



VETECE Holdings Bhd

Ignited By AI

Main Market
Technology Sector
SUBSCRIBE
IPO Price: RM0.25
Fair Value: RM0.42

Valuation / Recommendation

We have a SUBSCRIBE recommendation on VETECE Holdings (VTC) with an FV of RM0.42 based on 20x FY25F EPS, translating to a 66% upside to the IPO price. Our target PE is at a discount compared to the average valuation of comparable IT peers on Bursa Malaysia, but in line with that of smaller-cap firms. We like VTC for its exposure to AI-driven growth and the scalability potential of its IT business.

Investment Highlights

Growth catalyst on AI adoption. VTC is an enterprise IT solutions provider that assists clients in the implementation process as well as provides ongoing support and maintenance services. In recent year, its key technology partners (i.e. Oracle, Salesforce, Teradata and WSO2) have already started offering AI capabilities in their enterprise IT solutions. We believe that the adoption of AI will be a significant factor driving strong revenue growth of 26-32% p.a. for VTC in FY25-FY26F, as its key customers in the banking and telco industries will be among the first to implement AI solutions into their IT systems. With a stronger balance sheet and an enhanced corporate profile post-IPO, we believe VTC will also now be able to bid for and secure larger IT projects compared to before.

Re-capturing overseas customers. VTC has prior experience delivering and accomplishing projects from overseas customers, even though most of its revenue comes from local clients in FY23. This is due to the impact of the COVID-19 pandemic on the company's ability to travel to overseas clients' locations, which has affected service quality and business opportunities previously. To win back overseas customers, VTC intends to strengthen its operations in Singapore by establishing an office and hiring new staff. Furthermore, a Center of Excellence (COE) for software solutions will also be set up in Malaysia. By aligning the COE's security policies with international standards, VTC will then be capable of handling projects for overseas clients remotely from Malaysia.

Hiring spree to add 20 new technical staff. VTC will use most of the IPO proceeds to hire up to 20 new technical staff across three initiatives. This would expand its workforce by about 23%. The new hire will include four sales and marketing personnel who will also help to drive sales in addition to the existing four key senior management.

Risk factors for VTC include (1) High dependency on Telekom Malaysia as major client, (2) Reliance on technology partners, and (3) Cybersecurity and reputation risks.

FY Aug	FY22	FY23	FY24F	FY25F	FY26F
Revenue (RM m)	20.8	23.1	22.2	28.0	36.9
EBITDA (RM m)	5.8	9.0	8.5	11.0	14.9
PAT (RM m)	4.2	6.6	6.2	8.2	11.0
PAT Margin (%)	19.9	28.4	28.1	29.1	29.9
EPS (sen)	1.4	2.2	1.6	2.1	2.8
EPS Growth (%)	32.3	58.1	(28.8)	30.9	35.5
BV Per Share (sen)	3.2	5.6	16.0	18.8	22.6
PE (x)	17.7	11.2	15.7	12.0	8.9
Net Gearing (%)	Cash	Cash	Cash	Cash	Cash
ROE (%)	43.9	40.0	13.2	14.7	16.6

Business Overview

VETECE Holdings Bhd acts as an enterprise IT solutions provider with domain expertise in telecommunications and financial services industries. They provide implementation services, maintenance, support and professional services, as well as the resale of hardware and software products.

Listing Details

Listing date	28 August 2024
New shares (m)	98.0
Offer for sale (m)	39.2
Funds raised (RM m)	24.5

Post Listing

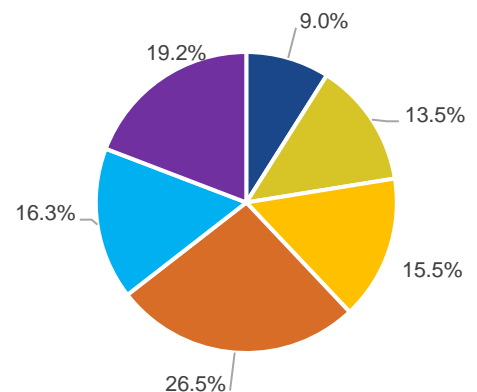
Ordinary shares (m)	392.0
Market cap (RM m)	98.0
Free float	34.9%
P/E (FY25F)	12.0

