

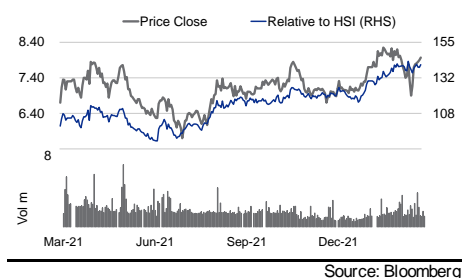
**Hong Kong**
**ADD** (no change)

Consensus ratings\*: Buy 4 Hold 0 Sell 0

Current price:	HK\$7.97
Target price:	HK\$10.88 ▲
Previous target:	HK\$9.36
Up/downside:	36.6%
CGI / Consensus:	na
Reuters:	0856.HK
Bloomberg:	856 HK
Market cap:	US\$1,482m HK\$11,598m
Average daily turnover:	US\$1.35m HK\$10.57m
Current shares o/s:	1,458m
Free float:	31.7%
*Source: Bloomberg	

**Key changes in this note**

- 2022F and 2023F net profit increased by 5.9% and 5.8%, respectively.



Price performance	1M	3M	12M
Absolute (%)	0.9	13.9	18.8
Relative (%)	5.1	19.4	40.2

**Major shareholders**

	% held
Chairman Mr Li Jialin	41.0
Eternal Asia (HK) Limited	17.4
Fidelity Puritan Trust	10.0

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**VST**
**2021 results beat our expectations; VSTECS continuing to benefit from IT investment in the region**

- VSTECS Holdings Limited (VSTECS) reported strong 2021 results thanks to better cost control and solid revenue growth.
- The Company performed well in the region despite the macro uncertainties.
- We maintain that the Company will benefit from increasing demand for IT products, such as Big Data, cloud computing, AI and network security, in the region. Through co-operation with leading partners, VSTECS is expected to benefit from metaverse development.
- We raised our net profit forecasts after the 2021 results announcement. VSTECS's valuation doesn't look particularly expensive and offers a decent yield despite its share price outperformance. We reiterate our ADD rating and have a higher target price of HK\$10.88 (based on 11x 2022F P/E). Our target P/E multiple remains unchanged.

**2021 results highlights; strong performance**

VSTECS's 2021 net profit was HK\$1,314.0m, up 23.1% yoy, from HK\$1,067.6m in 2020. The Company's 2021 turnover was HK\$78,335.4m, up 12% yoy from HK\$69,961.9m in 2020. Enterprise system revenue reported yoy growth of 7%, reaching HK\$43,709.4m, contributing 56% of total revenue in 2021. Revenue from the consumer electronics segment increased 18% yoy to HK\$ 32,282.5m, contributing 41% of total revenue in 2021. Revenue from the cloud computing segment increased 39% yoy to HK\$2,343.6m, contributing 3% of total revenue in 2021. Both North Asia and Southeast Asia performed well in 2021. Revenue generated in North Asia increased 12% yoy to HK\$61,936.0m, contributing 79% of total revenue. Revenue from Southeast Asia increased 12% yoy to HK\$16,399.5m, contributing 21% of total revenue. Underlying demand for IT products in the region is sizable, and VSTECS has successfully identified growing segments. The Company's gross profit margin was 4.65% in 2021, lower than 4.85% in 1H21, but higher than 4.47% in 2020. VSTECS managed costs well, which was one of the reasons for its solid yoy net profit growth in 2021.

**toB demand is a growth driver**

VSTECS has continued to extend and diversify its product range to provide more choices for its customers and intends to expand its toB business by growing its business with leading players. The Company has also proactively developed the information technology innovation market, especially its business relationships with local players.

**Cloud is a medium- to long-term growth driver**

VSTECS's acquisition of RightCloud in 2021 has given full play to RightCloud's strong technology capabilities and VSTECS's core service capabilities. There is great synergy between VSTECS and RightCloud, which is a leading multi-cloud MSP in China and has accumulated hundreds of large customers. With VSTECS's excellent vendor relationships, service personnel and processes, both parties can work together to form a top-notch system of cloud management services. The acquisition is expected to be complementary for both and create synergies.

