

Company Report: VSTECS Holdings (00856 HK)

公司报告: 伟仕佳杰控股 (00856 HK)

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Solid and Sustainable Core Business Growth, Maintain "Buy"

稳定且可持续的核心业务增长, 维持“买入”

- **VSTECS' shareholders' profit reached HK\$741 million in 2018, up 3.4% YoY.** Total revenue increased by 14.6% YoY to HK\$62,482 million, of which mobility & digital devices/ components/ cloud & big data analytics/ network & data security grew YoY by 16.8%/ -14.8%/ 54.2%/ 5.0%, respectively. Gross margin improved by 0.2 ppts YoY to 4.5%, benefiting from higher contribution from IT services business. Shareholders' profit growth missed market consensus due to non-recurrent losses, but core businesses remains strong and healthy.
- **Cloud and big data analytics business will be the Company's growth engine in the future.** The Company achieved rapid IT service business growth in 2018 leveraging on fast growing demand across sectors. In addition, VSTECS recently started cooperation with Alibaba Group as a general agent distributing Aliyun in China in 2019 and thus we expect strong and sustainable revenue growth in the future.
- **Maintain investment rating as "Buy" and revise TP to HK\$6.04.** New TP represents 9.0x, 7.7x and 6.7x 2019, 2020 and 2021 PER, respectively, attractive compared with its peers despite recent share price climb. Main risks include intense competition among the IT services industry and weaker-than-expected profit margin.
- **伟仕佳杰 2018 年股东净利达到 741 百万港元, 同比上升 3.4%。**总收入同比增长 14.6% 至 62,482 百万港元, 其中移动终端/配件/云计算及大数据分析/网络及信息安全业务分别同比增长 16.8%/倒退 14.8%/增长 54.2%/增长 5.0%。毛利率同比提升 0.2 个百分点至 4.5%, 受益于 IT 服务业务更高的贡献。股东净利增长低于市场预期, 主要因为非经常性损失, 但核心业务保持强劲和健康。
- **云计算和大数据分析业务在未来将成为公司的主要增长引擎。**公司 2018 年 IT 服务业务快速发展, 依靠于各行业的需求猛增。此外, 伟仕佳杰在 2019 年开始与阿里巴巴集团合作, 成为阿里云的中国区总经销商, 因此我们预期公司未来将可实现强劲并持续的收入增长。
- **维持投资评级为“买入”并调整目标价至 6.04 港元。**新目标价分别相当于 9.0 倍/7.7 倍/6.7 倍 2019/ 2020/ 2021 年市盈率, 尽管公司股价近期上涨但相比其同业仍属吸引。主要风险包括 IT 服务行业竞争加剧和弱于预期的利润率。

Rating:

Buy

Maintained

评级:

买入 (维持)

6-18m TP 目标价:

HK\$6.04

Revised from 原目标价:

HK\$6.18

Share price 股价:

HK\$4.510

Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	0.2	21.6	4.9
Rel. % to HS Index 相对恒指变动 %	0.3	8.8	11.6
Avg. Share price(HK\$) 平均股价 (港元)	4.7	4.1	4.0

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(HK\$ m)	(HK\$ m)	(HK\$)	(Δ %)	(x)	(HK\$)	(x)	(HK\$)	(%)	(%)
2017A	54,543	716	0.503	31.3	9.0	3.312	1.4	0.124	2.7	16.5
2018A	62,482	741	0.516	2.6	8.7	3.457	1.3	0.147	3.3	15.0
2019F	70,538	964	0.671	30.0	6.7	3.919	1.2	0.201	4.5	17.9
2020F	79,138	1,129	0.786	17.1	5.7	4.460	1.0	0.236	5.2	18.5
2021F	88,516	1,298	0.905	15.1	5.0	5.083	0.9	0.271	6.0	18.6

Shares in issue (m) 总股数 (m)	1,435.3	Major shareholder 大股东	Li Jialin 40.4%
Market cap. (HK\$ m) 市值 (HK\$ m)	6,473.2	Free float (%) 自由流通比率 (%)	41.9
3 month average vol. 3 个月平均成交股数 ('000)	1,731.7	FY19 Net gearing (%) FY19 净负债/股东资金 (%)	110.7%
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)	5.040 / 3.170	FY19 Est. NAV (HK\$) FY19 每股估值 (港元)	7.5

Source: the Company, Guotai Junan International.

