

Jayden Tan

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Recommendation:

BUY

Current Price:

RM 0.795

Previous Target Price:

N/A

Target Price:

RM 1.15

Upside/Downside:

44.7%

Stock information

Board ACE

Sector Digital Services

Bursa / Bloomberg Code 0253 / INFOTEC MK

Syariah Compliant No

FTSE4Good Index No

FTSE ESG Rating ☆☆☆☆

Bloomberg ESG Rating N/A

Shares issued (m) 363.2

Market Cap (RM' m) 288.8

52-Week Price Range (RM) 0.51-1.1

Beta (x) N/A

Free float (%) 52.8

3M Average Volume (m) 1.6

3M Average Value (RM' m) 1.2

Top 3 Shareholders

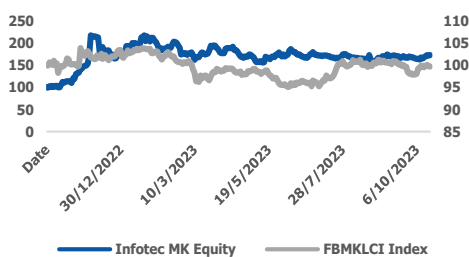
(%)

Choo Chuen Wei 47.1

Nor Azzam Bin Abdul Jalil 0.03

Binti Ahmad Kamal Alwizah Al-Yafii 0.02

Share Price Performance



	1M	3M	12M
Absolute (%)	5.3	3.9	51.4
Relative (%)	3.7	3.1	49.1

Infoline Tec Group Berhad

Riding Onto The Age of Digitalisation

Summary

- **Initiate coverage on Infoline Tec Group Berhad with BUY recommendation and target price of RM1.15/share, based on P/E of 17.0x on FY25F earnings.**
- **We are projecting core net profit to demonstrate further growth at 3-year CAGR of 26.7% to RM24.6m in FY25F, on the back of acquisition of new customers and contract wins from strong tender book.**
- **Future growth prospects to be driven by relatively large-scale expansions that are on the cards, coupled with favourable industry outlook.**

Investment Highlights

- **Riding onto rapid pace of technological evolution.** The proliferation and evolution of technologies such as Big Data, Cloud Computing, and Social Computing requires large volume of data consumption and requires greater demand for protection. According to IMR forecasts, the IT Infrastructure industry is expected to grow at a Compound Annual Growth Rate (CAGR) of 9.7% and 18.4% Yoy in CY24 in Malaysia and China, respectively. The expectation of positive trend has positioned Infoline as one of the key beneficiaries from the rapid development of IT infrastructure. We believe Infotec is strategically positioning itself within the high-growth industry. Through its ongoing geographical expansion efforts and capacity expansion plans, the company aims to capture a significant market share.
- **Benefiting from the government's initiatives** to promote the IT infrastructure and cybersecurity industries, the development of digital infrastructure is being encouraged through technology-friendly policies. The Malaysian government's awareness and promotion of digitalisation and cybersecurity, by development of digital infrastructure is expected to ramp up demand for companies and businesses to invest in IT infrastructure and cybersecurity solutions.
- **Ability to secure customers.** Infoline's ability to secure customers is bolstered by its largest client, Dell Technologies through their substantial planned CAPEX. Already, Infoline successfully acquired 24 new customers in FY22 and an additional 27 new customers as of June 2023. The group's ability in new customers acquisition will be a key driver for both top and bottomline growth, going forward.
- **Exciting Expansion.** Geographically, Infoline has expanded its operations into China, establishing presence across three cities: Heilongjiang, Wuhan, and Chengdu in response to strong demand inquiries. Additionally, Infoline has extended its footprint to Singapore, Japan, and India. The expansion into Singapore revolves around a brownfield acquisition of Inline Technologies, that comes with an annual profit guarantee of approximately RM1.8m. Operationally, Infoline has diversified vertically into the Mechanical & Engineering segment. The group has secured a solar plant project worth RM2.0m and actively tendering projects with combined value of RM100.0m. We believe these strategic expansions will pave way for Infoline's growth trajectory.

