

Team Coverage

(603) 7890 8888

research.dept@apexsecurities.com.my

Recommendation: **Subscribe**

IPO Price: **RM 0.25**

Previous Target Price: -

Target Price: **RM 0.46**

Upside/Downside: **85.8%**

Company Brief

Engage in enterprise IT solutions provider specialising in consulting, design, development, testing, operation, and maintenance.

Stock Information

Board	ACE
Sector	Technology
Bursa / Bloomberg Code	0319 / VTC MK
Syariah Compliant	Yes
Shares issued (m)	392.0
Market Cap (RM' m)	98.0
Free float (%)	35.3

Top 3 Shareholders (%)

Tee Chee Chiang	61.3
Chan Wai Hoong	3.4
Yeoh Kim Kooi	0.1

IPO Timetable

	Date
Opening of IPO application	8/8/2024
Closing of IPO application	14/8/2024
Balloting of IPO application	16/8/2024
Allotment of IPO shares	23/8/2024
Listing of IPO on Bursa Malaysia	28/8/2024

Vetece Holdings Berhad

IT revolution solutions for digital age

Summary

- Enterprise IT solutions provider specialising in consulting, design, development, testing, operation, and maintenance.
- VTC's clientele includes well-known companies including China Construction Bank, Telstra Corporation Limited, and Telekom Malaysia Berhad.
- We recommend subscribe to Vetece, with RM0.46 fair valuation based on 15.7x PE multiple, which represents 10% premium to the selected peers involved in ICT solutions that is justified by superior earnings growth prospects, which are anticipated to materialise in FY25F.

Company Background

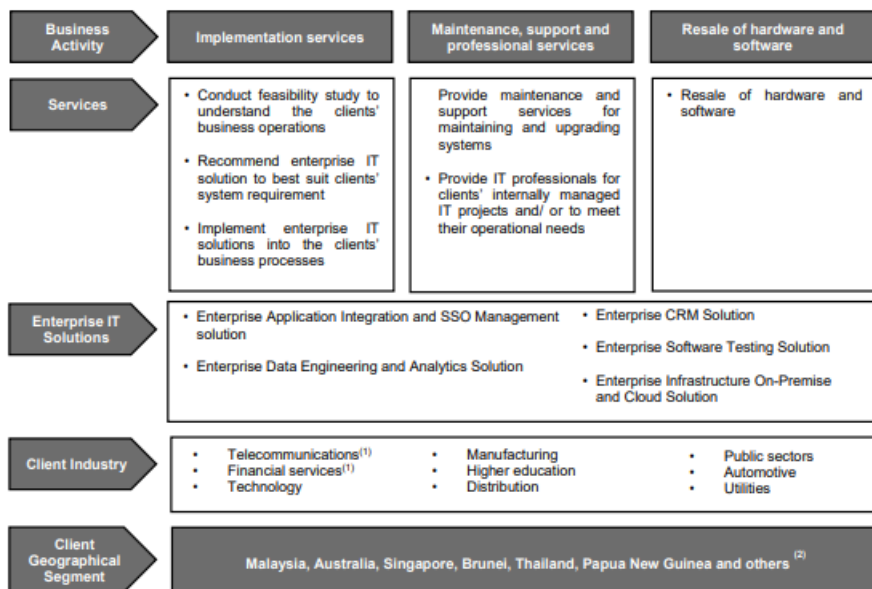
- Vetece Holdings Berhad (VTC) began its journey in July 2003 as a local subcontractor in Malaysia, specialising in Siebel CRM solution implementation and related outsourcing services.
- Since then, VTC has expanded its service offerings through partnerships with major vendors such as Oracle, WSO2, Salesforce, Teradata and others. This strategic expansion has enabled the Group to serve large organisations, including government-linked companies (GLCs) and multinational corporations (MNCs), across various industries.
- VTC has the longest partnership with Oracle, cultivating extensive expertise in delivering comprehensive solutions such as application integration, SSO management, data engineering, CRM, and infrastructure on Oracle platforms. The Group earned Oracle Gold Partner status in 2010 and was later upgraded to Platinum status in 2012, reflecting the strong and growing partnership over the years.
- VTC primarily operates in Malaysia, contributing 96.4% to FY23 revenue, with the remainder spread across the Asia Pacific region. Looking ahead, VTC plans to shift its focus to the Singapore market and has already secured a new clientele. Singapore expansion is deemed strategic importance as a regional office for multinational corporations.

