VSTECS (VST MK)

3Q26: Within expectations; Growth Momentum To Resume In 4Q26

Highlights

- VSTECS' 3Q26 earnings came in strongly on robust growth across all three business segments.
- We expect the growth momentum to extend into 4Q26, underpinned by resilient demand in the ICT distribution segment alongside continued public-sector spending.
- Maintain BUY with an unchanged target price of RM2.26.

3Q26 Results

Year to 31 Dec (RMm)	3Q26	qoq%	yoy%	9M26	yoy%
Revenue	1,133.9	5.2	14.3	3,259.0	30.2
Gross Profit	66.0	3.4	7.7	186.1	17.9
EBITDA	41.1	9.0	24.0	109.0	36.7
EBIT	39.9	9.3	24.8	105.3	37.5
PBT	40.7	1.8	16.4	111.7	31.4
Tax expense	(10.4)	7.4	13.0	(28.2)	32.5
PATAMI	30.3	(0.0)	17.6	83.5	31.1
Core PATAMI	30.3	29.5	17.7	76.6	20.5
Margins	**(%)**	**qoq ppt chg**	**yoy ppt chg**	**(%)**	**yoy ppt chg**
Gross Profit	5.8	(0.1)	(0.2)	5.7	(0.6)
EBITDA	3.6	0.1	0.6	3.3	0.2
PBT	3.6	(0.1)	0.3	3.4	0.0
Core net profit	2.7	0.5	0.2	2.4	(0.2)

Source: VSTECS, UOB Kay Hian

Analysis

- **Within expectations**. VSTECS posted 3Q26 revenue of RM1.1b (+5% qoq; +14% yoy) and core net profit of RM30.3m (+30% qoq; +18% yoy;) respectively. This brought 9M26 core net profit to RM76.6m (+21% yoy), accounting for 72% of our full-year estimate. Note that 9M26 core net profit has been adjusted to exclude the RM6.9m debt recovery from Logicalis, which we deem to be non-recurring in nature.

Key Financials

Year to 31 Dec (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	2901.7	3608.2	4094.0	4761.7	5548.0
EBITDA	91.0	136.4	139.0	153.1	182.4
Operating profit	87.6	132.0	143.4	161.2	191.8
Net profit (rep./act.)	70.6	98.5	106.6	120.3	143.4
Net profit (adj.)	70.3	98.4	106.6	120.3	143.4
EPS	6.6	9.2	10.0	11.2	13.4
PE	19.8	14.1	13.0	11.6	9.7
P/B	2.8	2.4	2.2	1.9	1.7
EV/EBITDA	3.9	2.9	2.4	2.2	1.8
Dividend yield	1.7	2.0	2.7	3.0	3.6
Net margin	2.4	2.7	2.6	2.5	2.6
Net debt/(cash) to equity	(21.1)	(11.8)	(20.7)	(19.0)	(17.7)
Interest cover	226.4	259.9	143.4	161.2	191.8
ROE	14.0	17.2	16.6	16.7	17.6
Consensus Net Profit			114.8	131.3	152.7
UOBKH/Consensus (x)			0.93	0.92	0.94

Source: VSTECS, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	RM1.30
Target Price	RM2.26
Upside	73.8%

Stock Data

Sector	ICT Distributor
Bloomberg ticker	VST MK
Shares issued (m)	1,069.7
Market cap (RMm)	1,404.0
Market cap (US$m)	343.3
3-mth avg daily t'over (US$m)	0.3

Price Performance (%)

52-week high/low				RM2.18/RM1.05
1mth	**3mth**	**6mth**	**1yr**	**YTD**
(17.8)	(26.1)	(34.3)	(4.4)	(4.4)

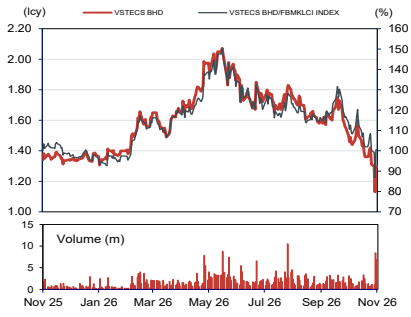
Major Shareholders (%)

VSTECS Holdings Ltd	45.6
Sengin Sdn Bhd	12.2
CGS International Securities	5.3

Balance Sheet Metrics

FY26 NAV/Share (RM)	0.60
FY26 Net Debt/Share (RM)	(0.12)

Price Chart



Source: Bloomberg

Company Description

VSTECS 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.

