

VSTECS (VST MK)

3Q25: Strong Results; AI Set To Drive Growth Ahead

Highlights

- VSTECS' 3Q25 earnings came in strong with robust growth across all three business segments.
- Growth momentum is expected to continue in 4Q25 and into 2026 as Malaysia colocation data centres enter the fit-out phase, which will benefit VSTECS.
- Meanwhile, the group is exploring new AI-related business opportunities, which could further supercharge its growth. Maintain BUY; target price: RM5.10.

3Q25 Results

Year to 31 Dec (RMm)	3Q25	qoq %	yoy %	9M25	yoy %
Revenue	991.9	21.1	17.8	2,502.5	20.2
Gross Profit	61.2	23.3	25.2	157.8	26.8
EBITDA	33.2	33.7	37.2	79.7	31.1
EBIT	31.9	34.4	37.1	76.6	31.4
PBT	35.0	30.4	32.0	85.0	29.7
Tax expense	(9.2)	38.3	32.9	(21.3)	29.9
PATAMI	25.8	27.8	31.7	63.7	29.6
Core PATAMI	25.8	27.6	32.0	63.6	30.0
Margins	(%)	qoq ppt chg	yoy ppt chg	(%)	yoy ppt chg
Gross Profit	6.17	0.11	0.36	6.31	0.33
EBITDA	3.34	0.31	0.47	3.19	0.27
PBT	3.53	0.25	0.38	3.40	0.25
Core net profit	2.60	0.13	0.28	2.54	0.19

Source: VSTECS, UOB Kay Hian

Analysis

- Above expectations.** VSTECS' 3Q25 results came in strong with record quarterly revenue and core net profit of RM991.9m (+18% yoy, +21% qoq) and RM25.8m (+32% yoy; +28% qoq) respectively. This brings 9M25 core net profit to RM63.6m (+30% yoy), accounting for 74% of our full-year estimate. We deem the results to be above expectations, as 9M earnings typically contribute less than or equal to 70% of full-year earnings (64-70% in 2021-24). The pleasant surprise was mainly due to stronger-than-expected activity in public sector projects and greater cloud adoption. Meanwhile, a first interim DPS of 2.8 sen was declared during the quarter.
- In 9M25,** the strong yoy growth in both revenue and earnings was mainly driven by solid performances across all segments, including ICT distribution (+15% yoy), enterprise systems (+24% yoy), and ICT services (+27% yoy). This was supported by robust demand in consumer electronics (smartphones and AI PC), the revival of public sector projects, higher shipment of AI-related DC equipment, and strong adoption of cloud services.

Key Financials

Year to 31 Dec (RMm)	2023	2024	2025F	2026F	2027F
Net turnover	2727.2	2901.7	3587.6	4094.0	4761.7
EBITDA	82.7	91.0	108.8	127.6	142.6
Operating profit	79.6	87.6	111.2	132.8	150.1
Net profit (rep./act.)	67.4	70.6	89.5	106.7	120.8
Net profit (adj.)	62.0	70.3	89.5	106.7	120.8
EPS	17.4	19.7	25.1	29.9	33.9
PE	22.6	19.9	15.7	13.1	11.6
P/B	3.1	2.8	2.5	2.2	2.0
EV/EBITDA	15.5	14.2	11.8	10.0	8.8
Dividend yield	1.7	1.7	2.6	2.7	3.0
Net margin	2.3	2.4	2.5	2.6	2.5
Net debt/(cash) to equity	(25.7)	(21.1)	(21.6)	(21.3)	(21.8)
Interest cover	62.7	226.4	287.3	343.2	388.0
ROE	14.8	14.0	16.1	17.1	17.1

Source: VSTECS, Bloomberg, UOB Kay Hian

BUY (Maintained)

Share Price	RM4.22
Target Price	RM5.10
Upside	+20.8%

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Stock Data

GICS Sector	ICT Distributor
Bloomberg ticker	VST MK
Shares issued (m)	356.6
Market cap (RMm)	1,504.7
Market cap (US\$m)	363.9
3-mth avg daily t'over (US\$m)	0.4

