

7 September 2023

Technology | Information Technology

Infoline Tec Group (INFOTEC MK)

Not Rated

Aiming For Another Quantum Leap

Fair Value (Return): MYR1.12 (+49%)
 Price: MYR0.75
 Market Cap: USD58.6m
 Avg Daily Turnover (MYR/USD) 0.76m/0.17m

- MYR1.12 FV based on 16x FY24F P/E.** We like Infoline Tec Group for its strong client profile, wide range of solutions and technology vendors, and asset-light business model. A healthy orderbook and timely execution are expected to propel its 2H23 and beyond – further supported by the continual growth momentum of its IT solutions. We believe the current below-peer valuation of 11x FY24F P/E – above the industry ROE of 35% – and a 3-year earnings CAGR of 30.4% make it compelling as a proxy to structural growth in the IT infrastructure spending trend.
- Geographical expansion.** INFOTEC's recent Johor expansion is bearing fruit, evidenced by two recently secured new IT projects. Other than its existing presence in Shanghai and Beijing, it has been busy expanding into Heilongjiang (a potential growth city), Wuhan, and Chengdu after receiving customer enquiries. Since listing, INFOTEC has also been expanding its presence in other Asia-Pacific nations, eg Singapore, Japan, and India. In addition to its profit guarantee, the acquisition of Inline Technologies can solidify its presence in Singapore and give the group immediate access to a new client base there, especially telecommunication firms. This is supported by its strong capability in cybersecurity services. Despite its market share for Dell Group outside Malaysia being still small, there could be a potentially bigger market share in the region to tap into, especially in China and India – where Dell's manufacturing centres are located.
- More recurring income to anchor earnings.** With its IPO proceeds of MYR10m, INFOTEC completed the enhancement of its network operating centre (NOC) by 1Q23 and will set up its security operating centre (SOC) by 3Q23. The group targets to triple its workforce from five staff (before listing) for both the SOC and NOC by year's end. It recently brought in four new customers for its managed IT services, and we expect contributions from high-margin managed IT services – which are recurring in nature – to increase significantly in the short term. INFOTEC is targeting a boost in its recurring income to make up 20% of its revenue by 2025, given that existing projects only take up c.25% of its available capacity.
- Expecting a strong 2H23.** As at July, INFOTEC has secured purchase orders of MYR20m vs May 2022's MYR13m that will be delivered in 3-6 months. The newly incorporated mechanical & engineering or M&E segment recently secured a MYR2m solar farm project and is tendering for MYR100m worth of projects, which could be another avenue of growth, albeit at the expense of margins. Coupled with the setting up of a technology centre to carry out more proof of concepts, this should bring more jobs on-board in the near term.
- Earnings forecasts and valuation.** Backed by its solid orderbook and long runway of the digitalisation and cybersecurity trend, we project a 3-year earnings CAGR of 30.4% and ascribe a 16x P/E (10% premium to industry peers – backed by higher earnings forecasts and ROE) to its FY24F earnings to derive our FV of MYR1.12. Key risks: Dependent on major customers, inability to secure long term contracts, and competitive risks.

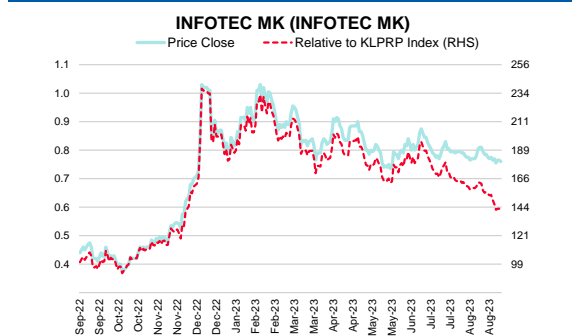
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(11.8)	(3.9)	(4.5)	(15.7)	87.5
Relative	(48.7)	(17.9)	(32.2)	(44.4)	53.1
52-wk Price low/high (MYR)	0.37 – 1.02				



