

16 February 2021

# VSTECS Berhad

## Moving to The Cloud

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### INVESTMENT MERIT

**Trading Buy with 27% upside – Fair Value of RM3.60 based on FY21E PER of 16x (+2SD from mean). Aside from order backlogs due to strong end-point device demand, catalysts for the group are: (i) ICT distribution boost from PERMAI and CERDIK initiatives, (ii) potential introduction of Alibaba Cloud products and solutions to Malaysia, (iii) being a possible beneficiary of the RM1.16b immigration systems contract won by IRIS (customer), and (iv) currently trading at attractive FY21E PER of merely 12.5x – offering a laggard angle to the technology sector’s monster rally.**

**Backlog of orders due to strong demand.** Following the Work-From-Home (WFH) trend, demand of endpoint devices has surged. Lead-times for popular endpoint devices like laptops and some tablets have doubled to 4-8 weeks. Building on this demand surge, we believe the seasonal decline in 1QFY21 revenue will be significantly smaller (vs. 1QFY20: -31.3% QoQ). The group’s ICT distribution segment also stands to gain from: (i) **the PERMAI initiative – until 31-Dec-2021** (RM2,500 tax waiver for purchase of endpoint devices – e.g.: mobile phones, computers, tablets), and (ii) **Tabung CERDIK announced in Budget 2021** (RM150m to provide laptops & tablets for 150k students at 500 schools). CERDIK’s first tranche of devices is expected to be delivered in February – potentially adding a boost to VSTECS’ 1QFY21 topline. Over the next 6-12 months, laptop demand is expected to remain elevated, while the introduction of more 5G-enabled devices will be a boon for the group.

**Watch the potent Enterprise Systems (ES) segment –** expected to be boosted by accelerated adoption and upgrade of: (i) back-end infrastructure (such as cyber/network security), and (ii) workforce mobility (to support the WFH trend). Separately, in Aug 2020, the group’s major shareholder VSTECS Holdings (Singapore) Limited entered into a partnership with Alibaba Cloud for cloud computing services. Naturally, we believe **Alibaba’s range of cloud products and solutions could soon be brought into Malaysia through VSTECS Berhad**, which could serve as another share price catalyst. According to an Alibaba Cloud survey, 66% of respondents are more supportive of cloud-based IT solutions for their businesses compared to pre-pandemic and there is still opportunity for greater adoption in Malaysia (72% based on survey) vs. Singapore (87%). Moreover, **the RM1.16b immigration system contract secured by IRIS (a customer of VSTECS) could possibly benefit VSTECS** given the high amount of software and hardware required. In our opinion, the group’s Enterprise Systems is the segment to watch in FY21.

**Signs point towards all-time high FY20 earnings.** 4QFY is typically the group’s strongest quarter. We expect the same for 4QFY20, reinforced by the 11% QoQ growth of global PC shipment estimate by Gartner (*Exhibit 3*). In 4QFY20, Lenovo, HP and Dell remained the top brands – accounting for 63.5% of global PC shipment, while the duo (Lenovo, Dell) registered commendable growth of 17% and 22% QoQ, respectively, (*refer to Exhibit 4 & 5*). VSTECS (1 of 2-3 distributors in Malaysia for the top 3 brands) is a direct beneficiary. Alongside: (i) general practice for corporates to exhaust their yearly IT budget, and (ii) seasonally higher consumer spending (festive buying), we believe the group is likely to close its FY20 with earnings hitting an all-time-high.

**TRADING BUY with 27% upside – Fair Value of RM3.60**, pegged to 16x FY21E PER (+2SD) – still at c.33% discount to its peers. VSTECS is presently traded at an attractive FY21E PER of merely 12.5x. Riding on the technology sector’s coattails, we think its valuations will re-rate – angling the group as a laggard play. We think our ascribed FY21E PER of 16x (c.64% discount to KLTEC) is more than palatable considering the catalysts.

	Rating	Fair Value
Last Price	-	RM2.83
Kenanga	Trading Buy	<b>RM3.60</b>
Consensus	-	-

### Stock Information

Shariah Compliant	Yes
Stock Name	VSTECS BHD
Stock Code	5162
Industry	Distribution/Wholesale
YTD stock price chg	40.80%
Market Cap (RM'm)	505.16
Shares Outstanding (m)	178.50
52-week range (Hi)	2.86
52-week range (Low)	0.7
3-mth avg daily vol:	1,193,437.0
Free Float	26.0%
Beta	1.03