- **In 9M26,** the strong yoy growth in both revenue and earnings was mainly driven by robust performance across all three segments - ICT distribution (+18% yoy), enterprise systems (+46% yoy) and ICT services (+10% yoy). Growth was supported by resilient consumer electronics demand, higher volume of public-sector projects, increased shipments of AI-related data centre (DC) equipment, and continued momentum in cloud services adoption. However, 9M26 gross profit margin contracted 0.6ppt yoy to 5.7% mainly due to an unfavourable product mix from the enterprise systems segment. 3Q26 revenue rose 5% qoq, supported by healthy growth across all three business segments. Core net profit grow 30% yoy, predominantly driven by higher net gains of financial instruments.
- **Consumer ICT supply improve, while enterprise lead times remain stretched.** Budget 2027 measures supporting digital infrastructure, sovereign AI and technology development could unlock billions of ringgit in new opportunities for Malaysia's ICT sector. In ICT distribution, we understand that consumer endpoint device prices have stabilised and supply has largely normalised, allowing the group to gradually return to normal inventory and ordering levels. However, server and storage supply remains tight, with longer lead times posing a risk to the timing of project deliveries. The group is working with vendors and partners to manage these constraints. Meanwhile, public-sector demand remains robust, supported by the ongoing rollout of major projects. The group aims to fulfil as many of these orders as possible by end-26.
- **ISATEC disposal supports capital recycling.** Recall that VSTECS is monetising its 40% stake in ISATEC for RM48.8m cash, representing a 159% premium to its original RM18.8m investment cost and generating a RM22.0m one-off gain upon completion in 1Q27. While ISATEC expects to contribute about 5% of 2026 PAT, around 94% (RM45.9m) of the proceeds will be redeployed into working capital to support larger AI, DC, cloud and digitalisation projects. Beyond supporting organic growth, the stronger balance sheet provides VSTECS with greater flexibility to pursue strategic opportunities that could complement its existing capabilities and deepen its participation in the broader AI ecosystem. This could broaden VSTECS' capabilities beyond hardware into AI platforms, services and applications.

Valuation/Recommendation

- **Maintain BUY with an unchanged target price of RM2.26** based on 20x 2027F PE. Given the lack of local listed peers for valuation benchmarking, we use a 1.0x PEG ratio, reflecting a three-year net profit CAGR of 20% from 2025. The group is riding on a strong growth phase of high earnings delivery by capturing the total addressable market of Malaysia's colocation DC segment.

Earnings Revision/Risk

- None.

Environmental, Social, Governance (ESG) Updates

Environmental

- Electricity withdrawal from main grid reduced by 20% yoy in 2023.
- Solar power constituted 41% of total electricity consumed in 2023.
- An around 26% reduction in paper consumption.

Social

- Maintaining a 50% male-female composition among total employees.
- The group recorded zero work fatalities over the past nine years.
- 100% local employees.

Governance

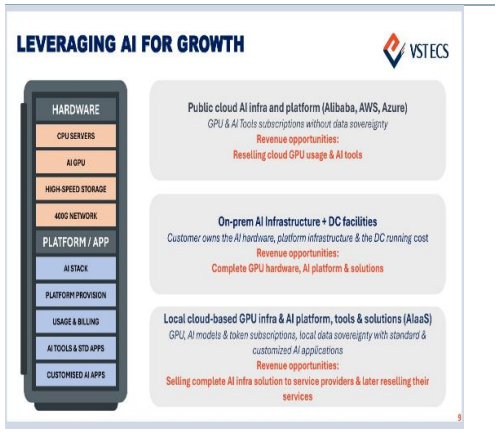
- Zero confirmed corruption or harassment cases reported.
- Zero fines or penalties from regulatory authorities.

