Cloud Services	Cybersecurity	Network Systems
<b>ICT SERVICES</b>	Pre-Sales	System Architecture	Implementation	Training	Post-Sales Support
<b>SOFTWARE &amp; IT SOLUTIONS</b> 	App Development	Digital Workflow	Systems Consulting	Cloud Consulting	Process Automation

Source: VSTECS

### KEY 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

### PROFIT & LOSS

Year to 31 Oct (RMm)	2020	2021	2022	2023
Net Turnover	2,017.5	2,625.8	2,770.6	2,727.2
EBITDA	47.4	73.4	79.5	82.7
Depreciation & Amortisation	-3.2	-2.8	-2.9	-3.1
EBIT	44.2	70.6	76.6	79.6
Associate Contributions				
Net Interest Income/(Expense)	-0.1	-0.2	-0.5	-1.3
<b>Pre-tax Profit</b>	<b>48.5</b>	<b>74.4</b>	<b>80.1</b>	<b>82.8</b>
Tax	-11.7	-19.4	-20.4	-15.4
Minorities	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>36.8</b>	<b>55.0</b>	<b>59.7</b>	<b>67.4</b>
<b>Net Profit (Adjusted)</b>	<b>36.8</b>	<b>55.0</b>	<b>59.7</b>	<b>67.4</b>

### BALANCE SHEET

Year to 31 Oct (RMm)	2020	2021	2022	2023
Fixed Assets	2.2	2.2	3.1	3.7
Other LT Assets	43.8	44.4	46.5	57.1
Cash/ST Investment	98.3	72.7	46.6	150.9
Other Current Assets	415.1	569.0	617.8	600.3
<b>Total Assets</b>	<b>559.3</b>	<b>688.3</b>	<b>714.0</b>	<b>812.0</b>
ST Debt	3.7	7.0	7.4	2.5
Other Current Liabilities	217.8	303.4	281.7	315.6
LT Debt	0.0	0.0	0.0	0.0
Other LT Liabilities	3.6	2.1	0.3	4.1
Shareholders' Equity	334.2	375.8	411.1	456.4
Minority Interest	0.0	0.0	0.0	0.0
<b>Total Liabilities &amp; Equity</b>	<b>559.3</b>	<b>688.3</b>	<b>714.0</b>	<b>812.0</b>

### CASH FLOW

Year to 31 Oct (RMm)	2020	2021	2022	2023
Operating	37.8	-20.9	-22.2	107.6
Pre-tax Profit	48.5	74.4	80.1	82.8
Tax	-10.4	-16.9	-29.9	-22.8
Depreciation & Amortisation	3.4	3.7	3.6	1.7
Associates	0.0	0.0	0.0	0.0
Working Capital Changes	0.6	-78.3	-79.5	49.4
Other Operating Cashflows	-10.4	-16.9	-29.9	-22.8
<b>Investing</b>	<b>0.4</b>	<b>9.5</b>	<b>0.1</b>	<b>0.3</b>
Capex (Growth)	-0.9	-0.9	-1.8	-3.0
Investments	0.0	0.0	-0.3	0.0
Proceeds from Sale of Assets	0.0	9.0	0.0	0.1
Others	1.4	1.4	2.2	3.1
<b>Financing</b>	<b>-10.9</b>	<b>-14.3</b>	<b>-3.9</b>	<b>-3.6</b>
Dividend Payments	-9.8	-13.3	-15.0	-22.1
Issue of Shares	0	0	0	0
Proceeds from Borrowings	-0.1	-0.2	-0.5	-0.8
Loan Repayment	-0.5	-0.1	-0.5	0.0
Others/Interest Paid	-11.8	-15.1	-16.9	-24.1
<b>Net Cash Inflow (Outflow)</b>	<b>27.3</b>	<b>-25.7</b>	<b>-26.1</b>	<b>104.3</b>
Beginning Cash & Cash Equivalent	71.0	98.3	72.7	46.6
Changes Due to Forex Impact	0.0	0.0	0.0	0.0
<b>Ending Cash &amp; Cash Equivalent</b>	<b>98.3</b>	<b>72.7</b>	<b>46.6</b>	<b>150.9</b>

### KEY METRICS

Year to 31 Oct (%)	2020	2021	2022	2023
<b>Profitability</b>				
EBITDA Margin	2.3	2.8	2.9	3.0
Pre-tax Margin	2.4	2.8	2.9	3.0
Net Margin	1.8	2.1	2.2	2.5
ROA	6.6	8.0	8.4	8.3
ROE	11.0	14.6	14.5	14.8
<b>Growth</b>				
Turnover	11.9	30.2	5.5	-1.6
EBITDA	21.2	54.8	8.4	4.0
Pre-tax Profit	23.3	53.5	7.6	3.4
Net Profit	24.3	49.5	8.5	13.0
Net Profit (Adjusted)	24.3	49.5	8.5	13.0
EPS	24.3	49.5	8.5	13.0
<b>Leverage</b>				
Debt to Total Capital	0.7	1.0	1.0	0.3
Debt to Equity	0.0	0.0	0.0	0.0
Net Debt/(Cash) to Equity	-28.3	-17.5	-9.5	-32.5
Interest Cover (x)	362.0	325.4	151.4	62.7

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