Source: Bloomberg

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	45	73	89	123	160
Recurring net profit (MYRm)	11	14	19	25	33
Recurring net profit growth (%)	45.9	33.4	33.3	33.7	29.5
Recurring P/E (x)	25.52	19.13	14.36	10.74	8.30
P/B (x)	15.2	5.4	4.3	3.3	2.6
P/CF (x)	60.25	18.38	16.12	12.82	9.64
Dividend Yield (%)	na	2.9	2.1	2.8	3.6
EV/EBITDA (x)	18.56	11.77	9.41	6.56	4.56
Return on average equity (%)	60.5	35.5	33.3	35.0	35.4
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Malaysia	Recurring EPS	0.03	0.04	0.05	0.07	0.09
Technology	DPS	-	0.02	0.02	0.02	0.03
Infoline Tec Group	BVPS	0.05	0.14	0.18	0.22	0.29
INFOTEC MK	Return on average equity (%)	60.5	35.5	33.3	35.0	35.4
Not Rated						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Valuation basis	Recurring P/E (x)	25.52	19.13	14.36	10.74	8.30
16x P/E on FY24F EPS	P/B (x)	15.2	5.4	4.3	3.3	2.6
	FCF Yield (%)	1.5	2.1	4.5	7.8	10.4
Key drivers	Dividend Yield (%)	-	2.9	2.1	2.8	3.6
i. Geographical expansion;	EV/EBITDA (x)	18.56	11.77	9.41	6.56	4.56
ii. Ready to take on more recurring jobs;	EV/EBIT (x)	18.82	11.91	9.63	6.70	4.63
iii. Expecting a strong 2H23.						
	Income statement (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Key risks	Total turnover	44.6	72.8	88.7	123.0	160.5
i. Dependent on major customers;	Gross profit	17.0	26.3	35.3	47.7	62.1
ii. Inability to secure long term contracts;	EBITDA	14.1	19.9	24.0	32.1	41.7
iii. Competitive risks.	Depreciation and amortisation	(0.2)	(0.2)	(0.5)	(0.7)	(0.7)
	Operating profit	13.9	19.7	23.5	31.5	41.0
Company Profile	Net interest	0.0	0.1	1.5	1.9	2.2
Infoline Tec Group is primarily engaged in supplying cybersecurity solutions, IT infrastructure solutions, managed IT and other IT services, as well as the trading of ancillary software and hardware.	Pre-tax profit	11.1	16.7	25.0	33.4	43.2
	Taxation	(2.7)	(4.6)	(6.0)	(8.0)	(10.4)
	Reported net profit	8.4	12.1	19.0	25.4	32.8
	Recurring net profit	10.7	14.2	19.0	25.4	32.8
	Cash flow (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	0.0	0.0	(1.2)	(2.9)	(3.1)
	Cash flow from operations	4.5	14.8	16.9	21.2	28.2
	Capex	(0.4)	(9.0)	(4.5)	0.0	0.0
	Cash flow from investing activities	(0.4)	(8.0)	(4.5)	0.0	0.0
	Dividends paid	0.0	(2.0)	(5.7)	(7.6)	(9.8)
	Cash flow from financing activities	(0.1)	20.3	(4.2)	(5.7)	(7.7)
	Cash at beginning of period	7.2	11.4	37.9	46.0	61.6
	Net change in cash	4.0	27.1	8.2	15.5	20.5
	Ending balance cash	11.4	37.9	46.0	61.6	82.1
	Balance sheet (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	11.4	37.9	46.0	61.6	82.1
	Tangible fixed assets	0.6	9.4	13.4	12.7	12.1
	Total assets	29.8	70.4	86.7	110.4	139.8
	Total liabilities	11.9	20.2	23.1	29.1	35.5
	Total equity	17.9	50.3	63.6	81.3	104.3
	Total liabilities & equity	29.8	70.4	86.7	110.4	139.8
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	1.8	63.4	21.8	38.6	30.4
	Recurrent EPS growth (%)	45.9	33.4	33.3	33.7	29.5
	Gross margin (%)	38.2	36.1	39.8	38.8	38.7
	Operating EBITDA margin (%)	31.5	27.3	27.1	26.1	26.0
	Net profit margin (%)	18.8	16.6	21.4	20.6	20.5
	Dividend payout ratio (%)	0.0	66.2	30.0	30.0	30.0
	Capex/sales (%)	0.8	12.4	5.1	0.0	0.0
	Interest cover (x)	602	1,312			

