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Recommendation:	BUY
Current Price:	RM 0.795
Previous Target Price:	RM 1.15
Target Price:	↓ RM 1.07
Upside/Downside:	34.6%

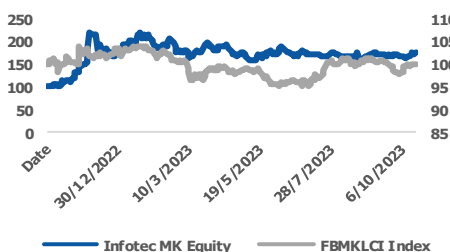
Stock information

Board	ACE
Sector	Digital Services
Bursa / Bloomberg Code	0253 / INFOTEC MK
Syariah Compliant	No
FTSE4Good Index	No
FTSE ESG Rating	N/A
Bloomberg ESG Rating	N/A
Shares issued (m)	363.2
Market Cap (RM' m)	277.9
52-Week Price Range (RM)	0.66-0.975
Beta (x)	N/A
Free float (%)	52.8
3M Average Volume (m)	1.2
3M Average Value (RM' m)	1.0

Top 3 Shareholders (%)

Choo Chuen Wei	47.1
Loo Wai Hong	14.99
Too Yit Meng	3.95

Share Price Performance



	1M	3M	12M
Absolute (%)	12.5	-6.1	-12.1
Relative (%)	9.4	-11.9	-17.3

Infoline Tec Group Berhad

Record high earnings










Summary

- **FY23 net profit at RM19.3m exceed our expectations thanks to higher contribution from Managed IT segment.**
- **Looking ahead, we are positive on prospects of earnings growth, backed by steadier and higher margin revenue stream.**
- **We maintain our BUY recommendation with lower target price of RM1.07 by pegging PE multiple of 17.0x to FY25f EPS of 6.3 sen.**

Results Review

- **Results review.** 4QFY23 core net profit surged 122% yoy and 222.3% qoq to RM7.9m despite lower qoq revenue, thanks to higher contribution from Managed IT segment which commanded higher profit margins with increased of new order in the segment. Revenue for the quarter, however fell -5.1 yoy, but jumped +114.8% qoq to RM26.9m. Lower yoy revenue was attributed to slower contribution from IT infrastructure projects which typically offered higher sales value but lower margin.
- **Slightly exceed expectation.** In FY23, cumulative net profit at RM19.3m makes up to 106% of our forecasted net profit of RM18.2m. The variance was due to higher-than-expected profit margin and contribution from Managed IT segment.
- **Operations Highlights.** In 4QFY23, Infoline reported a gross profit of RM5.6m from the IT infrastructure segment, representing a decrease of -7% qoq and -25% yoy. Conversely, the Managed IT segment recorded a gross profit of RM9.3m, marking a significant increase of 240% qoq and 126% yoy. We reckon the Group will shift their focus towards a higher-margin and more sustainable revenue stream.
- **Industry Highlights.** A research study by independent market review forecasts a 4.7% yoy growth in the infrastructure software market for 2024, and projected growth reaching USD317b by 2028 at a 6.1% CAGR. Additionally, Infoline's China operations stand to benefit from increased IT investment amid the country's economic recovery. Meanwhile, Malaysia government's initiative to develop the digital infrastructure is expected to ramp up demand for companies and businesses to invest in IT infrastructure and cybersecurity solutions also bodes well.
- **Outlook.** We are positive over the growth prospects supported by i) expansion geographically into Singapore, Japan, and India ii) recovery on China operation; iii) development of more sustainable revenue stream and higher-margin mix through the new Security Operating Centre and enhanced Network Operating Centre.
- **Valuation.** We adjusted our earnings for FY24F and FY25F downward to RM20.4m and RM22.9m respectively, due to the revised contribution from the M&E segment resulting from the delayed timeline of the Group's projects tender. Still, we maintained our **BUY** recommendation on Infoline with lower target price of RM1.07 following the earnings revision.
- **Risk.** Concentration risk that heavily rely on a single customer (Dell) Capex who contributed approximately 50.0% to total revenue over the years.

Figure 1: Results Comparison

FYE Dec (RM m)	4QFY2 3	4QFY2 2	YoY (%)	3QFY2 3	QoQ (%)	FY22	FY23	YoY (%)	5 Quarters Trend	Comments
Revenue	26.9	28.4	(5.1)	12.5	114.8	72.8	71.9	(1.3)		Higher contribution from Managed IT segment
Gross Profit	15.6	9.4	65.7	5.7	####	26.3	37.8	43.7		
Pre-tax profit	11.6	4.4	163.2	3.1	####	16.7	25.8	54.8		
Net profit	7.9	3.6	122.0	2.5	####	12.1	19.3	58.9		Higher margin mix from the higher revenue in Managed IT segment
Core net profit	7.9	3.6	122.0	2.5	####	12.1	19.3	58.9		
Core EPS (sen)	2.2	1.0	122.0	0.7	####	3.3	5.3	58.9		
GP margin (%)	58.1	33.2		45.6		36.1	52.5			
PBT margin (%)	43.0	15.5		24.6		22.9	35.9			
Core PATMI margin (%)	29.4	12.5		19.6		16.6	26.8			

