

COMPANY RESULTS

VSTECs (VST MK)

3Q24: Strong Results; Anticipating A Sequentially Stronger 4Q24

VSTECs's 3Q24 earnings came in strong at RM19.5m (+55% yoy, +28% qoq) with a record quarterly revenue driven by a recovery in both consumer and enterprise spending. While 9M24 results accounted for only 67% of our full-year estimate, we expect a stronger 4Q24 sequentially. A key inflection point may occur with the government's rollout of new DC incentives, which could supercharge VSTECs' growth by unlocking its TAM. Maintain BUY. Target price: RM5.02.

3Q24 RESULTS

Year to 31 Dec (RMm)	3Q24	qoq% chg	yoy % chg	9M24	yoy % chg
Revenue	841.76	34.81	30.22	2,082.52	8.47
Gross Profit	48.92	30.45	28.56	124.43	11.44
EBITDA	24.17	28.43	46.43	60.82	8.84
EBIT	23.31	29.63	48.46	58.29	8.83
PBT	26.48	31.25	53.45	65.53	13.22
Tax expense	(6.92)	40.22	52.69	(16.40)	11.91
PATAMI	19.57	28.34	53.72	49.13	13.67
Core PATAMI	19.53	28.31	55.26	48.91	13.41
Margins (%)		qoq ppt chg	yoy ppt chg		yoy ppt chg
Gross Profit	5.81	(0.19)	(0.05)	5.98	0.16
EBITDA	2.87	(0.14)	(0.42)	2.92	0.01
PBT	3.15	(0.09)	(0.26)	3.15	0.13
Core Net Profit	2.32	(0.12)	(0.25)	2.35	0.10

Source: VSTECs, UOB Kay Hian

RESULTS

- **Within expectations.** VSTECs' 3Q24 core net profit came in at RM19.5m (+55% yoy, +28% qoq) on record-high quarterly revenue of RM841.8m (+30% yoy; 35% qoq). The strong yoy and qoq growth in earnings was driven by robust performance across the three segments: ICT distribution (+31% yoy, +41% qoq), enterprise systems (+29% yoy, +24% qoq), and ICT services (+32% yoy, +60% qoq). This growth was fuelled by the recovery in both consumer and enterprise spending, new product launches, and stronger cloud sales. This resulted in 9M24 core net profit accounting for 67% of our full-year estimate, and we deem the results within expectations as we expect a sequentially stronger 4Q24.
- We expect earnings to catch up in 4Q24, consistent with previous years, and supported by: a) higher momentum from the ICT distribution segment following seasonally higher consumer spending in 4Q, buoyed by Google Pixel and iPhone16, b) stronger cloud service, c) increased contribution from VMWARE under a new exclusive arrangement (doubling effect), and d) more shipments of AI-related DC equipment in 4Q24, e) steady adoption of Starlink with the potential rollout of Starlink Mini in 4Q24, and f) seasonally stronger consumer and enterprise spending in 4Q24.

KEY FINANCIALS

Year to 31 Dec (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	2770.6	2727.2	3035.6	3413.8	3868.3
EBITDA	79.5	82.7	89.0	111.8	135.9
Operating profit	76.6	79.6	92.2	113.4	136.9
Net profit (rep./act.)	59.7	67.4	72.9	89.5	107.9
Net profit (adj.)	59.4	62.0	72.9	89.5	107.9
EPS (sen)	16.7	17.4	20.4	25.1	30.3
PE (x)	19.3	18.5	15.8	12.8	10.6
P/B (x)	2.8	2.5	2.3	2.1	1.9
EV/EBITDA (x)	14.0	12.5	11.6	9.0	7.3
Dividend yield (%)	1.9	2.0	2.2	3.9	3.3
Net margin (%)	2.1	2.3	2.4	2.6	2.8
Net debt/(cash) to equity (%)	(8.1)	(25.7)	(23.1)	(25.2)	(25.4)
Interest cover (x)	151.4	62.7	72.6	89.4	107.8
ROE (%)	14.5	14.8	14.5	16.3	17.4

Source: VSTECs, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM3.20
Target Price	RM5.02
Upside	+56.9%

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 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.

