

VSTECS (856 HK)

1H25 result review: strong cloud computing revenue growth on robust AI demand

VSTECS announced 1H25 results: total revenue increased by 14% YoY to HK\$45.5bn, representing 44% of our FY25E estimate; net profit was up by 36% YoY to HK\$649mn, equivalent to 49% of our FY25E estimate. Strong demand for AI computing power drove strong revenue growth of cloud computing business (+68% YoY). As one of the leading distributors of AI chips and computing power in Asia, we expect VSTECS will continue to benefit from the growing demand for AI computing power. We maintain our FY25-27E earnings forecast largely unchanged. We raise our target price to HK\$14.2 based on 15x FY25E PE (previous: HK\$7.60 based on 8x FY25E PE), mainly to reflect larger AI-related revenue exposure. Maintain BUY.

■ **Solid revenue growth in Southeast Asia.** Revenue from enterprise systems/consumer electronics/cloud computing increased by 14%/7%/68% YoY to HK\$25.7/17.2/2.6bn in 1H25. Revenue from Southeast Asia grew by 22% YoY to HK\$16.7bn in 1H25, mainly driven by strong growth in Thailand (+50% YoY), the Philippines (+45% YoY), Malaysia (+31% YoY) and Indonesia (+30% YoY). The solid growth in Southeast Asia was primarily due to the robust government demand for digitalisation, and management expects the trend to continue in 2H25. Revenue from North Asia grew by 9% YoY to HK\$28.8bn in 1H25, as the company executed a quality growth strategy.

■ **Cloud computing business delivered robust growth.** Revenue from cloud computing segment was up by 68% YoY to HK\$2.6bn in 1H25, mainly attributable to the strong demand for AI computing power. The company continued to deepen cooperation with leading hyperscalers, with Alibaba Cloud/Huawei Cloud/AWS revenue up by 156%/29%/293% YoY in 1H25. VSTECS's subsidiary Cloud Star also recorded a strong revenue growth of 63% YoY in 1H25, currently offering services in 7 of the 9 national intelligent computing centres in China. Looking ahead, Cloud Star will continue to expand its offerings, such as the MaaS platform and industry solutions.

■ **Margin expansion on favourable revenue mix shift.** GPM was up by 0.3ppts YoY to 4.8% and OPM expanded by 0.1ppts YoY to 2.0% in 1H25, mainly thanks to the favourable revenue mix shift to higher-margin cloud computing business. In China, the company will continue to execute quality growth strategy to control account receivables and operational risks; in Southeast Asia, it will capture the emerging opportunities such as AI computing and government digitalisation. We forecast net profit to increase by 18% YoY in FY25E.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (HK\$ mn)	73,891	89,086	102,901	113,361	122,718
YoY growth (%)	(4.4)	20.6	15.5	10.2	8.3
Net profit (HK\$ mn)	922.0	1,116.2	1,315.8	1,520.2	1,732.4
YoY growth (%)	12.0	21.1	17.9	15.5	14.0
EPS (Reported) (HK\$)	0.66	0.80	0.95	1.09	1.25
Consensus EPS (HK\$)	0.66	0.80	0.89	0.99	1.17
P/S (x)	0.2	0.2	0.2	0.1	0.1
P/E (x)	17.5	14.3	12.2	10.5	9.2

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$14.20
 (Previous TP) HK\$7.60
Up/Downside 23.4%
Current Price HK\$11.51

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Stock Data

Mkt Cap (HK\$ mn)	16,001.3
Avg 3 mths t/o (HK\$ mn)	155.8
52w High/Low (HK\$)	11.75/4.04
Total Issued Shares (mn)	1390.2

Source: FactSet

Shareholding Structure

Li Jialin & Liu Li	41.6%
Shenzhen Investment	17.6%

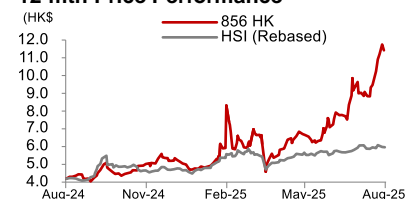
Source: Company data

Share Performance

	Absolute	Relative
1-mth	27.9%	26.8%
3-mth	73.1%	60.8%
6-mth	38.5%	28.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Business forecasts update and valuation

