

VSTECS (856 HK)

Leading IT distributor in Asia riding on tailwinds of AI & overseas expansion; initiate at BUY

VSTECS, founded in 1991, is one of the leading IT distributors and cloud service providers in Asia. Supported by its solid market leadership, global footprint and diversified IT solution offerings, VSTECS is well-positioned to benefit from the booming demand for AI computing, IT localisation trend in China, and robust digitalisation demand in Southeast Asia, in our view. VSTECS' total revenue reached HK\$73.9bn in 2023, with enterprise systems/consumer electronics/cloud computing accounting for 55/41/4% of total revenue. VSTECS has established over 80 offices in 9 countries. The company has formed partnerships with over 300 leading upstream tech vendors and over 50,000 downstream channel partners, providing end-users with high-quality IT solutions. We value VSTECS at HK\$7.20 per share based on 10x 2025E P/E. Initiate at BUY.

■ Capture growing digitalisation demand in Southeast Asia market.

Overseas expansion has become one of the key growth drivers for VSTECS, with the revenue contribution from Southeast Asia up from 21% in 2019 to 34% in 1H24. The company is the largest IT distributor in several Southeast Asian countries such as Thailand, Malaysia, the Philippines and Indonesia. We are upbeat on the two key growth opportunities in Southeast Asia market: 1) As more Chinese IT companies enter Southeast Asia, we expect VSTECS to benefit from their overseas expansion as VSTECS has become a go-to sales channel for several leading Chinese IT platforms in Southeast Asia market; 2) local enterprise/government IT demand also continues to grow in Southeast Asia market. With a strong local partner network and rich operational experience, VSTECS is well positioned to capture the IT investment opportunities in Southeast Asia, in our view.

■ Eyes on AI development and software localization trend in China.

For the China market, we expect: 1) VSTECS will benefit from the secular trend of AI development, which boosts demand for IT products like servers and storage. Driven by the strong demand for GenAI infrastructure, products and services, China IT spending has accelerated to grow by 8% YoY to US\$589bn in 2024E, per Gartner; 2) the business will benefit from the IT system localization trend in China. VSTECS has partnerships with a number of local IT brands, which could meet the growing demand for IT system localization. We also expect China's policy support will start to show effects in 2025, boosting local government and enterprise digitalization demand.

■ Initiate at BUY with TP of HK\$7.20.

We estimate VSTECS total revenue to grow at a CAGR of 10% over 2024-2026E and reach HK\$98.6bn in 2026E, driven by the solid growth of cloud computing business, and the strong enterprise demand for AI & software localisation. We forecast OPM to be slightly down YoY in 2024E and stable at 1.8% over 2025-2026E, mainly due to the intensive competition in China's enterprise IT market. VSTECS has maintained decent shareholder returns over past several years, and raised its dividend payout ratio to 40% in 2023 (from 30%), translating into a dividend yield of 5%.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (HK\$ mn)	77,324	73,891	83,051	90,712	98,633
Net profit (HK\$ mn)	823.1	922.0	959.9	1,059.9	1,168.3
EPS (Reported) (HK\$)	0.58	0.66	0.67	0.74	0.81
Consensus EPS (HK\$)	0.58	0.66	0.66	0.75	0.86
P/S (x)	0.1	0.1	0.1	0.1	0.1
P/E (x)	9.2	8.2	8.0	7.3	6.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Initiate)

Target Price HK\$7.20
Up/Downside 34.6%
Current Price HK\$5.35

China Software & IT Services

Saiyi HE, CFA

(852) 3916 1739

hesaiyi@cmbi.com.hk

Wentao LU, CFA

luwentao@cmbi.com.hk

Ye TAO, CFA

franktao@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	7,685.0
Avg 3 mths t/o (HK\$ mn)	12.3
52w High/Low (HK\$)	5.59/4.00
Total Issued Shares (mn)	1436.5

Source: FactSet

Shareholding Structure

Li Jialin & Liu Li	41.6%
Shenzhen Investment	17.6%

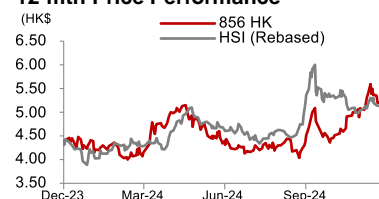
Source: Company data

Share Performance

	Absolute	Relative
1-mth	5.7%	0.7%
3-mth	24.4%	18.4%
6-mth	23.0%	10.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Contents

Investment thesis	3
Leading IT distributor in Asia	3
Capture growing digitalisation demand in Southeast Asia market	3
Eyes on AI development and software localization trend in China.....	3
Steady earnings growth outlook with decent shareholder return	3
VSTECs: leading IT distributor riding on the tailwinds of AI development and overseas expansion	4
Business overview	4
Overseas expansion as a key growth driver.....	6
Enterprise systems: capture growing demand for computing power.	8
Consumer Electronics: expect steady business outlook	11
Cloud computing: tapping into cloud computing market	13
Global IT distributors: a comparison	15
Business segment analysis and financial forecast	17
Margin analysis and shareholder return	18
Valuation and risks	20
Valuation	20
Risks	20
Appendix	21

Investment thesis

Leading IT distributor in Asia

VSTECS, founded in 1991 and listed on HKEX in 2002, is one of the leading IT distributors and cloud service providers in Asia. Supported by its solid market leadership, global footprint and diversified IT solution offerings, VSTECS is well-positioned to benefit from the booming demand for AI computing, IT localisation trend in China, and robust digitalisation demand in Southeast Asia, in our view. VSTECS' total revenue reached HK\$73.9bn in 2023, with 1) (by segment) enterprise systems/consumer electronics/cloud computing accounting for 55/41/4% of total revenue; 2) (by geography) North Asia/Southeast Asia accounting for 66/34% of total revenue. VSTECS has established over 80 offices in 9 countries including China, Thailand, Malaysia, and Singapore. The company has formed partnerships with over 300 leading upstream technology vendors (e.g. Huawei, Alibaba Cloud, AWS, Hewlett-Packard, Apple, Nvidia, etc.) and over 50,000 downstream channel partners, to provide end-users with high-quality services and products.

Capture growing digitalisation demand in Southeast Asia market

Overseas expansion has become one of the key growth drivers for VSTECS, with revenue contribution from Southeast Asia up from 21% in 2019 to 34% in 1H24. The company is the largest IT distributor in several Southeast Asian countries such as Thailand, Malaysia, the Philippines and Indonesia. We are upbeat on the two key growth opportunities in Southeast Asia market: 1) As more Chinese IT companies enter Southeast Asia, we expect VSTECS to benefit from their overseas expansion, as VSTECS has become a go-to sales channel for several leading China's IT platforms in Southeast Asia market (recognized as Lenovo's largest partner in Southeast Asia, and Huawei's largest partner in overseas markets); 2) Local enterprise/government IT demand also continues to grow in Southeast Asia market. With a strong local partner network and rich operational experience, VSTECS is well positioned to capture the IT investment opportunities in Southeast Asia, in our view.

Eyes on AI development and software localization trend in China

For the China market, we expect VSTECS to benefit from the following trends. 1) The secular trend of AI development, which boosts demand for IT products like servers, databases and storage. Driven by the strong demand for GenAI infrastructure, products and services, China IT spending accelerated to grow by 8% YoY to US\$589bn in 2024, per Gartner. VSTECS has participated in several AI computing projects in China and Southeast Asia, such as the Computing Power Operation Platform Project in Hangzhou and Nanjing. 2) The IT system localization trend in China. VSTECS has established partnerships with a wide spectrum of local IT brands covering application software, infrastructure software, hardware and cloud infrastructure, which could meet the growing demand for IT system localization. We also expect China's policy support will start to show effects in 2025, boosting local government and enterprise digitalization demand.

Steady earnings growth outlook with decent shareholder return

We estimate VSTECS total revenue to increase by 12/9/9% YoY to HK\$83.1/90.7/98.6bn in 2024/2025/2026E, mainly driven by the solid growth of cloud computing business, and the strong enterprise demand for AI & software localisation. We forecast net income to grow by 4/10/10% YoY to HK\$960/1,060/1,168mn in 2024/2025/2026E, with NPM slightly down YoY in 2024E mainly due to the intensive competition in China's enterprise IT market. The company has also maintained decent shareholder returns over the past several years, and raised its dividend payout ratio to 40% in 2023 (from 30% in the past), which translates into HK\$369mn in dividends and a dividend yield of 5%. We value VSTECS at HK\$7.20 per share based on 10x 2025E P/E. Our target P/E is at a premium versus the average P/E of its peers (9.0x), primarily attributable to VSTECS' leadership in the Asian IT distribution market, strong earnings growth outlook and solid balance sheet.