**Forecasts revised upwards**

We raised our net profit forecast for 2022F and 2023F by 5.9% and 5.8%, respectively, given the better-than-expected 2021 results. The upward revision was mainly due to better cost control and factoring in faster turnover growth for 2022F and 2023F. VSTECS's valuation doesn't look particularly expensive and offers a decent yield. We reiterate our ADD rating and have a higher target price of HK\$10.88 (based on 11x 2021F P/E). The upward revision is due to higher new profit forecasts.

**Financial Summary**

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (HK\$m)	69,962	78,335	83,732	89,548	95,818
Operating EBITDA (HK\$m)	1,426	1,642	1,796	1,965	2,151
Net Profit (HK\$m)	1,068	1,314	1,443	1,582	1,734
Core EPS (HK\$)	0.73	0.90	0.99	1.08	1.19
Core EPS Growth	31.8%	23.1%	9.8%	9.6%	9.6%
FD Core P/E (x)	10.88	8.84	8.05	7.35	6.70
DPS (HK\$)	0.22	0.27	0.30	0.33	0.36
Dividend Yield	2.76%	3.39%	3.72%	4.08%	4.48%
EV/EBITDA (x)	10.38	8.92	7.98	7.11	6.30
P/FCFE (x)	6.78	35.77	8.45	7.68	6.99
Net Gearing	46.8%	38.3%	30.3%	23.2%	17.1%
P/BV (x)	1.70	1.47	1.30	1.15	1.02
ROE	17.1%	17.8%	17.1%	16.6%	16.1%
% Change In Core EPS Estimates			5.92%	5.84%	
CGI/consensus EPS (x)			1.05	1.04	

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

**Figure 1: Change in assumptions**

	FY2022F			FY2023F		
	Old	New	% change	Old	New	% change
<b>Turnover (HKDm)</b>						
Computer Products & Consumer Electronics Products Di	3,860.1	51,443.1	6%	3,860.1	54,015.3	6%
Provision of Enterprise Systems	5,391.6	31,558.7	0%	5,391.6	34,714.5	0%
Provision of Computer Services	568.5	730.6	0%	568.5	818.2	0%
<b>Total</b>	<b>9,820.2</b>	<b>83,732.4</b>	<b>3%</b>	<b>9,820.2</b>	<b>89,548.1</b>	<b>3%</b>
<b>YoY Change (%)</b>						
Computer Products & Consumer Electronics Products Di	0	5.0		0	5.0	
Provision of Enterprise Systems	5.0	10.0		5.0	10.0	
Provision of Computer Services	15.0	12.0		15.0	12.0	
<b>Total</b>	<b>3.5</b>	<b>6.9</b>		<b>3.5</b>	<b>6.9</b>	
			ppt			ppt
<b>Gross margin (%)</b>						
Computer Products & Consumer Electronics Products Di	7.2	3.6	0	7.2	3.6	0
Provision of Enterprise Systems	18.4	6.2	0	18.4	6.2	0
Provision of Computer Services	18.7	7.0	0	18.7	7.0	0
Net margin (%)	0	0	0	0	0	0
	1.7	1.7	0.0	1.7	1.8	0.0
<b>Cost (HKDm)</b>						
S,G&A	(2,076.4)	(2,186.4)	0.1	(2,224.0)	(2,340.4)	0.1
Financial Expenses	(192.6)	(160.4)	(0.2)	(206.1)	(169.0)	(0.2)
<b>YoY Change (%)</b>						
S,G&A	7.1	7.0		7.1	7.0	
Financial Expenses	6.9	9.4		7.0	5.4	

