

14 August 2024

Technology | Software & IT Consulting

VETECE (VTC MK)

Fuelling AI Growth In Malaysia And Singapore

- **MYR0.49 FV based on 21x FY25F P/E.** VETECE plans to raise MYR24.5m from its IPO to expand its product offerings and fund working capital. The group is poised to benefit from the rise in digital transformation, cloud adoption, and increasing IT ecosystem complexity in domestic industries. Higher revenue from artificial intelligence (AI)-driven solutions and human capital expansion is expected to drive a 16.9% earnings CAGR (2023-2026). With a strong 28% net margin and healthy balance sheet, its FY25F 10.7x P/E presents a compelling investment opportunity.
- **21 years in enterprise IT services.** VETECE's track record in the industry is underpinned by its ISO 9001:2015 certification in software design and installation, awarded by KVQA Assessment. It also holds the prestigious TMMi Maturity Level 5 certification from the Malaysian Software Testing Board, reflecting its commitment to top-tier software testing and quality assurance practices. Leveraging strong collaborations with technology partners and vendors, VETECE has developed robust, reusable software tools tailored to meet the unique demands of the telecommunications and financial services sectors.
- **Expanding its portfolio with AI-driven solutions.** Moving forward, VETECE is broadening its solution portfolio to incorporate AI-driven data handling and analytics, complementing its existing enterprise application integration and data engineering offerings. The group will also actively promote new features and enhancements in its technology partners' software solutions. The introduction of advanced technologies is anticipated to incur higher sales per IT engineer and enhance overall group margins.
- **Tapping into Singapore's booming IT services market.** VETECE is expanding its Singapore operations, anticipating higher growth and a larger market. Singapore's IT services industry is projected to grow at an 11.4% CAGR to SGD89.4bn by 2028, driven by its role as the Asia Pacific gateway. With a 30% increase in solution architect headcount and a new Centre of Excellence (COE), VETECE is well-positioned to meet rising digital transformation demand in both Singapore and Malaysia.
- **Forecasts and valuation.** We project a 3-year earnings CAGR of 16.9%, and ascribe a 21x P/E to its FY25F earnings to derive our MYR0.49 FV. The valuation is in line with the 21x P/E we ascribed to Ramssol Group, which is its closest local peer.
- **Key risks:** Dependent on skilled IT employees, customer concentration risks, unexpected delays in projects, and discontinuation/termination of partnerships with its technology partners.

Fair Value (Return):	MYR0.49 (+96%)
IPO Price:	MYR0.25
Closing Application Date:	14 Aug 2024
Indicative Listing Date	28 Aug 2024

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Company Description

VETECE is an enterprise information technology solutions provider. The group offers enterprise applications integration and single sign-on management solutions; enterprise data engineering and analytic solutions; enterprise customer relationship management (CRM) solutions; enterprise software testing solutions; and enterprise infrastructure on-premises and cloud solutions.

IPO details

Public issue of new shares (m)	98.0
Offer for sale of existing shares (m)	39.2
Shares outstanding (m)	137.2
Implied market cap	MYR98m

Major shareholders (%)

Tee Chee Chiang	61.3
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Utilisation of IPO proceeds

	MYRm
Rollout 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
Repayment of bank borrowings	4.0
Listing expenses	4.7
Total	24.5

Additional data

Listing Market	ACE
Bursa Code	0319

Forecasts and Key Data	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	21	23	18	32	35
Recurring net profit (MYRm)	4	7	5	9	10
Recurring net profit growth (%)	32.3	58.1	-30.3	100.0	14.5
Recurring EPS (sen)	0.01	0.02	0.01	0.02	0.03
Recurring P/E (x)	23.6	14.9	21.4	10.7	9.4
P/BV (x)	10.4	6.0	5.5	2.0	1.7
P/CF (x)	23.4	88.5	7.9	10.0	9.9
Dividend yield (%)	27.6	10.2	0.0	0.0	0.0
EV/EBITDA (x)	67.1	44.6	61.8	30.6	27.4
ROE (%)	26.8	50.7	12.7	27.4	20.0
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 Overview and Valuation

Financial overview. Group revenue increased from MYR20.05m in FY21 to MYR23.13m in FY23, achieving a CAGR of 7.41% over the three years. The growth was mainly driven by an increase in its implementation services due to strong demand from major clients such as Telekom Malaysia.