VSTECS: leading IT distributor riding on the tailwinds of AI development and overseas expansion

Business overview

VSTECS, founded in 1991 and listed on HKEX in 2002, is one of the leading IT distributors and cloud service providers in Asia. The company has three major business segments: **1) enterprise systems (56% of 1H24 total revenue)**, which provides enterprise system tools, and implementation and maintenance services for enterprise IT infrastructure; **2) consumer electronics (40% of 1H24 total revenue)**, which sells consumer IT products such as computers, mobile phones and drones; **3) cloud computing (4% of 1H24 total revenue)**, which mainly provides cloud management and operation services.

Figure 1: VSTECS: business overview

Segment	Businesses	1H24 revenue (HK\$bn)	1H24 OPM
Enterprise systems	Provision of enterprise system tools (middleware, operating systems, Unix/NT servers, databases and storage) for IT infrastructure and IT infrastructure design and implementation, training, maintenance and support services.	22.5	2.0%
Consumer electronics	Provision of finished IT products (including but not limited to computer, mobile phone, drone, smart sports watch, 3D printer, game console, etc.).	16.0	1.7%
Cloud computing	Provision of cloud computing solutions and services.	1.6	3.5%

Source: Company data, CMBIGM

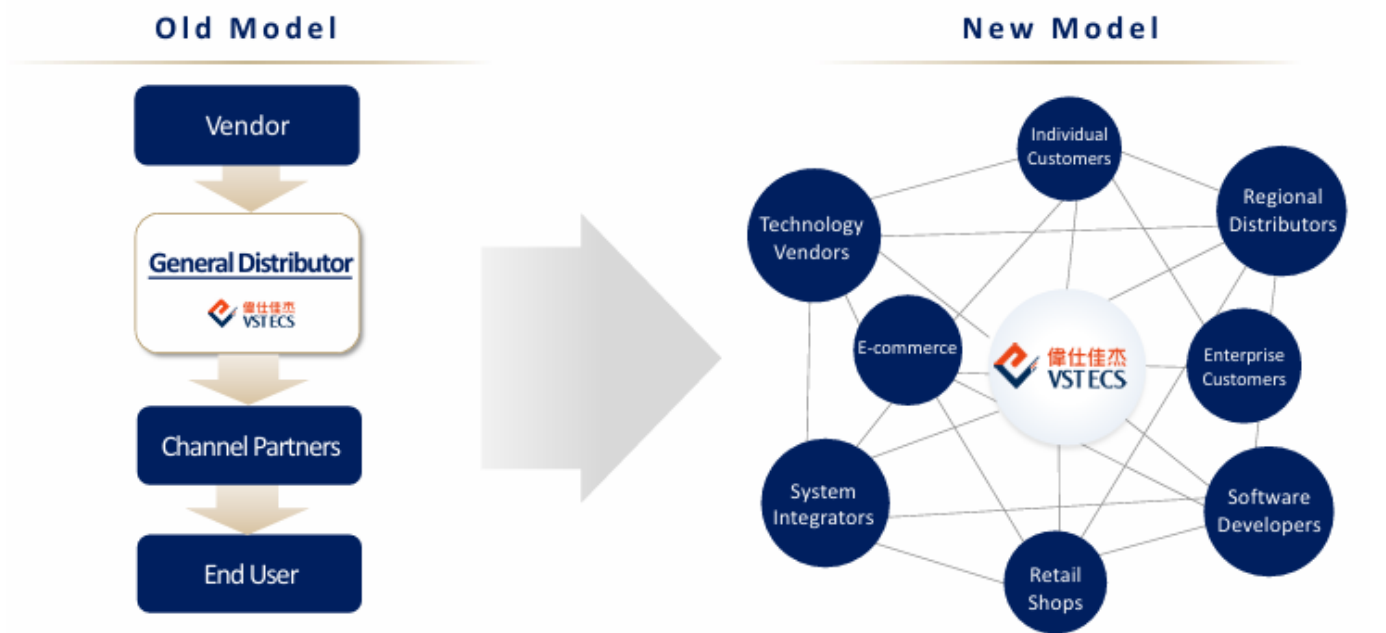
Figure 2: VSTECS: key milestones

Year	Event
2002	Listed on Hong Kong Stock Exchange Main Board
2007	Acquired ECS, a Singapore listed company, achieved annual revenue of HK\$4.2bn
2009	Spun off ECS ICT Bhd to be separately listed on main board of Bursa Malaysia Securities Berhad
2010	Started to distribute Apple iPad in China through subsidiary ECS
2013	Established JV with Bodatong Technology (Shenzhen) Co., Ltd
2014	Further acquired 10.488% of ECS's shares and paid off outstanding options to wholly own ECS
2014	Expanded product portfolio in gaming console and smartwatch
2015	Announced strategic cooperation with Alibaba
2015	Became Huawei smartphones' commercial distributor in China
2016	Announced partnership with Amazon on Kindle distribution in China
2017	Established JV with a wholly-owned subsidiary and an associate of Tsinghua Holdings
2020	Acquired cloud computing businesses, IPs and staffs of Cloud Star, a multi-cloud management platform software and service provider in China
2022	Became HUAWEI Cloud Transformation Service Provider (CTSP)
2023	Announced strategic cooperation with Cloud Inspur Information Technology
2024	Became the only authorized general distributor of Broadcom VMware in China

Source: Company data, CMBIGM

Unlike the traditional business model of general distributor, VSTECS has built a comprehensive IT partner ecosystem connecting different parties (e.g. vendors, regional distributors, e-commerce operators, enterprises and consumers). Supported by its innovative business model, VSTECS is able to provide tech vendors, enterprises and consumers with high-quality services and products.

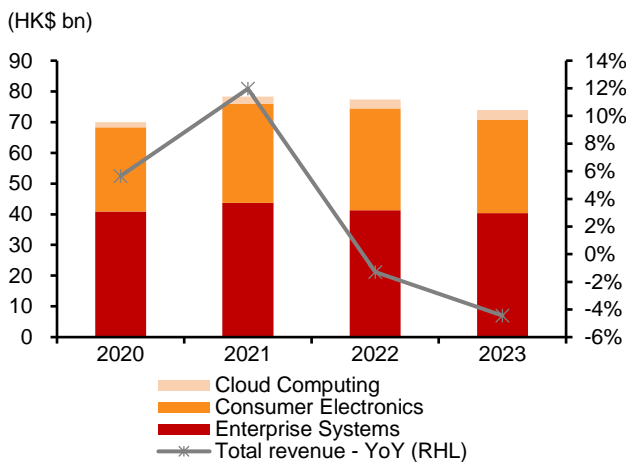
Figure 3: VSTECS: business model



Source: Company data, CMBIGM

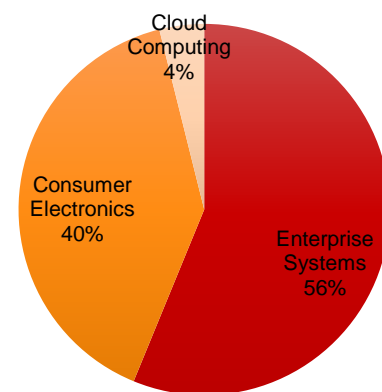
VSTECS’ total revenue reached HK\$73.9bn in 2023, with enterprise systems/consumer electronics/cloud computing each accounting for 55/41/4% of total revenue. VSTECS has established over 80 offices in 9 countries including China, Thailand, Malaysia, Singapore, Indonesia, Cambodia, Myanmar, Laos and the Philippines. The company has formed partnerships with over 300 leading upstream technology vendors (e.g. Huawei, Alibaba Cloud, AWS, Hewlett-Packard, Apple, Nvidia, etc.) and over 50,000 downstream channel partners.

Figure 4: VSTECS: revenue trend (by segment)



Source: Company data, CMBIGM

Figure 5: VSTECS: revenue mix (1H24)

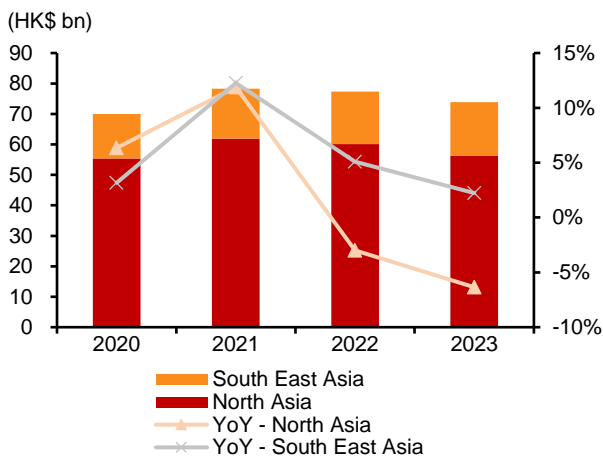


Source: Company data, CMBIGM

Overseas expansion as a key growth driver

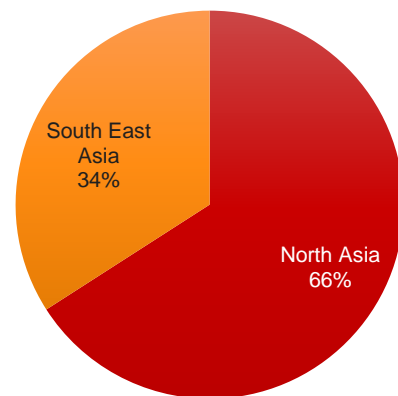
Overseas expansion has become one of the key growth drivers for VSTECS, with revenue contribution from Southeast Asia up from 21% in 2019 to 34% in 1H24. Revenue from Southeast Asia recorded a CAGR of 6% over 2019-2023 and reached HK\$17.6bn in 2023, driven by the solid demand for IT infrastructure and cloud computing. VSTECS has become a go-to sales channel in Southeast Asia for China's several leading IT platforms such as Huawei Cloud and Alibaba Cloud.

