VSTECS BERHAD

BURSA RISE+
Brought to you by Bursa Malaysia
Supported by Capital Market Development Fund

(VST MK EQUITY, VSTE.KL)

BUY

(MAINTAINED)

Price: RM5.75
Target Price (% return): RM7.20 (+25%)
52-week High/Low: RM6.16/RM2.83

Technology

Rationale for report: Company Result

All engines firing

1Q26 showed that the group's growth momentum remains firmly intact. Consumer purchases accelerated ahead of memory price hikes, while enterprise revenue surged 75% YoY on rising hyperscaler-related orders. AI infrastructure is starting to evolve from a promising narrative into a meaningful earnings driver. With replacement-cycle demand building, AI/DC contributions scaling and stronger quarters still expected ahead, we believe the group is entering a structurally stronger growth phase.

- **Retain BUY at higher TP of RM7.20/share (from RM6.40).** This is based on a target PE of 16x. We roll forward our earnings to capture a 12 month forward view. While our target PE is above the group's historical average, we believe this is justified by its improving ROE profile and is in line with valuations of other DC beneficiaries.
- **Margins impacted by rebate timing.** 1Q26 core profit rose 14% YoY to RM20m. As 1Q is typically a seasonally softer quarter, results were within expectations at 17% of Am's full-year estimates. Net margin fell 0.6pp YoY to 1.9%, mainly due to product mix (higher AI-related orders) and delayed rebates. When the group achieves sales targets, vendors provide rebates in the form of credit notes. Some of these rebates were delayed and not recognised during the quarter, resulting in lower ICT distribution 1Q26 PBT margins.
- **Demand remains resilient despite memory price hikes.** ICT distribution revenue grew 40% YoY, driven by consumers bringing forward purchases ahead of expected memory price increases. Despite the strong start to the year, management expects normal seasonal trends to persist. The coming quarters are anticipated to be stronger, supported by robust demand for the launch of a mass-market laptop in Apr 2026. With memory prices expected to remain elevated over the next two years, replacement-cycle demand is still likely to sustain, as gadgets have become essential in daily life.
- **AI becoming a larger revenue contributor.** Enterprise revenue surged 75% YoY, supported by lumpy orders from a second-tier hyperscaler. As deposits are collected upfront, this temporarily lifted net cash to RM223mil. While still small at this stage, we expect AI/DC related revenues to contribute 16% of FY26F group revenue. Momentum is expected to accelerate in 2Q, supported by rising interest from a broader customer base. We have already factored in lower PBT margins of 2% for these related orders.

YE to December	FY24	FY25F	FY26F	FY27F
Revenue (RM mil)	2,901.7	3,597.4	4,651.6	5,767.8
Core net profit (RM mil)	77.6	101.5	118.1	138.7
FD Core EPS (sen)	21.8	28.5	33.1	38.9
FD Core EPS growth (%)	6.0	30.8	16.4	17.5
Consensus Net Profit (RM mil)	-	-	-	-
DPS (sen)	7.7	10.8	10.9	12.8
PE (x)	26.4	20.2	17.4	14.8
EV/EBITDA (x)	21.7	16.6	13.4	11.3
Div yield (%)	1.3	1.8	1.8	2.2
ROE (%)	14.7	18.3	19.3	19.9
Net Gearing (%)	nm	nm	nm	4.3

Source: VSTECS Berhad, AmInvestment Bank Bhd.

Analyst (s)

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Key Changes

Target Price:	⇧
EPS:	⇔

Stock and Financial Data

Shares Outstanding (million)	356.6
Market Cap (RMmil)	2,050.2
Book Value (RM/Share)	1.41
P/BV (x)	4.1
ROE (%)	14.7
Net Gearing (%)	-
Free Float	21.4
Avg Daily Value (RMmil)	2.9

Major Shareholders

VSTECS Holdings Ltd	(45.6%)
Sengin Sdn Bhd	(12.2%)
Dasar Technologies Sdn Bhd	(8.6%)

Price performance	3mth	6mth	12mth
Absolute(%)	40.0	39.7	79.4
Relative(%)	42.9	31.7	61.8

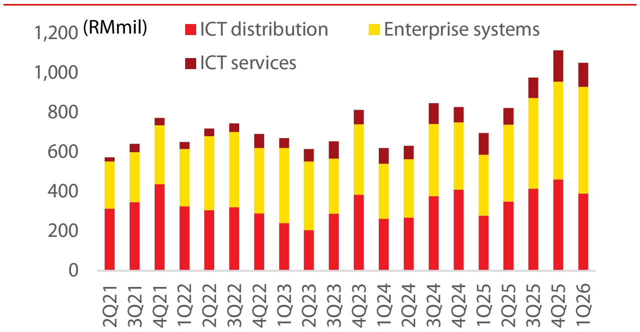
Source: VSTECS Berhad, AmInvestment Bank Bhd.

