

26 June 2018

Technology | Hardware & Equipment

VST Holdings Ltd

Buy (Maintained)

Target Price: HKD5.64

Price: HKD4.12

Market Cap: USD769m

Bloomberg Ticker: 856 HK

Solid Business Outlook With Low Valuation

Maintain BUY and HKD5.64 TP, with 37% upside. We spoke to VST CFO and IR, and we came away from the briefing generally positive. VST is confident that with the new China group chairman on board and strong demand from enterprise segment, it should deliver 10-15% topline growth. Higher margin businesses such as cloud and big data, network and data security should enjoy higher growth of 15-20% for 2018F-2019F. This also implies that overall margin should continue improving. Trading at only 6.5x FY18F P/E or 5.5x FY19F P/E, with 21% earnings CAGR for FY17-20F, and 4% dividend yield (based on RHB forecast), VST should be a safe investment in an uncertain market, in our view.

Strong demand for higher margin businesses. Component products segment (2-4% of GPM) should see flattish growth given weak incremental demand. Mobility digital devices segment (3-5% of GPM) should be able to deliver low-teens growth with incremental demand for new product categories.

Its higher margin businesses segments – cloud and big data as well as network and data security segments (both > 6% of GPM) should enjoy high-teens growth. The main reasons are the strong demand for servers and networking devices, as cloud migration trend continues, VST continuing to extend offerings to include more brands and products and enterprises demand.

New China group chairman on board – positive. Mr Zhou Yibing joined VST on 30 May and according to media reports, he was recently appointed group chairman in China. He has 22 years in the IT service industry and was the president of Digital China Information Service (000555 CH, NR). VST believes Mr Zhou would be able to bring his industry experience and resources and grow higher-value businesses – cloud and big data as well as network and security segments.

Lower expectation for new businesses. On microfinance business, VST has ceased services for consumer loans as it does not see this as a core competence. Instead, it would focus on supply chain finance. As it has already provided credit terms for downstream partners, the supply chain finance service currently would only be used if the original credit period cannot satisfy downstream partners. Therefore the demand would not be very large.

For offline stores, it has opened one Xiaomi store in Singapore earlier this year, bringing the total number of stores to three. It also has two offline stores in Beijing. These stores are at breakeven level or slightly profitable. VST has no specific plans to open more offline stores.

Although the growth momentum of e-commerce platform, cloud service platform, supply chain and IT services, is good, the percentage of revenue contribution should not be significant given the huge size of VST's total revenue.

Maintain BUY and HKD5.64 TP, based on 9x FY18F P/E. Main downside risk is forex losses due to USD appreciation against Asian currencies.

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (HKDm)	48,161	54,543	60,738	67,608	75,079
Reported net profit (HKDm)	552	716	893	1,062	1,270
Recurring net profit (HKDm)	552	716	893	1,062	1,270
Recurring net profit growth (%)	22.5	29.8	24.6	18.9	19.6
Recurring EPS (HKD)	0.37	0.50	0.63	0.75	0.89
DPS (HKD)	0.12	0.15	0.19	0.22	0.27
Recurring P/E (x)	11.0	8.2	6.6	5.5	4.6
P/B (x)	1.54	1.21	1.02	0.86	0.73
P/CF (x)	6.1	na	3.0	10.3	7.7
Dividend Yield (%)	3.0	3.7	4.6	5.4	6.5
EV/EBITDA (x)	9.10	8.59	5.98	5.02	4.09
Return on average equity (%)	14.4	16.5	16.9	17.0	17.1
Net debt to equity (%)	58.6	96.4	51.6	39.5	28.2
Our vs consensus EPS (adjusted) (%)			(3.5)	(5.9)	12.6

Source: Company data, RHB

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