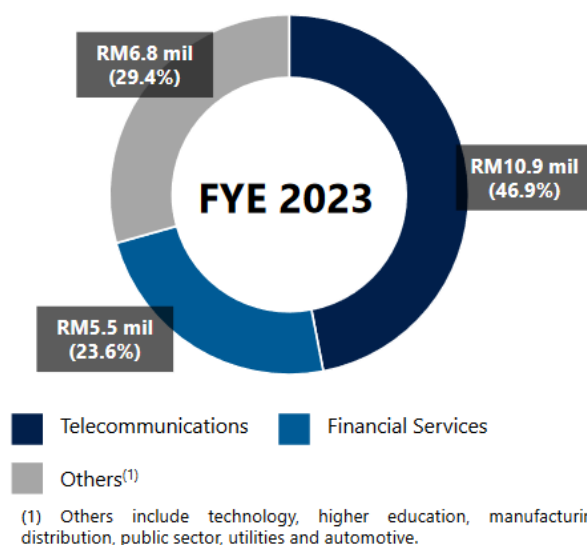
VETECE has maintained a healthy GPM of over 20%, at 29.31%, 33.81%, and 42.10% over the last three years, reflecting its strong pricing power and efficient cost management. Gross profit rose from MYR5.88m in FY21 to MYR9.74m in FY23, driven by higher sales volumes and optimised production costs. The group's PBT margin grew from 20.59% in FY21 to 37.61% in FY23. The significant increase was attributed to higher recognition of revenue based on time cost incurred for its ongoing projects as compared to billings to clients. In FY21, its net profit margin was 15.66%, and this grew to 28.38% in FY23, reflecting its strong financial performance and effective management of cost and tax efficiencies.

Forecasts. The group is poised to benefit from the rise in digital transformation, cloud adoption, and increasing IT ecosystem complexity in domestic industries. We are also optimistic on its expansion plans in Singapore, which has a much larger and faster-growing market compared to its currently domestic-focused services. Protege Associates projects that Singapore's enterprise IT services industry will grow at an 11.4% CAGR to SGD89.4bn in 2028, outpacing Malaysia's projected MYR29.5bn. Singapore's role as the Asia Pacific gateway, with numerous MNC regional offices, drives this growth. As AI is driven by machine learning (ML) and data, VETECE is strategically positioned in the rapidly growing industry to facilitate data integration and migration for AI initiatives. With a 30% increase in solution architect headcount and a new COE, the group is well-positioned to meet rising digital transformation demand in both Singapore and Malaysia. Higher revenue from AI-driven solutions and human capital expansion is expected to drive a 16.9% earnings CAGR (2023-2026).

Valuation. We have ascribed a 21x P/E based on VETECE's FY25F earnings to arrive at the MYR0.49 FV. The valuation is in line with the 21x 2-year forward P/E we ascribed to its closest listed peer on Bursa Malaysia, Ramssol Group (as both companies' net profit margins are at c.28% and their biggest principal is Oracle, despite offering different types of IT solutions). The valuation also implies an 8.7% discount from global IT solution players (against whom VETECE is competing with in the regions it serves) as its smaller market capitalisation is largely offset by its higher profit margins.

Dividends and balance sheet. The group does not have a dividend policy, and we do not expect it to pay out any dividends post listing, as it goes into expansion mode. The group has a healthy balance sheet, with a net cash position of MYR32.3m post listing, and generates positive operating cash flow every year.