IPO Utilisation

Details of utilisation	Estimated time frame for utilisation	RM 'm (%)
Roll out of new core products and services	Within 24 months	RM2.19m (8.95%)
Strengthening of Singapore operations	Within 24 months	RM3.29m (13.44%)
Establishment of a COE for software solutions	Within 36 months	RM3.8m (15.49%)
Hardware and software licensing fees	Within 24 months	RM6.5m (26.61%)
Loan repayments	Within 6 months	RM4m (16.34%)
Estimated listing expenses	Within 1 month	RM4.7m (19.17%)

Source: VTC, Prospectus

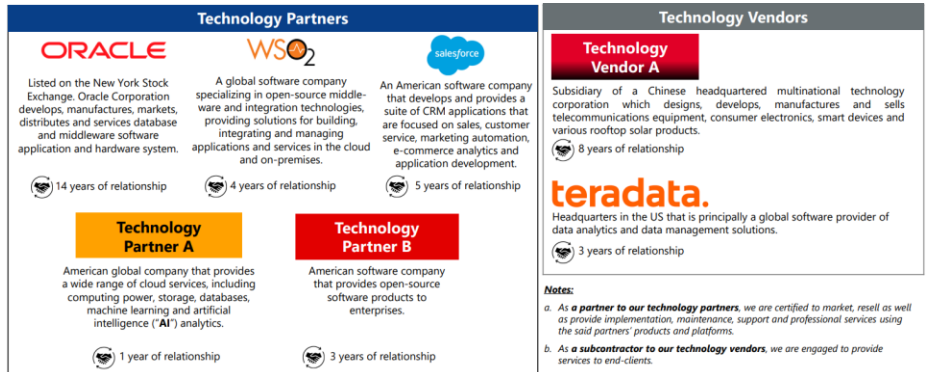
Business Overview



Source: VTC, prospectus

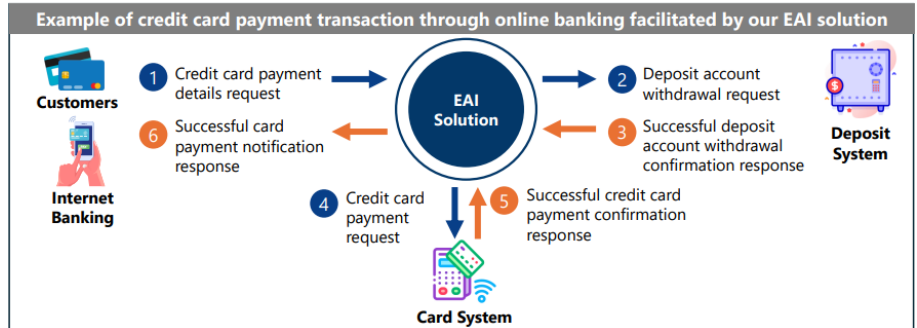
- VTC is an enterprise IT solutions provider specialising in consulting, design, development, testing, operation, and maintenance. During the implementation phase, the Group collaborates closely with clients, offering guidance on selecting the most suitable IT solutions through feasibility studies and customising solutions to precisely meet client requirements. The implementation segment revenue stood at RM10.3m, representing 44.7% of the Group total revenue in FY23. GP margins were relatively stable at >40.0% over the past two financial years.
- Post implementation of enterprise IT solutions, VTC's clients will typically engage the Group for ongoing maintenance and support. These services include patch upgrades for bug fixes and security updates, hardware support and maintenance, backup and recovery, as well as troubleshooting and resolving any faults or issues. The tenure of such maintenance and support contracts generally ranged between 6 months to 5 years. The maintenance, support and professional services segment revenue stood at RM9.9m, representing 42.6% of the Group total revenue in FY23. GP margins were relatively stable at >40.0% over the past two financial years.
- Aiming to become a one-stop solution provider, VTC goes beyond traditional service roles by offering comprehensive packages that include both software and hardware for its client. The Group will purchase the sourcing hardware such as servers and storage products as well as software licences from its technology partners and resell them to the clients. The resale of hardware and software segment revenue stood at RM2.9m, representing 12.7% of the Group total revenue in FY23. GP margins in this segment stood between 4.0%-6.0% over the past two financial years.

