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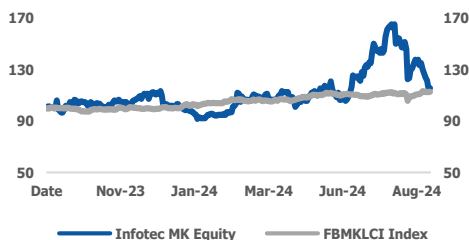
Recommendation:	HOLD
Current Price:	RM 0.810
Previous Target Price:	RM 0.905
Target Price:	↔ RM 0.905
Upside/Downside:	11.7%

Stock information

Board	ACE
Sector	Digital Services
Bursa / Bloomberg Code	0253 / INFOTEC MK
Syariah Compliant	Yes
FTSE4Good Index	No
FTSE ESG Rating	N/A
Bloomberg ESG Rating	N/A
Shares issued (m)	363.2
Market Cap (RM' m)	294.2
52-Week Price Range (RM)	0.66-1.21
Beta (x)	N/A
Free float (%)	32.9
3M Average Volume (m)	2.9
3M Average Value (RM' m)	2.8

Top 3 Shareholders	(%)
Choo Chuen Wei	42.4
Loo Hong Wai	15.0
Too Meng Yit	4.0

Share Price Performance



	1M	3M	12M
Absolute (%)	-26.4	1.2	8.7
Relative (%)	-28.6	-3.0	-5.6

Infoline Tec Group Berhad

Margins squeeze dragged earnings

Summary

- **2QFY24 core net profit stood at RM1.3m (+499.1% qoq, -63.5% yoy), bringing 1HFY24 CNP of RM1.6m (-74.4% yoy), came below our expectation, constituting only 10% of our full year forecasts due to lower sales from IT infrastructure solutions secured during the quarter and the absence of high-margin network consultancy service projects.**
- **Looking ahead, we anticipate a margin and earnings recovery to kick in only from FY25F.**
- **We maintain our HOLD recommendation with unchanged target price of RM0.905 by pegging PE multiple of 17.0x to FY25F EPS of 5.3 sen.**

Results Review

- **Results review.** In 2QFY24, net profit declined -63.5% yoy but improved significantly by 499.1% qoq to RM1.3m, mainly due to a low base recorded in the previous quarter. The weaker yoy performance was attributed to lower margins across all key segments and increased administrative costs. Meanwhile, revenue for the quarter grew 21.3% yoy, and -12.5% qoq decline to RM19.6m.
- **Missed expectation.** 1HFY24 core net profit fell short of our expectations, accounting to only 10% of our full-year earnings forecast. Despite the seasonally softer first half and our expectations of a stronger second half, we opined that the performance was below our expectations. The shortfall was primarily due to lower sales from IT infrastructure solutions secured during the quarter and the absence of high-margin network consultancy service projects.
- **Operation Highlights.** Aggressive expansion strategies, including competitive pricing, resulted in a 2.9% yoy decline in gross profit margin. Additionally, margins were impacted by M&A activities and increased staff headcount and salaries to support future business growth, resulting in 62% yoy rise in administrative costs. However, we are encouraged by the steady growth in the cybersecurity segment (PBT +145% qoq) and managed IT segment (PBT +299% qoq), reflecting the Group's successful efforts in these segments' expansion.
- **Industry Highlights.** The Cybersecurity Bill 2024, which was passed by the Malaysia government and came into force on 26 August 2024, mandates compliance requirements for designated entities across 11 sectors, prompting businesses nationwide to place a greater emphasis on cybersecurity. This legislation creates significant opportunities for Infotec in its cybersecurity segment and its Security Operation Center (SOC) offerings.
- **Outlook.** The Group pursued aggressive expansion through competitive pricing strategies and capacity increases, aiming to attract new clients and conversion into recurring customers by offering Managed IT services. However, we acknowledge that this strategy will take time to yield results and could result in short-term margin uncertainties. Despite that, we anticipate improve 2H performance 2H, which is a seasonally stronger period as customers typically ramp up their capital expenditures.

- **Valuation.** We revised our earnings forecast for FY24F downward by -41% to RM9.7m, due to reduced revenue expectations from the IT infrastructure segment and lower margin expectations for both the managed IT and IT infrastructure segments, following weaker-than-expected quarterly results. However, we maintain our FY25F forecast at RM19.3m and introduce a FY26F earnings forecast of RM25.4m (+32% yoy), anticipating margin recovery with increased contributions from cybersecurity and managed IT segments as a result of expansion efforts and strategic initiatives. We maintained our **HOLD** recommendation on the Group with an unchanged target price of RM 0.905, by pegging FY25F EPS of 5.3 sen to P/E multiple of 17.0x.
- **Risk.** Revenue growth lags behind escalating costs due to expansion.