Top 3 Shareholders

Tee Chee Chiang	61.3%
Chan Wai Hoong	3.4%
Goh Yeh Hwang	0.8%

Utilisation of Proceeds

	RM m
Roll out of new core products and services	2.2
Strengthening of Singapore operations	3.3
Establishment of a COE for software solutions	3.8
Hardware and software licensing fees	6.5
Loan repayments	4.0
Estimated listing expenses	4.7



Source: Company, Mercury Securities

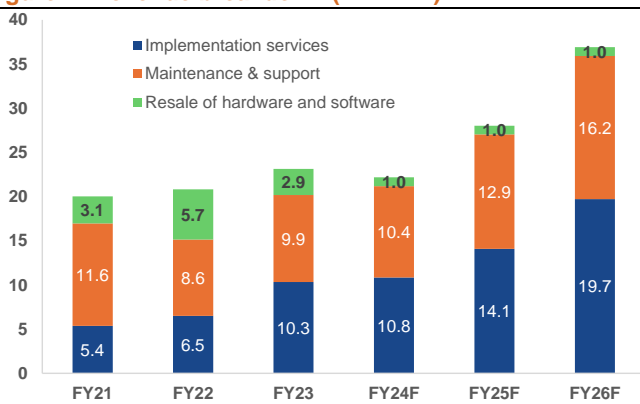


Financial Highlights and Valuation

Rising margins despite flattish topline. The overall revenue growth of VTC appears flat, with an increase from RM20m in FY21 to only RM23m in FY23. However, a closer analysis of the revenue breakdown reveals that sales for its high-margin key business segments (i.e., implementation services and maintenance support) have steadily grown over the years, while sales for the low-margin reselling business segment have declined. Historically, gross margins for the implementation services and maintenance support segments average around 43-48%, while reselling margins were naturally low at 4-9%.

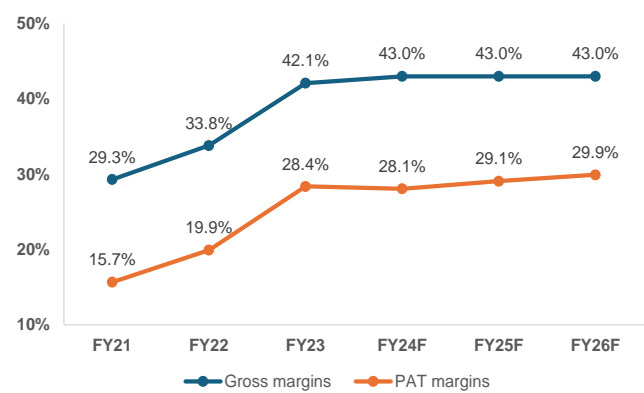
As such, it is unsurprising that VTC has shown a rising trend in its margins over the past three years despite the flattish revenue. In FY21, the overall gross margin was lower at 29.3%, mainly due to higher fixed costs associated with maintaining and training the implementation team (especially on new WSO2 technologies) during periods with fewer secured contracts. With the influx of new projects secured in subsequent years, VTC's gross margins rose strongly to 33.8% and 42.1% in FY22-23 respectively.

Figure 1: Revenue breakdown (in RM m)



Source: Mercury Securities, Bloomberg

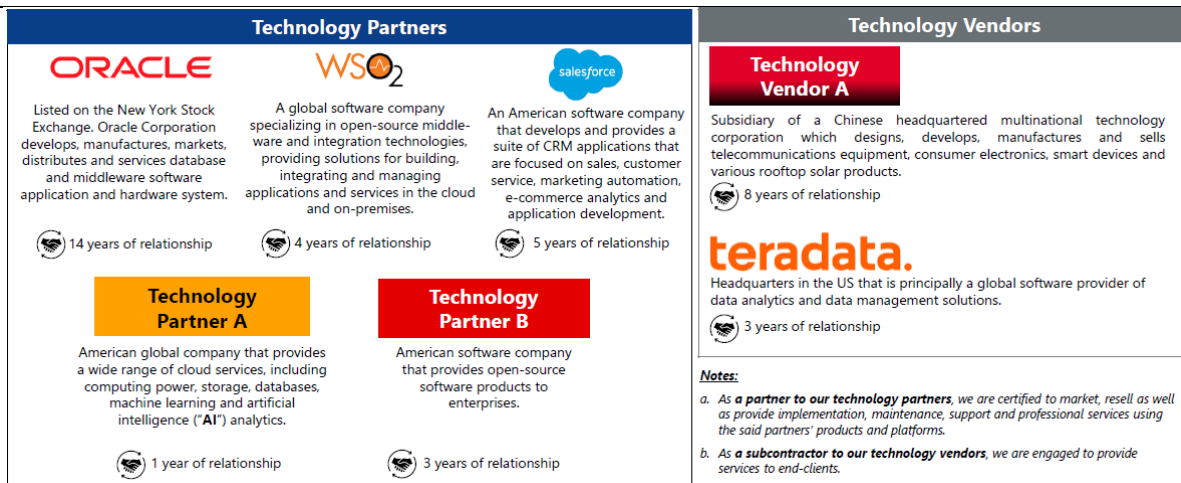
Figure 2: Gross margins and PAT margins (%)