### Major Shareholders

Ecs Holdings Limited	43.1%
Sengin Sdn Bhd	12.2%
Dasar Technologies S	8.6%

### Financials

FYE Dec (RM'm)	FY19A	FY20E	FY21E
Revenue	1,802.3	1,894.2	2,235.2
EBIT	36.0	42.3	49.4
PBT	39.2	46.0	53.7
<b>Core NP</b>	29.5	34.5	40.3
<b>EPS (sen)</b>	16.4	19.3	22.6
PE (x)	17.2	14.6	12.5
BV/share	1.71	1.86	2.03
PB (x)	1.65	1.52	1.40
DPS (sen)	5.5	5.5	6.0
Dividend Yield (%)	1.9	1.9	2.1

### Quarterly Financial Data (RM m)

	1Q20	2Q20	3Q20
Revenue	372.7	448.8	536.4
Revenue Growth QoQ	-31.3%	20.4%	19.5%
PBT	8.8	9.3	13.5
PBT Margin	2.4%	2.1%	2.5%
Net Profit	6.8	7.0	10.1
EPS (sen)	3.79	3.93	5.66
EPS Growth QoQ	-36.7%	3.7%	43.7%

### Peers Comparisons

	PER (T12M)	PBV (T12M)	Mkt Cap (RM'm)
Omesti	222.6	1.7	319.3
Datasonic Group	23.9	5.4	1,327.3
Iris Corp	n.a.	4.0	1,140.5
<b>Average</b>	<b>123.2</b>	<b>3.7</b>	<b>929.0</b>

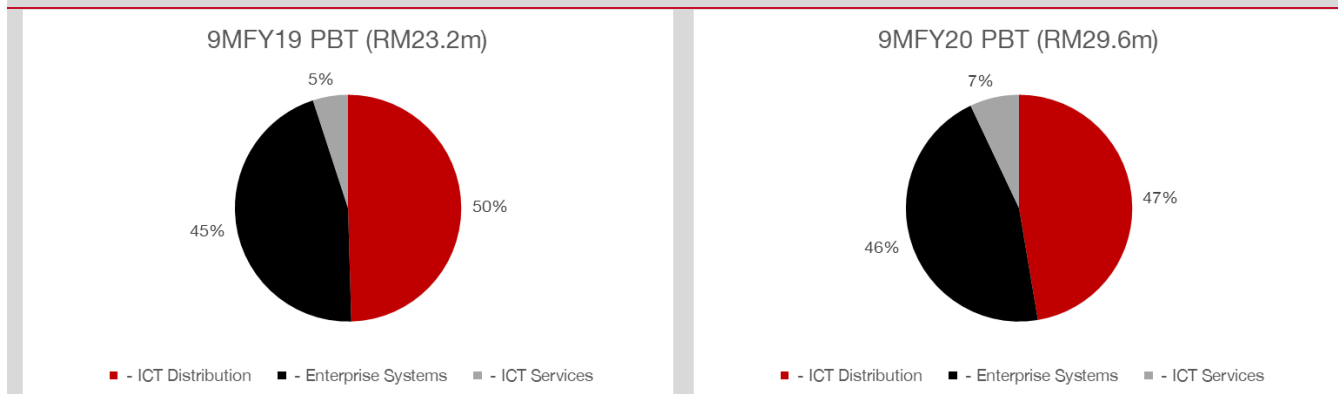
	PER (FY21E)	PBV (FY21E)	Mkt Cap (RM'm)
FBMSC Index	14.1	0.8	14.1
KLTEC Index	44.3	7.8	44.3



**Other Salient Points**

**There is more to VSTECs that meets the eye.** We believe there is a widespread misperception towards VSTECs as merely an ICT hardware distributor. This is not the case as its ES and ICT Services (related to ES) segments' 9MFY20 PBT contribution (53%) have overtaken ICT distribution (47%) – refer to Exhibit 1. Furthermore, the group (via its 40%-owned associate ISATEC) is also involved in software and mobile app development (with 30+ coders).

**Exhibit 1: Segmental Contribution Breakdown**



Source: Company, Kenanga

**Greater value-add.** While 9MFY20 Enterprise Systems segmental revenue was flat YoY (likely due to deferred spending on enterprise software arising from the MCO), ES PBT grew 28% YoY (Exhibit 2), with margin expansion of 0.8ppt, alluding to VSTECs' higher value-add.