Source: Company data, RHB

Financial Overview And Valuation

Financial overview. A shift into the digital era – driven by the rapid pace of technological evolution and increased adoption of technologies – has created a massive demand for IT infrastructure and cybersecurity solutions. INFOTEC registered 4-year revenue and earnings CAGRs of 40.2% and 39.2% during FY18-22 thanks to the significant growth of its IT infrastructure and cybersecurity solutions segments.

The cybersecurity solutions wing has grown at a healthy rate – accounting for 22.7% of group turnover – a massive growth from 3.4% in 2021. The demand escalation is attributed to the rising occurrences and levels of threat sophistication, resulting in organisations choosing to rely on the services of cybersecurity providers to protect their data, as well as the need for regulation to monitor and prevent any misuse of personal data to process commercial transactions.

INFOTEC recorded revenue of MYR28.7m for 1H23, marking an 80.5% YoY increase from MYR15.9m in 1H22. The improved sales were derived from all its business segments, which almost doubled YoY. Core profit rose from MYR1.5m in 1H22 to MYR6.1m in 1H23 (+306.7% YoY). The better profit margin was mainly attributable to margins improvement in the IT infrastructure and cybersecurity solutions segments.

Earnings forecast. It is important to highlight that INFOTEC's earnings exhibit seasonality, with c.60% of the group's annual bottomline typically being reflected in the second half of any given FY. This is because enterprises tend to utilise the majority of their IT budgets towards the year-end period. Hence, coupled with its expected maintenance orderbook, we expect INFOTEC's earnings to be boosted higher in the subsequent quarters of 2023.

With its geographical and capacity expansion plans, we forecast a 3-year earnings CAGR of 30.4%, as the group continues to attract a talent pool for both the SOC and NOC segments, as well as penetrate into high-growth countries like Singapore. Any tech refresh or data centre projects will benefit INFOTEC's IT infrastructure solutions division, in our view, while increased levels of threat sophistication and regulatory compliance bodes well for its cybersecurity solutions wing. As the group only captured a small market share of Dell's IT infrastructure and cybersecurity solutions outside of Malaysia, we believe it can capture higher market share by exploring untapped market like China, India, Japan, and Singapore.

Looking beyond this year, we also expect INFOTEC to cross-sell its services to its newly acquired company – Inline Technology – which is now focused on cybersecurity services.

Dividends and balance sheet. The group paid out 66.2% of its PAT as dividends amounting to 2.21 sen per share. As we foresee INFOTEC channelling its resources for its expansion plans, we are assuming the group will pay out 30% of its PAT – in line with its dividend payout policy of 30%, which translates to dividend yields of 2.1%, 2.8%, and 3.6% in the coming three FYs. INFOTEC has a healthy balance sheet, as it has no borrowings and is in a net cash position of 9.4 sen per share.

Valuation. Coupled with its healthy balance sheet and expected high earnings growth, we ascribe 16x P/E – based on its FY24F earnings – to arrive at a FV of MYR1.12. This valuation is c.10% higher than the 2-year consensus forward P/E of the local IT players, given INFOTEC's stronger growth trajectory for its 3-year CAGR earnings growth of 30.4% and higher-than-average ROEs.

