UOBKayHian

Company – Update | Malaysia

Thursday, 10 September 2026

VSTECS (VST MK)

AI Infrastructure Demand Broadens; Momentum Building Into 2H26

Highlights

- We expect the growth momentum to extend into 2H26, underpinned by resilient demand in the ICT distribution segment alongside continued public sector spending despite longer project delivery timelines.
- We are positive about the ISATEC disposal which allows VSTECS to redeploy the proceeds into higher-growth AI, data centre and digitalisation opportunities.
- Maintain BUY with an unchanged target price of RM2.26, pegged to 20x 2027F PE.

Analysis

- **Expect a stronger 2H26.** To recap, VSTECS reported a 1H26 core net profit of RM46.3m (+22% yoy), supported by the strong enterprise system segment (+59% yoy), which was mainly driven by higher public sector project deliveries. We expect earnings momentum to strengthen further in 2H26, supported by: a) continued momentum in ICT distribution mainly buoyed by new smartphone launches, including iPhone 18, Pixel smartphones and growing adoption of AI PC; b) increasing cloud adoption and recurring ICT services revenue; and c) further acceleration of public sector projects. While we expect sequential improvement in 3Q26, we anticipate a stronger 4Q26, in line with its seasonal peak in consumer and enterprise spending.
- **ISATEC disposal supports capital recycling.** Recall that VSTECS is monetising its 40% stake in ISATEC for RM48.8m cash, representing a 159% premium to its original RM18.8m investment cost and generating a RM22.0m one-off gain upon completion in 1Q27. While ISATEC expects to contribute about 5% of 2026 PAT, around 94% (RM45.9m) of the proceeds will be redeployed into working capital to support larger AI, DC, cloud and digitalisation projects. Beyond supporting organic growth, the stronger balance sheet provides VSTECS with greater flexibility to pursue strategic opportunities that could complement its existing capabilities and deepen its participation in the broader AI ecosystem. This could broaden VSTECS' capabilities beyond hardware into AI platforms, services and applications.

Key Financials

Year to 31 Dec (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	2901.7	3608.2	4094.0	4761.7	5548.0
EBITDA	91.0	136.4	139.0	153.1	182.4
Operating profit	87.6	132.0	143.4	161.2	191.8
Net profit (rep./act.)	70.6	98.5	106.6	120.3	143.4
Net profit (adj.)	70.3	98.4	106.6	120.3	143.4
EPS	6.6	9.2	10.0	11.2	13.4
PE	24.8	17.7	16.4	14.5	12.2
P/B	3.5	3.0	2.7	2.4	2.1
EV/EBITDA	5.2	3.8	3.2	2.9	2.4
Dividend yield	1.3	1.6	2.1	2.4	2.9
Net margin	2.4	2.7	2.6	2.5	2.6
Net debt/(cash) to equity	(21.1)	(11.8)	(20.7)	(19.0)	(17.7)
Interest cover	226.4	259.9	143.4	161.2	191.8
ROE	14.0	17.2	16.6	16.7	17.6
Consensus Net Profit			114.8	131.3	152.7
UOBKH/Consensus (x)			0.93	0.92	0.94

Source: VSTECS, Bloomberg, UOB Kay Hian

Analyst(s)

Desmond Chong
desmondchong@uobkh.com
+603 2147 1980

Lee Cai Yu
caiyu@uobkh.com
+603 2147 1988

BUY (Maintained)

Share Price	RM1.63
Target Price	RM2.26
Upside	38.7%

Stock Data

Sector	ICT Distributor
Bloomberg ticker	VST MK
Shares issued (m)	1,069.7
Market cap (RMm)	1,743.6
Market cap (US$m)	428.7
3-mth avg daily t'over (US$m)	0.6

Price Performance (%)

52-week high/low RM2.18/RM1.21

1mth	3mth	6mth	1yr	YTD
(3.6)	(10.9)	4.4	33.9	21.7

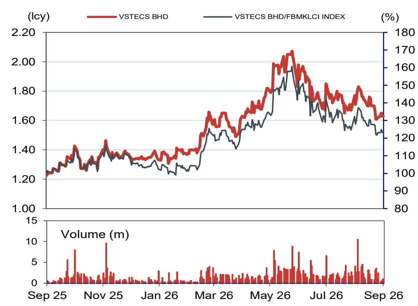
Major Shareholders (%)

VSTECS Holdings Ltd	45.6
Sengin Sdn Bhd	12.2
CGS International Securities	5.3

Balance Sheet Metrics

FY26 NAV/Share (RM)	0.60
FY26 Net Debt/Share (RM)	(0.12)

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.

- **ICT distribution remains resilient despite 30-35% price increases.** ICT distribution revenue grew around 20% yoy, largely driven by higher ASPs as volumes remained broadly stable despite significant price increases. Notebook/PCs remained the largest contributor at 63% of segment revenue, followed by tablets/smartphones at 26%. Retail partners have been stocking up ahead of further price increases. VSTECS is also seeing strong orders ahead of Google Pixel's launch and is preparing for the iPhone 18 cycle, including the potential foldable model. Beyond smartphones, management sees AI-enabled PCs and GPU-based notebooks as a new growth avenue, as users increasingly seek to run AI models and agents locally.
- **Enterprise systems as key growth engine, with AI infrastructure providing further upside.** Public sector demand remains robust, accounting for 60% of segment revenue vs 50% previously, with sizeable projects fulfilled in 2Q26. 2H26 order is expected to outperform 1H26 as enterprise customers utilise their budgets towards year-end while public sector spending remains resilient. Meanwhile, VSTECS is seeing a growing pipeline of AI/DC enquiries for GPUs and servers, although some projects remain at the discussion stage. Management is actively working with customers to identify suitable data centre capacity to house AI infrastructure.
- **Temporary blip, but structural AI demand intact.** The global ICT industry continues to grapple with CPU and memory chip shortages, driving higher component costs and vendor price volatility. This has prompted a wait-and-see stance among some customers, particularly in the enterprise segment, where elevated server and storage prices have led private sector customers to defer procurement pending potential price normalisation, creating near-term volatility in order flows and revenue recognition. Nevertheless, ICT distribution demand remains resilient, while enterprise softness should be partly cushioned by public sector spending and project rollouts.
- **More importantly, we view these headwinds as transitory rather than structural,** with critical investments in digital transformation, AI, cybersecurity and data centre infrastructure unlikely to be materially deferred. Meanwhile, the ICT services segment provides earnings stability through recurring cloud subscription revenue and growing value-added services, further strengthening earnings quality as cloud migration and IT modernisation accelerate. Overall, the expanding AI/DC infrastructure pipeline and structural digitalisation trend should underpin a compelling medium- to long-term growth outlook.