- Increasing recurring income stream.** Infoline has bolstered its steady earnings stream through managed IT services segment in bid to generate recurring income stream. Year-to-date, the group has enhanced its Network Operating Centre (NOC) and established a new Security Operating Centre (SOC). Addition of several new customers over the years has bolstered contribution of managed IT services. In 1H23, the aforementioned segment accounted for 23% of the total contribution, which represents a significant rise from 13% in FY22. We anticipate contribution will maintain at current level (20%) for FY24F. Additionally, the aforementioned segment offers better margins, which boast blended gross profit margin to approximately 70.0%.
- Proxy to Dell growth in Asia region.** Infoline maintained a mutually long-term working relationship with Dell Technologies, which is the group's largest customer that contributed approximately 50.0% to total revenue over the years. In recent years, Dell demonstrated sturdy growth in countries such as Australia, Japan, South Korea, and India. By tapping into Dell's growth within the Asia Pacific countries, we reckon Infoline is well positioned to capitalise on the ongoing and future Dell developments within Asia-Pacific markets, particularly in India.
- Health balance sheet and Robust financial growth.** Infoline boasts a healthy balance sheet with zero borrowings and a net cash position RM37.9m, representing 10.42 sen per share or 13.3% of current share price. In terms of bottomline, Infoline achieved an impressive 4-year CAGR of 40.0% in earnings growth from FY18 to FY22. The strong financial performance is a testament to Infoline's capabilities to further expand and grow their business.
- Dividend policy.** In FY22, the group declared a full-year dividend of 2.21 sen per share, reflecting a dividend pay-out ratio of approximately 66.0%. Infoline adheres to a dividend policy of a minimum 30.0% profit payout, backed by its strong financial performance. With ongoing expansionary plans on the horizon, we anticipate the group will maintain a dividend pay-out ratio of c.30.0% of its profits in the future.

Corporate Structure



Source: Company

Company background

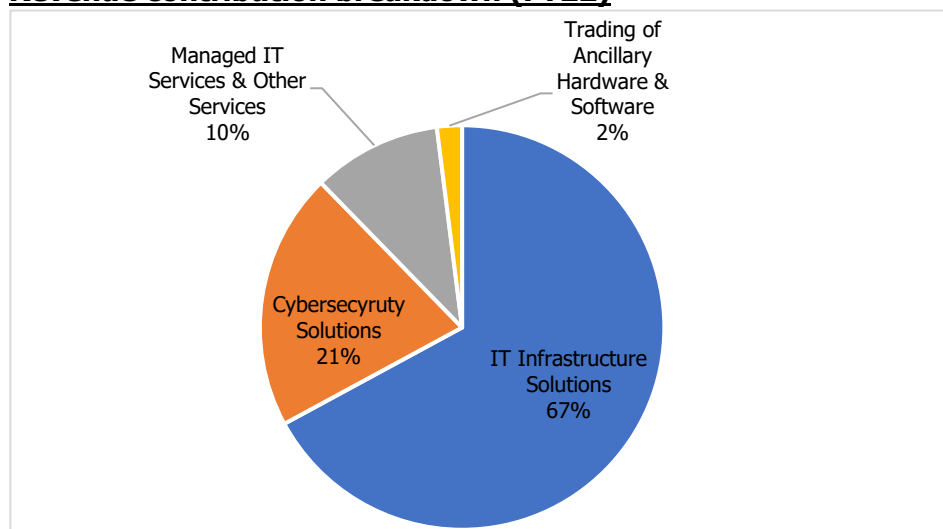
- Infotec engages in the provision of IT infrastructure solutions, cybersecurity solutions, managed IT and other IT services, and trading of ancillary hardware and software. The group's head office is located in Kota Damansara, Selangor, Malaysia, with operations in Malaysia and PRC.

- The group was incorporated on 2013 and listed on Bursa Malaysia’s Ace Market in 2022. Over the years, Infoline have established a strong track record as a reliable IT infrastructure and cybersecurity solution provider. As a testament to their success, Infoline have granted recognitions by several of their principals such as Gold Partner by Dell Technologies, Inc. and Panduit Corporation as well as 3-Star Partner by Check Point Software Technologies Ltd and Huawei Technologies Co Ltd and Aruba Gold Partner Status by Hewlett Packard Enterprise Company. The said recognitions further enhance business relationship with the respective principals in securing new projects.
- Given that the founder was ex-employee of Dell Technologies, Infoline maintained a mutually and trusted working relationship of 7 years with the Dell group of companies. The long-term working relationship highlights the group ability to deliver IT infrastructure and cybersecurity solutions in an effective and efficient manner for Dell group of companies.