Figure 1: Peer comparison – local IT players

Company	Country	FYE	Mkt cap (USDm)	Price	P/E (x)			Div. yld (%)	ROE (%)	EV/ EBITDA	NP growth (%)		PEG
				5-Sep-23	Actual	1-yr fwd	2-yr fwd	1-yr fwd	1-yr fwd	1-yr fwd	1-yr fwd	2-yr fwd	
INFOTEC	MA	12/2023	58.5	0.75	21.2	15.0	10.8	2.1	33.3	9.5	33.3	33.7	-
Peers													
Cloudpoint Technology	MA	12/2023	70.8	0.62	23.7	19.4	15.8	0.0	21.6	12.9	21.6	23.4	0.7
Censof Holdings	MA	03/2024	27.9	0.24	21.0								
Dataprep Holdings	MA	12/2023	26.2	0.17	-6.6								
Datasonic Group	MA	03/2024	287.3	0.48	16.7	15.8	15.0	4.5	21.6	9.0	5.7	5.3	2.9
Excel Force MSC	MA	06/2023	49.3	0.41	18.1								
Heitech Padu	MA	12/2023	14.0	0.65	-6.2								
Iris Corp	MA	03/2024	59.6	0.09	12.1								
Mesiniaga	MA	12/2023	16.2	1.25	10.9								
MY EG Services	MA	12/2023	1247.9	0.78	13.8	14.3	12.9	2.1	21.5	12.3	-3.9	10.5	1.2
N2N Connect	MA	12/2023	58.7	0.49	14.6	33.3	23.5	3.1	21.5	4.6	-56.0	41.4	0.6
Omesti	MA	03/2024	39.5	0.34	1.4								
Kronologi Asia	MA	01/2024	83.0	0.44	14.9	16.8	13.9		21.4		-11.4	20.9	0.7
Microlink Solutions	MA	03/2024	213.1	0.93	36.6	20.8	19.3		22.4	16.8	75.8	8.1	2.4
Infomina	MA	05/2024	228.6	1.77	25.0	20.9	18.7	1.1	21.8	14.1	19.4	11.7	1.6
LGMS	MA	12/2023	106.8	1.09	40.6	35.0	20.5		21.5	21.4	16.1	70.5	0.3
Market cap weighted average			701.4		18.1	17.5	15.1	2.3	21.6	12.7	7.1	14.1	1.5
Simple average			168.6		15.8	22.1	17.5	2.4	21.7	13.0	8.4	24.0	1.3

Source: Bloomberg, RHB

Industry Overview

The proliferation and advancement of technologies in everyday life has greatly increased the usage of personal devices and consumer electronics. These technologies include Artificial Intelligence, Big Data, Cloud Computing, IoT, etc. The shift to the digital era was driven by increased work-from-home practices due to (and after) the COVID-19 pandemic, which increased the adoption of technologies, government development initiatives, a rise in cyber threats, and growing number of IT-dependent companies and businesses. Such a digital transformation augurs well for support IT infrastructure and cybersecurity solutions to store, manage, and analyse digital data.

According to Providence Strategic Partners, the growth of the IT infrastructure industry is expected to accelerate – both in Malaysia and China. The former’s IT infrastructure market size was valued at MYR8.4bn in 2022 and is projected to reach MYR10.1bn by 2024 – implying a CAGR of 9.7% from 2022 to 2024. Moreover, the IT Infrastructure industry in China is projected to reach USD233.7bn by 2024, forecasting a CAGR of 18.4% from 2022 to 2024.

Providence Strategic Partners also reported that the Malaysia Cybersecurity industry market size was valued at MYR3.8bn in 2022 and estimates it to reach MYR4.9bn by 2024, registering a CAGR of 14.4% from 2022 to 2024. Concurrently, China’s cybersecurity industry is also forecasted to hit USD16.3bn by 2024, an increase from 2022’s USD11.5bn or a projected a 19.1% CAGR during the 2022-2024 period.

Meanwhile, according to Arizton Advisory & Intelligence, the Singapore data centre market is expected to chart a CAGR of 3.4% from 2022 to 2028 and reach USD5.2bn in 2028. At the same time, Mordor Intelligence holds the view that the island republic’s cybersecurity market is forecasted to grow at a CAGR of 16.1% from 2023 to 2028 to reach USD4.2bn in 2028.