Earnings Revision/Risk

- No earnings revision.

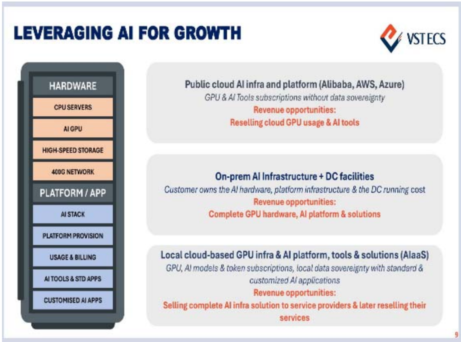
Valuation/Recommendation

- **Maintain BUY with an unchanged target price of RM2.26,** based on 20x 2027F PE which is derived using a 1.0x PEG based on its three-year net profit CAGR of 20%. 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.

Key Principal Relationships

Source: VSTECS

New AI Opportunities



Source: UOB Kay Hian

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. - A reduction of about 26% 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.

Profit & Loss

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Net turnover	3,608.2	4,094.0	4,761.7	5,548.0
EBITDA	136.4	139.0	153.1	182.4
Deprec. & amort.	(4.4)	(4.4)	(8.0)	(9.5)
EBIT	132.0	143.4	161.2	191.8
Associates	6.8	3.3	4.3	4.3
Net interest income/(expense)	(0.5)	(1.0)	(1.0)	(1.0)
Pre-tax profit	129.2	139.8	157.8	188.1
Tax	(30.7)	(33.2)	(37.4)	(44.6)
Minorities	0.0	0.0	0.0	0.0
Net profit	98.5	106.6	120.3	143.4
Net profit (adj.)	98.4	106.6	120.3	143.4

Balance Sheet

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Fixed assets	8.3	11.9	11.9	10.4
Other LT assets	55.5	55.5	57.0	57.0
Cash/ST investment	89.0	154.0	158.2	165.1
Other current assets	936.1	905.0	1,050.8	1,221.6
Total assets	1,088.9	1,126.4	1,277.9	1,454.1
ST debt	2.1	2.1	2.1	2.1
Other current liabilities	480.2	451.7	523.9	607.6
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	0.4	6.3	4.8	3.3
Shareholders' equity	573.5	642.8	721.0	814.2
Minority interest	0.0	0.0	1.0	1.0
Total liabilities & equity	1,088.9	1,126.4	1,277.3	1,452.7

Cash Flow

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Operating	(15.2)	108.3	52.3	63.0
Pre-tax profit	129.2	139.8	157.8	188.1
Tax	31.9	(33.2)	(37.4)	(44.6)
Deprec. & amort.	0.5	4.4	8.0	9.5
Working Capital Changes	(117.0)	(0.0)	(73.6)	(87.1)
Other operating cashflows	4.3	1.8	5.7	6.7
Investing	4.8	(8.0)	(8.0)	(8.0)
Capex (growth)	(6.3)	(8.0)	(8.0)	(8.0)
Investments	0.0	0.0	0.0	0.0
Proceeds from Sale of Assets	0.1	0.0	0.0	0.0
Others	11.0	0.0	0.0	0.0
Financing	(7.0)	(35.3)	(40.1)	(48.2)
Dividend payments	(27.5)	(37.3)	(42.1)	(50.2)
Proceed from Borrowings	(0.5)	(1.0)	(1.0)	(1.0)
Loan repayment	(0.5)	0.0	0.0	0.0
Others/interest paid	1.7	2.0	2.0	2.0
Net cash inflow (outflow)	(17.4)	65.0	4.2	6.8
Beginning cash & cash equivalent	106.4	89.0	154.0	158.2
Changes due to forex impact	(0.0)	0.0	0.0	0.0
Ending cash & cash equivalent	89.0	154.0	158.2	165.1

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	3.8	3.4	3.2	3.3
Pre-tax margin	3.6	3.4	3.3	3.4
Net margin	2.7	2.6	2.5	2.6
ROA	9.0	9.5	9.4	9.9
ROE	17.2	16.6	16.7	17.6
Growth				
Turnover	24.3	13.5	16.3	16.5
EBITDA	49.8	1.9	10.1	19.1
Pre-tax profit	38.7	8.2	12.9	19.2
Net profit	39.6	8.2	12.9	19.2
Net profit (adj.)	39.9	8.3	12.9	19.2
EPS	39.9	8.3	12.9	19.2
Leverage				
Debt to total capital	1.9	1.9	1.6	1.4
Debt to equity	3.7	3.3	2.9	2.6
Net debt/(cash) to equity	(11.8)	(20.7)	(19.0)	(17.7)
Interest cover	259.9	143.4	161.2	191.8