Business Overview

- Infotec’s business operation are categorise into four segments, namely (i) IT infrastructure solutions, (ii) cybersecurity, (iii) managed IT services and (iv) trading of ancillary hardware and software products.
- **IT infrastructure solutions** segment specialised in designing and implementation of data central solutions, system infrastructure, network infrastructure, cloud computing solutions, software-defined infrastructure and unified communications to meet business needs and requirements. The group provides **cybersecurity solutions** to protect customers' IT infrastructure and data from cyber threats, attacks and unauthorised access which mitigate cybersecurity risks and minimise costs associated with dealing with cyber threats and attacks. Meanwhile, **managed IT services** revolves on monitoring and management of IT infrastructure and cybersecurity solutions. The group provides one-off professional services for customers whom do not procure any hardware or software through the group. In addition, the group also provides trading of **ancillary hardware and software products** to IT infrastructure solutions.

Revenue contribution breakdown (FY22)



Source: Company, Apex Securities

Business model

Principal Activity	Types of key solutions / services	Revenue model	Geographic segment	Customer segments
Provision of IT infrastructure solutions (design and implementation of IT infrastructure solutions)	<ul style="list-style-type: none"> Data centre solutions System infrastructure Software-defined infrastructure Network infrastructure Cloud computing solutions Unified communications 	<ul style="list-style-type: none"> One-off project-based fee Software licensing fee 	<ul style="list-style-type: none"> Malaysia China Other markets (including Hong Kong, Australia, Thailand, Singapore, Taiwan, South Korea, India, Myanmar, Indonesia and the Philippines) 	<ul style="list-style-type: none"> Customers who are end-users (i.e. local and multinational companies) Customers who are not end-users (e.g. property consultancy, and property developers and construction companies)
Provision of cybersecurity solutions (design and implementation of cybersecurity solutions)	<ul style="list-style-type: none"> Network security Endpoint protection platform Network access control Anti-DDoS protection Web isolation Application delivery controller Cloud security 	<ul style="list-style-type: none"> One-off project-based fee Software licensing fee 		
Provision of managed IT services and other IT services	<ul style="list-style-type: none"> Managed network services Managed cybersecurity services Project delivery and management services Assessment and troubleshooting services Consultation services Maintenance and technical support 	<ul style="list-style-type: none"> Contract fee Professional service fee 		
Trading of ancillary hardware and software	Examples include computers, notebooks, printers, accessories and peripherals	<ul style="list-style-type: none"> One-off sale 		

Source: Company


IT infrastructure solutions

Network Infrastructure

Local Area Network
Configure the private network structured cabling system to connect computers and IoT devices in different office branches.

Wide Area Network
Configure the network integrated with telecommunication circuits to connect computers and IoT devices over wide geographical area.

Virtual Private Network
Configure the network and applications that enable users to send and receive data across shared or public networks.

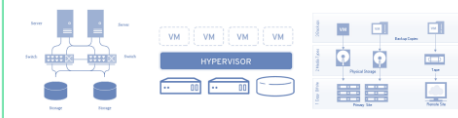


System Infrastructure

High Availability
Set up the network equipment, servers and storage devices required to avoid service disruption.

Server Virtualisation
Partition a physical server into multiple isolated virtual server for various operating system environments.

Backup & Archiving
Set up the network equipment, servers and storage devices to record, store, and retain digital data.




Software-defined Infrastructure

Software-defined Networking
Automate, manage, programme a LAN, and/or storage infrastructure located in a single location through software interfaces for better cost efficiency.

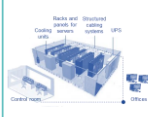
Software-defined WAN
Set up a virtual WAN architecture with centralised traffic control to enhance productivity and lower IT operational costs.

Hyperconverged Infrastructure
Set up a unified system that combines all elements of a traditional data centre, including storage, computing and network management.




Data Centre

Design and implement complete system infrastructure, network infrastructure, and/or software-defined infrastructure, install UPS, implement humidity and temperature control, power consumption monitoring, etc.



Cloud Computing

Install and integrate data storage, servers, networking, applications.



Unified Communications

Set up instant messaging, VoIP, mobility features, audio and video conferencing, desktop meeting, data sharing, call centre for enterprise communication.