Figure 6: VSTECS: revenue trend (by geography)



Source: Company data, CMBIGM

Figure 7: VSTECS: revenue mix (1H24)



Source: Company data, CMBIGM

Compared to China's IT market, the Southeast Asia IT market remains at a relatively early development stage, with less intensive competition and ample growth potential. As a result, VSTECS has better margin profile and capital efficiency there, compared to its business in China.

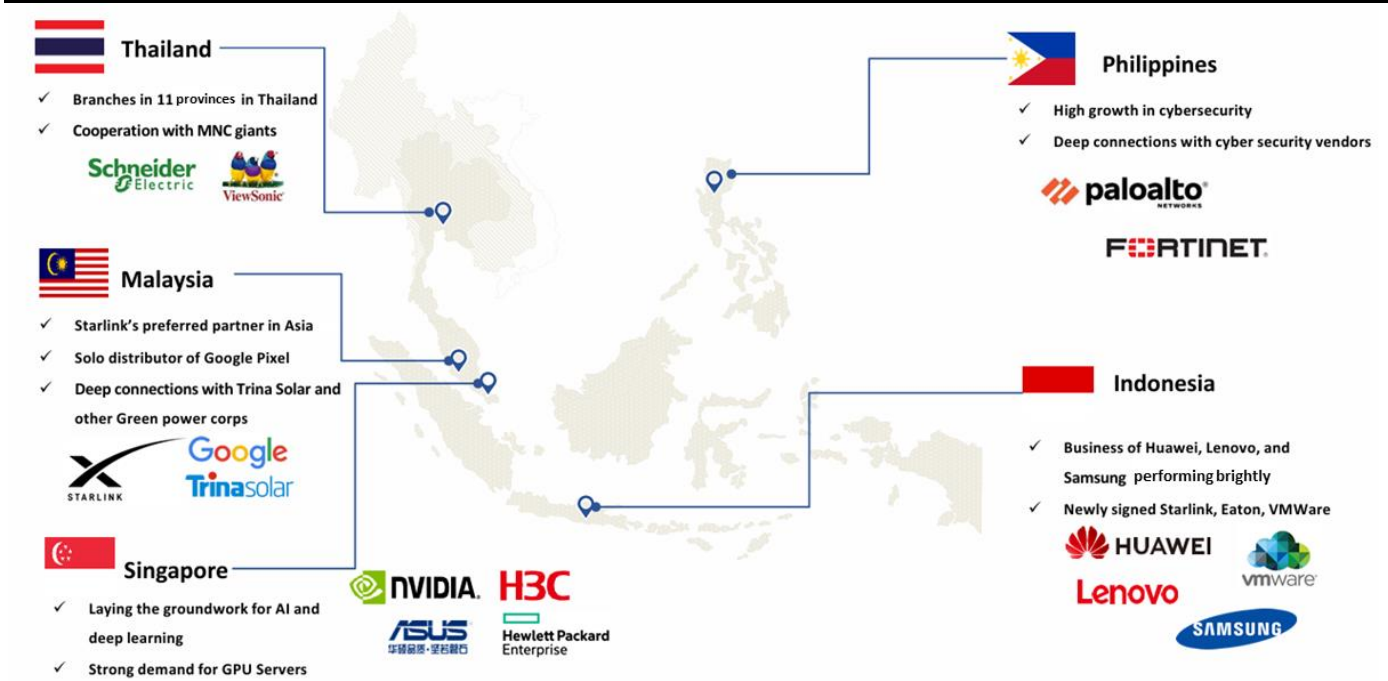
The company has established a strong presence in Southeast Asia market, and it is recognized as NVIDIA Best General Distributor in Thailand and Singapore, Starlink's Preferred Partner for Landing in Asia, Lenovo's largest partner in the Southeast Asia, and Huawei's largest partner in overseas markets. With a strong local partner network and rich operational experience, VSTECS is well positioned to capture the IT investment opportunities in Southeast Asia. The company has different strategies and focuses in different countries:

- 1) **Indonesia:** given the large population base and strong e-commerce business growth in Indonesia, the demand for consumer electronics is strong and continues to grow in Indonesia. VSTECS' consumer electronics distribution business for brands such as Huawei, OPPO, Lenovo and Samsung delivered strong performance in Indonesia.
- 2) **Singapore:** as one of the most affluent markets and the Asian headquarters for many multi-national companies, Singapore shows strong demand for GPU servers and AI infrastructure. VSTECS, as NVIDIA Best General Distributor in Singapore, is well-positioned to benefit from the AI opportunities in Singapore, in our view.
- 3) **Thailand:** VSTECS continues to expand its branches and cooperation with multinational brands such as Schneider and ViewSonic. The company has set up

branches in 11 provinces to provide comprehensive services including training centres, products and solution show rooms, and logistics services;

- 4) **The Philippines:** through deep cooperation with Palo Alto Networks and Fortinet, VSTECS has delivered strong growth in the field of cyber security in the Philippines.

Figure 8: VSTECS: overseas business



Source: Company data, CMBIGM

Enterprise systems: capture growing demand for computing power

VSTECS Enterprise Systems business covers a wide range of enterprise customers from different countries (China and Southeast Asia) and sectors (government, finance, transport, manufacture, etc.). Looking ahead, we expect: 1) the business will benefit from the secular trend of AI development, which boosts demand for IT products like servers, databases and storage (VSTECS has participated in several AI computing projects in China and Southeast Asia, such as the Computing Power Operation Platform Project in Hangzhou and Nanjing); 2) the business will also benefit from the IT system localization trend in China. VSTECS has established partnerships with a wide spectrum of local IT brands covering application software, infrastructure software, hardware and cloud infrastructure, which could meet the growing demand for IT systems localization.

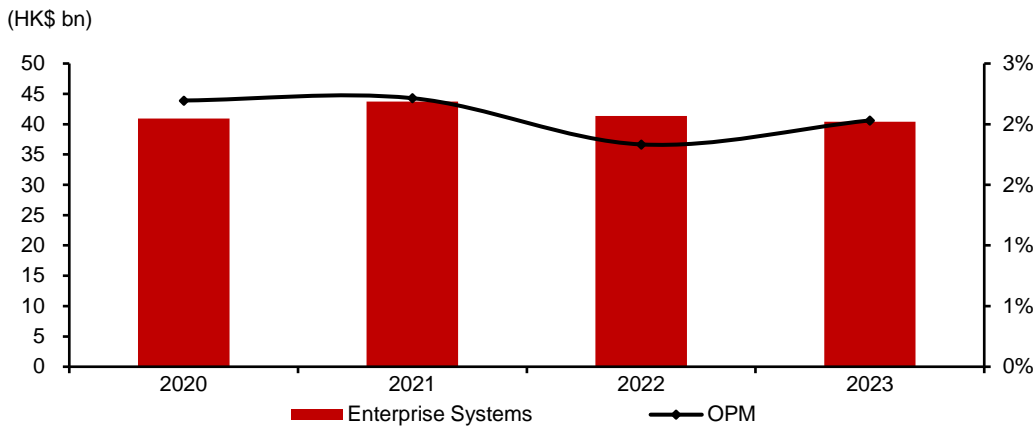
Figure 9: Enterprise systems: major projects



Source: Company data, CMBIGM

VSTECS enterprise systems revenue and OPM were largely steady over 2020-2023. Enterprise systems revenue was up by 24% YoY to HK\$22.5bn in 1H24, primarily driven by the solid demand for AI servers in both China and Southeast Asia markets. Enterprise systems OPM was largely steady at 2.0% in 1H24, compared to 2023.

