



AmInvestment Bank

## Company report

## VSTECS

(VST MK EQUITY, VSTE.KL)

4 Feb 2022

Conduit for Malaysia's digital economy growth

UNRATED

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Rationale for report: Company Update

Price RM1.12  
52-week High/Low RM1.53/RM1.07

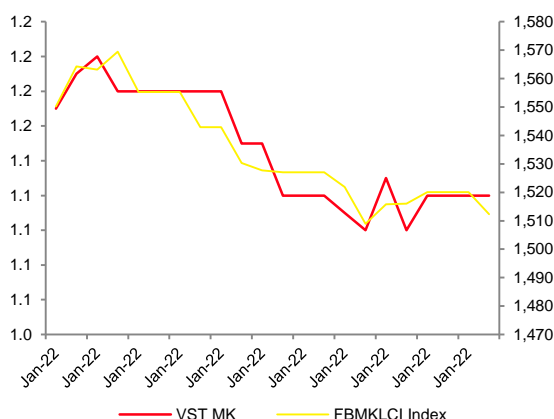
## Investment Highlights

YE to Dec	FY17	FY18	FY19	FY20
Revenue (RM mil)	1,855.0	1,632.3	1,802.3	2,017.5
Core net profit (RM mil)	26.3	24.6	29.6	36.9
FD Core EPS (sen)	7.3	6.9	8.3	7.3
FD Core EPS growth (%)	25.3	-6.2	20.4	25.3
DPS (sen)	1.5	1.3	1.3	1.5
PE (x)	15.3	16.4	13.6	10.9
EV/EBITDA (x)	11.0	11.8	8.6	6.7
Div yield (%)	1.1	1.1	1.1	1.3
ROE (%)	11.5	8.8	9.9	11.5
Net Gearing (%)	nm	nm	nm	nm

## Stock and Financial Data

Shares Outstanding (million)	357.0
Market Cap (RMmil)	399.8
Book Value (RM/share)	0.94
P/BV (x)	1.2
ROE (%)	11.5
Net Gearing (%)	-
Major Shareholders	VSTECS Holdings (Singapore) Limited (43.1%) Sengin Sdn Bhd (12.2%) Dasar Technologies Sdn Bhd (8.6%)
Free Float	92.6
Avg Daily Value (RMmil)	0.5

Price performance	3mth	6mth	12mth
Absolute (%)	(17.0)	(17.3)	(2.6)
Relative (%)	(14.3)	(18.3)	0.9



- **Stock Idea.** VSTECS is the largest distributor for ICT products and enterprise systems in Malaysia. Based in Petaling Jaya, the company was listed on the Main Market of Bursa Malaysia in April 2010.
- The group's 3 business segments are ICT Distribution, Enterprise Systems, and ICT Services. Under ICT Distribution, VSTECS distributes ICT products primarily through retailers while Enterprise Systems distribute commercial and enterprise ICT products to system integrators and corporate dealers. Complementing these 2 segments is ICT Services, which the group add value by providing enterprise solution by setting up infrastructure for clients' servers, network and cybersecurity.
- In 9MFY21, VSTECS' revenue rose by a stellar 37% YoY while EBIT accelerated even faster by 55% YoY. This is largely contributed by strong demand from ICT products such as PC notebooks and tablets with the persistence of work/study from home trends. As at end-3QFY21, the backlog for the shipment of PC notebooks and tablets stood at 15 weeks, much longer than pre-pandemic era of 4 weeks.
- In terms of supply chain disruptions, recent conversation with the management indicated that VSTECS has not been spared from the high shipping and logistics cost to import PC notebooks and tablets. However, the impact is substantively mitigated by higher quantity in shipments, resulting in lower average cost per unit.
- Based on the Department of Statistics, percentage of households with computer access in Malaysia stood at 77.6% in 2020. With the trend moving towards multiple PCs per households given the need to work/study from home coupled with government's extension of special tax relief of RM2,500 for the purchase of handphones, computers and tablets (which was announced in Budget 2022), a higher penetration of IT access in households will further drive VSTECS growth momentum.
- Key risks to the group stem from worsening supply chain disruptions, which continue to affect ICT product shipment. In addition, any lockdown or movement restrictions will impede project implementation and strain the group's working capital.
- VSTECS is currently trading at an undemanding trailing PE of 8x with 9MFY21 earnings surging by 47% YoY. Pending 4QFY21 results next month, we expect the growth trajectory to continue, supported by pent-up consumer demand and year-end holiday season sales.