Figure 1: VSTECS: forecast revision

HK\$bn	Current			Previous			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	102.9	113.4	122.7	102.9	113.2	122.5	0.0%	0.1%	0.2%
Gross profit	4.6	5.0	5.5	4.6	5.0	5.5	0.0%	0.1%	0.2%
Operating profit	2.0	2.2	2.5	2.0	2.3	2.5	-2.1%	-2.0%	-1.8%
Net profit	1.3	1.5	1.7	1.3	1.5	1.7	-0.2%	0.1%	0.3%
EPS (HK\$)	0.9	1.1	1.2	0.9	1.1	1.2	-0.2%	0.1%	0.3%
Gross margin	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	0.0 ppt	0.0 ppt	0.0 ppt
Operating margin	1.9%	2.0%	2.0%	2.0%	2.0%	2.1%	0.0 ppt	0.0 ppt	0.0 ppt
Net margin	1.3%	1.3%	1.4%	1.3%	1.3%	1.4%	0.0 ppt	0.0 ppt	0.0 ppt

Source: CMBIGM estimates

Figure 2: VSTECS: our forecast vs consensus

HK\$bn	CMBIGM			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	102.9	113.4	122.7	103.8	120.9	138.6	-0.8%	-6.2%	-11.4%
Gross profit	4.6	5.0	5.5	4.7	5.6	6.5	-2.3%	-9.5%	-15.8%
Operating profit	2.0	2.2	2.5	1.9	2.1	2.4	3.4%	3.8%	1.3%
Net profit	1.3	1.5	1.7	1.3	1.5	1.8	3.1%	3.1%	-1.1%
EPS (HK\$)	0.9	1.1	1.2	0.9	1.0	1.2	6.3%	10.3%	6.8%
Gross margin	4.5%	4.5%	4.5%	4.5%	4.6%	4.7%	-0.1 ppt	-0.2 ppt	-0.2 ppt
Operating margin	1.9%	2.0%	2.0%	1.8%	1.8%	1.8%	0.1 ppt	0.2 ppt	0.3 ppt
Non-GAAP net margin	1.3%	1.3%	1.4%	1.2%	1.2%	1.3%	0.0 ppt	0.1 ppt	0.1 ppt

Source: Bloomberg, CMBIGM estimates

We value VSTECS at HK\$14.20 per share based on 15x 2025E P/E. Our target P/E is on par with the average P/E of its peers.

Figure 3: VSTECS: target valuation

P/E Valuation (HK\$mn)		FY25E
Net income		1,316
Target 2025E PE (x)		15
Target equity valuation		19,737
Valuation per share (HK\$)		14.20

Source: Company data, CMBIGM estimates

Figure 4: IT distributor: valuation comparison

Company	Ticker	Price (Local)	Mkt cap (US\$mn)	EPS growth (yoy%)		P/E (x)	
				2025E	2026E	2025E	2026E
Digital China	000034 CH	45.6	4,616	22	16	25	21
Synnex	SNX US	144.4	11,912	10	12	12	11
Ingram Micro	INGM US	19.2	4,511	9	17	7	6
Average						15	13

Source: Bloomberg, CMBIGM

Note: data are as of 21 Aug

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (HK\$ mn)						
Revenue	77,324	73,891	89,086	102,901	113,361	122,718
Cost of goods sold	(73,946)	(70,395)	(85,157)	(98,317)	(108,311)	(117,252)
Gross profit	3,378	3,497	3,929	4,584	5,050	5,467
Operating expenses	(2,050)	(2,061)	(2,230)	(2,612)	(2,820)	(2,992)
Selling expense	(1,369)	(1,358)	(1,499)	(1,732)	(1,870)	(1,983)
Admin expense	(696)	(712)	(770)	(880)	(950)	(1,008)
Others	15	9	39	0	0	0
Operating profit	1,328	1,435	1,699	1,972	2,230	2,475
Share of (losses)/profits of associates/JV	12	67	61	57	57	58
Interest expense	(258)	(340)	(404)	(424)	(433)	(421)
Pre-tax profit	1,082	1,162	1,356	1,605	1,854	2,113
Income tax	(259)	(240)	(240)	(289)	(334)	(380)
After tax profit	823	922	1,116	1,316	1,520	1,732
Net profit	823	922	1,116	1,316	1,520	1,732