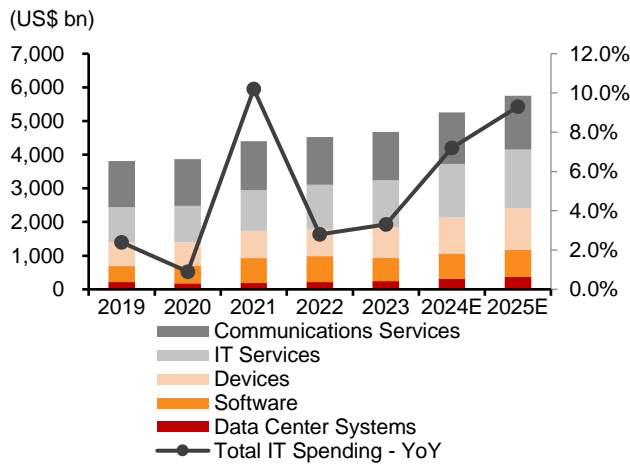
Figure 10: Enterprise systems: revenue & margin trend



Source: Company data, CMBIGM

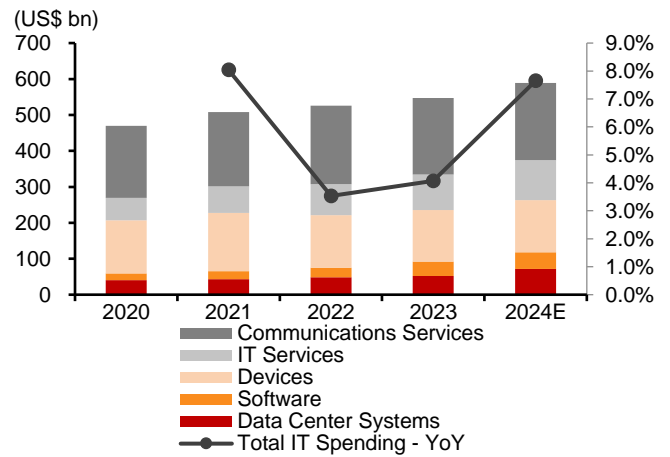
Enormous worldwide IT spending represents substantial opportunities for IT distributors. Per Gartner, global IT spending is estimated to reach US\$5.3tn in 2024 and grow by 9% YoY to US\$5.7tn in 2025E, primarily driven by the strong demand for GenAI infrastructure, products and services. China IT spending has also accelerated, to grow by 8% YoY to US\$589bn in 2024 per Gartner.

Figure 11: Worldwide: IT spending



Source: Gartner, CMBIGM

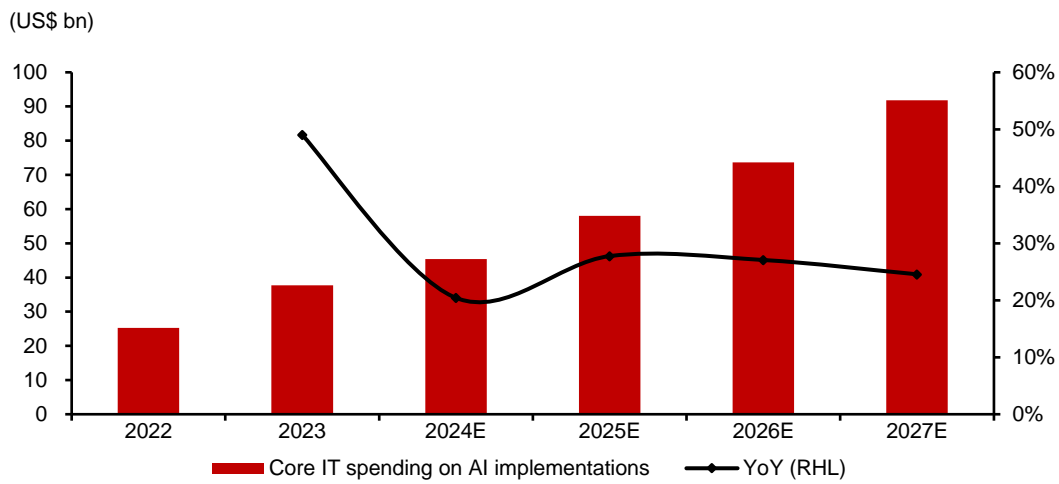
Figure 12: China: enterprise IT spending



Source: Gartner, CMBIGM

According to IDC, worldwide core IT spending on AI implementations will accelerate to grow by 28% YoY to US\$58bn in 2025E, and maintain a CAGR of 26% over 2025-2027E. Through cooperating with leading AI infrastructure and solution providers, VSTECS is well positioned to benefit from the growing spending on AI, in our view.

Figure 13: Worldwide core IT spending on AI implementations



Source: IDC, CMBIGM

Consumer Electronics: expect steady business outlook

VSTECS consumer electronics business implements a diversified product and channel strategy. On the product front, the company cooperates with leading consumer electronics brands in different categories to meet the diversified demand of end users, such as games & entertainment, IoTs, smart wearable devices and smart education. On the channel front, VSTECS cooperates with core agents to cover both offline and online markets in China and Southeast Asia.

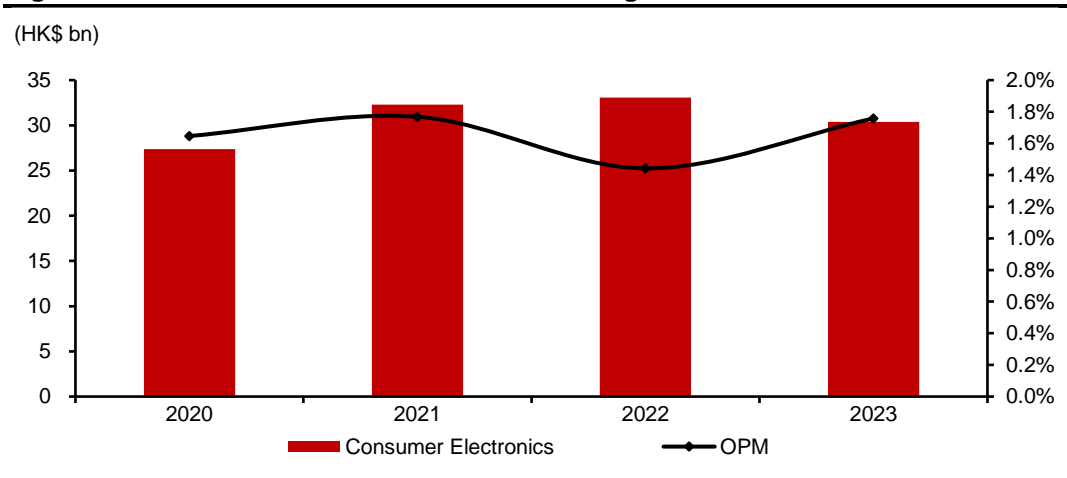
Figure 14: Consumer electronics: national coverage



Source: Company data, CMBIGM

Consumer electronics business revenue was down 8% YoY to HK\$30.4bn in 2023, primarily due to soft consumption sentiment and a lack of new products. Consumer electronics revenue rebounded by 9% YoY to HK\$16.0bn in 1H24, thanks to the strong demand in Southeast Asia market.

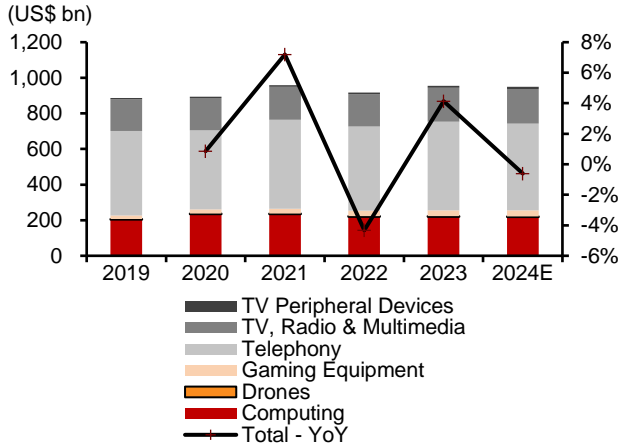
Figure 15: Consumer electronics: revenue & margin trend



Source: Company data, CMBIGM

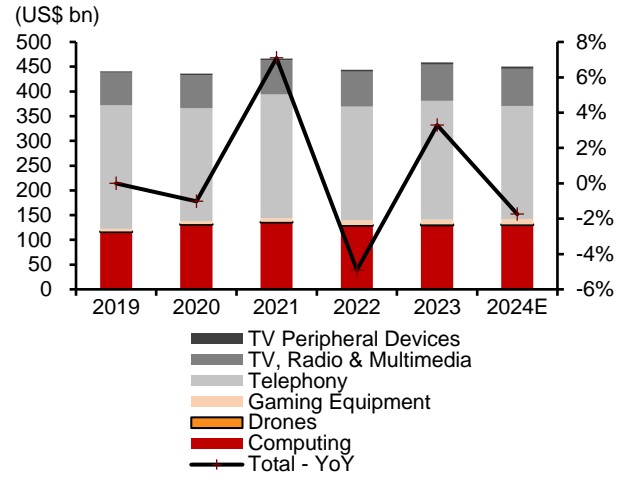
Both worldwide and APAC consumer electronics markets still faced headwinds in 2024, with revenue for both slightly down YoY in 2024E, based on Statista estimates. For 2025E, as AI empowers smart devices such as smartphones and glasses, consumer electronics market revenue may rebound along with the launch of highly-anticipated products.