Source: Company, Mercury Securities

AI adoption to drive growth. VTC's key technology partners (i.e. Oracle, Salesforce, Teradata and WSO2) have already started offering AI capabilities in their enterprise IT solutions. In addition to these three, VTC is also seeking new technology partners who specialise in AI-driven data handling and analytic solutions. We believe that the adoption of AI will be a significant factor driving strong revenue growth of 26-32% p.a. for VTC in FY25-FY26F, as its key customers in the banking and telco industries will be among the first to look into implementing AI solutions into their IT systems. With a stronger balance sheet and an enhanced corporate profile post-IPO, we believe VTC will also now be able to bid for and secure larger IT projects compared to before.

Figure 3: VTC technology partners and vendors



Source: Company



Re-capturing overseas customers. VTC has prior experience delivering and accomplishing projects from overseas customers, even though 96% of its FY23 revenue actually came from domestic customers. Things had changed drastically due to the COVID-19 pandemic in the past, as border closures and travel restrictions prevented VTC from travelling to clients' premises overseas, impacting its service quality, delivery of project milestones, issue resolution, and opportunities to meet with potential new clients.

To win back overseas customers, VTC intends to implement two strategies. First, the company plans to strengthen its Singapore operations by setting up an office there and recruiting new staff. VCT has maintained a presence in Singapore, given its geographical proximity and role as the APAC regional hub for MNCs. Second, a Centre of Excellence (COE) for software solutions will be established in Malaysia. By aligning the COE's security policies with international standards (including physical access controls, security protocols, and data access/encryption), VTC will then be capable of handling projects for overseas clients remotely from Malaysia.

Hiring spree to add 20 new staff. VTC will use most of the IPO proceeds to hire up to 20 new technical staff across three initiatives (see Figure 4 below). This would expand its workforce by about 23%. The new hire will include four sales and marketing personnel who will help to drive sales in addition to the current four key senior management.

Figure 4: VTC workforce

Personnel hiring	Existing	AI solutions	SG office	COE
Key senior managements	4			
Project manager / Country manager	4		1	1
Solution architect	10	2	1	
Software developer	56	2		9
Business system analyst	4			
Software tester	6			
Marketing personnel		2	1	1
HR, Finance, Admin	3			
Total	87	6	3	11

Source: Company, Mercury Securities

Strong balance sheet. Despite declaring a sizeable dividend totalling RM14.2m in FY23, VTC's balance sheet remains in net cash position even before its listing. However, we believe VTC is unlikely to declare any dividend in the near term as it preserves internal funds for future growth.

RM0.42 FV based on 20x FY25 EPS. We peg a target PE of 20x for VTC, which is at a discount compared to the average valuation of comparable peers, but in line with that of smaller-cap firms. Applying it to our FY25F EPS forecast of 2.1sen, we derived a FV of RM0.42 for VTC.

