

# VSTECs (856 HK)

## Strong FY24 results; benefiting from the robust AI demand

VSTECs reported FY24 financial results: total revenue was up by 21% YoY to HK\$89.1bn, 7/8% ahead of our/Bloomberg consensus estimate, mainly thanks to the robust demand for AI solutions and strong revenue growth of South East Asian business; net profit grew by 14% YoY to HK\$1.05bn, 10/6% ahead of our/consensus estimate. The company continues to gain share in the cloud management and AI computing operation market, supported by its strong development and service capabilities in the cloud and AI field. Cloud computing and AI business revenue was up by 35% YoY to HK\$7.7bn in FY24. Looking ahead, management expects to maintain 15-20% earnings growth over FY25-27E, driven by the AI solutions, cloud computing and IT localisation opportunities. We lift our FY25/26 net profit forecast to HK\$1.32/1.52bn (previous: HK\$1.06/1.17bn) to factor in the results beat, and raise our target price to HK\$7.60 based on 8x FY25E PE (previous: HK\$7.20 based on 10x 2025E PE). Maintain BUY.

- **Robust growth in South East Asia market.** Revenue from enterprise systems/consumer electronics/cloud computing grew by 30%/8%/28% YoY to HK\$52.3/32.8/3.9bn in FY24. Revenue from South East Asia was up by 74% YoY to HK\$30.7bn and represented 34% of total revenue in FY24, mainly driven by the robust demand for AI data centres in Malaysia and Singapore, as well as the consolidation of a Philippine subsidiary. Revenue from North Asia grew by 4% YoY to HK\$58.4bn in FY24, equivalent to 66% of total revenue.
- **Expanding presence in AI and cloud computing field.** Revenue from AI and Cloud Computing businesses grew by 35% YoY to HK\$7.7bn in FY24, accounting for c.9% of total revenue. VSTECs continues to outpace sector growth, with its revenue share in China's third-party cloud management market up by 0.4ppt YoY to 4.2% in FY24, as per IDC. In FY25, VSTECs will further deepen its partnership with leading cloud platforms such as Alibaba, Huawei and AWS, in order to penetrate into lower-tier cities, localize database products and drive sales of high-end products. VSTECs will increase its R&D spending in the AI field by over 50%, expand DeepSeek service offerings to over 30 data centres under its management, and leverage AI technology internally to improve operating efficiency.
- **Steady margin and shareholder return.** GPM was down by 0.3ppt YoY to 4.4% in 2024, primarily due to the intense competition in the domestic market and increased revenue contribution from AI server distribution, which tends to have a lower GPM. OPM was stable at 1.9%, attributable to the enhanced operating efficiency. The company declared final dividends of HK\$369mn, which is flat YoY and account for 35%/4% of net profit/market cap. Management expects to maintain a similar level of dividends in the future as it will invest in new growth opportunities such as AI.

### Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (HK\$ mn)	73,891	89,086	102,872	113,248	122,500
YoY growth (%)	(4.4)	20.6	15.5	10.1	8.2
Net profit (HK\$ mn)	922.0	1,116.2	1,318.1	1,518.8	1,726.5
YoY growth (%)	12.0	21.1	18.1	15.2	13.7
EPS (Reported) (HK\$)	0.66	0.80	0.95	1.09	1.24
Consensus EPS (HK\$)	0.66	0.80	0.82	0.92	na
P/S (x)	0.1	0.1	0.1	0.1	0.1
P/E (x)	9.3	7.6	6.4	5.6	4.9

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** **HK\$7.60**  
(Previous TP) **HK\$7.20**  
**Up/Downside** **25.0%**  
**Current Price** **HK\$6.08**

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### Stock Data

Mkt Cap (HK\$ mn)	8,452.5
Avg 3 mths t/o (HK\$ mn)	77.5
52w High/Low (HK\$)	8.31/4.04
Total Issued Shares (mn)	1390.2