Mobility, call control and VoIP

Email and instant messaging

Video








Audio

Desktop and data sharing



Source: Company

Cybersecurity solutions

<p>Network Security</p> <p>Encryption, hashing and falsification of data, recommends suitable protocols and practices for enterprises to adopt in order to protect their data</p> 	<p>Network Access Control</p> <p>Automated mitigation of network threats by enforcing security policies, recognition and profiling of users and their devices, management of guest access, evaluation of security-policy compliance by user type, device type, and operating system</p> 	<p>Cloud Security</p> <p>Maintain privacy and ensuring data security on cloud computing</p> 	<p>Application Delivery Controller</p> <p>Data compression (Information is encoded using fewer bits, and caching where a copy of the data is stored so that it may be accessed faster in the future)</p> <p>Connection multiplexing (multiple signals are combined into a single signal and passed over a medium)</p> <p>Traffic shaping (bandwidth management technique to delay data packets to increase usable bandwidth and improve performance)</p> <p>Application layer security (transfer of data is monitored and blocked based on a pre-defined set of rules)</p> <p>Offload of SSL and TLS to a hardware accelerator (to web-application)</p> <p>Content switching (traffic is redirected from one server to another server)</p> <p>Server load balancing (incoming traffic is distributed across multiple backend servers)</p> 
<p>Anti-Distributed Denial of Service Protection</p> <p>Anti-DDoS - Analyse data packets quickly in real-time to detect an anomaly that indicates possibility of a DDoS attack, separate and filter non-legitimate requests from legitimate requests, analyse emerging internet threats to develop defences for future attacks</p> 	<p>Endpoint Protection Platform</p> <p>Specify an index of approved software and executed files, permitted to be present on the device, detect and track abnormal behavioural patterns, terminate and respond to threats, perform forensic of threats, employ threat mitigation protocols</p> 	<p>Web Isolation</p> <p>Occur locally on the computer or a server to contain web browsing activity in an isolated environment to protect computers or endpoints from any cyber threats</p> 	

Source: Company

Managed IT services

Enhanced Network Operating Centre
(NOC) manages IT connection & utilisation




Centralise systems/ applications to consolidate data analytics
Higher visibility on the status of the clients' networks to ease troubleshooting
Support & customise multiple clients' accounts concurrently
Support & consolidate multiple platforms from different clients

New Security Operating Centre
(SOC) manages IT network security

Monitor, collect, centralise security events & incidents from multiple sources for threat monitoring, detection, analysis and hunting

Automate response workflows for efficient security analysis



Source: Company

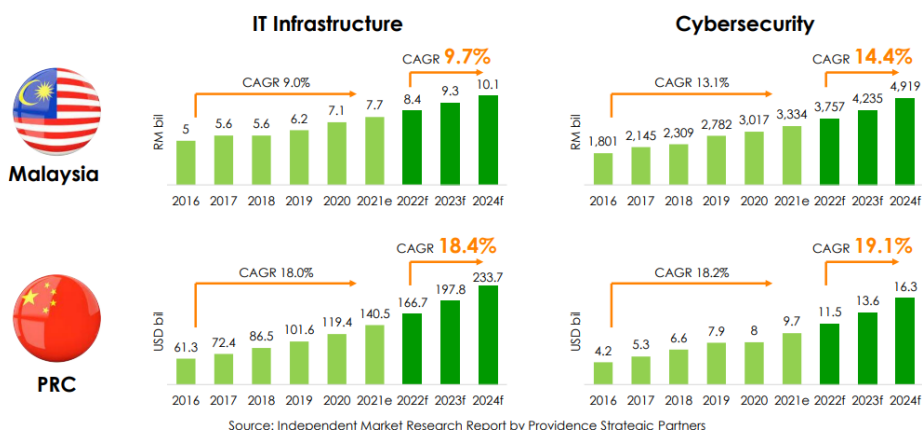
Industry Overview

- The proliferation of technologies revolutionise business into digital era, driven by rising adoption of new technologies, government development initiatives, increasing cyber threats, growing number of companies and businesses. Rapid pace of technological evolution as well as technology adoption boosts demand for IT infrastructure and cybersecurity solutions. The proliferation and evolution of technologies embedded partly into daily lifestyle through the increase in usage of consumer electronics and other personal devices. Examples include cloud computing, social computing, IoT, AI and Big data. Under the present market landscape, the rising reliance on cloud services and the ongoing upgrade of infrastructure are key factors in fueling the demand for managed IT infrastructure services.
- According to independent market report (IMR) by Providence Strategic Partners, IT infrastructure industry's growth is expected to accelerate in both Malaysia and China. Malaysia's IT infrastructure market size is anticipated to reach RM10.1bn by 2024, representing a 2-year CAGR of 9.7% in 2024F. Similarly, China's IT

infrastructure industry is projected to expand at 2-year CAGR of 18.4% to reach USD233.7bn by 2024F. Elsewhere, Malaysia's cybersecurity industry was valued at RM3.8bn in 2022 and is estimated to reach RM4.9bn by 2024F, representing a 2-year CAGR of 14.4%. Concurrently, China's cybersecurity industry is expected to reach USD16.3bn by 2024, projecting 2-year CAGR of 19.1%.

