

## Investment Idea



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research@rakutentrade.my

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## VSTECS Bhd

## Hardware &amp; software distributor

By Queenie Tan | huiying@rakutentrade.my

VSTECS Bhd (VSTECS) is a leading distribution hub for Information & Communications Technology (ICT) products and enterprise systems. The company also provides technical support and assistance to its clients. We recommend BUY with a target price of RM1.80 based on 11x PER over FY22 EPS. Our 11x PER premium over FBM Small Cap FY22 PER of 8x is justified given VSTECS' above average earnings growth in FY22. Our recommendation is premised on: (a) pent-up consumer demand for ICT products following the relaxation of MCO; (b) higher demand of ICT products and services due to work from home and study from home trends; (c) expect better product mix going forward due to higher sales generated from Enterprise System segment; and (d) decent dividend yield.

We believe the relaxations of MCO nationwide will cause a spike in buying momentum of ICT products due to pent-up demand. Meanwhile, the work-from-home (WFH) and online shopping trends are some of the key factors to boost VSTECS' sales via B2C official stores such as Lazada, Shopee and HP.com. In addition, the PERMAI Initiative 9 allows RM2,500 tax waiver for purchase of ICT devices until 31 Dec 2021 and Tabung CERDIK announced in Budget 2021 where 150,000 laptops and tablets would be given to 150,000 students to support virtual learning by September 2021 are major factors to drive VSTECS' revenue in 2HFY21.

Meanwhile, the trend of robotic smart home system is growing and offers huge potential opportunities for VSTECS. The company is actively capturing market share by distributing different brands of smart Internet of Things (IoT) home devices imported from different countries such as U.K., U.S and Korea.

VSTECS expects its enterprise services segment to be the key growth area in the future. Backend infrastructure such as cybersecurity or network security has been in high demand together with the current WFH trend. Other than IBM, VSTECS has also recently teamed up with AliCloud and Microsoft Azure who has data centres in Malaysia to become distributor/reseller of their cloud services. This business offers higher profit margin and we see this is a good opportunity for VSTECS to grow its enterprise services business.

We expect VSTECS to register net profit of RM47.5m and RM58.6m for FY21 and FY22 respectively, driven by (a) pent-up consumer demand for the ICT products following the relaxation of MCO; (b) higher demand of ICT devices and ICT services due to workforce mobility; and (c) higher sales generated from Enterprise System segment due to higher demand of backend infrastructure as well as its recent partnerships with Alicloud and Microsoft Azure.

VSTECS has been paying dividend consistently for the past 3 years with estimated yields of 3.5% and 4.3% for this and next year. The company also has a healthy balance sheet with its net cash position of RM98.3m as at FY2020.

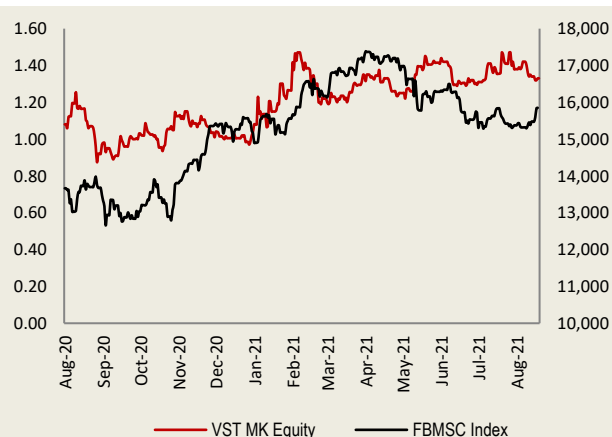
## Technically Speaking

Resistance level	RM1.53
Support level	RM1.20



BUY

Price: RM1.33  
Target price: RM1.80



KLCI	1,586.9
YTD FBM KLCI change	-2.5%
YTD FBM SC Index change	+3.2%
YTD stock price change	32.3%

## Stock Information

Market Cap (RM'm)	471.2
Issued Shares (m)	357.0
52-week range (H)	1.525
52-week range (L)	0.835

## Major Shareholders

VSTECS Holdings LTD	43.1%
Sengin Sdn Bhd	12.2%
Dasar Technologies Sdn Bhd	8.6%

## Summary Earnings Table

FY Dec (RM'm)	2019A	2020A	2021F	2022F
Revenue	1,802.3	2,017.5	2,665.6	3,110.1
EBIT	36.2	44.4	59.9	74.2
Pretax profit	39.3	48.5	63.1	77.6
<b>Net profit</b>	<b>29.6</b>	<b>36.8</b>	<b>47.5</b>	<b>58.6</b>
<b>Core net profit</b>	<b>29.7</b>	<b>36.6</b>	<b>47.5</b>	<b>58.6</b>
Consensus	n.a.	n.a.	n.a.	n.a.
Core EPS (sen)	8.3	10.2	13.3	16.4
EPS growth (%)	24.1%	23.1%	29.8%	23.4%
DPS (sen)	2.8	3.5	4.7	5.7
PER (x)	16.3	13.3	10.2	8.3
BV/Share (RM)	0.86	0.94	1.02	1.13
ROE (%)	9.6%	10.9%	13.6%	15.2%
Div. Yield (%)	2.0%	2.6%	3.5%	4.3%

Sources: Company, Rakuten Trade Research



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 [research@rakutentrade.my](mailto:research@rakutentrade.my)

COMPANY	Definition
<b>Buy</b>	The stock return is expected to exceed the KLCI benchmark by more than 10% over the next 6-12 months.
<b>Trading Buy</b>	Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 10% over the next 3-6 months. Trading Buy is generally for investors who are willing to take on higher risks.
<b>Take profit</b>	The stock return previously recommended has gained by >10%
<b>Hold</b>	The stock return is expected to be in line with the KLCI benchmark (+/- 5%) over the next 6-12 months.
<b>Sell</b>	The stock return is expected to underperform the KLCI benchmark by more than 10% over the next 6-12 months.
SECTOR	
<b>Overweight</b>	Industry expected to outperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
<b>Neutral</b>	Industry expected to perform in-line with the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
<b>Underweight</b>	Industry expected to underperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.

### **Scoring model:**

The in-house scoring model is derived from Rakuten Trade Research valuation matrix based on earnings growth, earnings visibility, business model, valuation, balance sheet, technical analysis, and shareholder value creation. Each parameter is given a specific weighting.

All buy calls are based on the research team's judgement. Investing is risky and trading is at your own risk. We advise investors to:

- read and understand the contents of the disclosure document or any relevant agreement or contract before investing;
- understand the risks involved in relation to the product or service;
- compare and consider the fees, charges and costs involved; and
- make your own risk assessment and seek professional advice, where necessary.

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Kenny Yee Shen Pin  
Head of Research