Source: FactSet

### Shareholding Structure

Li Jialin & Liu Li	41.6%
Shenzhen Investment	17.6%

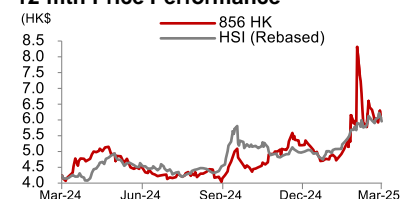
Source: Company data

### Share Performance

	Absolute	Relative
1-mth	-26.8%	-27.5%
3-mth	16.9%	-2.7%
6-mth	46.5%	12.9%

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	113.2	122.5	90.71	98.63	NA	13.4%	14.8%	NA
Gross profit	4.58	5.04	5.46	4.15	4.52	NA	10.3%	11.7%	NA
Operating profit	2.01	2.27	2.52	1.65	1.80	NA	22.0%	26.7%	NA
Net profit	1.32	1.52	1.73	1.06	1.17	NA	24.4%	30.0%	NA
EPS (HK\$)	0.95	1.09	0.00	0.74	0.81	NA	28.5%	34.3%	NA
Gross margin	4.5%	4.5%	4.5%	4.6%	4.6%	NA	-0.1 ppt	-0.1 ppt	NA
Operating margin	2.0%	2.0%	2.1%	1.8%	1.8%	NA	0.1 ppt	0.2 ppt	NA
Net margin	1.3%	1.3%	1.4%	1.2%	1.2%	NA	0.1 ppt	0.2 ppt	NA

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	113.2	122.5	91.7	102.0	NA	12.2%	11.0%	NA
Gross profit	4.6	5.0	5.5	4.4	4.8	NA	5.2%	4.1%	NA
Operating profit	2.0	2.3	2.5	1.7	1.8	NA	21.0%	24.7%	NA
Net profit	1.3	1.5	1.7	1.2	1.3	NA	13.5%	16.2%	NA
EPS (HK\$)	0.9	1.1	0.0	0.8	0.9	NA	16.3%	19.0%	NA
Gross margin	4.5%	4.5%	4.5%	4.8%	4.8%	NA	-0.3 ppt	-0.3 ppt	NA
Operating margin	2.0%	2.0%	2.1%	1.8%	1.8%	NA	0.1 ppt	0.2 ppt	NA
Non-GAAP net margin	1.3%	1.3%	1.4%	1.3%	1.3%	NA	0.0 ppt	0.1 ppt	NA

Source: Bloomberg, CMBIGM estimates

We value VSTECS at HK\$7.60 per share based on 8x 2025E P/E. Our target P/E is at a discount versus the average P/E of its peers (12x) and lowered from previous 10x 2025E P/E, primarily due to the intensifying price competition in China's IT distribution market.

Figure 3: VSTECS: target valuation

P/E Valuation (HK\$mn)	FY25E
Net Income	1,318
Target 2025E PE	8
Target equity valuation	10,545
Valuation per share (HK\$)	7.60

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	45.1	4,482	22	18	19.1	16.1
Synnex	SNX US	129.6	10,933	10	13	10.1	8.9
Ingram Micro	INGM US	19.4	4,563	9	8	6.4	5.9
Average						11.8	10.3

Source: Bloomberg, CMBIGM

Note: data are as of 20 Mar

## Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (HK\$ mn)						
Revenue	77,324	73,891	89,086	102,872	113,248	122,500
Cost of goods sold	(73,946)	(70,395)	(85,157)	(98,289)	(108,203)	(117,043)
Gross profit	3,378	3,497	3,929	4,582	5,045	5,457
Operating expenses	(2,050)	(2,061)	(2,230)	(2,568)	(2,770)	(2,936)
Selling expense	(1,369)	(1,358)	(1,499)	(1,697)	(1,830)	(1,940)
Admin expense	(696)	(712)	(770)	(871)	(940)	(996)
Others	15	9	39	0	0	0
Operating profit	1,328	1,435	1,699	2,015	2,275	2,520
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	1,648	1,899	2,158
Income tax	(259)	(240)	(240)	(330)	(380)	(432)
After tax profit	823	922	1,116	1,318	1,519	1,726
Net profit	823	922	1,116	1,318	1,519	1,726

