VSTECS (VST MK)

2Q26: Within Expectations; Growth Momentum To Resume In 2H26

Highlights

- VSTECS' 2Q26 earnings came in strong on robust growth across all three business segments.
- We expect the growth momentum to extend into 2H26, underpinned by resilient demand in ICT distribution segment alongside continued public-sector spending despite longer large project delivery timelines.
- Maintain BUY with a revised target price of RM2.26 (previously RM1.70 ex-bonus), pegged to 20x 2027F PE.

2Q26 Results

Year to 31 Dec (RMm)	2Q26	1Q26	qoq%	yoy%	1H26	yoy%
Revenue	1,078.2	1,046.9	3.0	31.7	2,125.1	40.7
Gross Profit	63.8	56.4	13.1	28.4	120.2	24.4
EBITDA	37.7	30.2	25.0	52.1	67.9	45.7
EBIT	36.5	28.9	26.0	53.5	65.4	46.5
PBT	40.0	31.1	28.7	49.1	71.0	42.0
Tax expense	(9.7)	(8.2)	18.3	45.5	(17.8)	47.3
PATAMI	30.3	22.9	32.4	50.3	53.2	40.3
Core PATAMI	23.4	22.9	2.3	15.9	46.3	22.4
Margins	(%)	(%)	qoq ppt chg	yoy ppt chg	(%)	yoy ppt chg
Gross Profit	5.9	5.4	0.5	(0.2)	5.7	(0.7)
EBITDA	3.5	2.9	0.6	0.5	3.2	0.1
PBT	3.7	3.0	0.7	0.4	3.3	0.0
Core net profit	2.2	2.2	(0.1)	(0.3)	2.2	(0.3)

Source: VSTECS, UOB Kay Hian

Analysis

- **Within expectations.** VSTECS posted 2Q26 revenue and core net profit of RM1.1b (+32% yoy, +3% qoq) and RM23.4m (+16% yoy; +2% qoq) respectively. This brought 1H26 core net profit to RM46.3m (+22% yoy), accounting for 43% of our full-year estimate. We deem the results to be within expectations, as 1H earnings typically contribute less than 45% of full-year earnings (38-42% in 2024-25). Note that 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	26.6	19.0	17.6	15.6	13.1
P/B	3.7	3.3	2.9	2.6	2.3
EV/EBITDA	5.7	4.1	3.5	3.2	2.6
Dividend yield	1.3	1.5	2.0	2.2	2.7
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			118.0	137.3	147.0
UOBKH/Consensus (x)			0.90	0.88	0.98

Source: VSTECS, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	RM1.75
Target Price	RM2.26
Upside	29.1%
Previous TP	RM1.70

Stock Data

Sector	ICT Distributor
Bloomberg ticker	VST MK
Shares issued (m)	1,069.7
Market cap (RMm)	1,871.9
Market cap (US$m)	457.7
3-mth avg daily t'over (US$m)	0.3

Price Performance (%)

52-week high/low				RM2.18/RM1.05
1mth	3mth	6mth	1yr	YTD
(1.7)	(3.8)	25.0	53.5	28.7

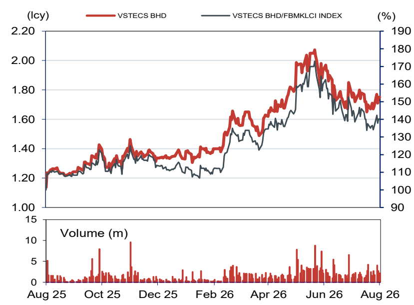
Major Shareholders (%)

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 1H26,** the strong yoy growth in both revenue and earnings was mainly driven by robust performance across all three segments, including ICT distribution (+20% yoy), enterprise systems (+46% yoy) and ICT services (+14% yoy). Growth was supported by resilient consumer electronics demand, higher volume of public-sector project, increased shipments of AI-related DC equipment, and continued momentum in cloud services adoption. However, 1H26 GP margin contracted 0.74ppt yoy to 5.7% mainly due to unfavourable product mix from the enterprise systems segment.
- **2Q26 revenue rose 3% qoq,** supported by strong growth across all three business segments. Core net profit grew 2% yoy in tandem with higher sales, underpinned by stronger contributions from the enterprise systems (52%), which outpaced the lower margin ICT distribution segment (39%).
- **Temporary blip, but structural AI demand intact.** The global ICT industry continues to grapple with CPU and memory chip shortages, driving higher component costs and vendor price volatility. This has prompted a wait-and-see stance among some customers, particularly in the enterprise segment, where elevated server and storage prices have led private sector customers to defer procurement pending potential price normalisation, creating near-term volatility in order flows and revenue recognition. Nevertheless, ICT distribution demand remains resilient, while enterprise softness should be partly cushioned by public-sector spending and project rollouts.
- **More importantly, we view these headwinds as transitory rather than structural,** with critical investments in digital transformation, AI, cybersecurity and data centre infrastructure unlikely to be materially deferred. Meanwhile, the ICT Services segment provides earnings stability through recurring cloud subscription revenue and growing value-added services, further strengthening earnings quality as cloud migration and IT modernisation accelerate. Overall, the expanding AI/DC infrastructure pipeline and structural digitalisation trend should underpin a compelling medium- to long-term growth outlook.

Valuation/Recommendation

- **Maintain BUY with a revised target price of RM2.26 (from RM1.70 ex-bonus),** based on 1.0x PEG ratio (from 0.85x), which is derived from a rollover 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. We believe the group has entered a strong growth phase of high earnings delivery by capturing the total addressable market of Malaysia's colocation data centre segment.

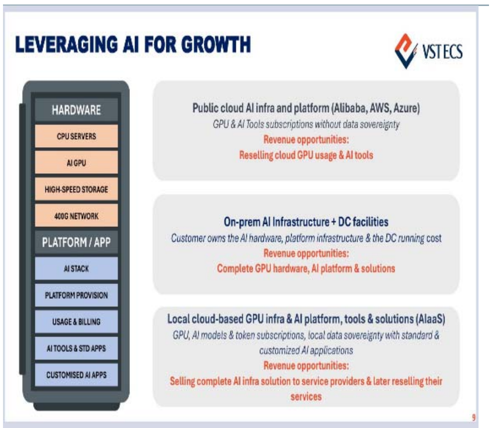
Earnings Revision/Risk

- Post model updates, we tweaked our 2026-27F earnings by +1-2% for house-keeping purposes.

Key Principal Relationships

Source: VSTECS

New AI Opportunities



Source: UOB Kay Hian

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. - A reduction of about 26% 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.

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	4.8	3.3
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	1,277.3	1,452.7

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