Source: Company, Apex Securities

Income Statement

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Revenue	44.6	72.8	71.9	120.5	138.2
Gross Profit	17.0	26.3	37.8	42.2	48.4
EBITDA	10.6	17.1	26.7	28.8	32.4
Depreciation & Amortisation	0.0	-0.4	-0.9	-0.9	-12
EBIT	10.6	16.7	25.8	27.8	31.3
Net Finance Income/ (Cost)	0.0	0.0	0.0	-0.1	-0.1
Associates & JV	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	10.5	16.7	25.8	27.7	31.1
Tax	-2.7	-4.6	-6.5	-7.3	-8.2
Profit After Tax	7.8	12.1	19.3	20.4	22.9
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	7.8	12.1	19.3	20.4	22.9
Exceptionals	0.0	0.0	0.0	0.0	0.0
Core Net Profit	7.8	12.1	19.3	20.4	22.9

Key Ratios

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
EBITDA margin	23.8%	23.5%	37.1%	23.9%	23.5%
EBIT margin	23.7%	22.9%	35.9%	23.1%	22.6%
PBT margin	23.6%	22.9%	35.9%	23.0%	22.5%
PAT margin	17.5%	16.6%	26.8%	16.9%	16.6%
NP margin	17.5%	16.6%	26.8%	16.9%	16.6%
Core NP margin	17.5%	16.6%	26.8%	16.9%	16.6%
ROE	43.5%	24.1%	33.0%	30.3%	29.4%
ROA	26.1%	17.2%	24.2%	20.9%	20.5%
Net gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Key Assumptions

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
IT Infrastructure growth (yoy/%)	77%	39%	-6%	-2%	7%
Cybersecurity growth (yoy/%)	-87%	997%	-82%	200%	15%
Managed IT growth (yoy/%)	-25%	14%	126%	43%	5%
Trading growth (yoy/%)	6%	3%	12%	7%	7%

Valuations

	FY25F
Core EPS (RM)	0.063
P/E multiple (x)	17.0
Fair Value (RM)	1.07

Source: Company, Apex Securities

Balance Sheet

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Cash	11.4	37.9	19.2	37.2	43.1
Receivables	9.5	16.6	29.1	27.0	30.8
Inventories	2.0	0.4	0.8	1.0	1.0
Other current assets	5.4	5.4	9.3	9.3	10.0
Total Current Assets	28.4	60.2	58.4	74.5	85.8
Fixed Assets	0.6	9.4	16.3	17.6	19.7
Intangibles	0.8	0.8	3.4	3.4	3.4
Other non-current assets	0.0	0.0	0.0	0.0	0.0
Total Non-current assets	1.4	10.2	21.3	23.1	25.6
Short-term Debt	0.0	0.0	0.0	0.0	0.0
Payables	6.6	10.7	6.3	18.1	20.6
Other Current Liabilities	4.6	7.9	10.2	10.1	10.3
Total Current Liabilities	11.2	18.6	16.5	28.3	30.9
Long-term Debt	0.0	0.0	0.0	0.0	0.0
Other non-current liabilities	0.7	1.6	2.2	2.0	2.5
Total Non-current Liabilities	0.7	1.6	4.9	2.0	2.5
Shareholder's equity	17.9	50.3	58.3	67.3	78.0
Minority interest	0.0	0.0	0.0	0.0	0.0
Equity	17.9	50.3	58.3	67.3	78.0

Cash Flow

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Profit	7.8	12.1	19.3	20.4	22.9
Depreciation & amortisation	0.2	0.4	2.0	0.9	12
Changes in working capital	-3.6	2.2	-13.9	13.7	-18
Others	0.1	0.1	-1.0	1.4	0.0
Operating cash flow	4.5	14.8	6.3	36.4	22.2
Net capex	-0.4	-8.0	-9.5	-3.6	-3.2
Others	0.0	0.0	-3.7	0.0	0.0
Investing cash flow	-0.4	-8.0	-13.2	-3.6	-3.2
Dividends paid	0.0	-2.0	-11.4	-11.2	-12.2
Others	-0.1	22.3	-0.4	-3.0	0.0
Financing cash flow	-0.1	20.3	-11.8	-14.1	-12.2
Net cash flow	4.3	26.5	-18.7	18.1	5.9
Forex	0.3	-0.7	0.0	-0.6	-0.9
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	7.0	11.3	37.8	19.1	37.2
Ending cash	11.3	37.8	19.1	37.2	43.1

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD	DEALING TEAM	RESEARCH TEAM
<p>Head Office: 6th Floor, Menara Apex, Off Jalan Semenyih, Bukit Mewah 43000 Kajang, Selangor Darul Ehsan, Malaysia</p> <p>General Line: (603) 8736 1118</p>	<p>Head Office: Kong Ming Ming (ext 2002) Shirley Chang (ext 2026) Norisam Bojo (ext 2027) Ahmad Mujib (ext 2028)</p>	<p>Mutiara Damansara Office: Kenneth Leong (ext 2093) Lee Cherng Wee (ext 2067) Steven Chong (ext 2068) Jayden Tan (ext 2069)</p>
<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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