Technology vendor



Source: VTC

EAI Solutions



Source: VTC

- Enterprise application integration (EAI) and Single Sign-On (SSO) management solutions.** EAI streamline data flow and communication across different application systems within internal and external organisation. These solutions often utilise middleware, where APIs within the middleware establish the rules and protocols for accessing, requesting, and sharing data between different applications, databases, and services. Meanwhile, SSO, is a security and authentication solution that enables users to access multiple applications, services or websites with a single set of login credentials.
- Enterprise data engineering and analytics solutions** is used for collecting, processing, transforming and managing data efficiently from various data sources. Consolidated data will then be utilised for business intelligence and analytics tool to provide quality, reliable, and accessible data to be used in the analytics solution and informed decision-making.
- Enterprise CRM solutions** enhance customer relationship management by integrating and centralising customer data, enabling businesses to streamline their sales, marketing, and customer service processes. These solutions provide comprehensive tools for managing customer interactions, improving customer satisfaction, and driving sales growth through targeted marketing campaigns and personalised customer experiences. Additionally, the solutions offer robust analytics and reporting capabilities, allowing businesses to gain valuable insights into customer behaviour and preferences, thereby supporting strategic decision-making and fostering long-term customer loyalty.

- **Enterprise software testing solution** ensures the quality and reliability of software applications through a comprehensive suite of testing services. Employing both automated and manual testing techniques, these solutions effectively identify and address defects, optimise performance, and guarantee compatibility across diverse platforms and environments. By leveraging cutting-edge testing tools and methodologies, VTC enables businesses to accelerate development cycles, reduce time-to-market, and enhance user satisfaction by delivering robust, error-free applications.
- **Enterprise infrastructure on-premises and cloud solutions** provide flexible and scalable IT infrastructure options that cater to diverse business needs. These solutions ensure robust and secure management of IT resources, whether hosted on-premises or in the cloud, offering businesses the flexibility to choose the deployment model that best fits their requirements. They enhance operational efficiency, support seamless integration with existing systems, and ensure high availability and disaster recovery capabilities. Additionally, these solutions help optimise costs and improve agility by enabling businesses to scale resources up or down based on demand while maintaining compliance with industry standards and regulatory requirements.

Industry Overview

Market size of the ICT industry



Source: Protégé Associates

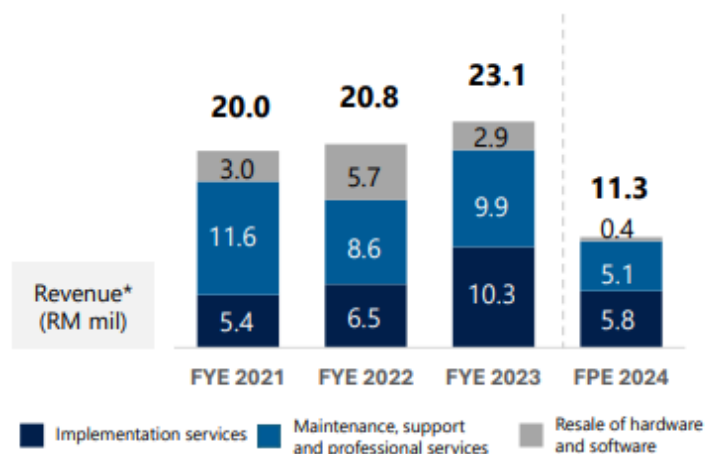
- The ICT services industry is expected to demonstrate strong resiliency, fuelled by the ongoing deployment of 5G technology, rise of hybrid business models, growth of digital banking, and persistence on consumer demand for robust technology.
- The ICT sector contributed 13.6% to Malaysia's GDP 2022, reflecting a notable 12.4% yoy increase. Within this sector, ICT services industry alone accounted for 41.9%, followed by ICT manufacturing at 38.4%, ICT trade at 14.0%, and content and media at 5.7%.

