



# Vintcom Technology

Vintcom Technology  
Public Company Limited

# VCOM

Bloomberg VCOM TB  
Reuters VCOM.BK

## Waiting for a clearer signal

We use the PE method to value this company as by nature, its revenue varies year by year depending on the flow of projects to be recognized each year. Our TP is Bt6.0/sh based on 16.0x FY2021F PE (its historical average PE since IPO). Although the company benefits from the trend to digital transformation, share price has surged 86% YTD and we see a less clear and less exciting earnings outlook in 2021F than 2020F. The company booked a huge US\$5mn in revenue from an overseas project in 1H20. We expect this should not repeat in 2021F. Our tactical recommendation is therefore NEUTRAL. We will revisit our call once we see a clearer story for earnings growth in 2021F.

**A leading IT distributor.** VCOM is an IT distributor of internationally recognized products that are specifically designed for enterprises. It offers a comprehensive range of IT solutions and services that include servers, storage units, engineered systems or converged infrastructure solutions, network security, networking devices, database systems, operating systems, virtualization systems, middleware, software development tools and database management software for data integration, big data management, cloud data management and data quality and security. In addition, VCOM offers professional, maintenance and installation services for all products that it distributes.

**Capturing digital transformation trend and cyber security.** VCOM is ideally positioned to capture the digital transformation trend (e.g. banking core solutions, converged infrastructure, database and cloud platform) with products and services in its portfolio that meet these needs. Apart from this, it is able to provide solutions for the rising concerns over cyber threats (hacking, sniffing, malware, denial of service attack, etc.) in the digital world via the cyber security services it makes available to its clients.

**Growth opportunity outside Thailand.** Expanding from Thailand, VCOM has licenses to sell some of its products and services in Cambodia, Laos and Myanmar. Management notes that it has a 90% market share in Cambodia. This expands its growth opportunities, as seen in the increase in revenue from CLM countries to Bt441mn in 1H20 from Bt366mn in 2017.

**Near-term earnings growth peaked in 2Q20.** We expect earnings to simmer down HoH in 2H20 as VCOM booked around US\$5mn in revenue from an overseas project while in 2H20F no large project is expected to be booked. Overall, we forecast 2020F earnings at Bt96mn, up 44% YoY. In 2021F, we believe earnings growth will slow to 17% YoY to Bt113mn off the high base.

### Forecasts and valuation

Year to 31 Dec	Unit	2018	2019	2020F	2021F	2022F
Revenue	(Btmn)	1,801	1,774	2,070	2,136	2,278
EBITDA	(Btmn)	104	116	163	186	206
Core profit	(Btmn)	58	67	96	113	126
Reported profit	(Btmn)	58	67	96	113	126
Core EPS	(Bt)	0.19	0.22	0.32	0.38	0.42
DPS	(Bt)	0.12	0.16	0.22	0.26	0.29
P/E, core	(x)	28.8	25.2	17.4	14.9	13.3
EPS growth, core	(%)	7.5	14.3	44.2	17.1	11.9
P/BV, core	(x)	4.1	3.8	3.7	3.1	2.9
ROE	(%)	13.4	13.8	18.4	19.2	19.0
Dividend yield	(%)	2.1	2.9	3.9	4.7	5.3
FCF yield	(%)	(15.3)	17.3	(6.0)	16.0	8.9
EV/EBIT	(x)	18.2	14.2	11.2	8.4	7.2
EBIT growth, core	(%)	7.0	8.5	43.5	13.7	10.4
EV/CE	(x)	2.7	3.2	2.6	2.8	2.6
ROCE	(%)	10.1	17.9	17.8	25.6	27.9
EV/EBITDA	(x)	16.0	12.3	9.8	7.4	6.3
EBITDA growth	(%)	7.6	10.6	41.1	13.9	11.1

Source: SCBS Investment Research

## Tactical: NEUTRAL

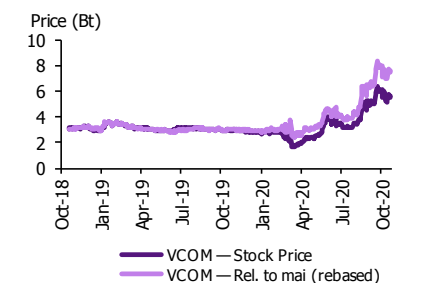
(3-month)

