

VSTECs (856 HK)

FY25 review: AI compute and self-developed products maintain strong momentum

VSTECs reported FY25 results: total revenue increased by 10% YoY to HK\$97.6bn, largely in line with Bloomberg consensus estimate; net profit grew by 29% YoY to HK\$1.35bn, 5% ahead of consensus estimate thanks to the effective opex control and increase in revenue contribution from higher-margin self-developed products. Looking ahead, management expects to deliver a net income CAGR of 20% over FY26-28E, supported by the operating leverage and increased revenue from self-developed products. Given the solid operating leverage and strong momentum of self-developed products, we raise our FY26-27E earnings forecasts by 11-14%. We fine-tune our target price to HK\$14.0 based on 12x FY26E PE (previous: HK\$14.20 based on 15x FY25E PE). Maintain BUY on solid earnings growth outlook and shareholder return.

■ **Strong momentum of AI compute business.** Revenue from enterprise systems/consumer electronics/cloud computing grew by 2%/19%/29% YoY to HK\$53.5/39.0/5.1bn in FY25. Strong AI demand drove robust growth of computing power business, with Alibaba Cloud/Huawei Cloud/AWS business revenue up by 38%/25%/120% YoY in FY25. The company built a comprehensive domestic computing power ecosystem through cooperating with Hygon, Cambricon and MetaX etc. The company implemented several key computing power projects for State Grid and Shanghai JiaoTong University etc in FY25. Overseas business also made solid progress, with revenue from Southeast Asia up by 17% YoY to HK\$35.8bn in FY25 (37% of total revenue). Revenue from Southeast Asia computer power business grew by 30% YoY in FY25.

■ **Investing in self-developed products and technology.** Looking into FY26E, the company plans to double its investment in the R&D of its self-developed products and technology, such as agentic AI, LLM service platform, and computing power operation capabilities. Supported by the enhanced tech capabilities and more diversified products offerings, management expects revenue from self-developed products to increase by c.150%/120%/90% YoY in FY26/27/28E.

■ **Solid margin expansion and shareholder return.** NPM expanded by 0.2ppts YoY to 1.5% in FY25, primarily thanks to the effective control in G&A expenses (-6% YoY) and operating leverage. Looking ahead, we expect further margin expansion in FY26-28E, underpinned by the higher revenue contribution from self-developed products and operating leverage. The company announced annual dividend of HK\$600mn (HK\$0.42 per share), which translates into dividend yield of 5%.

Earnings Summary

(YE 31 Dec)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (HK\$ mn)	89,086	97,626	111,745	125,998	140,741
YoY growth (%)	20.6	9.6	14.5	12.8	11.7
Net profit (HK\$ mn)	1,116.2	1,435.5	1,700.9	1,976.1	2,300.1
YoY growth (%)	21.1	28.6	18.5	16.2	16.4
EPS (Reported) (HK\$)	0.80	1.04	1.23	1.43	1.66
Consensus EPS (HK\$)	0.80	1.04	1.02	1.19	na
P/S (x)	0.1	0.1	0.1	0.1	0.1
P/E (x)	9.8	7.6	6.4	5.5	4.7

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$14.00
(Previous TP)	HK\$14.20)
Up/Downside	77.7%
Current Price	HK\$7.88

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Stock Data

Mkt Cap (HK\$ mn)	10,918.8
Avg 3 mths t/o (HK\$ mn)	28.4
52w High/Low (HK\$)	11.75/4.59
Total Issued Shares (mn)	1385.6

Source: FactSet

Shareholding Structure

Li Jialin	41.6%
Eternal Asia	16.7%

Source: Company data

Share Performance

	Absolute	Relative
1-mth	-3.8%	0.8%
3-mth	0.8%	1.5%
6-mth	-22.0%	-18.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Business forecasts update and valuation