Figure 1: Revenue breakdown by industry segment



Source: Company data

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Figure 2: Revenue and GP margin

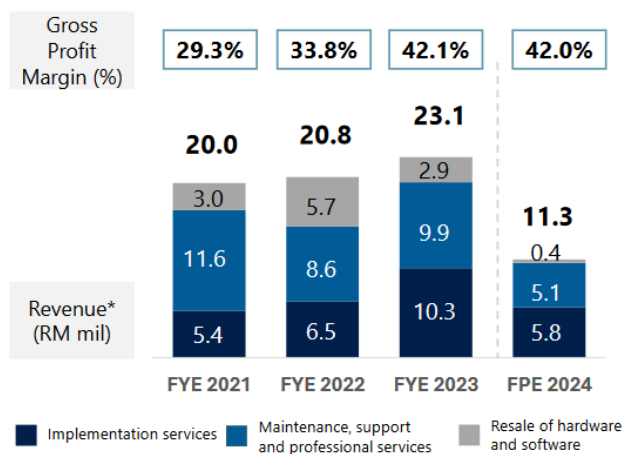
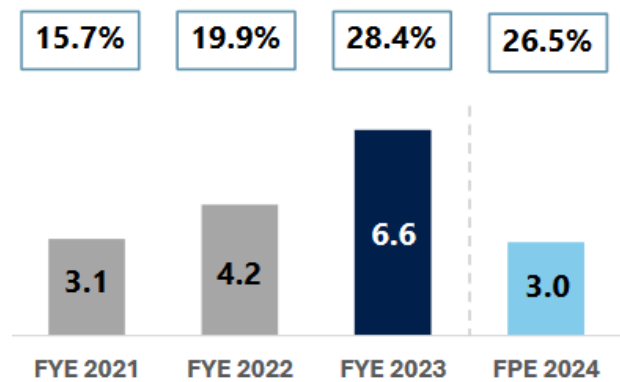


Figure 3: PAT and PAT margins



Source: Company

Source: Company

Figure 4: Operating metrics

Company	Revenue 3-year CAGR	Net profit 3-year CAGR	GPM	EBITDA margin	Net profit margin	Net gearing (latest)	Trailing P/E	Current market cap
VETECE	na	na	42.1%	38.6%	28.4%	0.6	14.9	22.3
Local software consultants and IT solutions providers								
INFOMINA	28.9%	58.6%	28.6%	19.7%	14.7%	Net cash	25.1	187.8
RAMSSOL GROUP	34.4%	228.3%	68.9%	32.5%	20.6%	7.0	34.1	48.4
MICROLINK SOLUTIONS	11.0%	-21.3%	11.8%	-1.8%	-8.8%	19.1	-11.1	61.9
Mkt. Cap Weighted Avg.	26.0%	69.5%	31.6%	17.3%	10.8%		21.8	153.3
Simple Avg.	24.7%	88.5%	36.4%	16.8%	8.8%		16.1	99.3
International Peers								
ACCENTURE PLC-CL A	16.1%	19.2%	32.3%	18.6%	10.7%	Net cash	127.4	198052.1
TATA CONSULTANCY SVCS	25.1%	21.1%	40.4%	26.3%	19.1%	Net cash	1.8	182246.0
CAPGEMINI SE	19.5%	31.6%	26.9%	13.5%	7.4%	27.7	88.3	33218.0
WIPRO LTD	18.1%	11.3%	29.6%	18.9%	12.3%	Net cash	1.2	30611.3
MASTEK LTD	55.3%	62.5%	na	16.7%	9.8%	2.8	1.5	1004.6
HCL TECHNOLOGIES LTD	29.5%	21.4%	35.9%	22.0%	14.3%	Net cash	1.4	51393.3
INFOSYS LTD	29.6%	17.8%	30.1%	23.7%	17.1%	Net cash	1.5	87577.7
INTL BUSINESS MACHINES CORP	-8.1%	-4.9%	55.4%	22.4%	12.1%	205.6	103.9	176353.8
TECH MAHINDRA LTD	19.1%	-14.7%	24.8%	9.5%	4.5%	Net cash	3.3	17555.0
Mkt. Cap Weighted Avg.	15.5%	13.7%	38.9%	21.7%	13.7%		60.5	149354.7
Simple Avg.	22.7%	18.4%	34.4%	19.1%	11.9%		36.7	86445.8