As a result, we believe INFOTEC is positioning itself in a high-growth industry and has ample market share to grab – especially given its geographical expansion initiatives and capacity expansion plans.

Company Overview

INFOTEC and subsidiaries Infoline IT Solutions and Infoline Technology (Shenzhen) are primarily engaged in supplying cybersecurity solutions, IT infrastructure solutions, managed IT and other IT services, as well as the trading of ancillary software and hardware. The group was listed on Bursa Malaysia's ACE Market in 2022.

Currently, INFOTEC has offices in Malaysia and China. Throughout the years, the group has established itself as a respectable cybersecurity solutions and IT infrastructure provider, implementing solutions for business to business or B2B customers and end-users on a global scale. INFOTEC's coverage includes Malaysia and other countries in the Asia-Pacific region, eg China, Singapore, Thailand, Hong Kong, Taiwan, Indonesia, India, South Korea, Australia, and the Philippines.

Breakdown of revenue by business segments:

- i. **IT infrastructure solutions (67.1% of FY22 revenue)** contributed the most to the group's FY22 topline. IT infrastructure solutions are crucial to permit workable network connectivity, efficient processing of applications, and data storage. INFOTEC designs and implements data centre solutions, a variety of system infrastructure, software-defined infrastructure, network infrastructure, cloud computing solutions, and unified communications;
- ii. **Cybersecurity solutions (20.6% of FY22 revenue)**. With the rise in cyber threats, it is important to implement cybersecurity solutions to reduce costs that come with managing cyberattacks. The group provides cybersecurity solutions with a combination of hardware and software products, which include implementation and installation services to diminish cybersecurity risks – ie unauthorised entry – within an IT infrastructure;
- iii. **Managed IT services & other services (10.3% of FY22 revenue)**. INFOTEC offers managed network and cybersecurity services. These allow enterprises to save on the substantial costs involved in setting up their own IT teams, as the group outsources such services to customers that are in need of monitoring and managing for their network's infrastructure;
- iv. **Trading of ancillary hardware & software (2.0% of FY22 revenue)**. INFOTEC offers a plethora of products, including hardware products such as notebooks, computers, printers, accessories, and peripherals. Alternatively, it also provides computing applications and operating systems for software products.

The group is led by an accomplished senior management team. Non-Independent Executive Director and Chief Executive Officer Choo Wei Chuen is responsible for the business development and strategic management of INFOTEC. Non-Independent Executive Director and Chief Operating Officer Loo Wai Hong is responsible for the group's project deliveries and operational management.

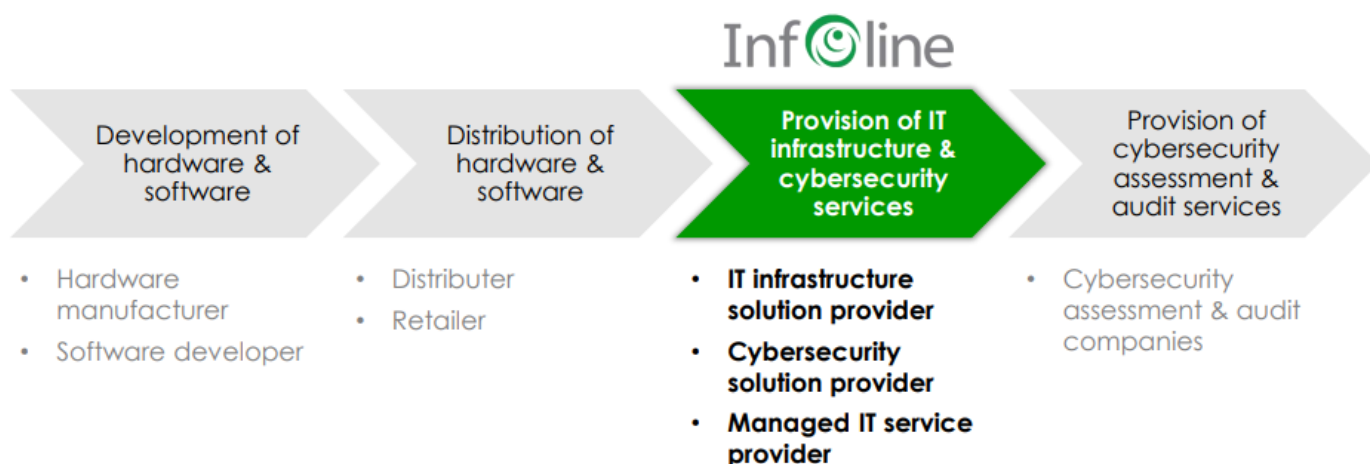
Additionally, Too Yit Meng, Tan Mui Ping, Alwizah Al-Yafii Binti Ahmad Kamal, and Olivia Lim complete the team. They are all experts in their professions, ie marketing, accounts, and legal fields.