2018 Annual Results Review

VSTECS achieved strong revenue growth in 2018. Total revenue increased 14.6% YoY to HK\$62,482 million, beating our expectation. By business, revenue of mobility & digital devices business reached HK\$26,114 million, up 16.8% YoY and accounted for 41.8% of total revenue. Components business sales recorded decline of 14.8% YoY to HK\$11,287 million, contributing 18.1% of total revenue, down 6.2 pts YoY. The decrease was mainly due to the decrease in demand from its main client and the shrinking market. In respect to IT services for enterprises, revenue of cloud and big data analytics business soared by 54.2% YoY to HK\$16,279 million, benefiting from rapidly growing market demand, and network and data security was up by 5% YoY to HK\$8,802 million. Broken down by region, revenue from North Asia increased 12.2% YoY and in Southeast Asia achieved rapid YoY growth of 24.3%, thanks to the Company's overseas expansion strategy and efficient respective local teams.

Shareholders' profit increased 3.4% YoY to HK\$741 million in 2018. Overall gross margin improved by 0.2 pts YoY to 4.5% during the period, benefiting from a higher proportion of cloud and big data analytics business which enjoys relatively higher gross margin compared with the Company's distribution business. SG&A expenses increased 30.1% YoY to HK\$1,681 million and SG&A expenses to revenue ratio was up 0.3 pts YoY to 2.7%. The surge was mainly due to a one-off trade receivable write-off of approximately HK\$160 million in Singapore in 2H18, which eroded operating margin and dragged net profit. In addition, the Company recorded one-off foreign exchange loss and other one-off loss related to its consumption financing, with total amount of around HK\$98 million. By the end of 2018, total working capital days were cut 2 days YoY to 52 days, remaining healthy, of which inventory days and accounts payable days increased 7 days and 9 days, respectively. The Company proposed final dividend of HK\$0.152 per share, representing payout ratio of 30% unchanged.

Table-1: VSTECS's 2018 Revenue Breakdown

Table 1: FY1200's 2018 Revenue Breakdown					
HK\$ million	2017		2018		YoY
	Value	% of total	Value	% of total	
By business					
Mobility & digital devices	22,357	41.0%	26,114	41.8%	16.8%
Components products	13,243	24.3%	11,287	18.1%	-14.8%
Cloud and big data analytics	10,558	19.4%	16,279	26.1%	54.2%
Network and data security	8,385	15.4%	8,802	14.1%	5.0%
By region					
North Asia	44,000	80.7%	49,379	79.0%	12.2%
Southeast Asia	10,544	19.3%	13,103	21.0%	24.3%
Total revenue	54,543	100.0%	62,482	100.0%	14.6%

Source: the Company, Guotai Junan International.

Table-2: VSTECS's 2018 Results Review

HK\$ million	2017	2018	YoY	2H17	2H18	YoY
Revenue	54,543	62,482	14.6%	30,542	34,539	13.1%
Cost of sales	(52,196)	(59,672)	14.3%	(29,169)	(32,983)	13.1%
Gross profit	2,347	2,810	19.7%	1,373	1,556	13.3%
Other income and gains	18	14	-25.7%	6	9	46.6%
Selling and distribution expenses	(849)	(1,087)	28.0%	(494)	(632)	27.9%
Administrative expenses	(434)	(593)	36.6%	(238)	(336)	41.5%
Operating profit	1,082	1,143	5.7%	648	597	-7.8%
Finance costs	(205)	(240)	17.4%	(110)	(120)	9.3%
Share of associates' profits	49	50	2.7%	29	25	-15.3%
Share of JV's losses	(6)	(6)	3.7%	(3)	(3)	-6.3%

Profit before tax	920	947	3.0%	564	499	-11.5%
Income tax	(203)	(206)	1.4%	(113)	(120)	6.1%
Shareholders' profit	716	741	3.4%	451	379	-16.0%
Gross margin	4.3%	4.5%	0.2 pts	4.5%	4.5%	0.0 ppt
Operating margin	2.0%	1.8%	-0.2 pts	2.1%	1.7%	-0.4 pts
Net margin	1.3%	1.2%	-0.1 pts	1.5%	1.1%	-0.4 pts

Source: the Company, Guotai Junan International.