## BACKGROUND

### Established more than 3 decades ago

VSTECS, formerly known as ECS ICT was established in 1985. It started out as a marketer for personal computers and is currently a leading ICT distributor in Malaysia, operating through its 3 segments: ICT Distribution, Enterprise Systems and ICT Services.

VSTECS is 43%-owned by VSTECS Holdings (Singapore) Limited (VSTECS Singapore), which in turn is wholly-owned by VSTECS Holdings Limited (VSTECS Hong Kong), listed in Hong Kong Stock Exchange (Exhibit 1).

The group was listed on Main Market of Bursa Malaysia in 2010.

### Experienced management

VSTECS is led by Executive Director and CEO Soong Jan Hsung, who joined the group since 1987. Having more than 30 years of experience in the ICT distribution market, he played a vital role in transforming VSTECS to be a leading ICT distributor in Malaysia.

### Unparalleled distributorship network

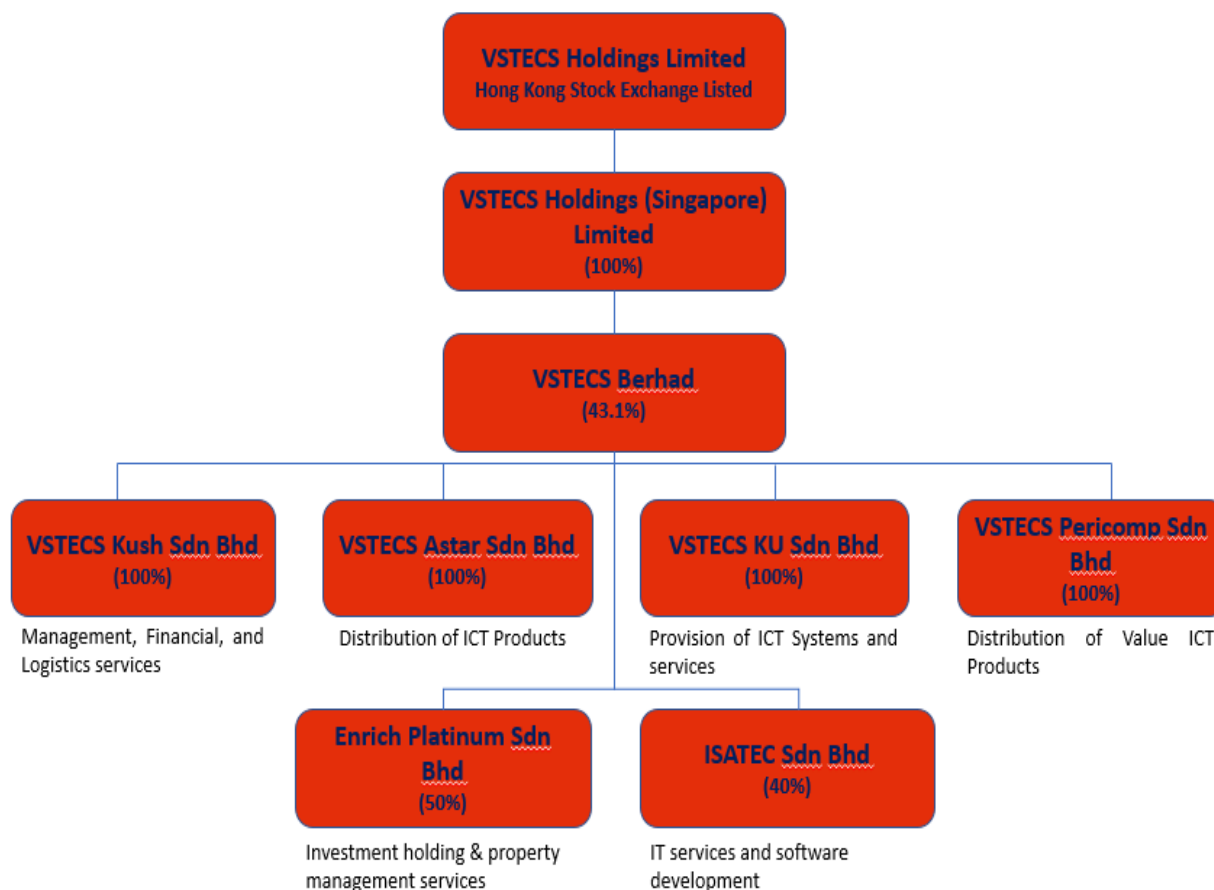
Through its vast nationwide network of 6,600 resellers comprising of retailers, system integrators and corporate dealers, VSTECS distributes a comprehensive range of ICT products such as notebooks, personal computers, smartphones, smartwatches, VR headsets, tablets, printers, software, network/communication infrastructure, servers and enterprise software.