Figure 16: Worldwide: Consumer electronics revenue



Source: Statista, CMBIGM

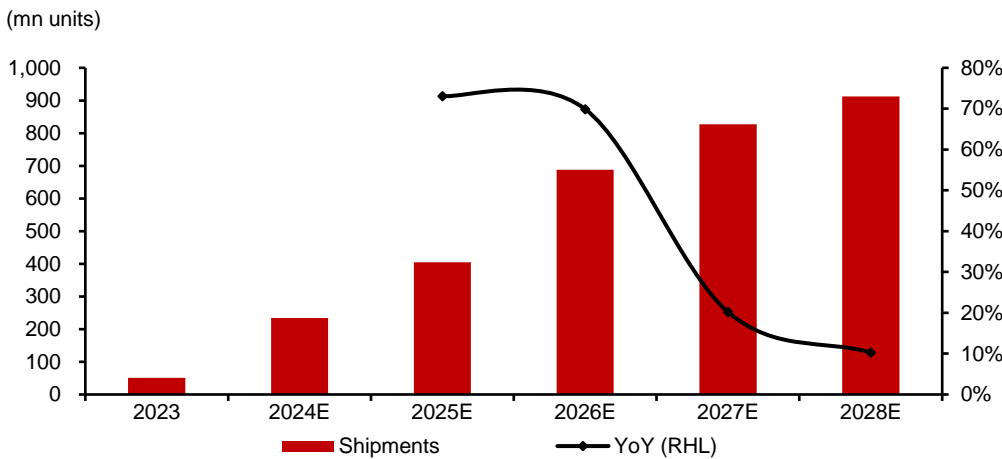
Figure 17: APAC: Consumer electronics revenue



Source: Statista, CMBIGM

GenAI-empowered smartphones are likely to drive stronger demand for consumer electronics in the coming years. According to IDC, worldwide GenAI smartphone shipments are expected to grow by 73% YoY to 405mn units in 2025E, which is the fastest-growing segment in the smartphone category. Worldwide GenAI smartphone shipments will reach 912mn in 2028, representing a CAGR of 78% over 2023-2028.

Figure 18: Worldwide GenAI smartphone shipments

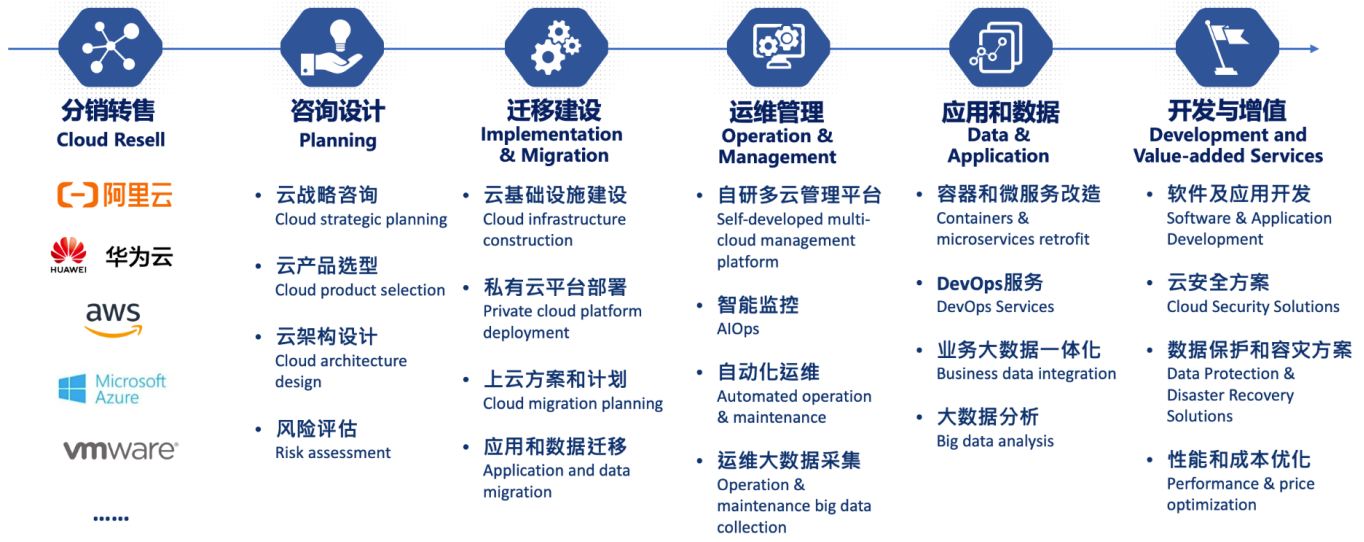


Source: IDC, CMBIGM

Cloud computing: tapping into cloud computing market

VSTECS in 2020 acquired Cloud Star, a leading multi-cloud management platform in China, and has thus expanded its presence in the cloud computing market. VSTECS offers a comprehensive set of cloud computing services, with a focus on cloud resell & distribution. The company cooperates with leading cloud service vendors such as Alibaba Cloud, Huawei Cloud and AWS. The company ranked third among Huawei Cloud service providers in 2023, and was recognized as the main reseller and largest authorized training partner of AWS in China.

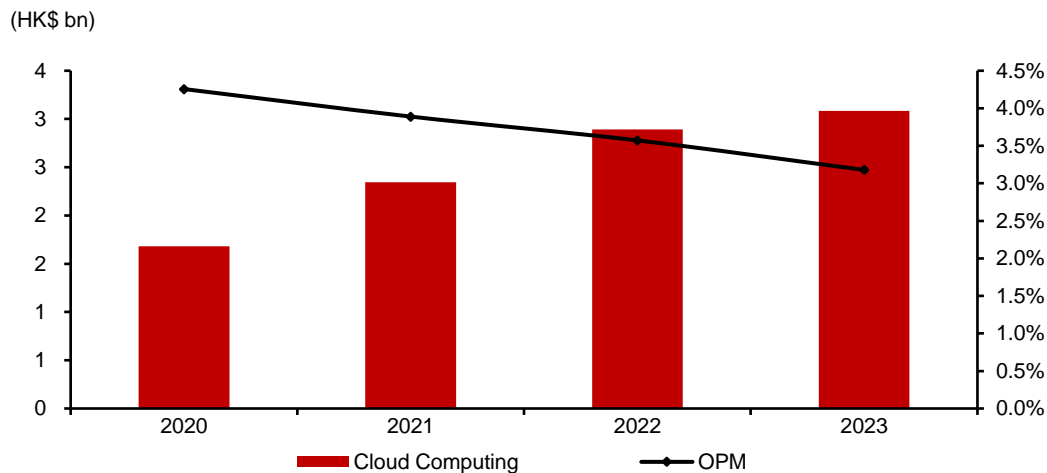
Figure 19: Cloud computing: solution offerings



Source: Company data, CMBIGM

Cloud computing revenue delivered a solid CAGR of 22% over 2020-2023 and reached HK\$3.1bn in 2023. Cloud computing OPM was down from 4.3% in 2020 to 3.2% in 2023E, mainly due to the intensive competition in China's cloud computing market and the cost reduction initiatives of cloud service vendors.

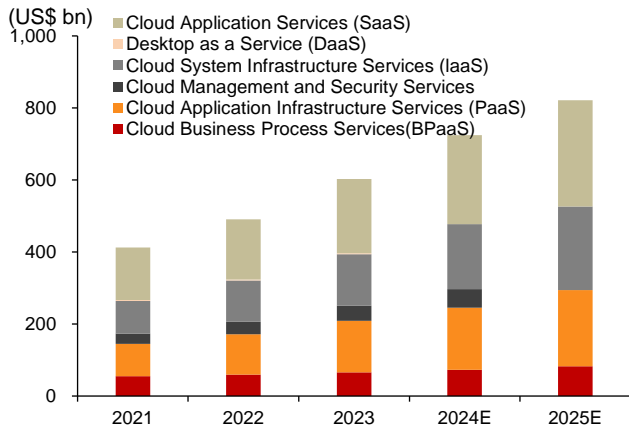
Figure 20: Cloud computing: revenue & margin trend



Source: Company data, CMBIGM

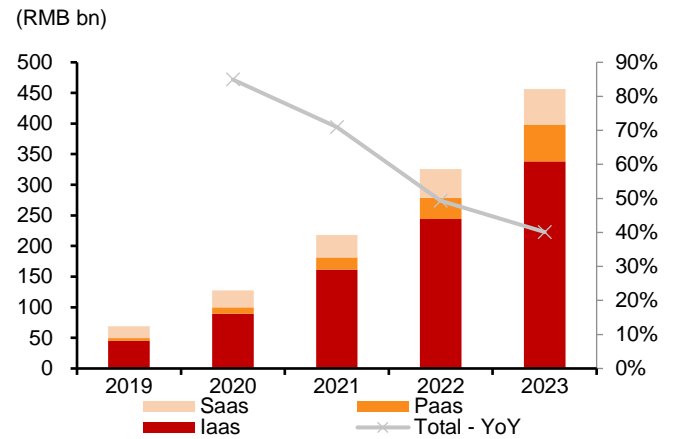
Global cloud computing market reached US\$561bn in 2023, and China's cloud computing market reached RMB456bn in 2023, per Gartner. Looking ahead, we expect both China and global cloud computing markets to maintain solid growth, driven by the growing demand for AI computing and AI software services.