Source: Bloomberg, RHB

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Figure 5: Peer comparison

Company	Country	FYE	Mkt cap (USDm)	Price	P/E (x)			Div. yld (%)	ROE (%)	EV/ EBITDA	NP growth (%)		PEG
				11-Aug-24									
				(Local currency)	Actual	1-yr fwd	2-yr fwd	1-yr fwd	1-yr fwd	1-yr fwd	1-yr fwd	2-yr fwd	
VETECE	MA	08/2024											
<u>Global enterprise IT solutions providers</u>													
ACCENTURE PLC-CL A	IR	08/2024	198052.1	315.8	28.8	25.9	24.3	1.6	21.9	16.2	-11.3	-6.5	na
TATA CONSULTANCY SVCS LTD	IN	03/2025	182246.0	4228.8	32.9	29.8	26.9	2.5	22.6	21.1	10.2	10.9	2.5
CAPGEMINI SE	FR	12/2024	33218.0	176.3	18.5	15.1	14.1	2.0	74.7	9.8	22.3	7.1	2.0
WIPRO LTD	IN	03/2025	30611.3	491.3	22.9	21.4	19.4	2.0	75.3	13.0	7.2	10.1	1.9
MASTEK LTD	IN	03/2025	1004.6	2733.3	27.7	24.7	19.7	0.9	22.2	14.5	12.2	25.5	0.8
HCL TECHNOLOGIES LTD	IN	03/2025	51393.3	1590.0	27.1	25.3	23.0	3.4	22.4	16.1	7.2	10.1	2.3
INFOSYS LTD	IN	03/2025	87577.7	1770.8	27.6	27.6	24.4	2.8	22.2	18.1	0.2	12.9	1.9
INTL BUSINESS MACHINES CORP	US	12/2024	176353.8	191.5	23.5	18.6	17.7	3.5	22.6	14.6	26.6	5.0	3.6
TECH MAHINDRA LTD	IN	03/2025	17555.0	1506.7	61.6	35.3	25.6	2.9	22.2	20.2	74.5	37.7	0.7
Mkt. cap weighted avg.			149354.7		28.4	24.9	22.7	2.6	26.7	16.9	9.0	5.7	1.9
Simple average			86445.8		30.1	24.8	21.7	2.4	34.0	16.0	16.6	12.5	1.9

Source: Bloomberg, RHB

Company Overview

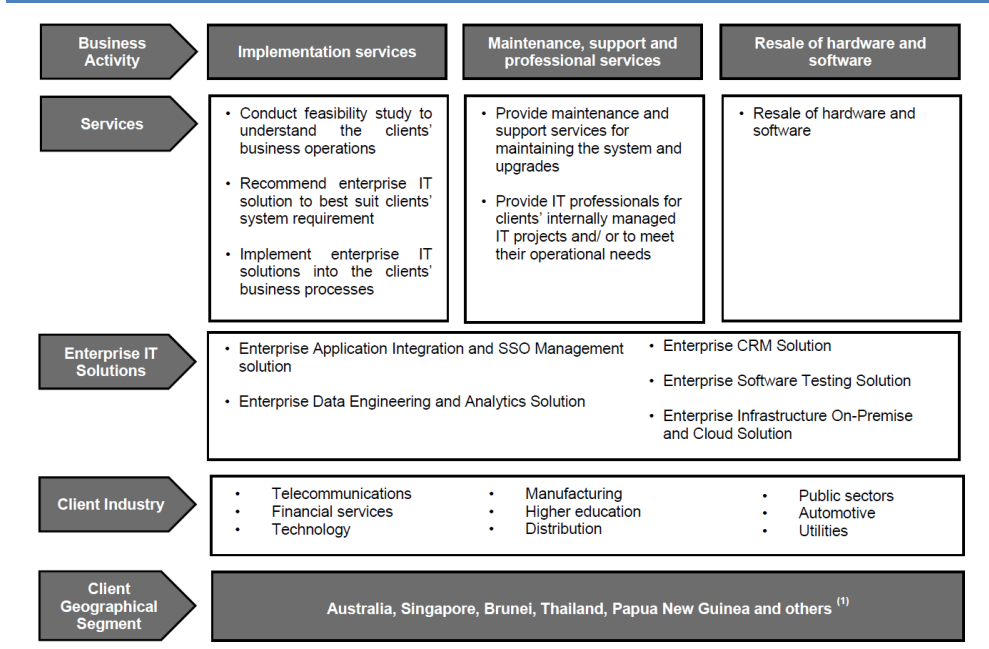
VETECE, through its subsidiaries, is primarily involved in the provision of enterprise information technology solutions. The group offers enterprise applications integration and single sign-on management solutions; enterprise data engineering and analytic solutions; enterprise CRM solutions; enterprise software testing solutions; and enterprise infrastructure on-premises and cloud solutions. It provides implementation services, maintenance, support and professional services, as well as the resale of hardware and software. VETECE assists its clients in the implementation process involving design, installation, customisation and configuration, data integration, testing, and deployment of the enterprise IT solutions to ensure that it seamlessly integrates with clients' systems. VETECE's primary technology partners are Oracle and WSO2. It is also involved in the resale of hardware and software products as part of the implementation of enterprise IT solutions, where it purchases hardware and/or software from its technology partners and resells them to clients.