Earnings Forecasts Assumptions and Revisions

VSTECs has established its own competitiveness and future growth strategy. The Company has transformed to a technical solutions integration service provider from a pure products distributor. The Company covers a large number of products and services including traditional hardware and software distribution, cloud services, operations, maintenance, etc. The IT products distribution industry in China is mature with thin profit margin, and it is hard for participants to make money relying on single product or brand. Thus the existing players have economies of scale and we believe that there is little opportunity for new players. The Company established solid partnerships with upstream suppliers and downstream clients and has built a mature management team. Despite its relatively low profit margin, the Company archived decent ROE and working capital management. The Company's future growth strategy is to focus on existing distribution business, expand solid businesses such as cloud services, and explore new business including industry solutions and big data.

Revise earnings forecasts assumptions in 2019-2020. We have rolled forward the base year to 2019. We have slightly revise down 2019-2020 revenue expectation by 1.4% and 2.1%, respectively, representing YoY revenue growth of 12.9% in 2019 and 12.2% in 2020. By segment, we now expect mobility digital devices business sales to have more moderate growth considering the slowing trend and larger base. Components business experienced YoY decline in the past years while the management guided flat to slightly positive growth in 2019. Cloud and big data analytics business was the Company's main growth engine in recent years with surging demand across different sectors including finance, telecom, manufacturing, etc. VSTECs is cooperating with Alibaba Group as a general agent selling Aliyun service in China starting in 2019. Aliyun owned a dominant market share of 43% in the domestic market in 1H18 according to IDC. The management expects the business to bring approximately HK\$2 billion in revenue in 2019 and thus we have raised our forecasts by 35.2% in 2019 accordingly. The Company recorded several one-off items in 2018 and eroded operating margin. However, we noted that the Company's core margin remained solid and is expected to be supported by high margin service businesses in the future. Overall, we revise down shareholders' profit by 10.8% and 9.8% in 2019 and 2020, respectively. New shareholders' profits forecasts amount to HK\$964 million, HK\$1,129 million and HK\$1,298 million in 2019-2021, representing YoY growth of 30.1%, 17.1% and 15.0%, respectively.

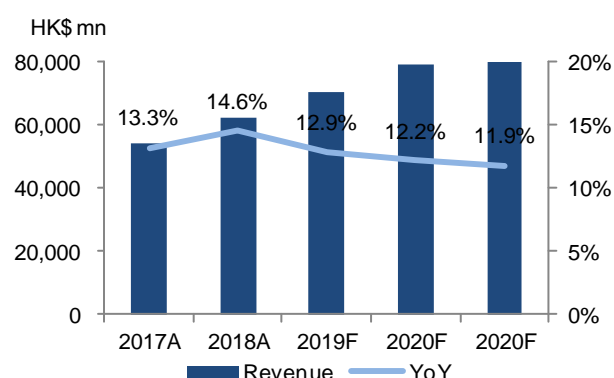
Table-3: Key Figure Revisions for VSTECs

HK\$ million	New			Old			Change		
	2019F	2020F	2021F	2019F	2020F	2021F	2019F	2020F	2021F
Revenue	70,538	79,138	88,516	71,509	80,841	n.a.	-1.4%	-2.1%	n.a.
-Mobility digital devices	29,770	33,937	38,689	33,424	38,104	n.a.	-10.9%	-10.9%	n.a.
-Components products	11,287	11,400	11,514	11,256	11,369	n.a.	0.3%	0.3%	n.a.
-Cloud and big data analytics	19,535	22,661	26,060	14,451	16,763	n.a.	35.2%	35.2%	n.a.
-Network and data security	9,946	11,140	12,253	12,377	14,605	n.a.	-19.6%	-23.7%	n.a.
Gross profit	3,231	3,664	4,134	3,325	3,864	n.a.	-2.8%	-5.2%	n.a.
Operating profit	1,471	1,680	1,912	1,599	1,821	n.a.	-8.0%	-7.7%	n.a.
Shareholders' profit	964	1,129	1,298	1,102	1,276	n.a.	-12.5%	-11.5%	n.a.