Figure 21: Worldwide: public cloud spending



Source: Gartner, CMBIGM

Figure 22: China: public cloud spending



Source: Gartner, CMBIGM

Global IT distributors: a comparison

Strong presence in overseas markets: Compared to China's other IT distributors, VSTECS has established a strong presence in overseas market, especially in the Southeast Asia market. In 1H24, Southeast Asia contributed 34/46% of VSTECS total revenue/net profit. The company is the largest IT distributor in several Southeast Asian countries such as Thailand, Malaysia, the Philippines and Indonesia.

Robust balance sheet and cash position: VSTECS has a healthy current ratio (1.24 vs. 1.21/1.20 for Digital China/SYNNEX) and debt-to-asset ratio (77% vs. 79/81% for Digital China/Ingram Micro). The robust balance sheet and cash position will allow VSTECS to offer more attractive financing terms, quality products and services when competing with other distributors.

Healthy margin: VSTECS GPM/OPM/NPM were 4.7/1.9/1.2% in 2023, all higher than those of Digital China (4.0/1.7/1.0%), thanks to the higher revenue contribution from overseas markets and better efficiency.

Figure 23: VSTECS: financial comparison (2023)

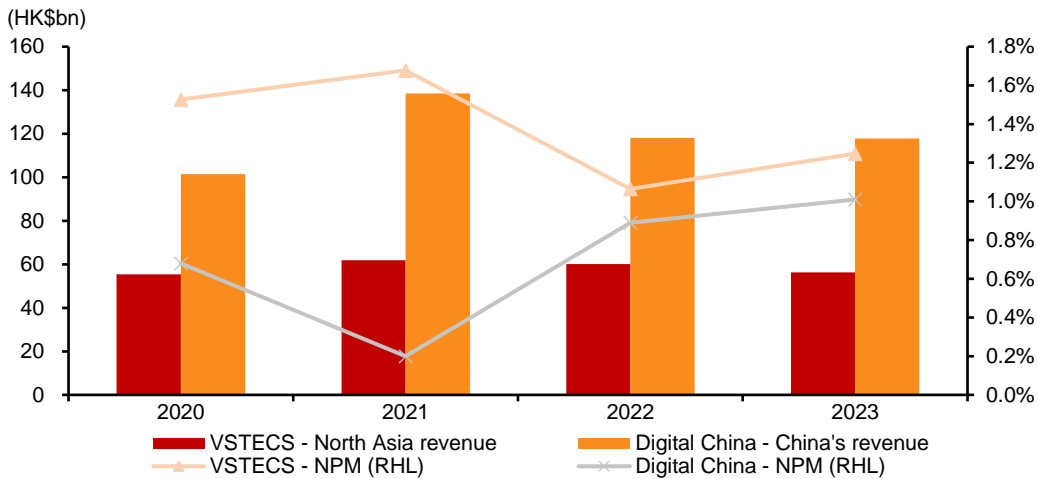
HK\$bn	VSTECS	Digital China	SYNNEX	Ingram Micro
Mkt Cap	7.5	25.1	68.3	36.1
Revenue	73.9	132.2	450.5	373.3
Revenue Mix (segment)	Enterprise Systems/Consumer Electronics/Cloud Computing: 58/43/4%	Consumer Electronics Distribution/Enterprise VAS/Cloud Services/Own Brand: 62/29/6/3%	Technology Distributors: 100%	Client and Endpoint Solutions/Advanced Solutions/Cloud-based Solutions/Other: 67/31/1/1%
Revenue Mix (geography)	North Asia/Southeast Asia: 76/24%	China/Overseas:89/11%	Americas/Europe/APJ:60/34/6%	North America/EMEA/Asia-Pacific/Latin America:38/30/24/8%
GPM	4.7%	4.0%	6.9%	7.4%
OPM	1.9%	1.7%	1.9%	2.0%
NPM	1.2%	1.0%	1.1%	0.7%
Debt/Asset	77%	79%	72%	81%
Current ratio	1.24	1.21	1.20	1.44
Receivable Turnover Days	77.0	32.5	62.5	67.5
Inventory Turnover Days	55.4	39.5	55.2	41.1

Source: Bloomberg, Company data, CMBIGM

Note: Digital China is one of the leading IT distributors in China; Synnex and Ingram Micro are leading global IT distributors

In China, VSTECS is the second largest IT distributor behind Digital China. VSTECS' North Asia revenue reached HK\$56.3bn in 2023, which is equivalent to 48% of Digital China's domestic revenue. The competition in China's IT market is intensive and both companies have a relatively low NPM (VSTECS/Digital China: 1.2/1.0% in 2023). That said, we believe VSTECS has higher growth potential and stronger competitive edges against Digital China, given its better overseas presence, higher margin and solid balance sheet.

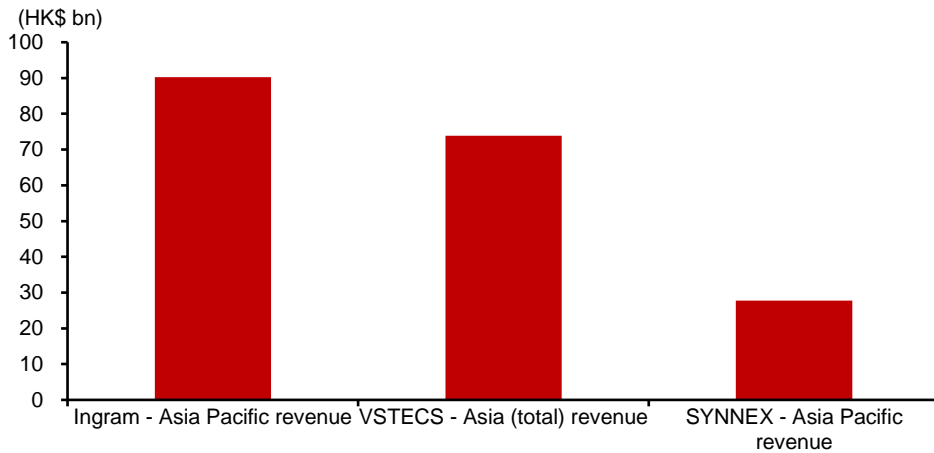
Figure 24: Major IT distributors in China: a comparison



Source: Company data, CMBIGM

In Southeast Asia market, VSTECS mainly competes with multi-national IT distributors. Global IT distributors like Ingram and Synnex focus more on the developed markets like Australia and Japan in Asia, with a smaller presence in Southeast Asia. Through several years of operation in Southeast Asia, VSTECS has established leadership in terms of revenue size and channel coverage in many Southeast countries such as Thailand, Singapore, Indonesia, the Philippines and Malaysia.