Peer Comparison – Trailing 12-month basis (as of 12 Aug 2024)

Company	Bloomberg Ticker	Share price (RM)	Mkt Cap (in RM m)	Earnings Growth (%)	P/E (x)	P/B (x)	ROE (%)	Net yield (%)
SNS Network Technology	SNS MK	0.76	1,217.6	(38.7)	43.6	5.0	11.9	1.0
Infomina	INFOM MK	1.39	835.7	(17.0)	25.3	5.8	25.8	n/a
Autocount Dotcom	ADB MK	1.07	589.0	(6.2)	46.9	10.9	34.4	1.9
Cloudpoint Technology	CLOUDPT MK	0.84	443.9	23.4	27.4	6.3	35.4	2.4
Infoline Tec Group	INFOTEC MK	1.03	374.1	28.5	22.0	6.5	31.7	2.7
Ramssol Group	RAMSSOL MK	0.68	215.3	80.2	19.7	2.3	13.6	n/a
Simple Average				11.7	30.8	6.1	25.4	2.0
Vetece (FY25)		0.25	98.0	31.0	12.0	1.6	14.7	n/a

Source: Bloomberg, Mercury Securities

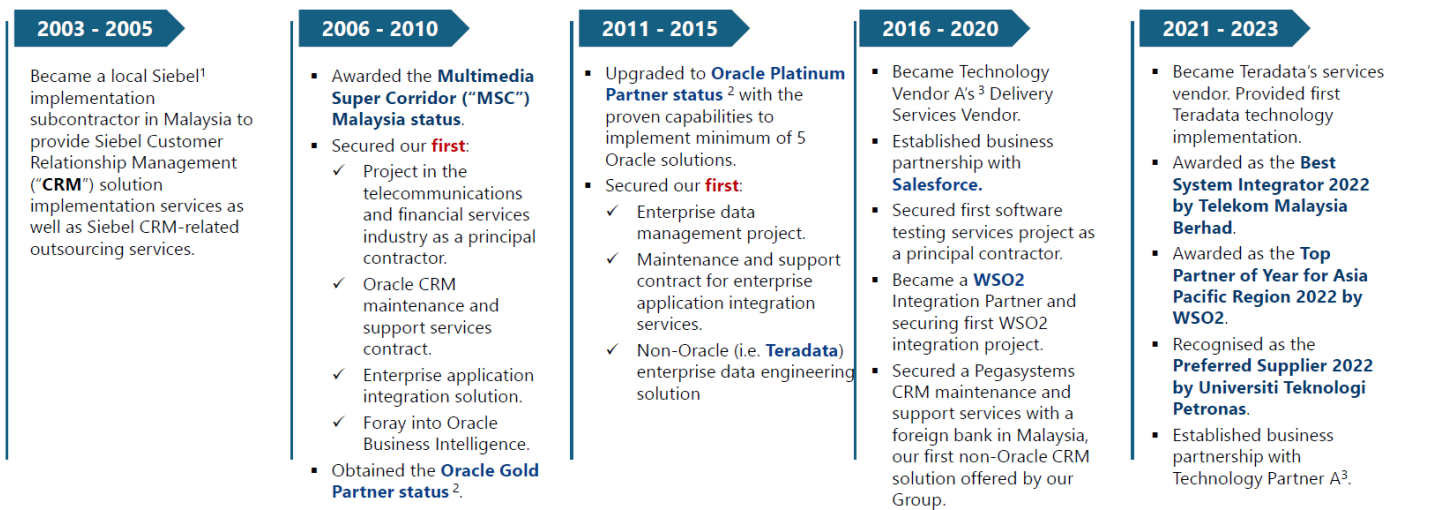


Company Background

Started as Siebel implementation subcontractor. In July 2003, Vision Technology Sdn Bhd (VTCM) was incorporated as a local implementation subcontractor for Siebel in Malaysia. VTCM's services included providing Siebel CRM solution implementation services and outsourcing services to large corporations and MNCs. The same year, the company secured their first Siebel CRM solution implementation project as a subcontractor for a Malaysian financial services company.

Oracle Corporation later acquired Siebel Systems Inc. in January 2006. Subsequently, in 2010, VTC obtained the Oracle Gold Partner status, establishing itself as Oracle's primary technology partner. In 2019, the company also expanded its business partnerships with other enterprise software IT providers, such as Salesforce and WSO2.