EPS (HK\$)	0.671	0.786	0.905	0.753	0.872	n.a.	-10.8%	-9.8%	n.a.
Gross margin	4.6%	4.6%	4.7%	4.7%	4.8%	n.a.	-0.1 pts	-0.2 pts	n.a.
% SG&A of turnover	2.5%	2.5%	2.5%	2.4%	2.6%	n.a.	0.1 pts	-0.1 pts	n.a.
Operating margin	2.1%	2.1%	2.2%	2.2%	2.3%	n.a.	-0.1 pts	-0.2 pts	n.a.
Net margin	1.4%	1.4%	1.5%	1.5%	1.6%	n.a.	-0.1 pts	-0.2 pts	n.a.

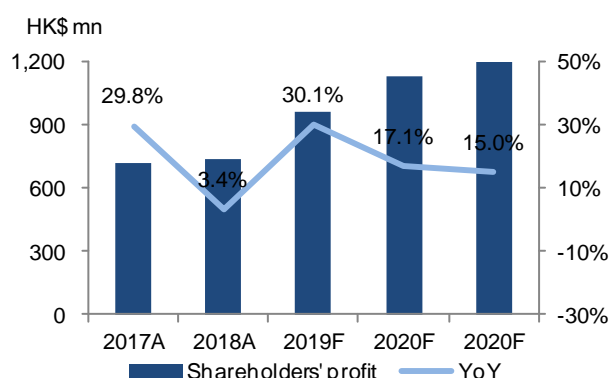
Source: Guotai Junan International.

Figure-1: VSTECs's Revenue and YoY Growth



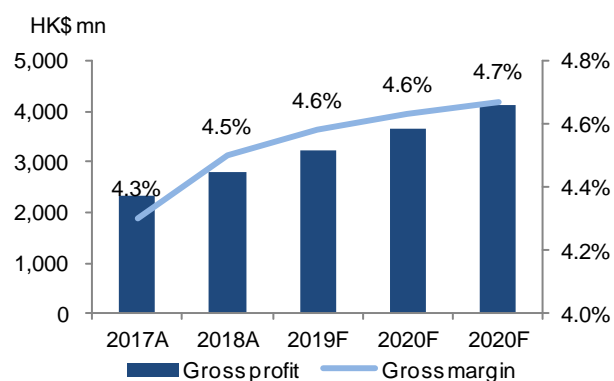
Source: the Company, Guotai Junan International.

Figure-2: VSTECs' Shareholders' Profit and YoY Growth



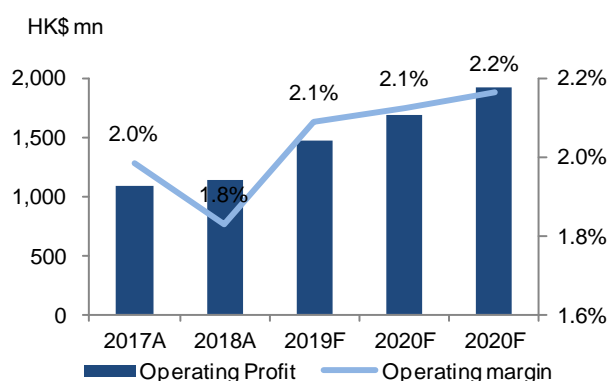
Source: the Company, Guotai Junan International.

Figure-3: VSTECs's Gross Profit and Gross Margin



Source: the Company, Guotai Junan International.

Figure-4: VSTECs's Operating Profit and Operating Margin



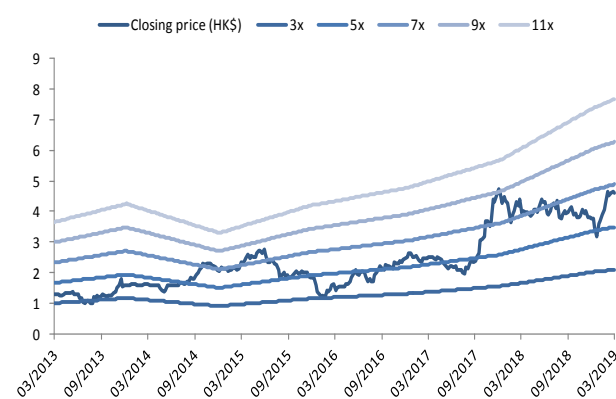
Source: the Company, Guotai Junan International.