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (HK\$ mn)						
Current assets	32,642	32,885	36,111	39,879	43,133	46,306
Cash & equivalents	3,246	2,649	3,271	2,289	1,943	1,894
Restricted cash	583	676	676	676	676	676
Account receivables	14,338	16,823	19,480	22,501	24,788	26,834
Inventories	10,072	11,309	11,190	12,919	14,232	15,407
Other current assets	4,402	1,428	1,494	1,494	1,494	1,494
Non-current assets	2,125	2,135	2,277	2,311	2,351	2,395
PP&E	918	909	978	1,013	1,052	1,096
Deferred income tax	166	146	159	159	159	159
Investment in JVs & assos	684	724	603	603	603	603
Intangibles	356	355	346	346	346	346
Other non-current assets	1	2	191	191	191	191
Total assets	34,767	35,020	38,388	42,190	45,484	48,701
Current liabilities	25,505	26,556	27,826	30,681	32,850	34,790
Short-term borrowings	6,975	8,104	7,864	7,864	7,864	7,864
Account payables	14,116	16,963	18,477	21,333	23,501	25,441
Tax payable	148	132	101	101	101	101
Accrued expenses	4,266	1,357	1,384	1,384	1,384	1,384
Non-current liabilities	1,604	241	1,691	1,691	1,691	1,691
Long-term borrowings	1,447	0	1,380	1,380	1,380	1,380
Deferred income	120	210	280	280	280	280
Other non-current liabilities	36	31	31	31	31	31
Total liabilities	27,109	26,798	29,516	32,372	34,541	36,480
Share capital	145	144	144	144	144	144
Retained earnings	7,513	8,079	8,728	9,675	10,800	12,076
Total shareholders equity	7,658	8,223	8,872	9,818	10,944	12,220
Total equity and liabilities	34,767	35,020	38,388	42,190	45,484	48,701

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (HK\$ mn)						
Operating						
Profit before taxation	1,082	1,162	1,356	1,605	1,854	2,113
Depreciation & amortization	142	118	64	68	74	79
Tax paid	(259)	(240)	(240)	(289)	(334)	(380)
Change in working capital	(1,163)	(650)	(1,023)	(1,895)	(1,432)	(1,281)
Others	264	250	924	0	0	0
Net cash from operations	67	640	1,081	(510)	162	531
Investing						
Capital expenditure	(568)	(134)	(89)	(103)	(113)	(123)
Others	(489)	271	0	0	0	0
Net cash from investing	(1,057)	138	(89)	(103)	(113)	(123)
Financing						
Dividend paid	(393)	(247)	(369)	(369)	(395)	(456)
Net borrowings	2,148	(348)	0	0	0	0
Share repurchases	(22)	(56)	0	0	na	0
Others	(551)	(969)	(369)	(369)	(395)	(456)
Net cash from financing	1,574	(1,373)	(369)	(369)	(395)	(456)
Net change in cash						
Cash at the beginning of the year	3,247	3,246	2,649	3,271	2,289	1,943
Exchange difference	(585)	(1)	0	0	0	0
Cash at the end of the year	3,246	2,649	3,271	2,289	1,943	1,894
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	(1.3%)	(4.4%)	20.6%	15.5%	10.2%	8.3%
Gross profit	(7.2%)	3.5%	12.4%	16.7%	10.2%	8.3%
Operating profit	(20.0%)	8.0%	18.4%	16.0%	13.1%	11.0%
Net profit	(37.4%)	12.0%	21.1%	17.9%	15.5%	14.0%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	4.4%	4.7%	4.4%	4.5%	4.5%	4.5%
Operating margin	1.7%	1.9%	1.9%	1.9%	2.0%	2.0%
Return on equity (ROE)	10.6%	11.6%	13.1%	14.1%	14.6%	15.0%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Current ratio (x)	1.3	1.2	1.3	1.3	1.3	1.3
Receivable turnover days	72.1	77.0	74.4	74.5	76.1	76.8
Inventory turnover days	47.9	55.4	48.2	44.8	45.7	46.1
Payable turnover days	75.7	80.6	76.0	73.9	75.5	76.2
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	19.8	17.5	14.3	12.2	10.5	9.2
P/E (diluted)	19.8	17.5	14.3	12.2	10.5	9.2
P/B	2.1	2.0	1.8	1.6	1.5	1.3

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

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