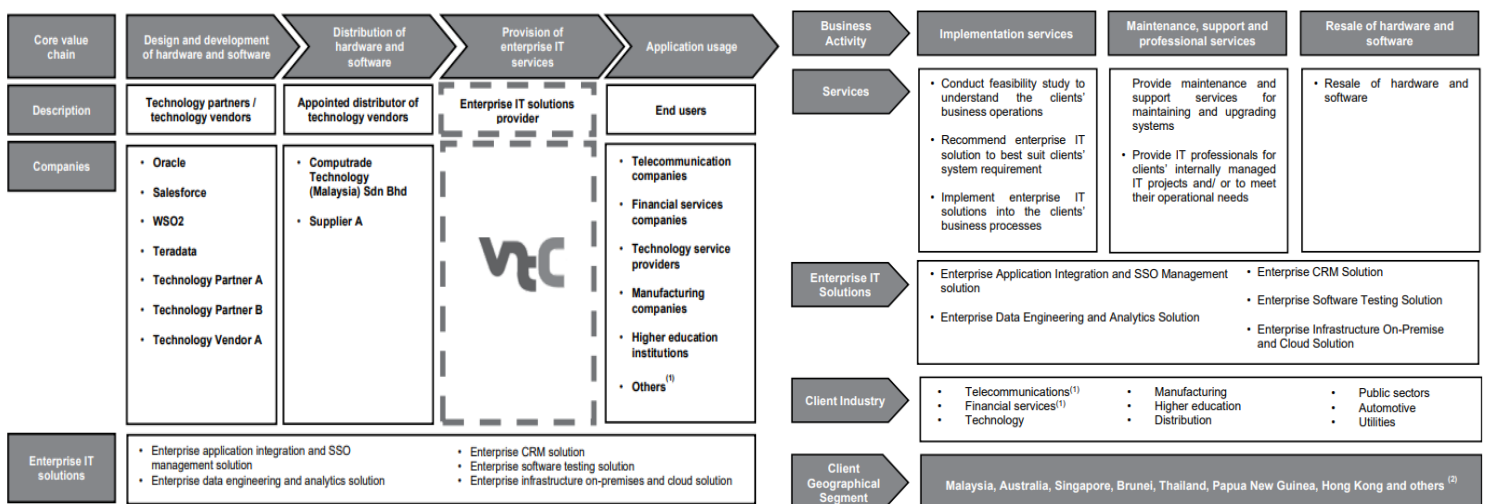
Figure 5: VTC history and corporate milestones



Source: Company

Enterprise IT solutions provider. VTC is an enterprise IT solutions provider that specialise in the telecommunications and financial services industries. The company assists clients in the implementation process, provides ongoing support and maintenance services, as well as resells hardware and software products.

Figure 6: Value chain of the enterprise IT services industry & Business Model



Source: Company



Proven track record in executing projects overseas. Notwithstanding that 96% of FY23 sales are contributed from domestic customers, VTC has prior experience in delivering and accomplishing projects from overseas customers over its past 21 years of history.

Figure 7: Countries VTC has done projects in



Source: Company

Prominent key customers from telco and banking sectors. VTC has provided IT solutions to large organisations, including large enterprises, GLCs and MNCs across diverse industries such as telecommunications, financial services, technology, manufacturing, higher education, distribution, public sector, automotive, and utilities. Telekom Malaysia is VTC's main client, having approximately 17 years of relationship with it and contributing 46% of FY23 sales. Other major clients for the company include Telstra, China Construction Bank, Client A (listed Malaysian bank) and Client C (listed Singaporean bank) respectively.

Figure 8: Key Management Team

Name and Designation	Age	Profile
Tee Chee Chiang Founder Vice Chairman	48	<ul style="list-style-type: none"> In charge of overseeing the overall strategic direction of the Group including business development partnership and marketing. Bachelor of Engineering degree in Chemical Engineering from Monash University, Clayton Australia
Chan Wai Hoong Executive Director CEO	54	<ul style="list-style-type: none"> In charge of providing the day-to-day strategic leadership of the Group, including making impactful decisions for the Group's operations and development. Master of Science in Engineering Business Management from the University of Warwick, United Kingdom
Yeoh Kim Kooi CFO	40	<ul style="list-style-type: none"> In charge of managing and overseeing the financial and accounting functions of the Group. Bachelor of Science in Applied Accounting from Oxford Brookes University, United Kingdom
Fon Wai Kein Head of Enterprise Application Integration and SSO Management	44	<ul style="list-style-type: none"> In charge of leading the business development, sales and delivery of Enterprise Application Integration & Single Sign-On solutions for the Group. Bachelor of Science and Information from the University of South Australia
Goh Yeh Hwang Head of Enterprise Infrastructure On-Premises and Cloud Solution	45	<ul style="list-style-type: none"> In charge of leading the business development, sales, and delivery of Enterprise Infrastructure On-Premises and Cloud solutions. Bachelor's degree in computer science, majoring in Software Engineering from the University of Malaya
Wong Thean Chee Head of Enterprise Data Engineering, Analytics and CRM	44	<ul style="list-style-type: none"> In charge of leading the business development, sales and delivery of Enterprise Data Engineering and Analytics solutions and Enterprise CRM solutions for the company. Bachelor of Science (Honours) in Computing and Information Systems from the London Guildhall University