STOCK DATA

GICS sector	ICT Distributor
Bloomberg ticker:	VSTECs MK
Shares issued (m):	356.6
Market cap (RMm):	1,141.0
Market cap (US\$m):	256.6
3-mth avg daily t'over (US\$m):	0.3

Price Performance (%)

52-week high/low RM4.52/RM1.26

1mth	3mth	6mth	1yr	YTD
5.3	(5.3)	(7.5)	143.7	146.3

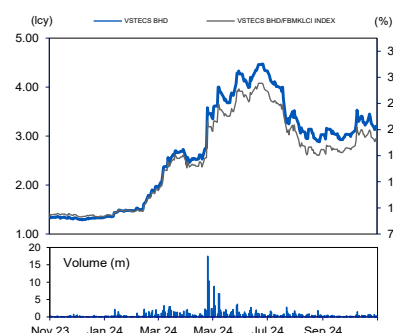
Major Shareholders

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

FY24 NAV/Share (RM) 1.41

FY24 Net Cash/Share (RM) 0.33

PRICE CHART



Source: Bloomberg

ANALYST(S)

Ku Wei Xiang
+603 2147 1916
weixiang@uobkayhian.com

Desmond Chong
+603 2147 1980
desmondchong@uobkayhian.com

- 9M24 sales rose 9% yoy**, driven by a strong rebound in both consumer and enterprise systems in 3Q24, effectively offsetting the sluggish market conditions in 1H24. Core net profit jumped 13% yoy in tandem with higher sales alongside increased net finance income and greater profit contributions from its associate, Isatec.
- Secured a series of key distributorships in 2024, charting a path for growth.** In 2024, VSTECS secured a series of new distributorships, including key partnerships with Starlink, AWS, Google Gemini and more. These collaborations are set to play a pivotal role in accelerating Malaysia's digitalisation efforts, bringing cutting-edge technology and cloud solutions to businesses and consumers nationwide. With these strategic alliances, VSTECS is well-positioned to foster innovation, enhance connectivity, and contribute to the country's technological advancement, charting a path for prolonged multi-year growth in the digital economy.

STOCK IMPACT

- New DC incentives: A strategic inflection point.** The Malaysian government is currently restructuring its incentive packages for data centre (DC) investments to prioritise high-value activities that bring broader economic benefits. Treasury Secretary General Datuk Johan Mahmood Merican highlighted concerns that while DCs involve significant capex, they often do not create enough high-skilled jobs and can strain electricity and water resources. To address this, the government will introduce a new investment incentive framework by mid-25, using a "scorecard" approach to assess projects based on factors like job creation, local business linkages, sustainability, and alignment with strategic economic sectors. These incentives will be backed by a RM1b strategic fund designed to cultivate local talent and promote high-value activities in the E&E and AI sectors, ensuring long-term economic benefits. We believe this could be an inflection point for VSTECS, as it will further accelerate its DC equipment and GPU server deals by multiple folds, growing from the current tens of millions of ringgit.
- Potential order from colocation DCs for IT equipment.** This order has yet to be reflected in our valuation. VSTECS targets the colocation DCs market, which typically secures its IT equipment from distributors such as VSTECS. According to C_TEC and the US Chamber of Commerce, approximately 73% of initial DC capex is attributed to IT equipment. Based on our channel checks, the estimated cost of IT equipment per megawatt (MW) is RM40m-50m. With 200MW of colocation DCs currently under construction, this presents a total addressable market (TAM) of around RM10b. It is worth noting that VSTECS holds a market share of 50% in the enterprise systems distribution in Malaysia, indicating a significant opportunity in this blue-ocean market segment. Note that the majority of colocation DCs in Malaysia are still in the construction and mechanical and electrical (M&E) phase. VSTECS has already engaged in this phase by providing UPS systems and smart cooling systems. Typically, this phase takes 1-2 years to complete before transitioning to the installation of IT equipment.

VALUATION/RECOMMENDATION

- Maintain BUY with an unchanged target price of RM5.02**, based on 20.0x 2025F PE. Given the lack of local listed peers for valuation benchmarking, we use a 1.0x PEG ratio (compared with 2.0x PEG ratio which is the average peak PEG valuation of tech names during the 2021 tech run), reflecting a three-year net profit CAGR of 20% from 2023. The booming DC industry in Malaysia, reminiscent of the tech bull cycle in 2021, supports this valuation.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<ul style="list-style-type: none"> Environmental <ul style="list-style-type: none"> Electricity withdrawal from main grid reduced by 20% yoy in 2023. Solar power constituted 41% of total electricity consumed in 2023. 26% reduction in paper consumption. Social <ul style="list-style-type: none"> Maintaining a 50% male-female composition among total employees. The group recorded zero work fatalities over the past nine years. 100% local employees. Governance <ul style="list-style-type: none"> Zero confirmed corruption or harassments cases reported. Zero fines or penalties from regulatory authorities.