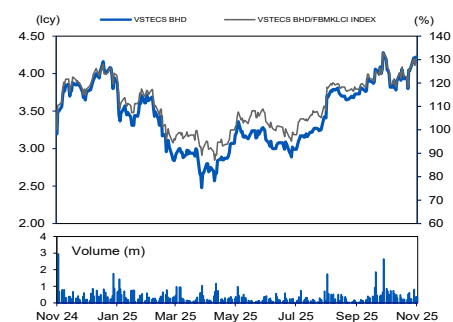
Price Performance (%)

52-week high/low				RM4.4/RM2.46
1mth	3mth	6mth	1yr	YTD
(1.4)	23.4	37.5	32.7	4.5

Major Shareholders

	%
VSTECS Holding Ltd	45.6
Sengin Sdn Bhd	12.2
Dasar Technologies Sdn Bhd	8.6

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.

- **3Q25 sales rose 18% yoy**, supported by strong growth across all three business segments. Core net profit surged with a wider quantum of 32% yoy in tandem with higher sales, underpinned by stronger contributions from the enterprise systems and ICT services segments, which outpaced the lower-margin ICT distribution segment.
- **Three pathways to capture AI growth.** VSTECs is exploring three complementary layers of AI infrastructure opportunities that align with Malaysia's accelerating digital and data-centre landscape. First, through partnerships with public cloud providers such as AWS, Azure, and Alibaba Cloud (which already started), VSTECs is exploring opportunities to resell more GPU-optimised instances and AI platform subscriptions, capturing recurring revenue from enterprises adopting cloud-based AI workloads (without data sovereignty). Second, under the on-premise AI infrastructure model, the group provides complete AI hardware and platform solutions, including GPU servers, networking systems, and AI software stacks to customers operating their own data centres. Finally, in the local cloud-based GPU and AI-platform segment (AlaaS), VSTECs is positioned to support the development of sovereign AI ecosystems by delivering integrated GPU infrastructure and customised local AI platforms to service providers (normally local telcos), and subsequently reselling their AI services and applications to local enterprise end-users. Currently, VSTECs has already materialised the first pillar, while pillars 2 and 3 are still under discussion with potential partners and clients.
- **Resilient ICT distribution and services pipeline.** VSTECs's ICT distribution and services pipeline remains solid, supported by multiple structural growth drivers. On the distribution front, shipment for AI PCs is expected to continue gaining traction and capturing market share from traditional PCs, while the upcoming Starlink Mini rollout should further catalyse ICT hardware sales. According to Gartner, AI laptops are projected to account for 31% of total laptop shipments in 2025 (from 16%). Meanwhile, on the ICT services front, demand is expected to grow in tandem with the rising momentum in the enterprise systems segment, as described above. Cloud services are also poised to contribute more meaningfully in 2H25, as enterprises accelerate migration to cloud infrastructure to enhance scalability and operational resilience. VSTECs expects recurring revenue from maintenance and cloud subscriptions, which currently represents about 20% of ICT services, to potentially rise to 50% within two years as cloud adoption deepens.

Valuation/Recommendation

- **Maintain BUY with an unchanged target price of RM5.10**, based on 0.85x PEG ratio, which is derived from 17.0x 2026F PE. Given the lack of local listed peers for valuation benchmarking, we use a 0.85x PEG ratio, reflecting a three-year net profit CAGR of 20% from 2024. 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

- Upgrade 2025 earnings by 4% to reflect a higher contribution of public sector projects and cloud adoption.

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.

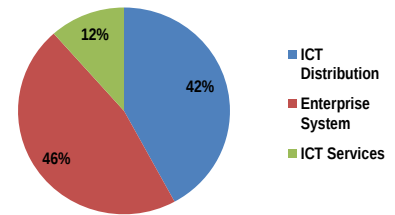
Social

- 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.