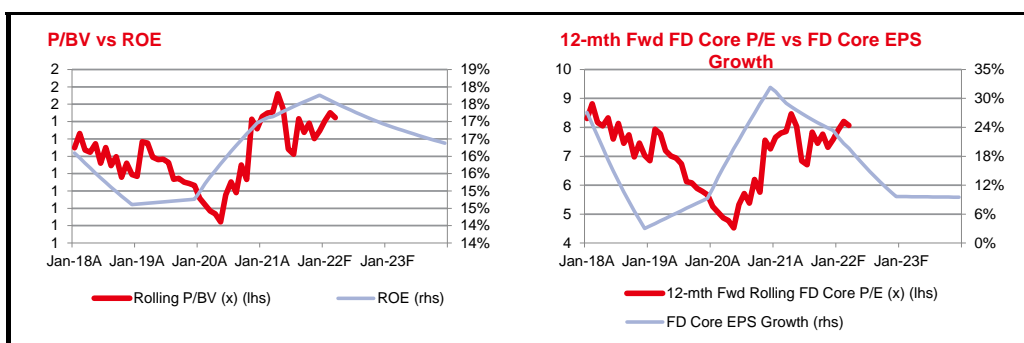
SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

**Figure 2: Assumptions**

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022F	2023F	2024F
<b>Turnover (HKDm)</b>													
Computer Products & Consumer Electronics Products Distribution	29,998.2	31,953.9	30,573.9	30,999.7	31,610.5	35,795.1	41,237.6	42,841.1	43,773.9	48,993.5	51,443.1	54,015.3	56,716.1
Provision of Enterprise Systems	6,873.9	8,064.4	11,100.9	14,377.7	16,283.2	18,400.0	20,792.0	22,871.2	25,615.8	28,689.7	31,558.7	34,714.5	38,186.0
Provision of Computer Services	225.5	221.0	218.0	198.3	267.6	347.9	452.3	497.6	572.2	652.3	730.6	818.2	916.4
<b>Total</b>	<b>37,097.6</b>	<b>40,239.3</b>	<b>41,892.7</b>	<b>45,575.6</b>	<b>48,161.3</b>	<b>54,543.1</b>	<b>62,482.0</b>	<b>66,209.9</b>	<b>69,961.9</b>	<b>78,335.4</b>	<b>83,732.4</b>	<b>89,548.1</b>	<b>95,818.5</b>
<b>YoY Change (%)</b>													
Computer Products & Consumer Electronics Products Distribution		6.5	(4.3)	1.4	2.0	13.2	15.2	3.9	2.2	11.9	5.0	5.0	5.0
Provision of Enterprise Systems			37.7	29.5	13.3	13.0	13.0	10.0	12.0	12.0	10.0	10.0	10.0
Provision of Computer Services					35.0	30.0	30.0	10.0	15.0	14.0	12.0	12.0	12.0
<b>Total</b>		<b>8.5</b>	<b>4.1</b>	<b>8.8</b>	<b>5.7</b>	<b>13.3</b>	<b>14.6</b>	<b>6.0</b>	<b>5.7</b>	<b>12.0</b>	<b>6.9</b>	<b>6.9</b>	<b>7.0</b>
<b>Gross margin (%)</b>													
Computer Products & Consumer Electronics Products Distribution	3.1	3.1	3.1	2.6	2.6	2.6	3.1	3.6	3.1	3.6	3.6	3.6	3.6
Provision of Enterprise Systems	6.5	6.5	6.5	6.2	6.2	6.2	6.2	6.2	5.7	6.2	6.2	6.2	6.2
Provision of Computer Services	9.0	9.0	7.5	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
<b>Net margin (%)</b>	<b>1.2</b>	<b>1.2</b>	<b>1.4</b>	<b>1.0</b>	<b>1.1</b>	<b>1.3</b>	<b>1.2</b>	<b>1.2</b>	<b>1.5</b>	<b>1.7</b>	<b>1.7</b>	<b>1.8</b>	<b>1.8</b>
<b>Cost (HKDm)</b>													
S,G&A	(816.8)	(866.0)	(844.1)	(1,017.2)	(1,065.8)	(1,283.7)	(1,680.5)	(1,743.5)	(1,743.0)	(2,043.5)	(2,186.4)	(2,340.4)	(2,506.5)
Financial Expenses	(75.9)	(81.2)	(104.4)	(139.7)	(141.2)	(204.9)	(240.4)	(295.6)	(193.9)	(146.5)	(160.4)	(169.0)	(178.3)
<b>YoY Change (%)</b>													
S,G&A		6.0	(2.5)	20.5	4.8	20.4	30.9	3.7	(0.0)	17.2	7.0	7.0	7.1
Financial Expenses		7.0	28.6	33.9	1.1	45.0	17.4	23.0	(34.4)	(24.4)	9.4	5.4	5.5
<b>CAPEX (HKDm)</b>													
CAPEX (HKDm)	13.8	14.9	23.7	201.7	175.6	61.6	40.3	46.3	53.3	61.3	70.4	81.0	93.2
<b>Net Gearing (%)</b>													
Net Gearing (%)	44.3	45.2	52.1	62.5	58.6	96.4	124.3	100.6	46.8	38.3	30.3	23.2	17.1