KEY PRINCIPAL RELATIONSHIPS

STRONG 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

DC PRODUCTS AND SOLUTIONS

PRODUCT CATEGORY	Key Partners/Products
NETWORKING	Highly scalable cut-to-40G, AI/ML Machine Learning ready, Leaders in DC networking, Fast deployment and simple O&M. Partners: Cisco, Dell, Huawei, Juniper, NVIDIA.
CYBER SECURITY	Next generation firewall, Multi-layered segmentation, Full layer 7 protection against malware, Leaders in magic quadrant for firewalls. Partners: Cisco, Juniper, Palo Alto, Trend Micro, Kaspersky, Splunk.
SERVERS	Nvidia certified GPU servers, Accelerated computing, energy efficiency, Direct water cooling server. Partners: Dell, Fujitsu, Hewlett Packard Enterprise, Lenovo, Fusion.
STORAGE	Full flash/hybrid mode available, High service, fault tolerant, Integration with backup software. Partners: Dell, Huawei, PowerProtect Enterprise, NetApp, Pure Storage.
SOFTWARE	Virtualisation, resource optimisation, High availability, disaster recovery, Cloud integration, next gen AI. Partners: Commvault, iOSS, Microsoft, Puppet, Rubrik, Veeva.
ENERGY	Modular data centre systems, Digital control lithium power UPS, Smart cooling system. Partners: APC, Huawei, Legrand.

Source: VSTECS

PROFIT & LOSS

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Net Turnover	2,727.2	3,035.6	3,413.8	3,868.3
EBITDA	82.7	89.0	111.8	135.9
Depreciation & Amortisation	(3.1)	(3.1)	(1.6)	(1.0)
EBIT	79.6	92.2	113.4	136.9
Associate Contributions				
Net Interest Income/(Expense)	(1.3)	(1.3)	(1.3)	(1.3)
Pre-tax Profit	82.8	95.9	117.8	142.0
Tax	(15.4)	(23.0)	(28.3)	(34.1)
Minorities	0.0	0.0	0.0	0.0
Net Profit	67.4	72.9	89.5	107.9
Net Profit (Adjusted)	62.0	72.9	89.5	107.9

BALANCE SHEET

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Fixed Assets	3.7	1.6	1.0	1.0
Other LT Assets	57.1	57.1	57.1	57.1
Cash/ST Investment	150.9	149.9	171.4	190.7
Other Current Assets	600.3	673.4	760.2	865.9
Total Assets	812.0	882.0	989.7	1,114.6
ST Debt	2.5	1.7	1.7	1.7
Other Current Liabilities	315.6	331.5	389.0	437.5
LT Debt	0.0	0.0	0.0	0.0
Other LT Liabilities	4.1	9.1	14.6	20.9
Shareholders' Equity	456.4	503.8	548.6	618.7
Minority Interest	0.0	0.0	0.0	0.0
Total Liabilities & Equity	812.0	882.0	989.7	1,114.6

CASH FLOW

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Operating	107.6	25.6	67.4	58.1
Pre-tax Profit	82.8	95.9	117.8	142.0
Tax	(22.8)	(23.0)	(28.3)	(34.1)
Depreciation & Amortisation	1.7	3.1	1.6	1.0
Working Capital Changes	49.4	(55.4)	(29.3)	(57.2)
Other Operating Cashflows	(1.8)	8.1	7.2	7.4
Investing	0.3	(1.0)	(1.0)	(1.0)
Capex (Growth)	(3.0)	(1.0)	(1.0)	(1.0)
Investments	0.0	0.0	0.0	0.0
Proceeds from Sale of Assets	0.1	0.0	0.0	0.0
Others	3.1	0.0	0.0	0.0
Financing	(3.6)	(25.6)	(44.8)	(37.8)
Dividend Payments	(22.1)	(25.5)	(44.8)	(37.8)
Issue of Shares	0.0	0.0	0.0	0.0
Proceeds from Borrowings	(0.8)	(1.3)	(1.3)	(1.3)
Loan Repayment	0.0	0.0	0.0	0.0
Others/Interest Paid	0.6	(0.1)	(0.1)	(0.1)
Net Cash Inflow (Outflow)	104.3	(1.0)	21.6	19.2
Beginning Cash & Cash Equivalent	46.6	150.9	149.9	171.4
Changes Due to Forex Impact	0.0	0.0	0.0	0.0
Ending Cash & Cash Equivalent	150.9	149.9	171.4	190.7

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA Margin	3.0	2.9	3.3	3.5
Pre-tax Margin	3.0	3.2	3.4	3.7
Net Margin	2.3	2.4	2.6	2.8
ROA	8.3	8.3	9.0	9.7
ROE	14.8	14.5	16.3	17.4
Growth				
Turnover	(1.6)	11.3	12.5	13.3
EBITDA	4.0	7.6	25.6	21.5
Pre-tax Profit	3.4	15.8	22.8	20.5
Net Profit	13.0	8.1	22.8	20.5
Net Profit (Adjusted)	4.5	17.5	22.8	20.5
EPS	4.5	17.5	22.8	20.5
Leverage				
Debt to Total Capital	0.3	3.8	3.4	3.0
Debt to Equity	0.0	6.6	6.1	5.4
Net Debt/(Cash) to Equity	(25.7)	(23.1)	(25.2)	(25.4)
Interest Cover (x)	62.7	72.6	89.4	107.8

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