- According to Mordor Intelligence LLP, the managed IT infrastructure services market size is expected to grow from USD107.55bn in 2023F to USD167.92bn by 2028F globally, at a 5-year CAGR of 9.32% during the forecast period (2023F-2028F). The managed IT infrastructure services market is fiercely competitive, characterised by a multitude of both large and small players. The market's fragmented nature has led to a trend of acquisitions and a growing emphasis on specialised niche segments as part of the sector's expansion strategies. The rapid evolution of services necessitates continuous investments in cutting-edge skills and technologies to remain relevant and competitive. In bid to achieve the potential growth, players across the globe are swift in recruitment of skilled R&D professionals or the acquisition of promising startups with disruptive potential.

IT Infrastructure & Cybersecurity Growth Projections (MY & CN)



Financial Highlights

- Over the years, Infotec's revenue and net profit demonstrated solid 4-year CAGR of 40.2% and 39.2% in FY22. The sturdy growth was largely attributed to the rapid demand for IT infrastructure following the rising adoption of advance technologies such as data analytics, data processing, data exchange and cloud-based services. The above factors contributed to increase in volume of digital data generated, and consequently lead to continuous demand for IT infrastructure and cybersecurity solutions in order to store and manage digital data.
- Moving forward, we are projecting core net profit to demonstrate further growth, rising 7.0% yoy to RM13.0m in FY23F, 69.0% yoy in FY24F and 11.0% yoy in FY25f on the back of new contracts secured and onboarding of new customers from their strong tender book that is supported by on-going expansions. Seasonally, Infotec posted stronger performance in 2H against 1H, with approximately 60-70% of their annual profits concentrated in the second half of the financial year. This is premised to companies ramping up their CAPEX spending towards the year end. Hence, we expect Infotec to deliver stronger 2HFY23 results.

Peers Comparison

Company	Market Group	FYE	Price (RM)	Market Cap (RM 'm)	P/E (x)		Gross DY (%)	Revenue RM 'm	Net Income RM 'm
					FY22	FY23F			
Infoline Tec Group Berhad	ACE	Dec	0.795	288.8	16.9	15.9	2.8%	72.8	12.1
Cloudpoint Technology Bhd	ACE	Dec	0.585	311.0	21.1	15.0	0.0%	90.6	13.2
HeiTech Padu Bhd	MAIN	Dec	0.920	93.1	N/A	N/A	0.0%	293.9	-9.9
Mesiniaga Bhd	MAIN	Dec	1.430	86.4	18.6	N/A	6.9%	292.9	6.5
Infomina Bhd	ACE	May	1.700	1022.1	24.0	19.8	0.0%	251.3	39.8
Avg ex-Infoline Tec Group Berhad					21.2	17.4	1.7%	232.2	12.4

Source: Apex Securities, Bloomberg

Valuation & Recommendation

- We project Infoline to deliver 3-year earnings CAGR of 26.7% for FY22-25F. On that note, we have factored in new contracts secured from current and future tenders, backed by their capabilities demonstrated historically.
- We initiate coverage on Infoline Tec Group Berhad with **BUY** recommendation and target price of RM1.15/share, based on assigned P/E of 17.0x to FY25F EPS of 6.8 sen. Our target PER is based on 20.0% discount to peers which are trading at 21-22x trailing PER, justifiable by the group's smaller market capitalization and competitive industry landscape.

Financial Highlights
Income Statement

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Revenue	44.6	72.8	82.0	130.4	148.4
Gross Profit	17.0	26.3	35.7	45.6	51.9
EBITDA	10.6	17.1	25.4	30.7	34.3
Depreciation & Amortisation	0.0	-0.4	-0.8	-0.7	-0.8
EBIT	10.6	16.7	24.7	30.0	33.5
Net Finance Income/ (Cost)	0.0	0.0	-0.2	-0.1	-0.1
Associates & JV	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	10.5	16.7	24.5	29.9	33.4
Tax	-2.7	-4.6	-6.3	-7.9	-8.9
Profit After Tax	7.8	12.1	18.2	22.0	24.6
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	7.8	12.1	18.2	22.0	24.6
Exceptionals	0.0	0.0	0.0	0.0	0.0
Core Net Profit	7.8	12.1	18.2	22.0	24.6