- In 2022, the ICT services industry experienced a growth (+5.6% yoy), reaching a value of RM102.4bn in up from RM96.6bn, primarily driven by electronic components and board, communication equipment and consumer electronics. The ICT trade industry also recorded growth of 12% yoy in 2022, with the retail trade of ICT products and services as their main driver. The content and media industry also increase by 10% yoy, primarily due to higher activity in motion pictures, video, television programs, photography and creative industries.
- The government's recent Jalinan Digital Negara (Jendela) Policy 2.0 (2021-2025), valued at RM21.0bn, was formulated to steer Malaysia towards achieving better digital connectivity by boosting the efficiency of national infrastructure and optimising spectrum usage. Of the total allocation, 40% comes from MCMC's Universal Service Provision (USP) fund while the remaining 60% is to be funded by industry players. Implementation of Jendela network will drive broadband usage. Increasing demand for 5G technology is expected to result in higher demand for data services.

Investment Highlights

- **Impending growth from Singapore operation.** VTC is focused on enhancing its presence within the Asia-Pacific region by expanding operations in Singapore, leveraging the city-state's role as a gateway to the region. The Group has set an ambitious goal to increase overseas contributions to c.50.0% in the next 2-3 years, up from the current 4.0%. Looking ahead, we anticipate significant growth in VTC's bottom line for FY25, thanks to the newly secured contract from Singapore.
- **Collaboration with a prominent industry leader.** VTC's close collaboration with key market leaders offers several advantages, including deeper market insights, access to cutting-edge technologies, and enhanced credibility. These partnerships enable the group to anticipate IT solution demand, integrate innovative products, and strengthen its competitive position. Additionally, co-innovation opportunities and improved client relationships further drive growth and expand the company's market reach.
- **Stable customer base.** VTC maintained a long-standing relationship with Telekom Malaysia Berhad for over 17 years. Between FY21 and FY23, Telekom's revenue contribution to the Group has grown significantly, from 15.7% to 45.6%. Although this does pose a concentration risk for VTC, we reckon the Group will be able to foster customer loyalty due to demand for maintenance and support services given its involvement in the initial implementation phase. To date, the Group managed to replenish RM4.6m worth of orderbook from Telekom, representing 30% of the total orderbook (RM15.5m).
- **Demand driven from big data and AI.** With the rise of open-source platforms and cloud services, AI and Big Data solutions are becoming more accessible not only to large tech companies but also to smaller businesses. As AI computing continues to evolve and more complex, demand for big data has significantly increased. To capitalise on this growing trend, VTC will utilise part of the IPO proceeds to roll out new AI-driven data handling and analytics solutions. VTC intends to establish partnerships with two new or existing technology partners specialising in AI-driven data handling and analytics to gain access to essential software, resources, training materials, and user guides. We opined that the Group exposure in data analytics, data integration, cloud platforms, and the management of storage and physical servers will enable VTC to ride on the big data boom.

Financial Highlights



- From FY21 to FY23, revenue recorded a three-year CAGR of 7.5%, rising from RM20.0m to RM23.1m. Notably, the implementation segment saw decent growth over the years, rising from RM5.4m to RM10.3m as CAPEX spending from key clients escalated post-pandemic. Similarly, PAT trended higher to RM8.7m (vs RM4.1m) with a three-year CAGR of 44.6%, driven by decline in withholding tax and staff costs.
- Going into FY24F, we anticipate net profit to slid lower to RM5.3m (-19.0% yoy) due to the one-off listing expenses of RM4.7m in FY24F. Nonetheless, we foresee improve performance ahead in FY25F with core net profit expected to jump 117.7% yoy to RM11.6m backed by revenue recognition from the new contract secured in Singapore as well as revenue generated from recurring contract.