EXHIBIT 1. 1Q26 Earnings Summary

FYE Dec	1Q26	1Q25	YoY (%)	4Q25	QoQ (%)
Revenue	1,047	692	51.4	1,095	-4.4
Ebitda	31	23	38.4	41	-23.8
Depreciation and ammortisation	-1	-1	-35.7	-1	-0.3
Ebit	30	22	38.5	40	-24.5
Finance income	1	1	-2.4	0	55.1
Finance costs	0	0	-79.1	0	64.5
JV/Associates	0	1	-64.9	4	-92.5
EI	3	0	>100	1	>100
Pbt	31	23	33.8	44	-29.2
Tax	-8	-5	-49.5	-9	12.7
Pat	23	18	28.9	34	-33.6
Core net profit	20	17	13.5	33	-41.0
EPS (sen)	6.40	5.00	28.0	9.70	-34.0
DPS (sen)	0.00	0.00	nm	8.00	nm
Profitability ratios					
Ebitda margin (%)	3.0	3.3	-0.3ppt	3.8	-0.8ppt
Ebit margin (%)	2.9	3.2	-0.3ppt	3.7	-0.8ppt
Pbt margin (%)	3.0	3.4	-0.4ppt	4.0	-1.0ppt
Tax rate (%)	26.5	24.4	2.2ppt	23.3	3.3ppt
Core profit margin (%)	1.9	2.5	-0.6ppt	3.0	-1.2ppt
Revenue Breakdown (RMm)					
ICT distribution	390	278	40.3	461	-15.2
Enterprise systems	539	308	75.1	496	8.7
ICT services	122	111	10.6	158	-22.8
Segment PBT (RMm)					
ICT distribution	5	4	21.0	7	-30.6
Enterprise systems	20	13	51.8	26	-23.3
ICT services	5	4	11.1	8	-37.4

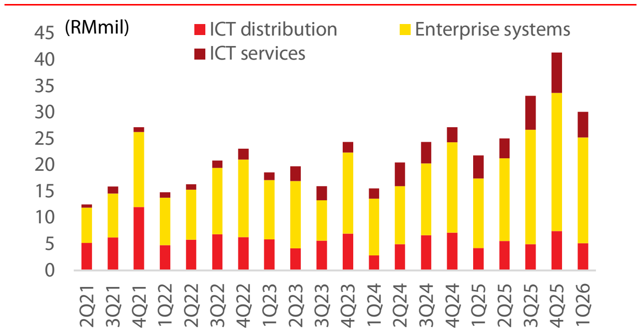
Source: VSTECS AmInvestment Bank Bhd.

EXHIBIT 2. Revenue breakdown



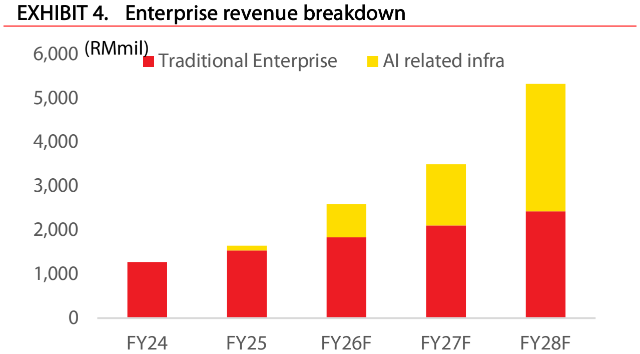
Source: VSTECS, AmInvestment Bank Bhd.