Figure 1: Results Comparison

FYE Dec (RM m)	2QFY24	2QFY23 YoY (%)	1QFY24	QoQ (%)	1HFY23	1HFY24	YoY (%)	5 Quarters Trend	Comments
Revenue	19.6	16.2	21.3	22.4	(12.5)	28.7	42.1	46.5	Lower qoq revenue mainly due to weaker sales from IT infrastructure segment
Gross Profit	7.2	7.4	(2.9)	6.1	17.3	13.1	13.3	1.6	
Pre-tax profit	1.9	4.0	(51.7)	0.7	165.5	7.1	2.6	(62.6)	Reduced margins across all key segments stemmed by expansionary plans
Net profit	1.3	3.7	(63.5)	0.2	499.1	6.1	1.6	(74.4)	
Core net profit	1.3	3.7	(63.5)	0.2	499.1	6.1	1.6	(74.4)	
Core EPS (sen)	0.4	1.0	(63.5)	0.1	499.1	1.7	0.4	(74.4)	
GP margin (%)	36.7	45.8		27.4		45.7	31.7		
PBT margin (%)	9.8	24.5		3.2		24.6	6.3		
Core PATMI margin (%)	6.9	22.9		1.0		21.4	3.7		

Source: Company, Apex Securities

Financial Highlights
Income Statement

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Revenue	72.8	71.9	97.4	124.7	158.3
Gross Profit	26.3	37.8	29.2	46.1	60.2
EBITDA	17.1	26.7	14.5	27.7	36.1
Depreciation & Amortisation	-0.4	-0.9	-1.2	-1.3	-1.5
EBIT	16.7	25.8	13.3	26.4	34.6
Net Finance Income/ (Cost)	0.0	0.0	-0.1	-0.1	-0.2
Associates & JV	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	16.7	25.8	13.2	26.2	34.4
Tax	-4.6	-6.5	-3.5	-7.0	-9.0
Profit After Tax	12.1	19.3	9.7	19.3	25.4
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	12.1	19.3	9.7	19.3	25.4
Exceptionals	0.0	0.0	0.0	0.0	0.0
Core Net Profit	12.1	19.3	9.7	19.3	25.4

Key Ratios

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
EBITDA margin	23.5%	37.1%	14.9%	22.2%	22.8%
EBIT margin	22.9%	35.9%	13.7%	21.1%	21.8%
PBT margin	22.9%	35.9%	13.6%	21.0%	21.7%
PAT margin	16.6%	26.8%	10.0%	15.5%	16.0%
NP margin	16.6%	26.8%	10.0%	15.5%	16.0%
Core NP margin	16.6%	26.8%	10.0%	15.5%	16.0%
ROE	24.1%	33.0%	17.2%	27.5%	30.2%
ROA	17.2%	24.2%	11.8%	19.3%	21.0%
Net gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Valuations	FY25F
Core EPS (RM)	0.053
P/E multiple (x)	17.0
Fair Value (RM)	0.903

Source: Company, Apex Securities

Balance Sheet

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Cash	37.9	19.2	28.9	35.7	45.2
Receivables	16.6	29.1	21.9	27.8	35.4
Inventories	0.4	0.8	1.0	1.0	1.1
Other current assets	5.4	9.3	7.8	9.2	11.5
Total Current Assets	60.2	58.4	59.5	74.5	94.1
Fixed Assets	9.4	16.3	17.4	19.3	20.9
Intangibles	0.8	3.4	3.4	3.4	3.4
Other non-current assets	0.0	1.5	2.0	2.5	2.5
Total Non-current assets	10.2	21.3	22.8	25.2	26.9
Short-term Debt	0.0	0.0	0.0	0.0	0.0
Payables	10.7	6.3	15.8	18.0	22.5
Other Current Liabilities	7.9	10.2	8.3	9.4	11.7
Total Current Liabilities	18.6	16.5	24.1	27.4	34.2
Long-term Debt	0.0	0.0	0.0	0.0	0.0
Other non-current liabilities	1.6	4.9	1.6	2.2	2.9
Total Non-current Liabilities	1.6	4.9	1.6	2.2	2.9
Shareholder's equity	50.3	58.3	56.7	70.1	83.9
Minority interest	0.0	0.0	0.0	0.0	0.0
Equity	50.3	58.3	56.7	70.1	83.9

Cash Flow

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Profit	12.1	19.3	9.7	19.3	25.4
Depreciation & amortisation	0.4	2.0	1.2	1.3	1.5
Changes in working capital	2.2	-13.9	16.1	-3.9	-3.2
Others	0.1	-1.0	1.4	0.0	0.0
Operating cash flow	14.8	6.3	28.4	16.7	23.7
Net capex	-8.0	-9.5	-3.6	-3.2	-3.2
Others	0.0	-3.7	0.0	0.0	0.0
Investing cash flow	-8.0	-13.2	-3.6	-3.2	-3.2
Dividends paid	-2.0	-11.4	-11.2	-5.8	-11.6
Others	22.3	-0.4	-3.3	0.1	1.5
Financing cash flow	20.3	-11.8	-14.5	-5.7	-10.1
Net cash flow	26.5	-18.7	9.8	6.9	9.5
Forex	-0.7	0.0	-0.6	-0.9	-0.9
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	11.3	37.8	19.1	28.9	35.7
Ending cash	37.8	19.1	28.9	35.7	45.2

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD	DEALING TEAM	RESEARCH 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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