Figure 1: VSTECS: forecast revision

HK\$bn	Current			Previous			Change (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	111.7	126.0	140.7	113.4	122.7	NA	-1.4%	2.7%	NA
Gross profit	5.0	5.6	6.3	5.0	5.5	NA	-1.3%	2.8%	NA
Operating profit	2.2	2.6	3.0	2.2	2.5	NA	-1.8%	3.1%	NA
Net profit	1.7	2.0	2.3	1.5	1.7	NA	11.9%	14.1%	NA
EPS (HK\$)	1.2	1.4	0.0	1.1	1.2	NA	12.3%	14.4%	NA
Gross margin	4.5%	4.5%	4.5%	4.5%	4.5%	NA	0.0 ppt	0.0 ppt	NA
Operating margin	2.0%	2.0%	2.1%	2.0%	2.0%	NA	0.0 ppt	0.0 ppt	NA
Net margin	1.5%	1.6%	1.6%	1.3%	1.4%	NA	0.2 ppt	0.2 ppt	NA

Source: CMBIGM estimates

Figure 2: VSTECS: our forecast vs consensus

HK\$bn	CMBIGM			Consensus			Diff (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	111.7	126.0	140.7	116.4	131.0	NA	-4.0%	-3.8%	NA
Gross profit	5.0	5.6	6.3	5.3	6.0	NA	-6.5%	-6.9%	NA
Operating profit	2.2	2.6	3.0	2.2	2.4	NA	0.9%	5.2%	NA
Net profit	1.7	2.0	2.3	1.5	1.7	NA	14.0%	16.3%	NA
EPS (HK\$)	1.2	1.4	0.0	1.0	1.2	NA	20.1%	19.6%	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%	1.9%	1.9%	NA	0.1 ppt	0.2 ppt	NA
Net margin	1.5%	1.6%	1.6%	1.3%	1.3%	NA	0.2 ppt	0.3 ppt	NA

Source: CMBIGM estimates

We value VSTECS at HK\$14.00 per share based on 12x 2026E 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)	FY26E
Net Income	1,619
Target 2026E PE	12x
Target equity valuation	19,427
Valuation per share (USD)	14.00

Source: Company data, CMBIGM estimates

Figure 4: IT distributor: valuation comparison

Company	Ticker	Price (LC)	Mkt cap (US\$mn)	EPS growth (YoY%)		P/E (x)	
				2026E	2027E	2026E	2027E
Digital China	000034 CH	37.8	40	20	20	17	37.8
Synnex	SNX US	155.3	12	10	11	10	155.3
Ingram Micro	INGM US	22.2	12	12	7	6	22.2
Average						12	11

Source: Bloomberg, CMBIGM

Note: data as of 19 Mar

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (HK\$ mn)						
Revenue	73,891	89,086	97,626	111,745	125,998	140,741
Cost of goods sold	(70,395)	(85,157)	(93,272)	(106,761)	(120,379)	(134,402)
Gross profit	3,497	3,929	4,354	4,983	5,619	6,339
Operating expenses	(2,061)	(2,230)	(2,367)	(2,683)	(2,969)	(3,319)
Selling expense	(1,358)	(1,499)	(1,779)	(1,996)	(2,205)	(2,463)
Admin expense	(712)	(770)	(725)	(797)	(863)	(925)
Others	9	39	137	110	99	69
Operating profit	1,435	1,699	1,986	2,300	2,650	3,020
Share of (losses)/profits of associates/JV	67	61	95	93	83	90
Interest expense	(340)	(404)	(368)	(368)	(380)	(372)
Pre-tax profit	1,162	1,356	1,714	2,025	2,353	2,738
Income tax	(240)	(240)	(278)	(324)	(376)	(438)
After tax profit	922	1,116	1,436	1,701	1,976	2,300
Net profit	922	1,116	1,436	1,701	1,976	2,300

BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (HK\$ mn)						
Current assets	32,885	36,111	40,553	44,235	48,269	52,566
Cash & equivalents	2,649	3,015	3,796	3,961	4,673	5,726
Restricted cash	676	933	1,114	1,114	1,114	1,114
Account receivables	16,823	19,480	21,081	22,923	24,555	26,056
Inventories	11,309	11,190	11,582	13,256	14,947	16,689
Other current assets	1,428	1,494	2,981	2,981	2,981	2,981
Non-current assets	2,135	2,277	2,467	2,505	2,552	2,608
PP&E	909	978	996	1,035	1,082	1,138
Deferred income tax	146	159	189	189	189	189
Investment in JVs & assos	724	603	719	719	719	719
Intangibles	355	346	357	357	357	357
Other non-current assets	2	191	205	205	205	205
Total assets	35,020	38,388	43,020	46,740	50,822	55,174
Current liabilities	26,556	27,826	30,911	33,612	36,285	38,988
Short-term borrowings	8,104	7,864	7,406	7,406	7,406	7,406
Account payables	16,963	18,477	20,285	22,987	25,660	28,362
Tax payable	132	101	118	118	118	118
Accrued expenses	1,357	1,384	3,101	3,101	3,101	3,101
Non-current liabilities	241	1,691	1,694	1,694	1,694	1,694
Long-term borrowings	0	1,380	1,389	1,389	1,389	1,389
Deferred income	210	280	274	274	274	274
Other non-current liabilities	31	31	30	30	30	30
Total liabilities	26,798	29,516	32,604	35,306	37,979	40,681
Share capital	144	144	144	144	144	144
Retained earnings	8,079	8,728	10,272	11,291	12,699	14,349
Total shareholders equity	8,223	8,872	10,416	11,435	12,843	14,493
Total equity and liabilities	35,020	38,388	43,020	46,740	50,822	55,174

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (HK\$ mn)						
Operating						
Profit before taxation	1,162	1,356	1,714	2,025	2,353	2,738
Depreciation & amortization	118	121	79	73	79	85
Tax paid	(240)	(240)	(278)	(324)	(376)	(438)
Change in working capital	(650)	324	(185)	(816)	(650)	(540)
Others	250	261	(82)	(82)	(82)	(82)
Net cash from operations	640	1,822	1,248	877	1,323	1,763
Investing						
Capital expenditure	(134)	(131)	(98)	(112)	(126)	(141)
Others	271	(170)	0	0	0	0
Net cash from investing	138	(301)	(98)	(112)	(126)	(141)
Financing						
Dividend paid	(247)	(369)	(369)	(600)	(486)	(568)
Net borrowings	(348)	134	0	0	0	0
Share repurchases	(56)	0	0	na	0	na
Others	(969)	(971)	(369)	(600)	(486)	(568)
Net cash from financing	(1,373)	(837)	(369)	(600)	(486)	(568)
Net change in cash						
Cash at the beginning of the year	3,246	2,649	3,015	3,796	3,961	4,673
Exchange difference	(1)	(318)	0	0	0	0
Cash at the end of the year	2,649	3,015	3,796	3,961	4,673	5,726
GROWTH	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Revenue	(4.4%)	20.6%	9.6%	14.5%	12.8%	11.7%
Gross profit	3.5%	12.4%	10.8%	14.5%	12.8%	12.8%
Operating profit	8.0%	18.4%	16.9%	15.8%	15.2%	14.0%
Net profit	12.0%	21.1%	28.6%	18.5%	16.2%	16.4%
PROFITABILITY	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Gross profit margin	4.7%	4.4%	4.5%	4.5%	4.5%	4.5%
Operating margin	1.9%	1.9%	2.0%	2.1%	2.1%	2.1%
Return on equity (ROE)	11.6%	13.1%	14.9%	15.6%	16.3%	16.8%
GEARING/LIQUIDITY/ACTIVITIES	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Current ratio (x)	1.2	1.3	1.3	1.3	1.3	1.3
Receivable turnover days	77.0	74.4	75.8	71.9	68.8	65.6
Inventory turnover days	55.4	48.2	44.6	42.5	42.8	43.0
Payable turnover days	80.6	76.0	75.8	74.0	73.8	73.4
VALUATION	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
P/E	12.0	9.8	7.6	6.4	5.5	4.7
P/E (diluted)	12.0	9.8	7.6	6.4	5.5	4.7
P/B	1.3	1.2	1.0	1.0	0.9	0.8

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

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