**Exhibit 2: Segmental Growth & PBT Margins**

	9MFY19	9MFY20	YoY Growth
<b>Segmental Revenue (RM'm)</b>			
ICT Distribution	852.1	933.4	10%
Enterprise Systems	367.7	367.4	0%
ICT Services	40.3	57.1	42%
<b>TOTAL</b>	<b>1,260.2</b>	<b>1,357.9</b>	<b>8%</b>
<b>Segmental PBT (RM'm)</b>			
ICT Distribution	11.5	14.0	22%
Enterprise Systems	10.5	13.5	28%
ICT Services	1.2	2.1	78%
<b>TOTAL</b>	<b>23.2</b>	<b>29.6</b>	<b>27%</b>
<b>Segmental PBT margins (%)</b>			
ICT Distribution	1.3%	1.5%	
Enterprise Systems	2.9%	3.7%	
ICT Services	2.9%	3.6%	

Source: Company, Kenanga

**Exhibit 3: Preliminary Worldwide PC Vendor Unit Shipment Estimates**

Shipments (Units '000)	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	FY19	FY20	YoY
Lenovo	13,026	15,541	16,903	17,713	12,613	16,197	18,310	21,491	63,183	68,611	9%
HP Inc.	12,648	13,810	15,335	16,155	11,114	16,165	15,447	15,683	57,948	58,409	1%
Dell	9,944	10,680	11,343	12,127	10,158	10,648	10,827	13,199	44,094	44,832	2%
Apple	3,791	4,157	5,139	5,250	3,555	4,368	5,513	6,893	18,337	20,329	11%
Acer Group	3,322	3,241	3,928	4,035	2,900	4,007	5,085	4,741	14,526	16,733	15%
ASUS	3,526	2,960	4,206	3,975	2,603	3,593	4,747	4,570	14,667	15,513	6%
Others	12,604	12,658	12,014	12,493	8,693	9,829	11,448	12,813	49,769	42,783	-14%
<b>TOTAL</b>	<b>58,861</b>	<b>63,047</b>	<b>68,868</b>	<b>71,748</b>	<b>51,636</b>	<b>64,807</b>	<b>71,377</b>	<b>79,390</b>	<b>262,524</b>	<b>267,210</b>	<b>2%</b>

Source: Gartner, Kenanga

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**Exhibit 4: Preliminary Worldwide PC Vendor Unit Shipment Estimates**

QoQ Growth	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
Lenovo	-26%	19%	9%	5%	-29%	28%	13%	17%
HP Inc.	-22%	9%	11%	5%	-31%	45%	-4%	2%
Dell	-18%	7%	6%	7%	-16%	5%	2%	22%
Apple	-28%	10%	24%	2%	-32%	23%	26%	25%
Acer Group	-18%	-2%	21%	3%	-28%	38%	27%	-7%
ASUS	-12%	-16%	42%	-5%	-35%	38%	32%	-4%
Others	9%	0%	-5%	4%	-30%	13%	16%	12%
<b>TOTAL</b>	<b>-17%</b>	<b>7%</b>	<b>9%</b>	<b>4%</b>	<b>-28%</b>	<b>26%</b>	<b>10%</b>	<b>11%</b>

Source: Gartner, Kenanga

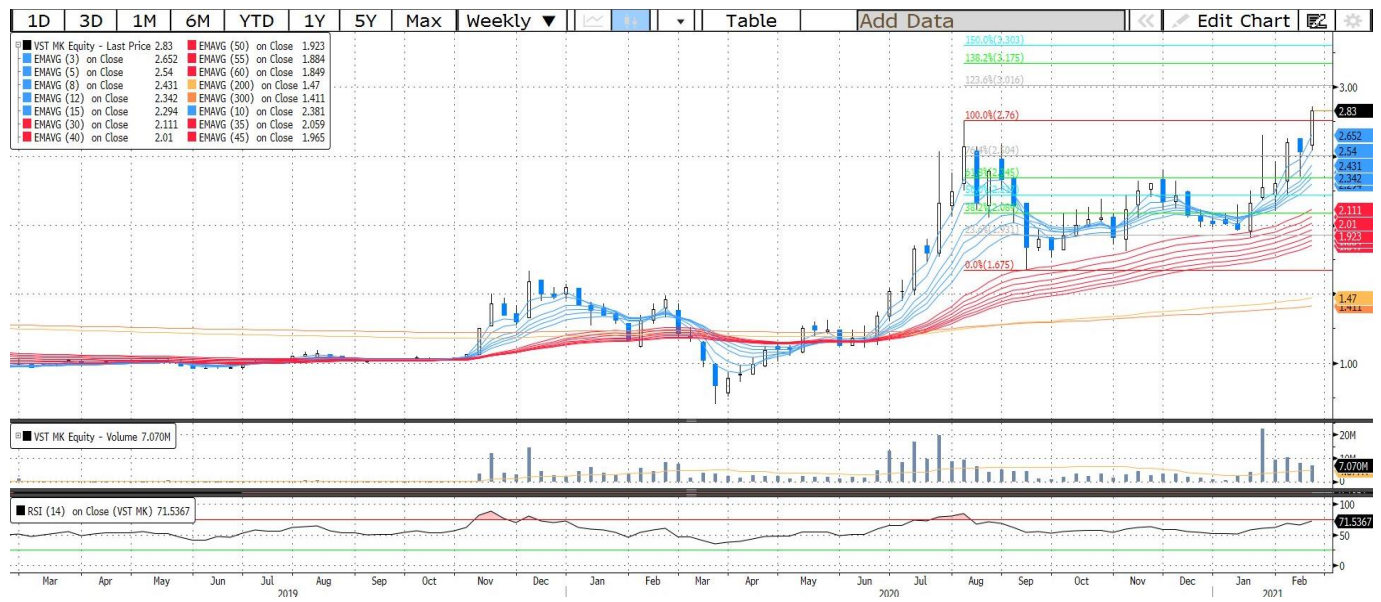
**Exhibit 5: Market Share of Preliminary Worldwide PC Vendor Unit Shipment Estimates**