In addition, VSTECS also operates B2C official brand stores for its principals in e-commerce platform such as Lazada and Shopee. VSTECS distributes products from more than 40 leading principals, including Apple, Dell, Lenovo, HP, Samsung, DJI and Huawei (Exhibit 2).

### Supported by strategic shareholders

VSTECS is affiliated with VSTECS Hong Kong and VSTECS Singapore, which has access to a network of more than 25,000 channel partners across China, Thailand, Singapore, Indonesia, Philippines, Cambodia, Laos and Myanmar. This provides VSTECS the competitive advantage to assess the demand and marketability of various ICT products from other regions before introducing them to Malaysia.

## EXHIBIT 1: VSTECS CORPORATE STRUCTURE



Source: Company; AmInvestment Bank

## EXHIBIT 2: BRANDS UNDER VSTECs' DISTRIBUTION



Source: Company

## FINANCIAL HIGHLIGHTS

#### Resilient track record with distinctive strategy

VSTECs has been profitable since its listing on Bursa Malaysia's Main Market in 2010. This is the result of management's keen insight in identifying technology trends in both consumer and business space, thereby partnering with key principals to introduce ICT products that cater to those specific needs.

The resilient earnings performance has allowed VSTECs to consistently reward its shareholders with a generous dividend payout of over 30%.

#### Net cash position

As at 30 September 2021, VSTECs has a robust net cash position of RM122mil – 30% of its market cap currently. The strong balance sheet allows the group to invest in identified area for growth such as cloud business.

Furthermore, VSTECs' healthy balance sheet should enable the group to raise funds at ease if the need ever arises.

#### Cloud business to fuel growth

Moving forward, VSTECs will place strong focus on its cloud business in Enterprise Systems as the group believes public and private businesses will embrace hybrid cloud structures. This is largely supported by businesses which are operating under the new normal now realizing the permanency of remote working culture. Currently, the group is working with public cloud providers IBM, Microsoft Azure and Alibaba Cloud by distributing and reselling their cloud services.

We expect this segment to be the dominant contributor of the group's PBT starting in 2HFY22, underpinned by its higher margin (3.9% in 2020 compared to ICT Distribution's 1.6%).