Figure 2: Business model

Principal Activity	Types of key solutions / services	Revenue model	Geographic segment	Customer segments
Provision of IT infrastructure solutions (design and implementation of IT infrastructure solutions)	<ul style="list-style-type: none"> Data centre solutions System infrastructure Software-defined infrastructure Network infrastructure Cloud computing solutions Unified communications 	<ul style="list-style-type: none"> One-off project-based fee Software licensing fee 	<ul style="list-style-type: none"> Malaysia China Other markets (including Hong Kong, Australia, Thailand, Singapore, Taiwan, South Korea, India, Myanmar, Indonesia and the Philippines) 	<ul style="list-style-type: none"> Customers who are end-users (i.e. local and multinational companies) Customers who are not end-users (e.g. property consultancy, and property developers and construction companies)
Provision of cybersecurity solutions (design and implementation of cybersecurity solutions)	<ul style="list-style-type: none"> Network security Endpoint protection platform Network access control Anti-DDoS protection Web isolation Application delivery controller Cloud security 	<ul style="list-style-type: none"> One-off project-based fee Software licensing fee 		
Provision of managed IT services and other IT services	<ul style="list-style-type: none"> Managed network services Managed cybersecurity services Project delivery and management services Assessment and troubleshooting services Consultation services Maintenance and technical support 	<ul style="list-style-type: none"> Contract fee Professional service fee 		
Trading of ancillary hardware and software	Examples include computers, notebooks, printers, accessories and peripherals	<ul style="list-style-type: none"> One-off sale 		