Figure 25: Major IT distributors in Asia: a comparison (2023)

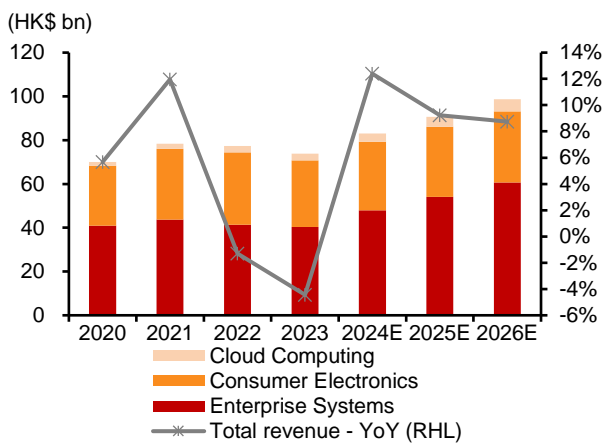


Source: Company data, CMBIGM

Business segment analysis and financial forecast

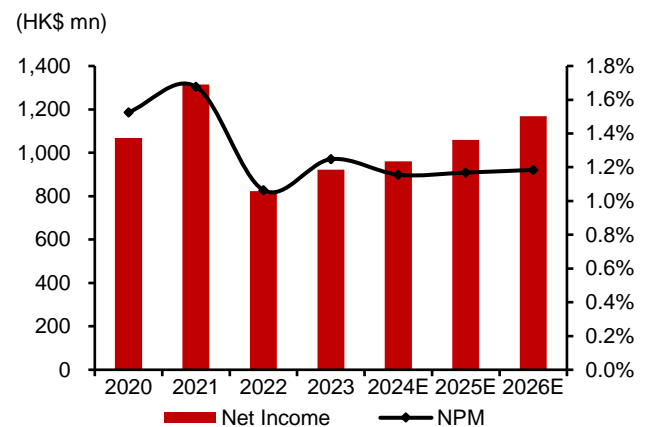
We estimate VSTECS total revenue to increase by 12/9/9% YoY to HK\$83.1/90.7/98.6bn in 2024/2025/2026E, mainly driven by the solid growth of cloud computing business, and the strong enterprise demand for AI & software localisation. We forecast net income to grow by 4/10/10% YoY to HK\$960/1,060/1,168mn in 2024/2025/2026E, with NPM slightly down YoY in 2024E mainly due to the intensive competition in China's enterprise IT market.

Figure 26: VSTECS: revenue trend



Source: Company data, CMBIGM estimates

Figure 27: VSTECS: net income trend



Source: Company data, CMBIGM estimates

Enterprise Systems (58% of 2024E total revenue): We forecast Enterprise Systems revenue to grow by 19/13/12% YoY to HK\$47.9/54.1/60.6bn in 2024/2025/2026E, driven by the strong demand for AI infrastructure and the IT localisation trend in China. Enterprises in Southeast Asia (especially in Singapore) and China have been stepping up their investment in AI infrastructure and AI projects. In China, we also expect the policy support will start to show effects in 2025, boosting local government and enterprise digitalization demand and driving Enterprise Systems revenue growth.

Consumer Electronics (38% of 2024E total revenue): We estimate Consumer Electronics revenue to increase by 3/2/2% YoY to HK\$31.3/31.9/32.5bn in 2024/2025/2026E. The launch of new AI-empowered devices in 2025E could be a potential driver of revenue growth.

Cloud Computing (5% of 2024E total revenue): We forecast Cloud Computing revenue to increase by 25/21/18% YoY to HK\$3.9/4.7/5.5bn in 2024/2025/2026E, primarily attributable to the solid demand for AI computing power. VSTECS will further deepen partnerships with leading cloud service vendors to drive revenue growth, and enrich its cloud service offerings to add value for customers.

Figure 28: VSTECS: key financial forecast

(HK\$ bn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total revenue	78.3	77.3	73.9	83.1	90.7	98.6
YoY	12.0%	-1.3%	-4.4%	12.4%	9.2%	8.7%
Enterprise Systems	43.7	41.4	40.4	47.9	54.1	60.6
YoY	6.8%	-5.4%	-2.3%	18.5%	13.0%	12.0%
OPM	2.2%	1.8%	2.0%	1.9%	1.9%	1.9%
Consumer Electronics	32.3	33.1	30.4	31.3	31.9	32.5
YoY	18.0%	2.5%	-8.1%	3.0%	2.0%	1.8%

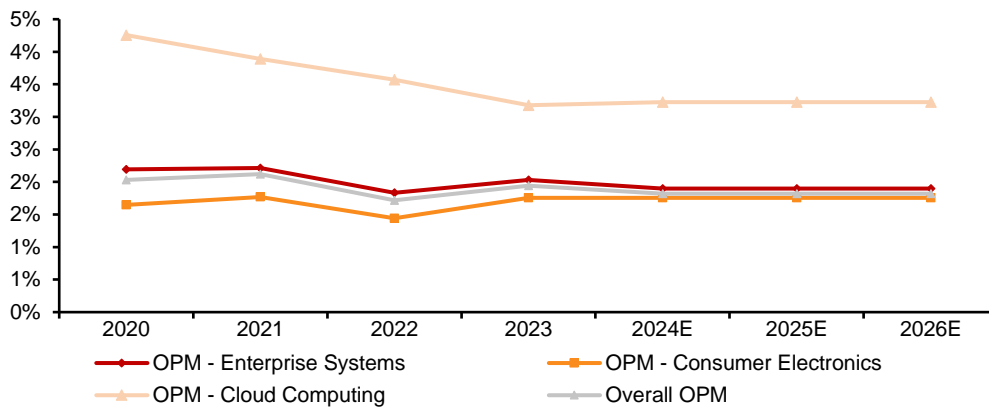
OPM	1.8%	1.4%	1.8%	1.8%	1.8%	1.8%
Cloud Computing	2.3	2.9	3.1	3.9	4.7	5.5
YoY	39.3%	23.4%	6.7%	25.0%	21.0%	18.0%
OPM	3.9%	3.6%	3.2%	3.2%	3.2%	3.2%
Gross profit margin	4.6%	4.4%	4.7%	4.6%	4.6%	4.6%
Selling and distribution expenses %	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%
General and administrative expenses %	0.8%	0.9%	1.0%	1.0%	1.0%	1.0%
OPM	2.1%	1.7%	1.9%	1.8%	1.8%	1.8%
Net income	1.3	0.8	0.9	1.0	1.1	1.2
YoY	23.1%	-37.4%	12.0%	4.1%	10.4%	10.2%
NPM	1.7%	1.1%	1.2%	1.2%	1.2%	1.2%

Source: Company data, CMBIGM estimates

Margin analysis and shareholder return

We forecast VSTECS OPM to be slightly down from 1.9% in 2023 to 1.8% in 2024E, primarily due to the stringent digitalisation budget of governments/enterprises, intensive competition in China's enterprise IT market, and the cost reduction initiatives implemented by the upstream cloud service vendors. After that, we expect overall OPM to stabilize at 1.8% in 2025/2025E, supported by sector tailwinds such as the strong demand for AI computing and recovery of digitalisation budgets.

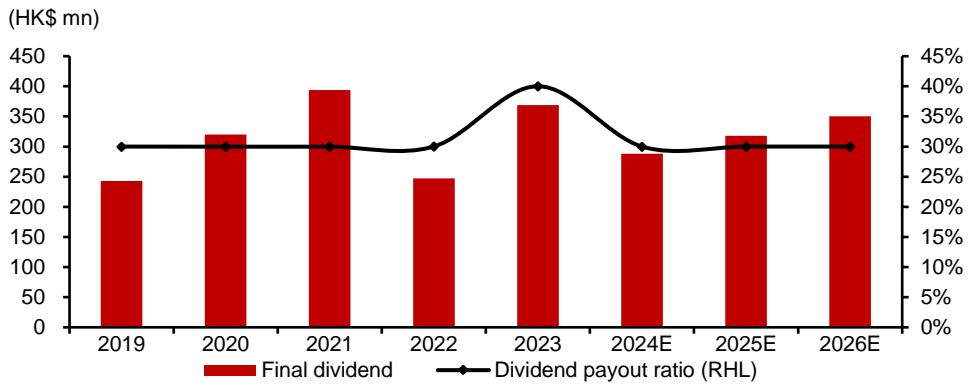
Figure 29: VSTECS: margin trend



Source: Company data, CMBIGM

VSTECS has maintained decent shareholder returns over the past several years. The company increased its dividend payout ratio to 40% in 2023 (from 30% in the past), which translates into HK\$369mn in dividends and a dividend yield of 5%.

Figure 30: VSTECS: cash dividends



Source: Company data, CMBIGM estimates

Valuation and risks

Valuation

We value VSTECS at HK\$7.20 per share based on 10x 2025E P/E. Our target P/E is at a premium versus the average P/E of its peers (9.0x), primarily attributable to VSTECS' leadership in the Asia IT distribution market, strong earnings growth outlook and solid balance sheet.

Figure 31: VSTECS: target valuation

P/E Valuation (HK\$mn)	FY25E
Net Income	1,060
Target 2025E P/E	10
Target equity valuation	10,344
Valuation per share (HK\$)	7.20

Source: Company data, CMBIGM estimates

Figure 32: IT distributor: valuation comparison

Company	Ticker	Price (Local)	Mkt cap (US\$mn)	EPS growth (yoy%)			P/E (x)		
				2024E	2025E	2026E	2024E	2025E	2026E
VSTECS	856 HK	5.4	989	9	17	15	7.5	6.4	5.6
Digital China	000034 CH	34.6	3,225	11	22	18	16.6	13.6	11.5
Synnex	SNX US	119.2	10,145	8	10	13	10.2	9.3	8.3
Ingram Micro	INGM US	20.4	4,797	12	9	8	7.3	6.7	6.2
Average							10.4	9.0	7.9

Source: Bloomberg, CMBIGM

Note: data are as of 25 Dec 2024

Risks

1) Intensifying competition in China and Southeast Asia IT distribution markets; 2) macro uncertainty impacting enterprise and consumer demand; 3) worsening relationships with vendors and channel partners; and 4) increase in interest rate.