Source: Company



Future Plans & Business Strategies

To expand offerings into AI-driven data handling and analytic solutions. VTC plans to allocate around RM2.2m from the IPO to launch new AI-driven data handling and analytic solutions. These will involve partnering with two new or existing technology partners with expertise in AI. Among the features of AI-driven solutions that VTC plans to introduce include

- Segmentation facilitated machine learning algorithms that categorise customers by identifying patterns and behaviours based on extensive customer datasets.
- Recommendation engines and machine learning capabilities that learn, analyse and provide personalised recommendations based on collected data.
- Identity and access management tools that enhance system access security.
- Analytics tools to analyse large datasets aim to automatically identify patterns, trends, and anomalies in the dataset to provide valuable insights.

In preparation for this, the company plans to expand its workforce by recruiting 4 IT professionals and 2 sales and marketing personnel. To promote its portfolio of enterprise IT solutions, the company also aims to participate in tradeshows and events held by government agencies or technology partners.

Establishment of a Centre of Excellence (COE). VTC has allocated approximately RM3.8 million from its IPO proceeds to establish a Centre of Excellence (COE) for software solutions. This will enable them to remotely undertake projects for overseas clients from their base of operations in Malaysia. The COE will also serve as a demonstration centre to showcase their enterprise IT solutions to existing and potential clients, meeting their business and IT requirements, and demonstrating enhanced capabilities whenever new versions are released to the market.

VTC plans to renovate 2 properties at KL Gateway to establish this COE. To promote its COE capabilities, the company aims to recruit up to 10 IT professionals and a marketing manager.

Strengthening of Singapore operations. The company plans to use RM3.3m from the IPO proceeds to enhance its Singapore operations by recruiting talent and setting up a Singapore office. The COVID-19 pandemic, which previously affected international travel, has impacted VTC's service delivery and revenue from international clients. VTC aims to boost its Singapore presence and overseas revenue through new talent acquisition, establishing a local office, and focusing on marketing and client relations.

VTC plans to recruit a country manager to oversee sales and accounts operations in Singapore. The country manager will be supported by a pre-sales consultant responsible for product demos and a solutions architect tasked with designing IT solutions. Additionally, the company will rent a coworking office to provide operational support and flexibility for scaling up as sales opportunities increase.



Key Risks

High dependency on Telekom Malaysia as a major client. VTC has been providing implementation, maintenance, support and professional services to Telekom Malaysia since 2007. Telekom Malaysia accounted for 46% and 54% of total revenue for FY23 and 7-month FPE24 respectively.

Reliant on technology partners and vendors. VTC does not develop its own enterprise IT solutions; it sources them from 7 technology partners and vendors. The company's current contracts with technology vendors are subject to various termination clauses, which both parties are required to adhere to. In some contracts, their technology vendors have the right to terminate their services without cause by giving them the requisite notice period as stipulated in the contract. However, the company has not experienced any terminations with their technology partners and/or vendors before.

Risks related to data and cybersecurity breaches. In January 2024, news surfaced regarding a hacker who claimed to have accessed a major client's customer database. Although VTC was involved in implementing the client's system, the company was not responsible for the incident. Any data breach or cybersecurity issues could harm VTC's reputation and lead to legal action. As of July 2024, the company has not faced any claims. However, there is no assurance that potential future breaches will not impact its reputation and financial performance.

IPO Details

	Offer for Sale (m)	Public Issue (m)	Total (m)	(%)
<u>Retail Offering</u>				
Eligible Persons	-	9.8	9.8	2.5
Malaysian Public (Bumiputera)	-	9.8	9.8	2.5
Malaysian Public (Non-Bumiputera)	-	9.8	9.8	2.5
<u>Private Placement</u>				
Selected investors	39.2	68.6	107.8	27.5
<u>Total</u>	39.2	98.0	137.2	35.0

Source: Company



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