The group's business segments comprise:

- i. **Implementation services (44.65% of FY23 revenue)** – VETECE uses its technology partners' software to provide implementation of enterprise IT solutions that enable its clients to adopt new business models, automate repetitive processes, and reduce reliance on manual intervention. It also enables major IT system upgrades which require re-implementation, and provides continuous improvements and enhancements of its client's IT infrastructure.
- ii. **Maintenance, support and professional services (42.63% of FY23 revenue)** – VETECE is responsible for the day-to-day maintenance and support for its enterprise IT solutions. This includes continued minor system enhancements, such as performance tuning, functional configuration, and necessary changes to meet clients' requirements. This is to ensure that the clients' core operational systems function without any faults and issues that may disrupt its intended functionality, and VETECE aims to make these systems adaptable to their changing strategic and tactical business needs. In terms of professional services, the group is also involved in the provision of professional services, where it supplies IT professionals to its clients for their internally-managed IT projects and/or to meet their IT operational needs, on fixed contractual periods.
- iii. **Resale of hardware and software (12.72% of FY23 revenue)** – VETECE purchases hardware such as servers and storage products as well as software licences from its technology partners and appointed distributors of technology vendors such as Oracle, WSO2, and Computrade Technology (Malaysia) S/B, and resells them to its clients, as and when required, based on projects awarded.

VETECE is led by a dedicated and experienced management team. Tee Chee Chiang, the Non-Independent Executive Vice Chairman and Chan Wai Hoong, the Non-Independent Executive Director and CEO, have more than 25 years and 29 years of experience in the enterprise IT services industry respectively. They are supported by other key senior management personnel with over 20 years of experience in their respective fields.