3Q25 Revenue Breakdown



Source: VSTECs

Key Principal Relationships

BRINGING IN THE BEST-OF-BREED



Source: VSTECs

New AI Opportunity



Source: UOB Kay Hian

Profit & Loss

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Net turnover	2,901.7	3,587.6	4,094.0	4,761.7
EBITDA	91.0	108.8	127.6	142.6
Deprec. & amort.	(3.4)	(2.3)	(5.3)	(7.6)
EBIT	87.6	111.2	132.8	150.1
Associates	3.9	3.3	3.3	4.3
Net interest income/(expense)	(0.4)	(0.4)	(0.4)	(0.4)
Pre-tax profit	93.1	118.1	140.8	159.5
Tax	(22.6)	(28.6)	(34.1)	(38.7)
Minorities	0.0	0.0	0.0	0.0
Net profit	70.6	89.5	106.7	120.8
Net profit (adj.)	70.3	89.5	106.7	120.8

Balance Sheet

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Fixed assets	4.1	9.7	12.5	12.9
Other LT assets	56.5	57.0	57.0	58.0
Cash/ST investment	106.4	120.7	133.4	154.0
Other current assets	705.3	803.1	923.6	1,081.1
Total assets	872.2	990.6	1,126.5	1,306.0
ST debt	2.0	2.0	2.0	2.0
Other current liabilities	357.1	413.3	470.7	559.2
LT debt	0.1	0.0	0.0	0.0
Other LT liabilities	1.9	16.4	25.6	36.1
Shareholders' equity	502.4	556.1	625.4	703.9
Minority interest	0.0	0.0	0.0	1.0
Total liabilities & equity	872.2	990.6	1,126.5	1,306.0

Cash Flow

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Operating	10.5	57.3	57.2	69.1
Pre-tax profit	93.1	118.1	140.8	159.5
Tax	20.1	(28.6)	(34.1)	(38.7)
Deprec. & amort.	6.3	2.3	5.3	7.6
Working Capital Changes	(62.2)	(41.8)	(63.1)	(69.0)
Other operating cashflows	(0.4)	9.6	13.6	17.3
Investing	1.6	(8.0)	(8.0)	(8.0)
Capex (growth)	(1.2)	(8.0)	(8.0)	(8.0)
Investments	0.0	0.0	0.0	0.0
Proceeds from Sale of Assets	0.2	0.0	0.0	0.0
Others	2.6	0.0	0.0	0.0
Financing	(56.5)	(35.0)	(36.5)	(40.5)
Dividend payments	(23.5)	(35.8)	(37.3)	(42.3)
Proceed from Borrowings	(0.4)	(0.4)	(0.4)	(0.4)
Loan repayment	(0.2)	0.0	0.0	0.0
Others/interest paid	2.2	0.8	0.8	1.8
Net cash inflow (outflow)	(44.5)	14.3	12.7	20.6
Beginning cash & cash equivalent	150.9	106.4	120.7	133.4
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	106.4	120.7	133.4	154.0

Key Metrics

Year to 31 Dec (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	3.1	3.0	3.1	3.0
Pre-tax margin	3.2	3.3	3.4	3.3
Net margin	2.4	2.5	2.6	2.5
ROA	8.1	9.0	9.5	9.3
ROE	14.0	16.1	17.1	17.1
Growth				
Turnover	6.4	23.6	14.1	16.3
EBITDA	10.1	19.6	17.2	11.8
Pre-tax profit	12.5	26.8	19.2	13.3
Net profit	4.7	26.8	19.2	13.3
Net profit (adj.)	13.3	27.2	19.2	13.3
EPS	13.3	27.2	19.2	13.3
Leverage				
Debt to total capital	0.1	0.0	0.0	0.0
Debt to equity	0.1	0.1	0.1	0.1
Net debt/(cash) to equity	(21.1)	(21.6)	(21.3)	(21.8)
Interest cover	226.4	287.3	343.2	388.0

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