Key Principal Relationships



Source: VSTECS

New AI Opportunities



Source: UOB Kay Hian

Profit & Loss

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Net turnover	3,608.2	4,094.0	4,761.7	5,548.0
EBITDA	136.4	139.0	153.1	182.4
Deprec. & amort.	(4.4)	(4.4)	(8.0)	(9.5)
EBIT	132.0	143.4	161.2	191.8
Associates	6.8	3.3	4.3	4.3
Net interest income/(expense)	(0.5)	(1.0)	(1.0)	(1.0)
Pre-tax profit	129.2	139.8	157.8	188.1
Tax	(30.7)	(33.2)	(37.4)	(44.6)
Minorities	0.0	0.0	0.0	0.0
Net profit	98.5	106.6	120.3	143.4
Net profit (adj.)	98.4	106.6	120.3	143.4

Balance Sheet

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Fixed assets	8.3	11.9	11.9	10.4
Other LT assets	55.5	55.5	57.0	57.0
Cash/ST investment	89.0	154.0	158.2	165.1
Other current assets	936.1	905.0	1,050.8	1,221.6
Total assets	1,088.9	1,126.4	1,277.9	1,454.1
ST debt	2.1	2.1	2.1	2.1
Other current liabilities	480.2	451.7	523.9	607.6
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	0.4	6.3	5.5	4.7
Shareholders' equity	573.5	642.8	721.0	814.2
Minority interest	0.0	0.0	1.0	1.0
Total liabilities & equity	1,088.9	1,126.4	1,277.9	1,454.1

Cash Flow

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Operating	(15.2)	108.3	52.3	63.0
Pre-tax profit	129.2	139.8	157.8	188.1
Tax	31.9	(33.2)	(37.4)	(44.6)
Deprec. & amort.	0.5	4.4	8.0	9.5
Working Capital Changes	(117.0)	(0.0)	(73.6)	(87.1)
Other operating cashflows	4.3	1.8	5.7	6.7
Investing	4.8	(8.0)	(8.0)	(8.0)
Capex (growth)	(6.3)	(8.0)	(8.0)	(8.0)
Investments	0.0	0.0	0.0	0.0
Proceeds from Sale of Assets	0.1	0.0	0.0	0.0
Others	11.0	0.0	0.0	0.0
Financing	(7.0)	(35.3)	(40.1)	(48.2)
Dividend payments	(27.5)	(37.3)	(42.1)	(50.2)
Proceed from Borrowings	(0.5)	(1.0)	(1.0)	(1.0)
Loan repayment	(0.5)	0.0	0.0	0.0
Others/interest paid	1.7	2.0	2.0	2.0
Net cash inflow (outflow)	(17.4)	65.0	4.2	6.8
Beginning cash & cash equivalent	106.4	89.0	154.0	158.2
Changes due to forex impact	(0.0)	0.0	0.0	0.0
Ending cash & cash equivalent	89.0	154.0	158.2	165.1

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	3.8	3.4	3.2	3.3
Pre-tax margin	3.6	3.4	3.3	3.4
Net margin	2.7	2.6	2.5	2.6
ROA	9.0	9.5	9.4	9.9
ROE	17.2	16.6	16.7	17.6
Growth				
Turnover	24.3	13.5	16.3	16.5
EBITDA	49.8	1.9	10.1	19.1
Pre-tax profit	38.7	8.2	12.9	19.2
Net profit	39.6	8.2	12.9	19.2
Net profit (adj.)	39.9	8.3	12.9	19.2
EPS	39.9	8.3	12.9	19.2
Leverage				
Debt to total capital	1.9	1.9	1.6	1.4
Debt to equity	3.7	3.3	2.9	2.6
Net debt/(cash) to equity	(11.8)	(20.7)	(19.0)	(17.7)
Interest cover	259.9	143.4	161.2	191.8

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