EXHIBIT 3. PBT breakdown



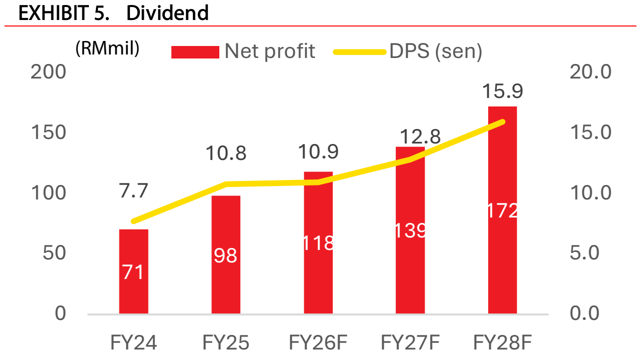
Source: VSTECS, AmInvestment Bank Bhd.

EXHIBIT 4. Enterprise revenue breakdown



Source: VSTECS, AmInvestment Bank Bhd.

EXHIBIT 5. Dividend



Source: VSTECS, AmInvestment Bank Bhd.

EXHIBIT 6. Valuations

Target PE (x)	16.0x
Blended CY27/28 EPS	43.60
ESG Premium	+3%
Target price	RM7.20 (from RM6.40)

Source: AmInvestment Bank Bhd.

Background

VSTECS Berhad ("VSTECS") is a leading distributor of Information and Communication Technology (ICT) products and services in Malaysia, serving both the consumer and enterprise markets. The group distributes a comprehensive portfolio of ICT solutions, including notebooks, personal computers (PCs), smartphones, tablets, printers, software, networking and communication infrastructure, servers, and enterprise software. VSTECS represents more than 50 global principals, positioning the group as a key intermediary between international OEMs and Malaysia's downstream ICT ecosystem.

VSTECS operates one of the largest ICT distribution platforms in the country, supported by a nationwide reseller network of over 4,000 partners comprising retailers, system integrators, value-added resellers and corporate dealers. This extensive channel reach enables VSTECS to scale new product launches efficiently, penetrate diverse customer segments, and support both mass-market retail demand and complex enterprise-level deployments.

The group is organised across three core business segments:

- **ICT Distribution.** anchored by consumer devices and commercial computing products
- **Enterprise Systems.** covering servers, networking, data-centres, enterprise software; and
- **ICT Services.** which provides cloud-related services, managed solutions and recurring support offerings.

VSTECS Berhad was listed on the Main Market of Bursa Malaysia in 2010, the company is a 46%-owned associate of VSTECS Holdings (Singapore) Limited, which in turn is a wholly owned subsidiary of VSTECS Holdings Limited, a technology distribution group listed on the Hong Kong Stock Exchange. This association provides VSTECS Malaysia with regional scale, procurement leverage, and access to multinational vendor relationships, strengthening its competitive positioning relative to local peers.

Investment thesis and catalysts

Rising IT spend flows. AI-driven infrastructure needs, faster hardware refresh cycles and ongoing cloud migration are pushing IT budgets higher, with data-centre fit-outs and enterprise upgrades accelerating. VSTECS is well placed to capture this uplift through its broad portfolio and strong positioning in enterprise and data-centre ecosystems.

Stronger margins and stickier relationships from Enterprise clients. Enterprise Systems and ICT Services earn higher margins (~4% vs. ~1.5–2% in Distribution) and offer longer project cycles, recurring services and deeper integration, leading to stronger visibility and customer stickiness. As Enterprise Systems grow toward becoming the largest segment, overall earnings quality improves.

Leveraging wider-group scale for a structural edge. VSTECS benefits from the regional scale and long-standing vendor partnerships of the wider group, enhancing procurement leverage, product breadth and access to exclusive mandates—strengthening execution, supporting margin stability and securing early participation in new tech cycles.

Valuation Methodology

We value VSTECS based on a PE of **16.0x** and Blended CY27/28 EPS. Our target PE is based on +1sd above its 5-year average and translates to a PEG of **0.7x**. Our target PE is in line with similarly listed peer SNS Network Technology and at a meaningful discount to NationGate Holdings' 5-year average PE, reflecting a VSTECS's distributor-centric risk profile. We also apply a +3.0% premium on our fundamental fair value based on the group's 4-star ESG rating

We believe VSTECS's dominant market presence and channel reach, together with its deliberate shift toward higher-margin, stickier enterprise customers, more than offset structural commoditisation within the ICT Distribution business.

Risk factors

Global Memory Shortage. Amid the AI infrastructure build-out, hyperscalers' surging demand for enterprise-grade memory, particularly high-bandwidth memory (HBM), has led major manufacturers such as Micron, Samsung and SK Hynix to reallocate production capacity toward higher-margin components. This supply shift has crowded out availability for consumer end-markets, resulting in a memory shortage for smartphones and PCs and driving a sharp increase in memory prices in recent months. In response to rising input costs, major PC vendors—including Lenovo, Dell, HP and Asus—have announced 15–20% price increases for PCs and notebooks, exacerbating affordability pressures.