Maintain investment rating as "Buy" but revise target price to HK\$6.04. VSTECs achieved solid core operating results growth and we are positive on its outlook and more competitive products and services portfolio. We maintain "Buy" rating and new TP is equivalent to 9.0x, 7.7x and 6.7x 2019, 2020 and 2021 PER, respectively. We believe that the Company's valuation is attractive compared with its peers. Major risks include intense competition among the IT services industry and weaker-than-expected profit margin.

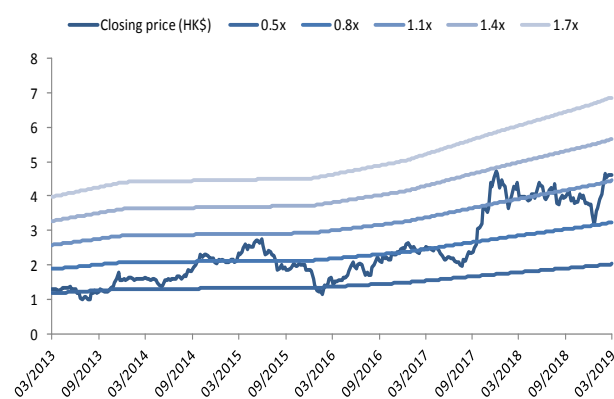
Table-4: Peers Comparison Table

Company	Stock Code	Currency	Last price	PE(x)				PB(x)				ROE(%)	D/Y(%)	Gross Margin(%)	Market Cap
				17A	18F	19F	20F	17A	18F	19F	20F	18F	18F	18F	
IT distribution and IT service															
Tech Data Corp	TECD US	USD	98.790	32.2	11.1	8.2	8.0	1.3	1.2	n.a.	n.a.	11.6	0.0	6.1	28,614
Synnex Technology	2347 TT	TWD	36.950	9.3	9.1	8.3	n.a.	1.3	1.2	1.1	n.a.	13.4	6.7	3.7	15,673
Digital China Holdings	861 HK	HKD	4.310	21.6	16.8	12.0	n.a.	0.8	0.7	n.a.	n.a.	4.1	0.7	20.0	7,202
Vstecs Holdings	856 HK	HKD	4.510	8.7	7.4	6.6	n.a.	n.a.	1.1	1.0	n.a.	15.6	4.0	n.a.	6,555
Changhong Jiahua	8016 HK	HKD	0.520	4.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	756
Simple Average				15.3	11.1	8.8	8.0	1.1	1.1	1.0	n.a.	11.2	2.8	9.9	
Weighted Average				21.8	10.8	8.5	8.0	1.2	1.2	1.1	n.a.	11.6	2.3	7.3	

Source: Bloomberg, Guotai Junan International.

Figure-5: VSTECS's Historical Forward PER


Source: Bloomberg, Guotai Junan International.

Figure-6: VSTECS's Historical Forward PBR


Source: Bloomberg, Guotai Junan International.

Financial Statements and Ratios

Income Statement					
Year end 31 Dec (HK\$ m)	2017A	2018A	2019F	2020F	2021F
Total Revenue	54,543	62,482	70,538	79,138	88,516
Cost of sales	(52,196)	(59,672)	(67,307)	(75,474)	(84,382)
Gross profit	2,347	2,810	3,231	3,664	4,134
Selling and distribution costs	(849)	(1,087)	(1,213)	(1,385)	(1,576)
Administrative expenses	(434)	(593)	(564)	(617)	(664)
Other income and gains	18	14	18	18	18
Operating Profit	1,082	1,143	1,471	1,680	1,912
Finance cost	(205)	(240)	(285)	(295)	(324)
Share of associates' profits	49	50	55	66	79
Share of a joint venture's loss	(6)	(6)	(5)	(4)	(3)
Profit Before Tax	920	947	1,236	1,447	1,665
Income Tax	(203)	(206)	(272)	(318)	(366)
profit After Tax	716	741	964	1,129	1,298
Non-controlling Interest	0	0	0	0	0
Shareholders' Profit / Loss	716	741	964	1,129	1,298
Basic EPS	0.503	0.516	0.671	0.786	0.905

