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Recommendation: BUY

Current Price:	RM 0.785
Previous Target Price:	RM 1.07
Target Price:	↓ RM 0.905
Upside/Downside:	15.3%

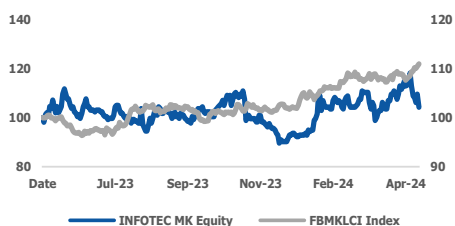
Stock information

Board	ACE
Sector	Digital Services
Bursa / Bloomberg Code	0253 / INFOTEC MK
Syariah Compliant	Yes
FTSE4Good Index	N/A
FTSE ESG Rating	N/A
Bloomberg ESG Rating	N/A
Shares issued (m)	363.2
Market Cap (RM' m)	285.1
52-Week Price Range (RM)	0.9-0.66
Beta (x)	1.1
Free float (%)	28.2
3M Average Volume (m)	1.9
3M Average Value (RM' m)	1.6

Top 3 Shareholders (%)

Choo Chuen Wei	17.8
Loo Hong Wai	7.8
Too Meng Yit	7.8

Share Price Performance



	1M	3M	12M
Absolute (%)	-2.5	0.0	1.3
Relative (%)	-2.9	-3.7	-12.4

Infoline Tec Group Berhad

Aggressive expansion hampered margins

Summary

- **1QFY24 net profit at RM225k lagged behind our expectations on higher administrative costs and lower profit margins as a result of the Group's aggressive expansion and acquisition of new customers.**
- **Looking ahead, we are positive on recovery prospects, particularly in 2H24 from billings of new contacts secured.**
- **We maintain our BUY recommendation with lower target price of RM0.905 by pegging PE multiple of 17.0x to FY25f EPS of 5.3 sen.**

Results Review

- **Results review.** 1QFY24 net profit slumped 90.8% yoy and 97.2% qoq to RM225k. The sluggish performance was mainly due to lower margins across all key segments and higher administrative costs, which hampered overall profitability. Revenue for the quarter, however, increased 79.0% yoy, but decreased by 16.7% qoq. For the quarter, a final single tier dividend of 1.38 sen/share, payable on 28 June 2024 was declared.
- **Far behind expectation.** Reported net profit missed our expectations despite revenue meeting forecasts. Key variance was mainly due to higher administrative costs and lower margins than anticipated, stemming from aggressive pricing strategies to secure new customers, which dampened the bottom line.
- **Operation Highlights.** Despite the overall sluggish margin in the quarter, we view the move is necessary as part of the aggressive market share expansion. Administrative expenses were higher (+26% qoq) due to the expansion of headcount in Malaysia and the establishment of new subsidiaries in India, China, and Singapore, in preparation to support new contracts and jobs. Additionally, the lower margins across all segments were primarily due to aggressive pricing strategies to secure new customers, with plans to offer additional products and services post clients onboarding. Notably, the cybersecurity segment revenue grew exponentially at 267% qoq and 428% yoy, driven by new customer acquisitions.
- **Industry Highlights.** The rise of digital transformation is driving increased adoption of IT infrastructure and cybersecurity solutions in workplaces. This trend is creating significant opportunities for companies operating within these sectors.
- **Outlook.** Despite the sluggish performance in this quarter, we view it positively as a result of the Group's aggressive expansion and acquisition of new customers. We anticipate performance to recover in 2H24, supported by the billings of new contracts and the seasonally stronger performance in the second half when customers tend to spend more on capital expenditure.
- **Valuation.** We have revised our earnings forecast for FY24F and FY25F downward to RM16.4m and RM19.3m respectively, to align with the higher-than-anticipated administrative costs. We maintain our **BUY** recommendation on Infoline with a lower target price of RM0.905 following the earnings revision.
- **Risk.** Revenue growth lags behind escalating costs due to expansion.

Figure 1: Results Comparison

FYE Dec (RM m)	1QFY24	1QFY23 YoY (%)	4QFY23	QoQ (%)	3MFY23	3MFY24	YoY (%)	5 Quarters Trend	Comments
Revenue	22.4	12.5	79.0	26.9	(16.7)	12.5	22.4	79.0	Lower qoq revenue was mainly due to seasonality slower 1H
Gross Profit	6.1	5.7	7.3	15.6	(60.7)	5.7	6.1	7.3	
Pre-tax profit	0.7	3.1	(76.6)	11.6	(93.8)	3.1	0.7	(76.6)	Lower profitability attributed to reduced margins across all key segments stemmed by expansionary
Net profit	0.2	2.5	(90.8)	7.9	(97.2)	2.5	0.2	(90.8)	
Core net profit	0.2	2.5	(90.8)	7.9	(97.2)	2.5	0.2	(90.8)	
Core EPS (sen)	0.1	0.7	(90.8)	2.2	(97.2)	0.7	0.1	(90.8)	
GP margin (%)	27.4	45.6	58.1	45.6	27.4				
PBT margin (%)	3.2	24.6	43.0	24.6	3.2				
Core PATMI margin (%)	1.0	19.6	29.4	19.6	1.0				

Source: Company, Apex Securities

Financial Highlights
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	23.3	27.6
Depreciation & Amortisation	0.0	-0.4	-0.9	-0.9	-1.2
EBIT	10.6	16.7	25.8	22.4	26.4
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	22.3	26.3
Tax	-2.7	-4.6	-6.5	-5.9	-7.0
Profit After Tax	7.8	12.1	19.3	16.4	19.3
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	7.8	12.1	19.3	16.4	19.3
Exceptionals	0.0	0.0	0.0	0.0	0.0
Core Net Profit	7.8	12.1	19.3	16.4	19.3

Key Ratios

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
EBITDA margin	23.8%	23.5%	37.1%	19.4%	20.0%
EBIT margin	23.7%	22.9%	35.9%	18.6%	19.1%
PBT margin	23.6%	22.9%	35.9%	18.5%	19.0%
PAT margin	17.5%	16.6%	26.8%	13.6%	14.0%
NP margin	17.5%	16.6%	26.8%	13.6%	14.0%
Core NP margin	17.5%	16.6%	26.8%	13.6%	14.0%
ROE	43.5%	24.1%	33.0%	25.9%	26.5%
ROA	26.1%	17.2%	24.2%	17.5%	18.2%
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)	0.053
P/E multiple (x)	17.0
Fair Value (RM)	0.905

Source: Company, Apex Securities

Balance Sheet

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Cash	11.4	37.9	19.2	33.2	37.9
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	70.5	80.6
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	63.3	72.8
Minority interest	0.0	0.0	0.0	0.0	0.0
Equity	17.9	50.3	58.3	63.3	72.8

Cash Flow

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Profit	7.8	12.1	19.3	16.4	19.3
Depreciation & amortisation	0.2	0.4	2.0	0.9	1.2
Changes in working capital	-3.6	2.2	-13.9	13.7	-1.8
Others	0.1	0.1	-1.0	1.4	0.0
Operating cash flow	4.5	14.8	6.3	32.4	18.7
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	-9.8
Others	-0.1	22.3	-0.4	-3.0	0.0
Financing cash flow	-0.1	20.3	-11.8	-14.1	-9.8
Net cash flow	4.3	26.5	-18.7	14.1	4.8
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	33.2
Ending cash	11.3	37.8	19.1	33.2	37.9

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD

DEALING TEAM

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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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