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

## BY THE NUMBERS



### Profit & Loss

(HK\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
<b>Total Net Revenues</b>	<b>69,962</b>	<b>78,335</b>	<b>83,732</b>	<b>89,548</b>	<b>95,818</b>
<b>Gross Profit</b>	<b>3,169</b>	<b>3,685</b>	<b>3,982</b>	<b>4,306</b>	<b>4,657</b>
<b>Operating EBITDA</b>	<b>1,426</b>	<b>1,642</b>	<b>1,796</b>	<b>1,965</b>	<b>2,151</b>
Depreciation And Amortisation	(42)	(46)	(51)	(56)	(62)
<b>Operating EBIT</b>	<b>1,384</b>	<b>1,596</b>	<b>1,745</b>	<b>1,909</b>	<b>2,088</b>
Financial Income/(Expense)	(168)	(123)	(132)	(135)	(139)
Pretax Income/(Loss) from Assoc.	21	40	42	44	46
Non-Operating Income/(Expense)	10	42	44	46	49
<b>Profit Before Tax (pre-EI)</b>	<b>1,247</b>	<b>1,555</b>	<b>1,699</b>	<b>1,864</b>	<b>2,044</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>1,247</b>	<b>1,555</b>	<b>1,699</b>	<b>1,864</b>	<b>2,044</b>
Taxation	(180)	(241)	(257)	(282)	(310)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>1,068</b>	<b>1,314</b>	<b>1,443</b>	<b>1,582</b>	<b>1,734</b>
Minority Interests	0	0	0	0	0
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>1,068</b>	<b>1,314</b>	<b>1,443</b>	<b>1,582</b>	<b>1,734</b>
Recurring Net Profit	1,068	1,314	1,443	1,582	1,734
<b>Fully Diluted Recurring Net Profit</b>	<b>1,068</b>	<b>1,314</b>	<b>1,443</b>	<b>1,582</b>	<b>1,734</b>

### Cash Flow

(HK\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
<b>EBITDA</b>	<b>1,426</b>	<b>1,642</b>	<b>1,796</b>	<b>1,965</b>	<b>2,151</b>
Cash Flow from Inv. & Assoc.					
Change In Working Capital	1,398	(877)	(671)	(723)	(780)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	10	42	44	46	49
Net Interest (Paid)/Received	(168)	(123)	(132)	(135)	(139)
Tax Paid					
<b>Cashflow From Operations</b>	<b>2,667</b>	<b>684</b>	<b>1,037</b>	<b>1,153</b>	<b>1,280</b>
Capex	(53)	(61)	(70)	(81)	(93)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	0	0	0	0	0
Other Investing Cashflow	364	187	66	71	77
<b>Cash Flow From Investing</b>	<b>311</b>	<b>126</b>	<b>(5)</b>	<b>(10)</b>	<b>(16)</b>
Debt Raised/(repaid)	(1,263)	(485)	343	370	399
Proceeds From Issue Of Shares	0	0	0	0	0
Shares Repurchased					
Dividends Paid	(243)	(321)	(394)	(433)	(474)
Preferred Dividends					
Other Financing Cashflow	(240)	(316)	(335)	(366)	(400)
<b>Cash Flow From Financing</b>	<b>(1,746)</b>	<b>(1,121)</b>	<b>(385)</b>	<b>(429)</b>	<b>(476)</b>
Total Cash Generated	1,231	(312)	646	714	788
<b>Free Cashflow To Equity</b>	<b>1,714</b>	<b>325</b>	<b>1,375</b>	<b>1,513</b>	<b>1,663</b>
<b>Free Cashflow To Firm</b>	<b>3,171</b>	<b>956</b>	<b>1,192</b>	<b>1,312</b>	<b>1,443</b>