#### Completed 1-for-1 bonus issue

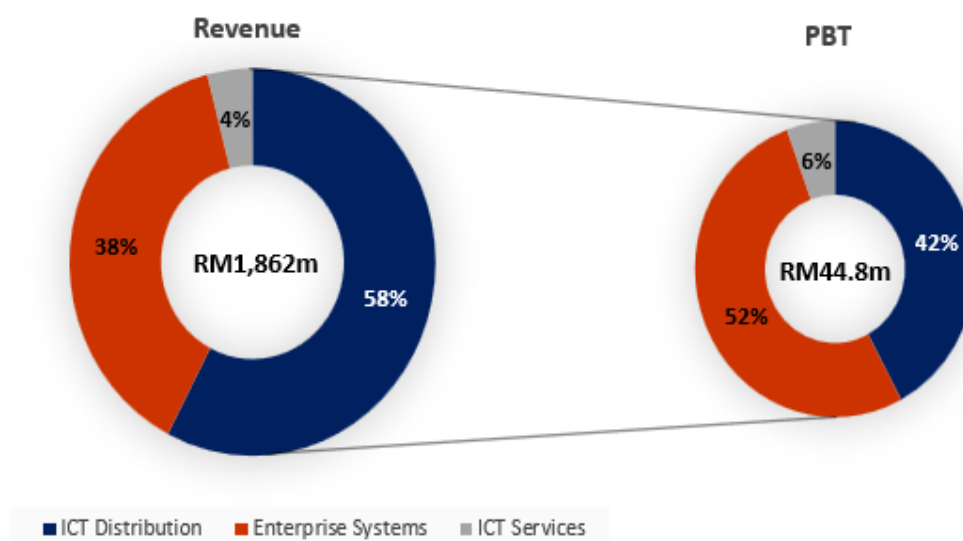
VSTECs has completed a 1-for-1 bonus issue on 4 August 2021. We believe this exercise is expected to enhance trading liquidity, encouraging wider equity participants.

## EXHIBIT 3: EARNINGS SUMMARY

YE to Dec (RM mil)	3QFY20	2QFY21	3QFY21	QoQ (%)	YoY (%)	9MFY20	9MFY21	YoY (%)
Revenue	536.4	563.9	629.6	11.6	17.4	1,357.9	1,862.4	37.2
COGS	(508.4)	(534.7)	(595.9)	11.4	17.2	(1,285.2)	(1,767.0)	37.5
Operating Profit (EBIT)	12.7	12.3	15.9	29.5	25.5	28.7	44.4	55.0
Profit Before Tax	13.5	13.1	17.0	29.9	25.7	31.6	47.1	49.0
Taxation	(3.4)	(3.2)	(4.4)	38.9	29.4	(7.7)	(11.9)	54.8
Profit After Tax	10.1	9.9	12.6	27.0	24.4	23.9	35.2	47.1
EPS (sen)	2.8	2.8	3.5	27.3	25.0	6.7	9.9	47.8
Net gearing (x)	Net cash	Net cash	Net cash			Net cash	Net cash	
EBIT margin (%)	2.4	2.2	2.5			2.1	2.4	
PBT margin (%)	2.5	2.3	2.7			2.3	2.5	
Net profit margin (%)	1.9	1.8	2.0			1.8	1.9	
Effective tax rate (%)	25.3	24.4	26.1			24.4	25.3	