Appendix

Figure 33: VSTECS: management profile

Management	Position	Experience
Li Jialin	Chairman and CEO	Mr. LI Jialin, aged 62, is one of the founders of the Group and is the Company's Chairman and Chief Executive Officer and Executive Director. Mr. Li is also the director of VSTECS (HK) Limited, a subsidiary of the Company. He is responsible for the overall management and strategic positioning of the Group. Mr. Li graduated from Tsinghua University of the People's Republic of China (the "PRC") with a Degree of Bachelor of Engineering in 1983 and a Master Degree in Management Engineering in 1986. Mr. Li is the father of Mr. Li Yue, an Executive Director of the Company.
Ong Wei Hiam	CFO	Mr. ONG Wei Hiam, William, aged 52, is an Executive Director and the Group Chief Financial Officer of the Company. Mr. Ong is also the director of VSTECS (HK) Limited, a subsidiary of the Company. He is responsible for the overall financial management of the Group. Mr. Ong holds a Bachelor Degree in Economics from University College London and a Master Degree in Analysis, Design & Management of Information Systems from the London School of Economics and Political Science. Mr. Ong is a fellow of the Institute of Chartered Accountants in England and Wales, and the Hong Kong Institute of Certified Public Accountants.
Li Yue	Executive Director	Mr. LI Yue, aged 35, appointed as an Executive Director of the Company in May 2016. Mr. Li joined the Company in 2012. Mr. Li is responsible for investments and fund management of the Group. He holds a Bachelor of Arts in Economics from the University of Chicago in the United States of America. Mr. Li is also a CFA charterholder. He is a member of the CFA Institute and the Hong Kong Society of Financial Analysts. Mr. Li is the son of Mr. Li Jialin, the Chairman, Chief Executive Officer and Executive Director of the Company
Chan Hoi Chau	Executive Director	Mr. CHAN Hoi Chau, aged 54, is an Executive Director of the Company. He holds a Bachelor Degree in Electrical Engineering from the University of Wisconsin-Madison in the United States of America. Mr. Chan has over 20 years of experience in personal computer and semiconductor industry. Mr. Chan is currently the Senior Vice President – Product Management of VSTECS (HK) Limited, a subsidiary of the Company. Prior to joining the Company in 2005, Mr. Chan served as the distribution director of Advanced Micro Devices and was in charge of the distribution business in China and Hong Kong
Gu Sanjun	Executive Director	Mr. GU Sanjun, aged 53, appointed as an Executive Director of the Company in June 2021. Mr. Gu has extensive experience in the field of Information Technology and has accumulated 15 years experience of operation in the Group. Mr. Gu had served as the general manager of the software department of the Group from 2000 to 2008 and subsequently rejoined the Group in 2016. Mr. Gu currently is the chief executive officer in the Greater China Region of the Group and is responsible for the overall business development and achieving the Company's strategic goal in the PRC. Prior to that, Mr. Gu had served in different large enterprises in China such as Guangzhou Suntek Technology, Ingram Micro International (China) and Founder Group. Mr. Gu graduated from the Beijing University of Technology in the PRC with a Bachelor Degree in Applied Mathematics.

Source: Company data, CMBIGM

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK\$ mn)						
Revenue	78,335	77,324	73,891	83,051	90,712	98,633
Cost of goods sold	(74,696)	(73,946)	(70,395)	(79,247)	(86,557)	(94,116)
Gross profit	3,639	3,378	3,497	3,804	4,155	4,517
Operating expenses	(1,978)	(2,050)	(2,061)	(2,292)	(2,504)	(2,722)
Selling expense	(1,421)	(1,369)	(1,358)	(1,495)	(1,633)	(1,775)
Admin expense	(623)	(696)	(712)	(797)	(871)	(947)
Others	66	15	9	0	0	0
Operating profit	1,661	1,328	1,435	1,512	1,651	1,795
Share of (losses)/profits of associates/JV	40	12	67	35	38	37
Interest expense	(147)	(258)	(340)	(347)	(364)	(371)
Pre-tax profit	1,555	1,082	1,162	1,200	1,325	1,460
Income tax	(241)	(259)	(240)	(240)	(265)	(292)
After tax profit	1,314	823	922	960	1,060	1,168
Net profit	1,314	823	922	960	1,060	1,168

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK\$ mn)						
Current assets	29,955	32,642	32,885	35,017	37,475	40,066
Cash & equivalents	3,247	3,829	3,325	1,950	1,489	1,062
Account receivables	16,231	14,338	16,823	18,909	20,653	22,456
Inventories	9,337	10,072	11,309	12,731	13,905	15,119
Other current assets	1,140	4,402	1,428	1,428	1,428	1,428
Non-current assets	2,221	2,125	2,135	2,154	2,177	2,203
PP&E	680	918	909	929	951	977
Deferred income tax	183	166	146	146	146	146
Investment in JVs & assos	1,000	684	724	724	724	724
Intangibles	358	356	355	355	355	355
Other non-current assets	0	1	2	2	2	2
Total assets	32,176	34,767	35,020	37,171	39,652	42,269
Current liabilities	22,530	25,505	26,556	28,116	29,825	31,592
Short-term borrowings	4,735	6,975	8,104	8,104	8,104	8,104
Account payables	16,539	14,116	16,963	18,523	20,232	21,998
Tax payable	124	148	132	132	132	132
Accrued expenses	1,132	4,266	1,357	1,357	1,357	1,357
Non-current liabilities	1,735	1,604	241	241	241	241
Long-term borrowings	1,543	1,447	0	0	0	0
Deferred income	148	120	210	210	210	210
Other non-current liabilities	45	36	31	31	31	31
Total liabilities	24,265	27,109	26,798	28,358	30,066	31,833
Share capital	146	145	144	144	144	144
Retained earnings	7,766	7,513	8,079	8,670	9,442	10,292
Total shareholders equity	7,911	7,658	8,223	8,814	9,586	10,436
Total equity and liabilities	32,176	34,767	35,020	37,171	39,652	42,269

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK\$ mn)						
Operating						
Profit before taxation	1,555	1,082	1,162	1,200	1,325	1,460
Depreciation & amortization	132	142	118	64	68	73
Tax paid	(241)	(259)	(240)	(240)	(265)	(292)
Change in working capital	(791)	(1,163)	(650)	(1,947)	(1,210)	(1,251)
Others	35	264	250	0	0	0
Net cash from operations	690	67	640	(923)	(82)	(10)
Investing						
Capital expenditure	(256)	(568)	(134)	(83)	(91)	(99)
Others	246	(489)	271	0	0	0
Net cash from investing	(10)	(1,057)	138	(83)	(91)	(99)
Financing						
Dividend paid	(320)	(393)	(247)	(369)	(288)	(318)
Net borrowings	(484)	2,148	(348)	0	0	0
Share repurchases	0	(22)	(56)	0	0	na
Others	(605)	(551)	(969)	(369)	(288)	(318)
Net cash from financing	(1,089)	1,574	(1,373)	(369)	(288)	(318)
Net change in cash						
Cash at the beginning of the year	3,559	3,247	3,246	2,649	1,273	813
Exchange difference	97	(585)	(1)	0	0	0
Cash at the end of the year	3,247	3,246	2,649	1,273	813	386
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	12.0%	(1.3%)	(4.4%)	12.4%	9.2%	8.7%
Gross profit	16.4%	(7.2%)	3.5%	8.8%	9.2%	8.7%
Operating profit	17.0%	(20.0%)	8.0%	5.3%	9.2%	8.7%
Net profit	23.1%	(37.4%)	12.0%	4.1%	10.4%	10.2%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	4.6%	4.4%	4.7%	4.6%	4.6%	4.6%
Operating margin	2.1%	1.7%	1.9%	1.8%	1.8%	1.8%
Return on equity (ROE)	17.8%	10.6%	11.6%	11.3%	11.5%	11.7%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	1.3	1.3	1.2	1.2	1.3	1.3
Receivable turnover days	80.1	72.1	77.0	78.5	79.6	79.8
Inventory turnover days	36.3	47.9	55.4	55.4	56.2	56.3
Payable turnover days	76.3	75.7	80.6	81.7	81.7	81.9
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	5.8	9.2	8.2	8.0	7.3	6.6
P/E (diluted)	5.8	9.2	8.2	8.0	7.3	6.6
P/B	1.0	1.0	0.9	0.9	0.8	0.7

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.