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (HK\$ mn)						
Current assets	32,642	32,885	36,111	39,875	43,110	46,256
Cash & equivalents	3,829	3,325	3,948	2,972	2,635	2,596
Account receivables	14,338	16,823	19,480	22,495	24,764	26,787
Inventories	10,072	11,309	11,190	12,915	14,218	15,379
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	2,394
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	42,187	45,461	48,650
Current liabilities	25,505	26,556	27,826	30,675	32,826	34,744
Short-term borrowings	6,975	8,104	7,864	7,864	7,864	7,864
Account payables	14,116	16,963	18,477	21,327	23,478	25,396
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	32,366	34,517	36,435
Share capital	145	144	144	144	144	144
Retained earnings	7,513	8,079	8,728	9,677	10,800	12,071
Total shareholders equity	7,658	8,223	8,872	9,821	10,944	12,215
Total equity and liabilities	34,767	35,020	38,388	42,187	45,461	48,650

<b>CASH FLOW</b>	<b>2022A</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
<b>YE 31 Dec (HK\$ mn)</b>						
<b>Operating</b>						
Profit before taxation	1,082	1,162	1,356	1,648	1,899	2,158
Depreciation & amortization	142	118	64	68	74	79
Tax paid	(259)	(240)	(240)	(330)	(380)	(432)
Change in working capital	(1,163)	(650)	(1,023)	(1,891)	(1,421)	(1,267)
Others	264	250	924	0	0	0
<b>Net cash from operations</b>	<b>67</b>	<b>640</b>	<b>1,081</b>	<b>(504)</b>	<b>172</b>	<b>539</b>
<b>Investing</b>						
Capital expenditure	(568)	(134)	(89)	(103)	(113)	(123)
Others	(489)	271	0	0	0	0
<b>Net cash from investing</b>	<b>(1,057)</b>	<b>138</b>	<b>(89)</b>	<b>(103)</b>	<b>(113)</b>	<b>(123)</b>
<b>Financing</b>						
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)
<b>Net cash from financing</b>	<b>1,574</b>	<b>(1,373)</b>	<b>(369)</b>	<b>(369)</b>	<b>(395)</b>	<b>(456)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	3,247	3,246	2,649	3,271	2,295	1,958
Exchange difference	(585)	(1)	0	0	0	0
<b>Cash at the end of the year</b>	<b>3,246</b>	<b>2,649</b>	<b>3,271</b>	<b>2,295</b>	<b>1,958</b>	<b>1,919</b>
<b>GROWTH</b>	<b>2022A</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
<b>YE 31 Dec</b>						
Revenue	(1.3%)	(4.4%)	20.6%	15.5%	10.1%	8.2%
Gross profit	(7.2%)	3.5%	12.4%	16.6%	10.1%	8.2%
Operating profit	(20.0%)	8.0%	18.4%	18.6%	12.9%	10.8%
Net profit	(37.4%)	12.0%	21.1%	18.1%	15.2%	13.7%
<b>PROFITABILITY</b>	<b>2022A</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
<b>YE 31 Dec</b>						
Gross profit margin	4.4%	4.7%	4.4%	4.5%	4.5%	4.5%
Operating margin	1.7%	1.9%	1.9%	2.0%	2.0%	2.1%
Return on equity (ROE)	10.6%	11.6%	13.1%	14.1%	14.6%	14.9%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2022A</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
<b>YE 31 Dec</b>						
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	76.2	76.8
Inventory turnover days	47.9	55.4	48.2	44.8	45.8	46.1
Payable turnover days	75.7	80.6	76.0	73.9	75.6	76.2
<b>VALUATION</b>	<b>2022A</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
<b>YE 31 Dec</b>						
P/E	10.5	9.3	7.6	6.4	5.6	4.9
P/E (diluted)	10.5	9.3	7.6	6.4	5.6	4.9
P/B	1.1	1.0	1.0	0.9	0.8	0.7

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

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