Key Ratios

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
EBITDA margin	23.8%	23.5%	31.0%	23.6%	23.1%
EBIT margin	23.7%	22.9%	30.1%	23.0%	22.6%
PBT margin	23.6%	22.9%	29.9%	22.9%	22.5%
PAT margin	17.5%	16.6%	22.2%	16.9%	16.5%
NP margin	17.5%	16.6%	22.2%	16.9%	16.5%
Core NP margin	17.5%	16.6%	22.2%	16.9%	16.5%
ROE	43.5%	24.1%	30.1%	28.8%	26.3%
ROA	553.7%	118.8%	130.5%	160.4%	182.4%
Net gearing	-63.8%	-75.3%	-68.4%	-76.5%	-81.6%

Key Assumptions

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
IT Infrastructure growth (yoy/%)	77%	39%	19%	-2%	7%
Cybersecurity growth (yoy/%)	-87%	997%	-74%	15%	15%
Managed IT growth (yoy/%)	-25%	14%	109%	16%	9%
Trading growth (yoy/%)	6%	3%	8%	6%	5%

Valuations FY25f

Core EPS (RM)	0.068
P/E multiple (x)	17.0
Fair Value (RM)	1.15

Source: Company, Apex Securities

Balance Sheet

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Cash	114	37.9	414	58.5	76.1
Receivables	9.5	16.6	18.1	29.2	33.0
Inventories	2.0	0.4	1.0	1.0	1.0
Other current assets	5.4	5.4	6.7	9.9	10.6
Total Current Assets	28.4	60.2	67.2	98.6	120.8
Fixed Assets	0.6	9.4	13.1	12.9	12.7
Intangibles	0.8	0.8	0.8	0.8	0.8
Other non-current assets	0.0	0.0	0.0	0.0	0.0
Total Non-current assets	1.4	10.2	13.9	13.7	13.5
Short-term Debt	0.0	0.0	0.0	0.0	0.0
Payables	6.6	10.7	10.5	19.6	22.1
Other Current Liabilities	4.6	7.9	8.9	14.1	16.2
Total Current Liabilities	11.2	18.6	19.4	33.7	38.3
Long-term Debt	0.0	0.0	0.0	0.0	0.0
Other non-current liabilities	0.7	1.6	1.3	2.1	2.6
Total Non-current Liabilities	0.7	1.6	1.3	2.1	2.6
Shareholder's equity	17.9	50.3	60.4	76.5	93.3
Minority interest	0.0	0.0	0.0	0.0	0.0
Equity	17.9	50.3	60.4	76.5	93.3

Cash Flow

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Pre-tax profit	7.8	12.1	18.2	22.0	24.6
Depreciation & amortisation	0.2	0.4	0.8	0.7	0.8
Changes in working capital	-3.6	2.2	-2.9	0.1	0.0
Others	0.1	0.1	0.0	0.0	0.0
Operating cash flow	4.5	14.8	16.1	22.8	25.4
Net capex	-0.4	-8.0	-4.5	-0.5	-0.5
Others	0.0	0.0	0.0	0.0	0.0
Investing cash flow	-0.4	-8.0	-4.5	-0.5	-0.5
Dividends paid	0.0	-2.0	-8.0	-6.0	-7.7
Others	-0.1	22.3	1.4	1.4	1.4
Financing cash flow	-0.1	20.3	-6.6	-4.6	-6.4
Net cash flow	4.3	26.5	3.6	17.1	17.6
Forex	0.3	-0.7	-1.3	-0.6	-0.9
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	7.0	11.3	37.8	41.4	58.5
Ending cash	11.3	37.8	41.4	58.5	76.1

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD	DEALING TEAM	RESEARCH TEAM
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<p>Mutiara Damansara Office: 5th Floor Menara UAC, 12, Jalan PJU 7/5, Mutiara Damansara, 47800 Petaling Jaya, Selangor Darul Ehsan, Malaysia</p> <p>General Line: (603) 7890 8899</p>	<p>Institutional Dealing Team: Siti Nur Nadhirah (ext 2032)</p> <p>PJ Office: General Line: (603) 7620 1118 Azfar Bin Abdul Aziz (Ext 822)</p>	

RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY: Total returns* are expected to exceed 10% within the next 12 months.
HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.
SELL: Total returns* are expected to be below -10% within the next 12 months.
TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.
TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.
 *Capital gain + dividend yield

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.
NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

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