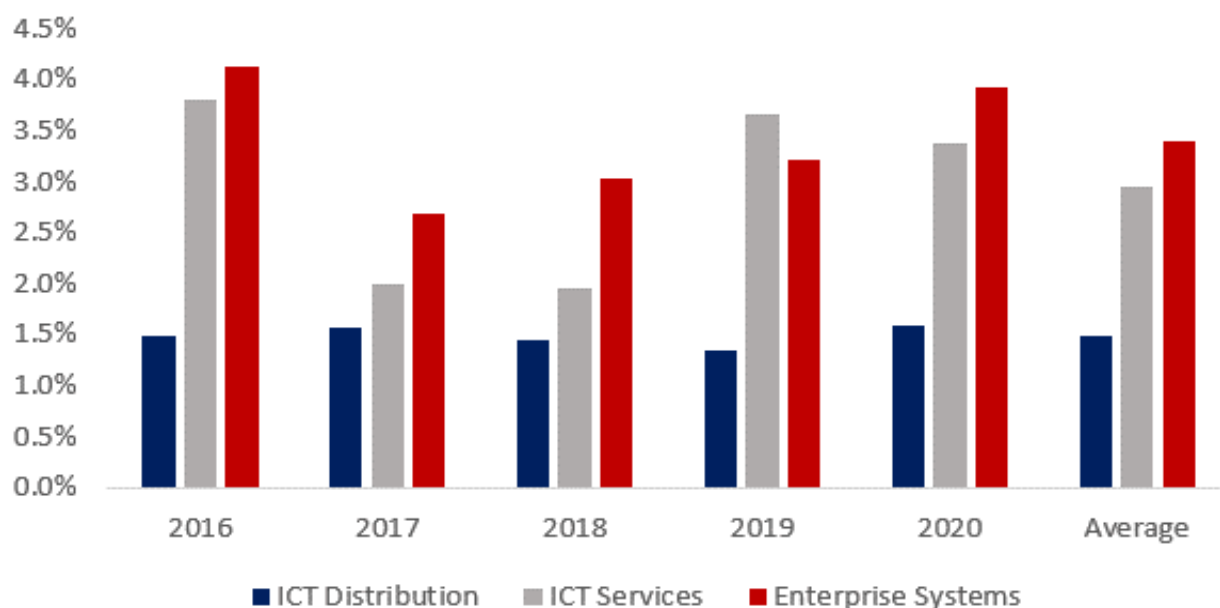
Source: Company; AmlInvestment Bank

## EXHIBIT 4: 9MFY21 REVENUE &amp; PBT BREAKDOWN



Source: Company; AmlInvestment Bank

EXHIBIT 5: VSTECS' SEGMENTAL PBT MARGIN



Source: Company; AmlInvestment Bank

EXHIBIT 6: SWOT ANALYSIS

### Strengths

Unrivaled distributorship network serves as high barrier of entry. The group has more than 6,600 resellers nationwide comprising retailers, corporate dealers and system integrators.

Experienced management leading the group since its inception.

Distributor for familiar brands such as Apple, Dell, Lenovo, Samsung and Huawei with VSTECS serving as a conduit for Malaysia's ICT growth.

### Weaknesses

Business nature traditionally demand low single-digit margins.

Reliance on system integrators to resell products such as cloud solutions to end-users, which may require additional efforts to align with the group's overall strategy.

### Opportunities

Budget 2022 provides incentives to spur local ICT demand such as special tax relief of RM2,500 for purchase of PCs, smartphones and tablets.

PCs per household is still low, with the trend moving towards multiple PCs per household.

Businesses operating under new normal embracing digitalization and automation supports enterprise ICT growth, particularly on network infrastructure, cybersecurity and cloud servers.

### Threats

Worsening supply chain disruption may impede the shipments for ICT products, particularly for PC notebooks and tablets.

Further lockdown or movement restrictions affecting project implementation, straining the group's working capital.

Forex volatility affects hedge effectiveness.