The memory shortage collides with two industry forces, the Windows 10 end-of-life refresh cycle and aggressive AI-PC marketing efforts. IDC forecasts global PC unit shipments to decline by 4.9–8.9% YoY. Given that PCs and notebooks account for ~50–60% of ICT Distribution revenue, this poses near-term downside risk to our top-line forecasts. That said, we expect the impact to be offset by MYR strengthening and VSTECS's increasing exposure to higher-margin Enterprise and cloud-related segments.

Delays in Public Sector. Currently, approximately 60% of VSTECS's Enterprise Systems segment is derived from the public sector, Any delays in the roll-out, approval or funding of government projects could disrupt revenue timing, leading to potential downside risk to our earnings forecasts despite demand remaining intact.

Geopolitical and supply-chain risks. As a distributor of leading global technology brands, VSTECS is exposed to supply-chain disruptions, trade tensions and vendor-concentration risks. Near-term growth is expected to be driven by lumpy colocation data-centre projects, and any disruption to project execution, hardware availability or cross-border logistics could delay deliveries, potentially leading to temporary build-ups in inventory and receivables, and increased working-capital volatility.

EXHIBIT 7. ESG Rating Assessment

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star.

No	ESG Assessment	Parameters	Weightage	Rating					Rationale
	Environmental assessment								
1	GHG emissions	Operational emission intensity (tCO2e/RMmil)	25%	*	*	*	*		0.19 tCO2e/RMmil; 89.8% contributed by employee commuting
2	Waste management	Waste generated and diverted from disposal (tonnes)	25%	*	*	*	*		Primarily municipal waste 22.7k tonnes of waste generated, 13.4k waste diverted from disposal
3	Water management	Water utilised per-employee & water intensity	25%	*	*	*	*		8.75 m3 water utilitsed per person and 1.33 m3 per RMmil
4	Energy consumption	Total energy consumption (GJ) and % of renewable	25%	*	*	*			6.3k GJ and 22% of renewable energy
	Weighted score for environmental assessment		100%	*	*	*	*		
	Social assessment								
1	Occupational health and safety	Lost time incident rate	20%	*	*	*	*	*	LTIR of 0.23 healthy
2	Employee training	Avg. training hours per employee group	20%	*	*	*			13.4 hours for management, 13.8 hours for execs, 10.7 hours for non-execs. Uptrend
3	CSR Initiatives	Amount donated	20%	*	*				RM69k donated for CSR initiatives
4	Women representation	% of total employee group	20%	*	*	*	*		38% for management, 53% for execs, 60% for non-execs
5	Employee turnover	Full-time employee turnover rate %	20%	*	*	*	*		13.50% Full-time employee turnover rate
	Weighted score for social assessment		100%	*	*	*			
	Governance assessment								
1	Board women representation	% of board directors	15%	*	*	*	*		Female chairman and 43% female directors
2	Independent board	% of board directors	25%	*	*	*	*		67% independent directors in all board committees
3	Board tenure	avg. tenure of independent directors	20%	*	*	*	*		3 years avg tenure of independent directors, maximum 5.25 years
4	Anti-bribery & corruption compliance	Anti-corruption training hours by employee group	20%	*	*	*	*		115 hours by management, 259 hours by executives, 67 hours by non-execs
5	Regulatory compliance	Incidents relating to non-compliance with law and regulations	20%	*	*				0 fines or regulatory actions for FYE24, but RM800 LHDN compounds in 2019 and 2021
	Weighted score for governance assessment		100%	*	*	*	*		

Source: VSTECS, AmInvestment Bank Bhd

Financial Summary

Income Statement (RMmil)

YE to December	FY23	FY24	FY25F	FY26F	FY27F
Revenue	2,727.2	2,901.7	3,597.4	4,651.6	5,767.8
EBITDA	82.4	90.0	119.7	152.0	184.5
Depreciation/Amortisation	(3.1)	(3.4)	-	(0.8)	(0.5)
Operating income (EBIT)	79.3	86.5	119.7	151.2	184.0
Other income & associates	3.3	3.9	6.8	6.8	6.8
Net interest	0.2	2.7	2.3	(2.6)	(8.2)
Exceptional items	-	-	-	-	-
Pretax profit	**82.8**	**93.1**	**128.8**	**155.4**	**182.5**
Taxation	(15.4)	(22.6)	(30.7)	(37.3)	(43.8)
Minorities/pref dividends	-	-	-	-	-
Net profit	**67.4**	**70.6**	**98.2**	**118.1**	**138.7**
Core net profit	73.2	77.6	101.5	118.1	138.7