Figure 6: Business model

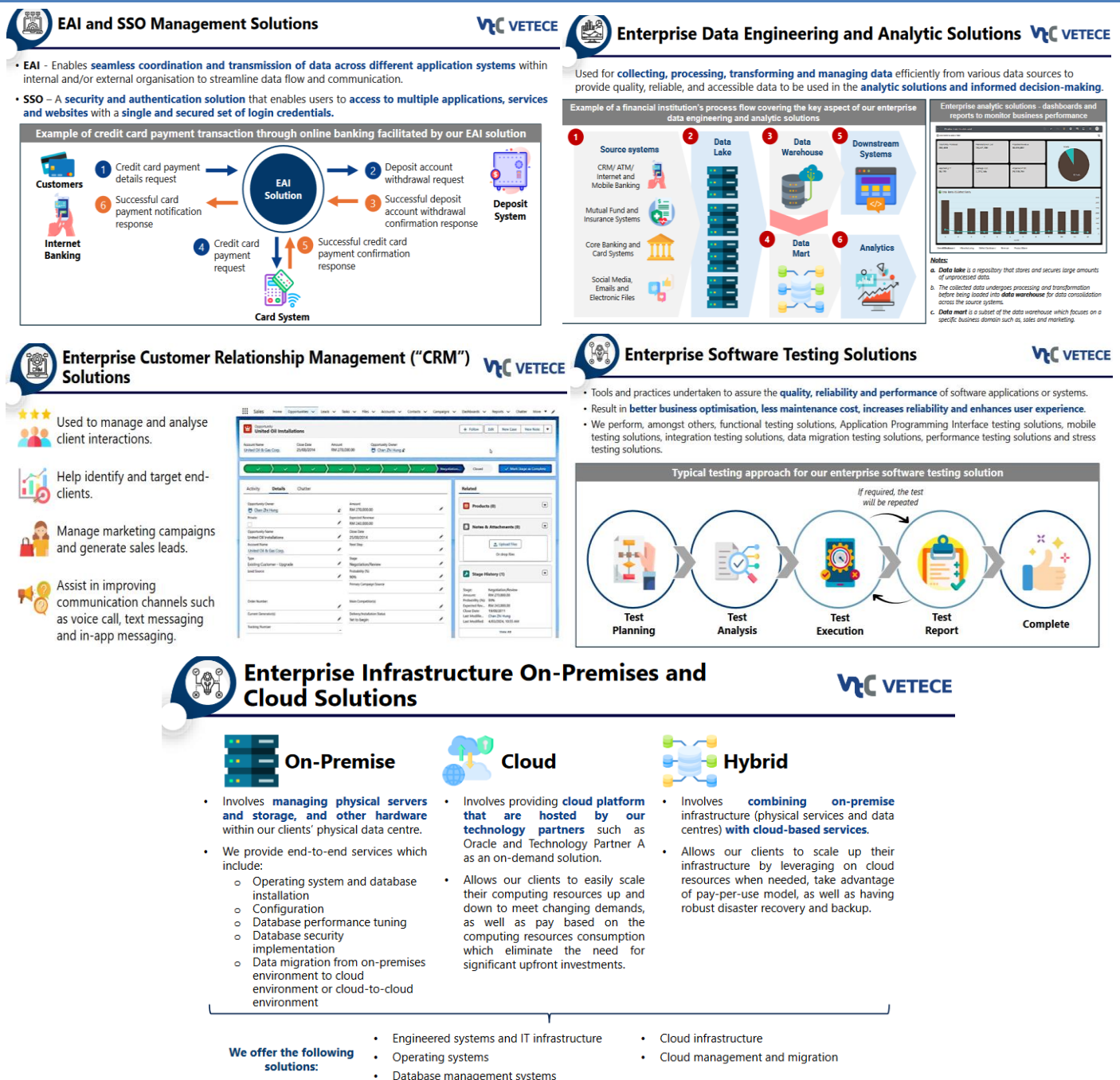


Source: Company data

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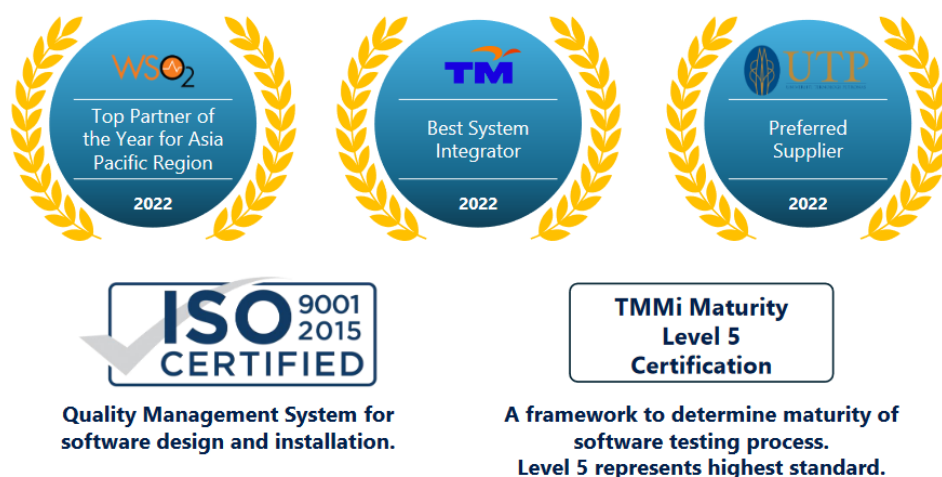
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Figure 7: VETECE's IT solutions