Market Share (%)	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	FY19	FY20
Lenovo	22.1	24.6	24.5	24.7	24.4	25.0	25.7	27.1	24.1	25.7
HP Inc.	21.5	21.9	22.3	22.5	21.5	24.9	21.6	19.8	22.1	21.9
Dell	16.9	16.9	16.5	16.9	19.7	16.4	15.2	16.6	16.8	16.8
Apple	6.4	6.6	7.5	7.3	6.9	6.7	7.7	8.7	7.0	7.6
Acer Group	5.6	5.1	5.7	5.6	5.6	6.2	7.1	6.0	5.5	6.3
ASUS	6.0	4.7	6.1	5.5	5.0	5.5	6.7	5.8	5.6	5.8
Others	21.4	20.1	17.4	17.4	16.8	15.2	16.0	16.1	19.0	16.0
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100</b>

Source: Gartner, Kenanga

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Weekly Charting – VSTECs Berhad



**Comment:** VSTECs' weekly chart shows an encouraging breakout after a consolidation phase since its peak of RM2.76 in August last year. The Guppy Multiple Moving Average paints an overall bullish technical outlook as both the stock and its short-term EMA bands (blue) remain consistently above the long-term EMA bands (red). The RSI indicator has just entered the overbought territory during price rallies, potentially signalling more upside. From the current level, overhead resistances can be found at RM3.02 (R1) and RM3.18 (R2). Conversely, key support levels can be found at RM2.76 (S1) and RM2.50 (S2).

About the stock:

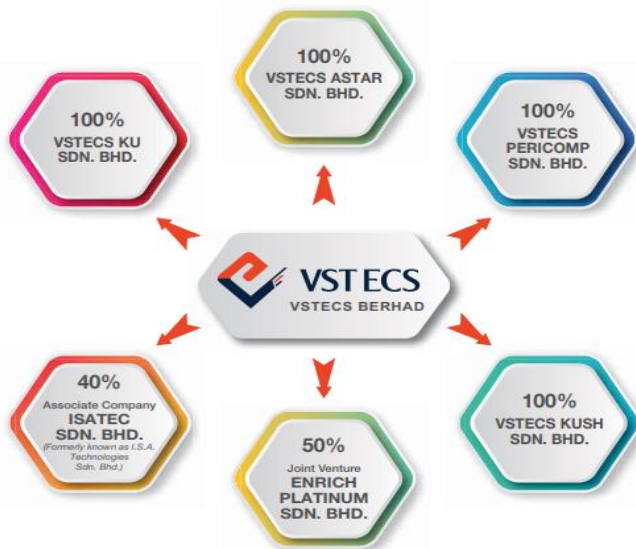
Name : VSTECs Berhad  
 Bursa Ticker : VSTECs  
 Bursa Code : 5162

Key Support & Resistance level

Resistance : RM3.02 (R1) RM3.18 (R2)  
 Support : RM2.76 (S1) RM2.50 (S2)  
 Outlook : Bullish

Source: Kenanga Research

CORPORATE STRUCTURE



BUSINESS OVERVIEW

VSTECs was listed on the Main Market of Bursa Malaysia on 15 April 2010. The group distributes a comprehensive range of ICT products (such as computers, smartphones, tablets, wearables, printers, software, network & communication infrastructure, servers, and enterprise software) from more than 40 leading principals. The group also provides value-added product support and technical services with a nationwide channel of >6,600 resellers. Its business segment comprises: (i) ICT Distribution, (ii) Enterprise Systems, (iii) ICT Services, and (iv) IT Solutions (via its 40%-owned associate – ISATEC Sdn. Bhd.).

LIST OF VENDORS (PRINCIPALS)



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