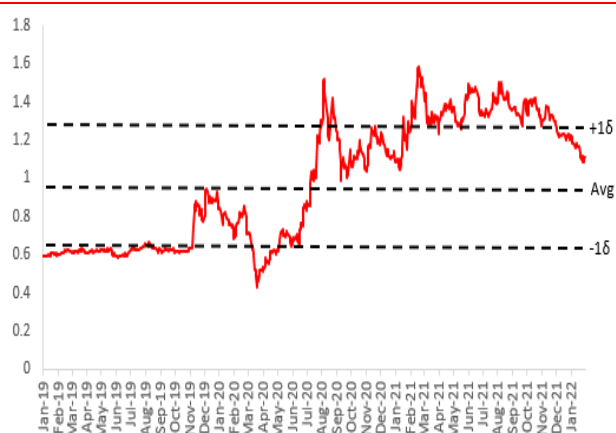
Source: AmlInvestment Bank

## EXHIBIT 7: REGIONAL PEER VALUATIONS

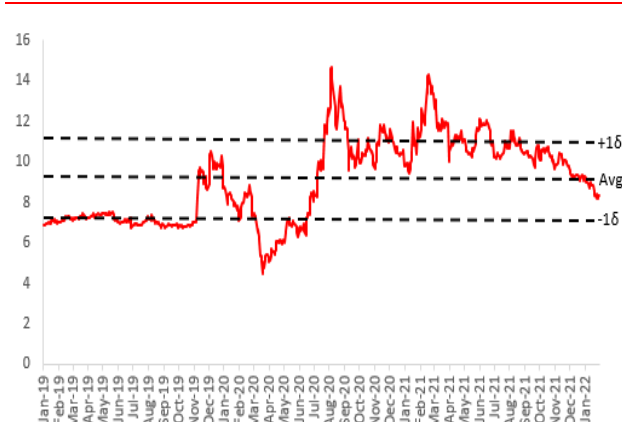
		Market Cap		PE (x)	PB (x)	EV/EBITDA (x)	Net Gearing (%)	ROE (%)	Earnings Growth (%)
		US\$mil	FYE	TTM	TTM	TTM	FY20/21	FY20/21	FY20/21
Synnex	USA	10,337.3	Nov	14.9	1.3	16.9	45.6	6.4	(38.9)
ALSO Holding AG	Switzerland	3,362.9	Dec	21.5	3.8	13.3	Net Cash	16.8	30.0
VSTECs Holdings Ltd	Hong Kong	1,437.0	Dec	8.4	1.6	8.0	50.59	17.1	32.5
<b>VSTECs</b>	<b>Malaysia</b>	<b>95.5</b>	<b>Dec</b>	<b>8.4</b>	<b>1.1</b>	<b>4.5</b>	<b>Net Cash</b>	<b>11.5</b>	<b>24.9</b>
<b>Average</b>				<b>14.7</b>	<b>1.5</b>	<b>14.3</b>			

Source: Bloomberg; AmlInvestment Bank

## EXHIBIT 8: PB BAND CHART



## EXHIBIT 9: PE BAND CHART



## EXHIBIT 10: ESG RATING

<b>Overall</b>	★	★	★		
Energy efficiency	★	★	★		
Recycling & waste management	★	★	★		
Supply chain management	★	★	★	★	
Industry 4.0 implementation	★	★	★	★	
Employee wellbeing	★	★	★		
Human capital development	★	★	★		
Corporate social responsibility	★	★	★		
Board diversity	★	★			
Accessibility & transparency	★	★	★	★	