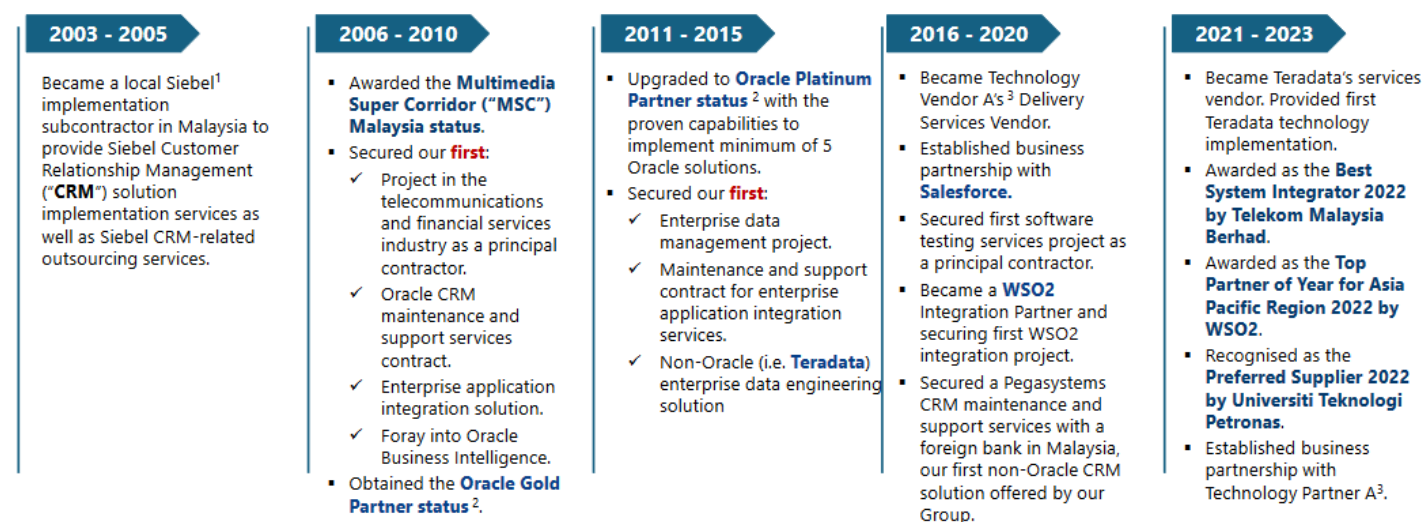
Source: Company data

Figure 8: Accreditations and recognitions



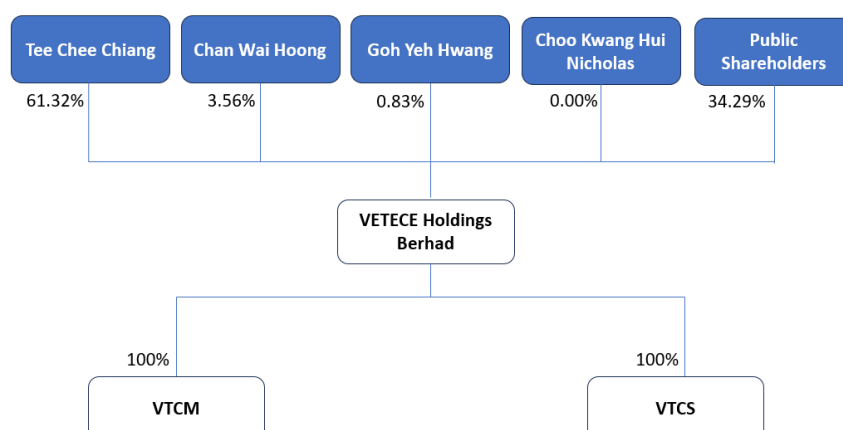
Source: Company data

Figure 9: Corporate milestones



Source: Company data

Figure 10: Post-IPO corporate and shareholding structure



Source: Company data

Future Plans and Strategies

Expanding enterprise IT solutions portfolio to include AI-driven data handling and analytic solutions. VETECE intends to introduce AI-driven data handling and analytic solutions to complement its existing enterprise application integration and data engineering solutions given the impact of AI in terms of bringing improvements in efficiency, decision-making, and innovation across various industries.

Continued strengthening of enterprise application integration and enterprise data engineering and analytics solutions. VETECE intends to continue to strengthen its offering of enterprise application integration and enterprise data engineering and analytics solutions by expanding its client base upon the establishment of its COE for software solutions and the strengthening of its Singapore operations to pursue opportunities overseas. Additionally, VETECE is actively exploring products with new technology partners and continuously bidding for projects to further expand its product offerings aiming to broaden its client base both locally and overseas.

Establishment of a COE for software solutions. VETECE intends to establish a COE for software solutions that allows it to undertake projects for overseas clients remotely from its base of operations in Malaysia. The establishment of a COE that adheres to international IT security standards is expected to address the requirements of its overseas clients who are seeking cost-effective IT solutions without compromising data security, as well as for overseas clients that do not have their internal IT offices in Malaysia to enable its IT professionals to work in their premises.