FYE Aug (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Revenue	20.8	23.1	25.2	30.2	34.8
EBITDA	5.8	9.0	12.5	15.0	17.2
Pre-tax Profit	5.5	8.7	12.3	15.2	17.5
Profit After Tax	4.2	6.6	9.3	11.6	13.3
Net Profit	4.2	6.6	5.3	11.6	13.3
Core Net Profit	4.2	6.6	5.3	11.6	13.3
Core EPS (sen)	1.1	1.7	1.4	3.0	3.4
Core P/E (x)	23.6	14.9	18.4	8.5	7.4
Dividend Yield (%)	4.0	0.0	5.0	5.0	5.0
P/B (x)	10.4	6.0	2.0	1.7	2.8
ROE (%)	43.9	40.0	10.8	19.6	16.9
Gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Valuation & Recommendation

- At an IPO offer price of RM0.25, VTC's forward PE valuation for FY24F and FY25F is projected at 18.4x and 8.5x, based on our estimated FY24F and FY25F EPS of 1.4 sen and 3.0 sen respectively. We arrived at our fair value of RM0.46 (85.8% potential upside from its IPO price) by assigning a target PE of 15.7x to its FY25F EPS.

- We assign a 10% premium to the selected peers involved in ICT solutions, with an average forward P/E of 14.3x. We believe the higher P/E is warranted compared to the peer average, supported by VTC's superior earnings growth prospects, which are anticipated to materialise in FY25F.
- We foresee VTC to capitalise onto the advancement of AI, as the complexity increases, requiring larger data set for analytics. Furthermore, we also favour VTC for its sizable contribution from its recurring income base. We expect the newly secured contract to further strengthen this base, driven by increased demand for maintenance and support services following successful client onboarding.

Peers comparison

Company	Market Group	FYE	Price (RM)	Market Cap (RM 'm)	P/E (x)		Gross DY (%)	Revenue RM 'm	Net Income RM 'm
					FY24F	FY25F			
Vetece Holding Berhad	Ace	Dec	0.250	98.0	18.4	8.5	0.0	11.3	3.0
Cloudpoint Technology Bhd	ACE	Dec	0.84	481.9	20.9	16.1	1.4	140.0	21.2
Infomina Berhad	ACE	Dec	1.36	817.7	17.7	15.5	0.0	247.7	33.6
Rexit Bhd	ACE	Dec	0.94	175.1	11.7	11.7	5.4	32.5	14.0
Vstecs Berhad	MAIN	Dec	3.52	1410.1	17.6	14.1	14.3	2727.0	62.9
Avg ex-Vetece Holding Berhad					14.3	5.3	786.8	32.9	

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD	DEALING TEAM	RESEARCH TEAM
<p>Head 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>Petaling Jaya Office: 16th Floor, Menara Choy Fook Onn, No.1B Jalan Yong Shook Lin, 46050 Petaling Jaya, Selangor Darul Ehsan, Malaysia</p> <p>General Line: (603) 7620 1118</p>	<p>Head Office: Kong Ming Ming (ext 2002) Shirley Chang (ext 2026) Norisam Bojo (ext 2027) Ahmad Mujib (ext 2028) Azfar Bin Abdul Aziz (ext 2031) Aizzat Bin Mohd Daud (ext 2030)</p> <p>Institutional Dealing Team:</p> <p>PJ Office: General Line: (603) 7620 1118</p>	<p>Head Office: Kenneth Leong (ext 2093) Steven Chong (ext 2068) Jayden Tan (ext 2069) Chelsea Chew (ext 2070) Tan Sue Wen (ext 2095)</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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