Cash Flow Statement					
Year end 31 Dec (HK\$ m)	2017A	2018A	2019F	2020F	2021F
PBT	920	947	1,236	1,447	1,665
Income tax	(130)	(256)	(260)	(310)	(358)
Adjust for depre.&amort.	29	46	45	43	42
Change in WC	(3,060)	(1,774)	(705)	(1,147)	(1,201)
Others	147	(103)	147	181	205
Cash from Operating Activities	(2,095)	(1,139)	462	215	352
Interest received	16	10	8	9	10
Purchase of PPE	(52)	(35)	(28)	(28)	(28)
Others	(245)	7	7	7	7
Cash from Investing Activities	(281)	(17)	(12)	(12)	(11)
Net bank borrowings	2,258	1,139	375	263	825
Interest paid	(205)	(240)	(285)	(295)	(324)
Dividend paid	(180)	(215)	(222)	(289)	(339)
Others	30	0	0	0	0
Cash from Financing Activities	1,903	683	(133)	(321)	163
Net Changes in Cash	(473)	(473)	317	(118)	505
Cash at Beg of Year	1,980	1,981	1,508	1,825	1,707
Foreign exchange effect	474	0	0	0	0
Cash at End of Year	1,981	1,508	1,825	1,707	2,212

Source: the Company, Guotai Junan International.

Balance Sheet					
Year end 31 Dec (HK\$ m)	2017A	2018A	2019F	2020F	2021F
Property, plant and equipment	463	452	434	419	405
Goodwill	323	320	320	320	320
Interest in associates & JV	917	941	978	1,025	1,074
Deferred tax assets	89	108	142	166	191
Others	1	(5)	3	4	5
Total Non-current Assets	1,792	1,815	1,877	1,934	1,995
Cash & Cash Equivalents	1,981	1,508	1,825	1,707	2,212
Inventories	4,264	6,103	6,068	6,339	7,532
Trade & other receivables	12,616	14,451	15,877	18,162	19,918
Total Current Assets	18,861	22,062	23,770	26,208	29,662
Total Assets	20,653	23,877	25,647	28,143	31,657
Trade & other payables	8,995	10,895	11,580	12,990	14,738
Short-term borrowings	6,642	6,326	6,701	6,964	7,789
Taxation Payable	139	113	149	174	200
Total Current Liabilities	15,775	17,341	18,430	20,129	22,727
Deferred Income	7	0	0	0	0
Long-term Borrowings	1	1,455	1,455	1,455	1,455
Deferred tax liability	36	31	40	47	54
Total Non-current Liabilities	43	1,490	1,495	1,502	1,509
Total Liabilities	15,819	18,831	19,926	21,631	24,237
Total Shareholders' Equity	4,835	5,047	5,721	6,511	7,420
Minority Interest	0	0	0	0	0
Total Equity	4,835	5,047	5,721	6,511	7,420

Financial Ratios					
	2017A	2018A	2019F	2020F	2021F
Gross margin	4.3%	4.5%	4.6%	4.6%	4.7%
Operating margin	2.0%	1.8%	2.1%	2.1%	2.2%
Net margin	1.3%	1.2%	1.4%	1.4%	1.5%
ROA	3.9%	3.3%	3.9%	4.2%	4.3%
ROE	16.5%	15.0%	17.9%	18.5%	18.6%
Current Ratio (x)	1.2	1.3	1.3	1.3	1.3
Net gearing (%)	96.4%	124.3%	110.7%	103.1%	94.8%
Interest coverage (x)	5.4	4.9	5.3	5.8	6.1
Dividend payout ratio (%)	30.0%	30.0%	30.0%	30.0%	30.0%

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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- (1) The Analysts and their associates do not serve as an officer of the issuer mentioned in this Research Report.
- (2) The Analysts and their associates do not have any financial interests in relation to the issuer mentioned in this Research Report.
- (3) Except for KAISA GROUP (01638 HK), GUOTAI JUNAN I (01788 HK), BANK OF GANSU (02139 HK), BINHAI INVESTMENT (02886 HK), VALUE A SHARE (03095 HK), CAM SCSMALLCAP (03157 HK), HAITIANTIAN (08227 HK), CSOP MSCI-R (CNY) (83149 HK), Guotai Junan and its group companies do not hold equal to or more than 1% of the market capitalization of the issuer mentioned in this Research Report.
- (4) Guotai Junan and its group companies have not had investment banking relationships with the issuer mentioned in this Research Report within the preceding 12 months.
- (5) Guotai Junan and its group companies are not making a market in the securities in respect of the issuer mentioned in this Research Report.
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