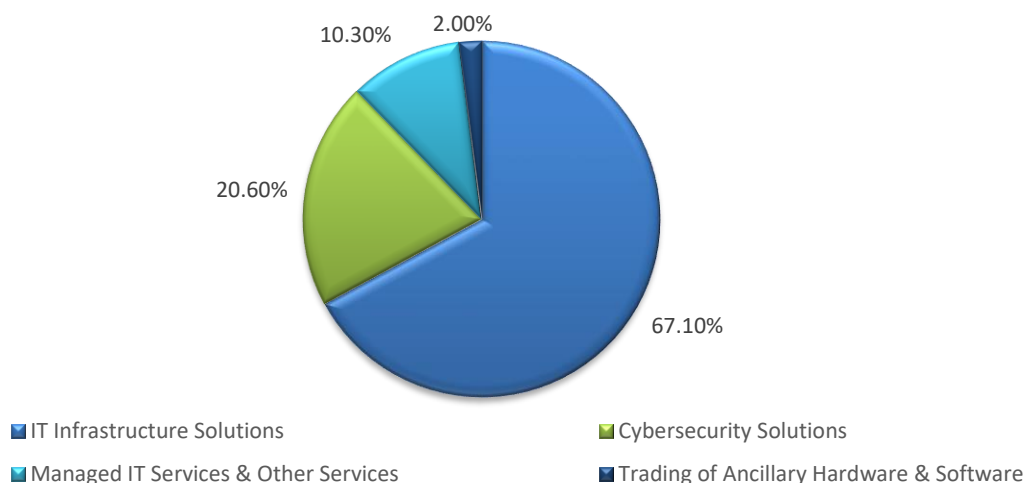
Source: Company data

Figure 3: INFOTEC's value position



Source: Company data

Figure 4: Revenue breakdown by business segment for FY22



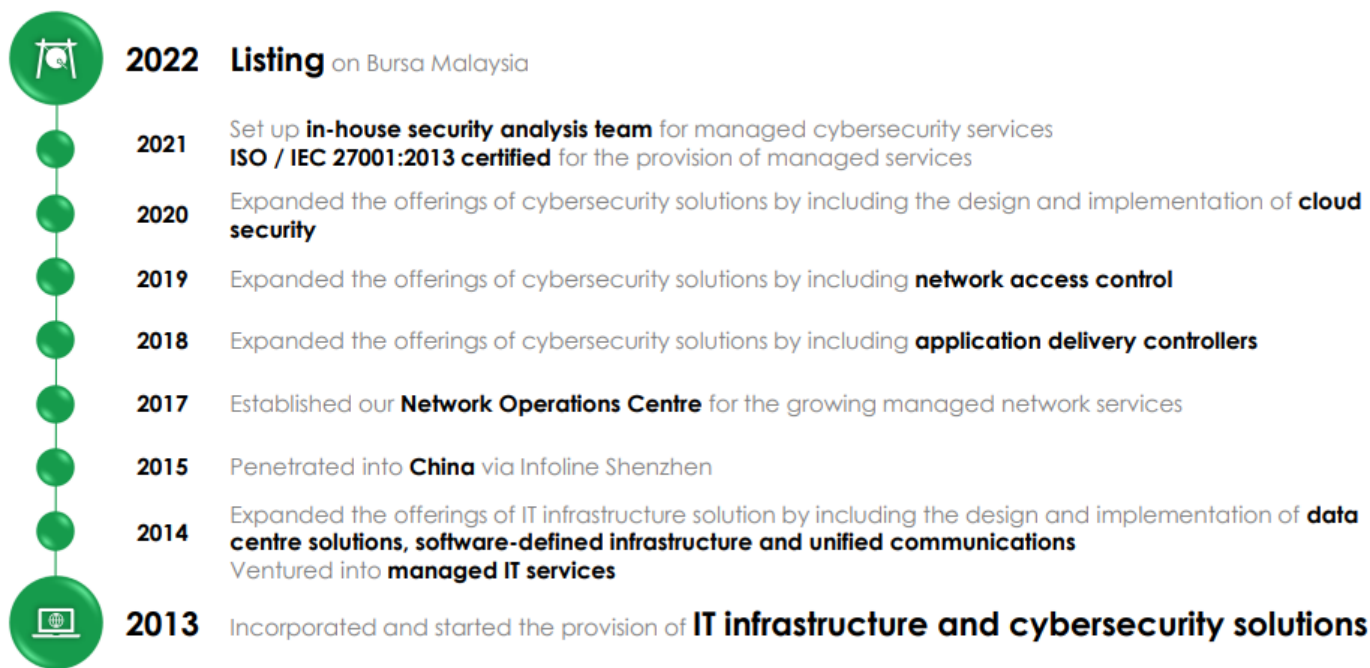
Source: Company data

Figure 5: INFOTEC’s technology partners



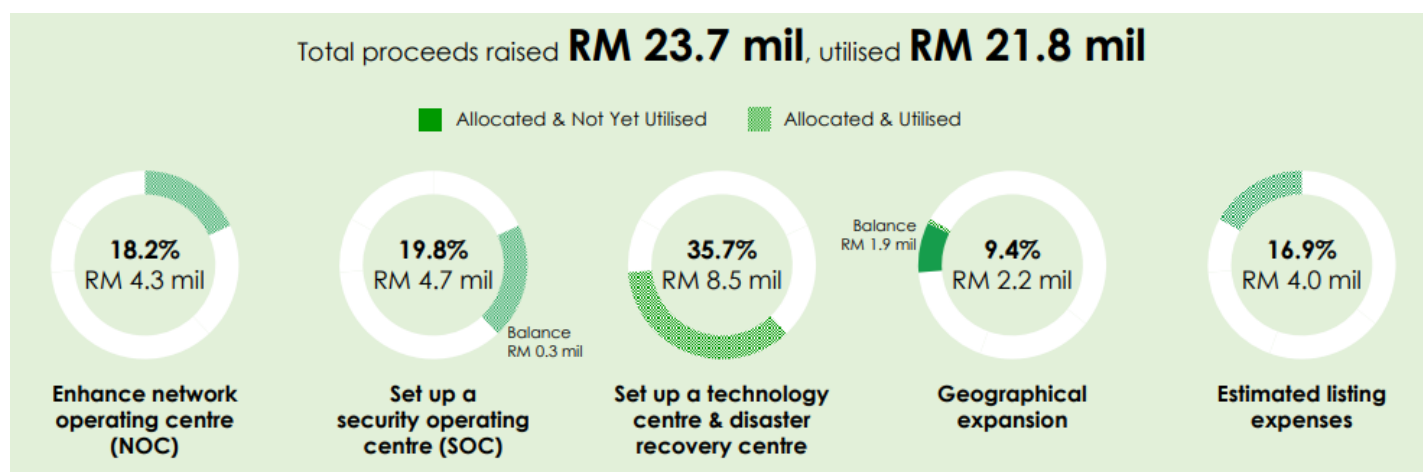
Source: Company data

Figure 6: Corporate milestones



Source: Company data

Figure 7: Utilisation of IPO proceeds as at 15 Aug 2023



Source: Company data

Figure 8: Top 5 customers in FY2021

Key Shareholders	Revenue (MYRm)	Revenue (%)	Years of relationship
Dell group of companies	24.40	54.70	7
Netwave Digital Media	5.05	11.30	1
Bank Pertanian group of companies	1.78	4.00	5
Triangolo	1.67	3.70	4
Noblecom Technology	1.18	2.60	8

Source: Prospectus

Figure 9: Key shareholders

Key shareholders	Direct	%
Choo Wei Chuen	193,893,906	53.4
Loo Wai Hong	54,454,961	15.0
Too Yit Meng	14,330,253	4.0

Note: Company Annual Report FY22

Source: Company data, Bloomberg

Key Risks

Dependent on major customers. Dell group of companies have been the top contributor to INFOTEC’s revenue, contributing 37.6%, 45.2%, 52.6%, and 54.7% to FY18-21 topline. While the group does not have any long-term contracts with Dell, it still managed to maintain a mutually beneficial business relationship for the past seven years. However, there is no assurance that Dell will continue this relationship with INFOTEC. Therefore, the group must: i) Secure future projects, ii) actively seek out new clients, and iii) receive prompt payments from customers to prevent any harmful effects to its finances.

Inability to secure long-term contracts. The projects secured by INFOTEC tend to be on a purchase-order basis, usually lasting for a period of 2-3 months. Upon the completion of these projects, the group will often enter into a maintenance service contract lasting between one and three years. INFOTEC’s inability to obtain any long-term contracts poses a risk, as its existing customers do not have any obligation to continue with the group’s services. In the event it loses pre-existing customers, INFOTEC must be able to secure sales from its existing pool of clients – as well as new customers – to prevent any adverse effects on its financial performance.

Competitive risk. The market for IT services in Malaysia is quite vast and potential clients are blessed with many options. In this situation, the group might face certain challenges when up against more well-known competitors. Therefore, INFOTEC has to continue enhancing its corporate profile and increase market presence – both locally and internationally – via marketing and promotional activities through digital marketing and webinars initiatives.

IT services affected by system failures. The IT services business segment contributed a significant chunk to the group’s total revenue. However, most of its facilities are Internet-enabled in order to allow for remote monitoring, which puts INFOTEC at risk of system malfunctions and cybersecurity attacks. Hence, the group has acquired an ISO certification to ensure that it has the necessary procedures in place and cloud-based disaster recovery facilities to ensure business functionality in the event of system failures.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-09-04			

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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