Strengthening of its Singapore operations. Through its subsidiaries, VETECE maintains a presence in Singapore, given the country's role as a gateway to the Asia Pacific region, and the presence of many MNC regional offices there. The operations in Singapore have historically relied on VETECE's Malaysia-based IT professionals who travel to Singapore for implementation, maintenance, and support services. The COVID-19 pandemic disrupted VETECE's business, impeding its ability to identify sales opportunities and implement solutions in Singapore. Recognising the potential for expansion in the Singapore market, VETECE's business strategy is to strengthen its Singapore operations by focusing on key areas such as marketing and client relations. As such, it intends to strengthen its Singapore operations through talent acquisition and by establishing a Singapore office.

IPO details

Figure 11: Indicative IPO timeline

Opening of application	8 Aug 2024
Closing of application	14 Aug 2024
Balloting of applications	16 Aug 2024
Allotment of the IPO shares to successful applicants	23 Aug 2024
Listing	28 Aug 2024

Source: Company

Figure 12: Utilisation of IPO proceeds

	Estimated timeframe	MYRm	% of proceeds
Establishment of a COE for software solutions	Within 36 months	3.795	15.49
Hardware and software licensing fees	Within 24 months	6.52	26.61
Strengthening of Singapore operations	Within 24 months	3.293	13.44
Rollout of new core products and services	Within 24 months	2.192	8.95
Loan repayments	Within 6 months	4.004	16.34
Estimated listing expenses	Within 1 month	4.696	19.17
Total		24.5	100.0

Source: Company

Figure 13: Offering structure

	No. of IPO shares	% of enlarged share base
Public issue of new shares:		
Malaysia public	9,800,000	2.5
Pink form allocations	9,800,000	2.5
Private placement to <i>bumiputra</i> investors	9,800,000	2.5
Private placement to <i>selected</i> investors	68,600,000	17.5
	98,000,000	25.0
Offer for sale of existing shares:		
Private placement to <i>selected</i> investors	39,200,000	10.0
Total	137,200,000	35.0

Source: Company

Key risks

- Dependent on skilled IT employees;
- Customer concentration risks;
- Unexpected delays in projects;
- Termination of partnerships with technology partners.

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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