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

**BY THE NUMBERS... cont'd**
**Balance Sheet**

(HK\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	3,559	3,247	3,894	4,607	5,395
Total Debtors	18,165	17,371	18,567	19,857	21,248
Inventories	5,502	9,337	9,980	10,673	11,421
Total Other Current Assets	0	0	0	0	0
<b>Total Current Assets</b>	<b>27,226</b>	<b>29,955</b>	<b>32,441</b>	<b>35,138</b>	<b>38,064</b>
Fixed Assets	682	680	700	725	756
Total Investments	953	989	1,028	1,070	1,112
Intangible Assets	359	358	383	410	439
Total Other Non-Current Assets	204	194	194	194	194
<b>Total Non-current Assets</b>	<b>2,199</b>	<b>2,221</b>	<b>2,306</b>	<b>2,399</b>	<b>2,501</b>
Short-term Debt	6,751	4,735	5,062	5,413	5,792
Current Portion of Long-Term Debt					
Total Creditors	14,700	16,860	18,021	19,273	20,623
Other Current Liabilities	942	934	954	975	998
<b>Total Current Liabilities</b>	<b>22,393</b>	<b>22,530</b>	<b>24,037</b>	<b>25,661</b>	<b>27,413</b>
Total Long-term Debt	0	1,543	1,543	1,543	1,543
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	166	148	158	169	181
<b>Total Non-current Liabilities</b>	<b>166</b>	<b>1,691</b>	<b>1,701</b>	<b>1,712</b>	<b>1,724</b>
Total Provisions	40	44	49	54	59
<b>Total Liabilities</b>	<b>22,599</b>	<b>24,265</b>	<b>25,787</b>	<b>27,427</b>	<b>29,196</b>
Shareholders' Equity	6,826	7,911	8,960	10,109	11,369
Minority Interests	0	0	0	0	0
<b>Total Equity</b>	<b>6,826</b>	<b>7,911</b>	<b>8,960</b>	<b>10,109</b>	<b>11,369</b>

**Key Ratios**

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	5.7%	12.0%	6.9%	6.9%	7.0%
Operating EBITDA Growth	12.9%	15.1%	9.4%	9.4%	9.4%
Operating EBITDA Margin	2.04%	2.10%	2.14%	2.19%	2.24%
Net Cash Per Share (HK\$)	(2.19)	(2.08)	(1.86)	(1.61)	(1.33)
BVPS (HK\$)	4.68	5.43	6.15	6.93	7.80
Gross Interest Cover	7.14	10.89	10.88	11.30	11.71
Effective Tax Rate	14.4%	15.5%	15.1%	15.1%	15.2%
Net Dividend Payout Ratio	30.0%	30.0%	30.0%	30.0%	30.0%
Accounts Receivables Days	85.58	82.79	78.33	78.31	78.50
Inventory Days	31.47	36.28	44.20	44.22	44.35
Accounts Payables Days	68.62	77.15	79.82	79.85	80.09
ROIC (%)	13.1%	17.2%	17.2%	17.6%	18.0%
ROCE (%)	10.3%	11.6%	11.9%	11.9%	11.9%
Return On Average Assets	4.55%	4.66%	4.71%	4.75%	4.80%

**Key Drivers**

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Consumer Electronics Products - yoy growth (%)	2.2%	11.9%	5.0%	5.0%	5.0%
Provision of Enterprise Systems - yoy growth (%)	12.0%	12.0%	10.0%	10.0%	10.0%
Provision of Computer Services - yoy growth (%)	15.0%	14.0%	12.0%	12.0%	12.0%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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**Spitzer Chart for stock being researched ( 2 year data )**

**VST (856 HK)**

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Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

### Sector Ratings Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

### Country Ratings Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

### Analyst Certification

The analyst who is primarily responsible for the content of this report, in whole or in part, certifies that with respect to the securities or issuer 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 the analyst in this report.

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