Source: AmlInvestment Bank

## EXHIBIT 11: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY16	FY17	FY18	FY19	FY20
Revenue	1,823.38	1,855.03	1,632.32	1,802.28	2,017.49
EBITDA	38.78	32.03	29.54	38.69	45.70
Depreciation/Amortisation	1.49	1.32	1.30	3.22	3.01
Operating income (EBIT)	37.29	30.71	28.24	35.47	42.69
Other income & associates	-	(0.66)	(0.68)	(3.15)	(2.76)
Net interest	(1.29)	-	-	-	(1.56)
Exceptional items	0.01	-	-	-	0.21
<b>Pretax profit</b>	<b>40.37</b>	<b>35.64</b>	<b>32.78</b>	<b>39.31</b>	<b>48.69</b>
Taxation	10.23	9.38	8.17	9.71	11.70
Minority interests	-	-	-	-	-
<b>Net profit</b>	<b>30.14</b>	<b>26.27</b>	<b>24.60</b>	<b>29.59</b>	<b>36.94</b>
Core net profit	30.14	26.27	24.60	29.59	36.73
Balance Sheet (RMmil, YE 31 Dec)	FY16	FY17	FY18	FY19	FY20
PPE	3.16	2.82	2.42	4.28	7.57
Intangible assets	0.57	0.57	0.57	0.57	0.57
Other long-term assets	6.06	13.70	24.14	48.43	37.79
<b>Total non-current assets</b>	<b>9.79</b>	<b>17.09</b>	<b>27.13</b>	<b>53.28</b>	<b>45.94</b>
Cash & cash equivalent	110.22	50.53	54.54	71.02	98.33
Inventories	113.45	122.98	132.75	131.63	86.53
Trade receivables	253.15	281.63	251.16	280.85	311.25
Other current assets	11.88	-	12.97	11.15	17.28
<b>Total current assets</b>	<b>488.69</b>	<b>455.14</b>	<b>451.41</b>	<b>494.63</b>	<b>513.38</b>
Trade payables	195.30	198.63	143.80	189.76	153.60
Short-term borrowings	-	-	-	1.94	1.83
Other current liabilities	47.06	1.10	46.64	48.26	66.06
<b>Total current liabilities</b>	<b>242.36</b>	<b>199.74</b>	<b>190.44</b>	<b>239.96</b>	<b>221.48</b>
Long-term borrowings	-	-	-	0.18	3.61
Other long-term liabilities	-	-	-	-	-
<b>Total long-term liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.18</b>	<b>3.61</b>
<b>Shareholders' funds</b>	<b>256.12</b>	<b>272.49</b>	<b>288.10</b>	<b>307.78</b>	<b>334.22</b>
Minority interests & perpetual bond	-	-	-	-	-
BV/share (RM)*	0.71	0.76	0.80	0.85	0.93
Cash Flow (RMmil, YE 31 Dec)	FY16	FY17	FY18	FY19	FY20
Pretax profit	40.37	35.64	32.78	39.31	48.69
Depreciation/Amortisation	1.49	1.32	1.30	3.22	3.01
Net change in working capital	(24.84)	(62.47)	(6.28)	17.06	0.65
Others	(12.98)	(12.91)	(10.40)	(12.16)	(14.09)
<b>Cash flow from operations</b>	<b>4.04</b>	<b>(38.41)</b>	<b>17.40</b>	<b>47.43</b>	<b>38.26</b>
Capital expenditure	-	(12.17)	-	(18.80)	-
Net investments & sale of fixed assets	(1.24)	(0.88)	(0.83)	(0.93)	(0.95)
Others	-	-	(5.26)	-	0.80
<b>Cash flow from investing</b>	<b>(1.24)</b>	<b>(13.05)</b>	<b>(6.10)</b>	<b>(19.72)</b>	<b>(0.15)</b>
Debt raised/(repaid)	-	-	-	(1.91)	(2.00)
Equity raised/(repaid)	-	-	-	(0.93)	(0.52)
Dividends paid	(10.80)	(9.90)	(9.00)	(8.98)	(9.82)
Others	1.98	1.67	1.71	0.58	1.54
<b>Cash flow from financing</b>	<b>(8.82)</b>	<b>(8.23)</b>	<b>(7.29)</b>	<b>(11.23)</b>	<b>(10.80)</b>
<b>Net cash flow</b>	<b>(6.02)</b>	<b>(59.69)</b>	<b>4.02</b>	<b>16.47</b>	<b>27.31</b>
<b>Adjustments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net cash/(debt) b/f</b>	<b>116.24</b>	<b>110.22</b>	<b>50.53</b>	<b>54.54</b>	<b>71.02</b>
<b>Net cash/(debt) c/f</b>	<b>110.22</b>	<b>50.53</b>	<b>54.54</b>	<b>71.02</b>	<b>98.33</b>
Key Ratios (YE 31 Dec)	FY16	FY17	FY18	FY19	FY20
Revenue growth (%)	-4.2%	1.7%	-12.0%	10.4%	11.9%
EBITDA growth (%)	-7.7%	-17.4%	-7.8%	31.0%	18.1%
Pretax margin (%)	2.2%	1.9%	2.0%	2.2%	2.4%
Net profit margin (%)	1.7%	1.4%	1.5%	1.6%	1.8%
Interest cover (x)	28.81	NM	NM	NM	27.40
Effective tax rate (%)	25.3%	26.3%	24.9%	24.7%	24.0%
Dividend payout (%)	35.8%	37.7%	36.6%	30.3%	26.6%
Receivable turnover (days)	8.26	6.94	6.13	6.78	6.81
Inventory turnover (days)	15.43	14.95	12.09	12.93	17.52
Payable turnover (days)	10.32	8.97	9.03	10.25	11.13

\*Adjusted retrospectively after 1 for 1 bonus issues in Aug 2021



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