Balance Sheet (RMmil)

YE to December	FY23	FY24	FY25F	FY26F	FY27F
Fixed assets	3.7	4.1	8.3	10.6	13.5
Intangible assets	0.6	0.6	0.6	0.6	0.6
Other long-term assets	56.5	55.9	54.8	49.8	45.0
Total non-current assets	**60.8**	**60.5**	**63.7**	**61.0**	**59.1**
Cash & equivalent	150.9	106.4	89.0	129.1	165.8
Stock	200.8	247.7	273.7	354.1	439.4
Trade debtors	396.9	451.3	651.9	842.9	1,045.2
Other current assets	13.2	12.0	0.2	0.2	0.2
Total current assets	**761.8**	**817.4**	**1,014.7**	**1,326.3**	**1,650.6**
Trade creditors	309.0	350.8	470.0	608.1	754.6
Short-term borrowings	35.3	2.3	23.1	80.4	138.6
Other current liabilities	17.8	20.3	11.7	11.7	11.7
Total current liabilities	**362.1**	**373.4**	**504.9**	**700.2**	**904.9**
Long-term borrowings	4.0	2.1	0.4	34.8	59.6
Other long-term liabilities	-	-	0.1	0.1	0.1
Total long-term liabilities	**4.0**	**2.1**	**0.5**	**34.9**	**59.7**
Shareholders' funds	**456.4**	**502.4**	**573.1**	**652.2**	**745.2**
Minority interests	-	-	-	-	-
BV/share (RM)	1.28	1.41	1.61	1.83	2.09

Cash Flow (RMmil)

YE to December	FY23	FY24	FY25F	FY26F	FY27F
Pretax profit	82.8	93.1	128.8	155.4	182.5
Depreciation/Amortisation	3.1	3.4	-	0.8	0.5
Net change in working capital	(13.8)	(178.9)	(250.0)	(274.4)	(395.3)
Others	35.4	92.8	106.0	99.6	211.8
Cash flow from operations	**107.6**	**10.5**	**(15.2)**	**(18.7)**	**(0.4)**
Capital expenditure	(1.7)	(1.2)	(6.3)	(2.3)	(2.9)
Net investments & sale of fixed assets	0.3	0.3	0.1	-	-
Others	1.8	2.4	11.0	11.0	11.0
Cash flow from investing	**0.5**	**1.6**	**4.8**	**8.7**	**8.1**
Debt raised/(repaid)	(13.5)	(12.6)	113.6	176.5	158.8
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(22.1)	(23.5)	(27.5)	(39.0)	(45.8)
Others	31.8	(20.4)	(93.2)	(87.4)	(84.1)
Cash flow from financing	**(3.8)**	**(56.5)**	**(7.0)**	**50.1**	**29.0**
Net cash flow	**104.3**	**(44.5)**	**(17.4)**	**40.1**	**36.7**
Net cash/(debt) b/f	**46.6**	**150.9**	**106.4**	**89.0**	**129.1**
Net cash/(debt) c/f	**150.9**	**106.4**	**89.0**	**129.1**	**165.8**

Key Ratios

YE to December	FY23	FY24	FY25F	FY26F	FY27F
Revenue growth (%)	(1.6)	6.4	24.0	29.3	24.0
EBITDA growth (%)	3.7	9.1	33.1	26.9	21.4
Pretax margin (%)	3.0	3.2	3.6	3.3	3.2
Net profit margin (%)	2.5	2.4	2.7	2.5	2.4
Interest cover (x)	nm	nm	nm	58.4	22.4
Effective tax rate (%)	18.6	24.2	23.8	24.0	24.0
Dividend payout (%)	2,998.3	3,003.8	2,702.7	3,300.0	3,300.0
Debtors turnover (days)	51	53	56	59	60
Stock turnover (days)	30	28	26	25	25
Creditors turnover (days)	38	41	42	42	43

Source: Company, AmInvestment Bank Bhd.

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