### Stock data

Last close (Oct 27) (Bt)	5.60
12-m target price (Bt)	6.00
Mkt cap (Btbn)	1.68
Mkt cap (US\$mn)	54

Beta	M
Mkt cap (%) mai	0.74
Sector % mai	12.65
Shares issued (mn)	300
Par value (Bt)	0.50
12-m high / low (Bt)	6.5 / 1.4
Avg. daily 6m (US\$mn)	1.06
Foreign limit / actual (%)	49 / 2
Free float (%)	25.2
Dividend policy (%)	≥ 50

### Price performance



Source: SET, SCBS Investment Research

### Share performance

(%)	1M	3M	12M
Absolute	(12.1)	72.5	86.6
Relative to mai	(10.1)	86.3	10.6

Source: SET, SCBS Investment Research

### Analyst

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## Financial statement

### Profit and

FY December 31	Unit	2015	2016	2017	2018	2019	2020F	2021F	2022F
Total revenue	(Btmn)	na.	na.	1,543	1,801	1,774	2,070	2,136	2,278
Cost of goods sold	(Btmn)	na.	na.	(1,298)	(1,527)	(1,391)	(1,666)	(1,704)	(1,811)
<b>Gross profit</b>	<b>(Btmn)</b>	<b>na.</b>	<b>na.</b>	<b>245</b>	<b>275</b>	<b>383</b>	<b>404</b>	<b>432</b>	<b>467</b>
SG&A	(Btmn)	na.	na.	(171)	(196)	(292)	(269)	(278)	(296)
Other income	(Btmn)	na.	na.	12	13	8	8	8	8
Interest expense	(Btmn)	na.	na.	(2)	(2)	(4)	(4)	(4)	(4)
<b>Pre-tax profit</b>	<b>(Btmn)</b>	<b>na.</b>	<b>na.</b>	<b>84</b>	<b>89</b>	<b>95</b>	<b>139</b>	<b>159</b>	<b>175</b>
Corporate tax	(Btmn)	na.	na.	(17)	(18)	(14)	(28)	(32)	(35)
Equity a/c profits	(Btmn)	na.	na.	0	0	0	0	1	1
Minority interests	(Btmn)	na.	na.	(13)	(13)	(15)	(15)	(15)	(15)
<b>Core profit</b>	<b>(Btmn)</b>	<b>na.</b>	<b>na.</b>	<b>54</b>	<b>58</b>	<b>67</b>	<b>96</b>	<b>113</b>	<b>126</b>
Extra-ordinary items	(Btmn)	na.	na.	0	0	0	0	0	0
<b>Net Profit</b>	<b>(Btmn)</b>	<b>na.</b>	<b>na.</b>	<b>54</b>	<b>58</b>	<b>67</b>	<b>96</b>	<b>113</b>	<b>126</b>
EBITDA	(Btmn)	na.	na.	97	104	116	163	186	206
<b>Core EPS</b>	<b>(Bt)</b>	<b>na.</b>	<b>na.</b>	<b>0.18</b>	<b>0.19</b>	<b>0.22</b>	<b>0.32</b>	<b>0.38</b>	<b>0.42</b>
Net EPS	(Bt)	na.	na.	0.18	0.19	0.22	0.32	0.38	0.42
DPS	(Bt)	na.	na.	0.07	0.12	0.16	0.22	0.26	0.29

### Balance Sheet

FY December 31	Unit	2015	2016	2017	2018	2019	2020F	2021F	2022F
Total current assets	(Btmn)	na.	na.	689	971	824	845	989	1,107
Total fixed assets	(Btmn)	na.	na.	31	31	36	36	33	26
<b>Total assets</b>	<b>(Btmn)</b>	<b>na.</b>	<b>na.</b>	<b>769</b>	<b>1,286</b>	<b>1,161</b>	<b>1,185</b>	<b>1,329</b>	<b>1,444</b>
Total loans	(Btmn)	na.	na.	0	179	0	0	0	0
Total current liabilities	(Btmn)	na.	na.	333	673	551	541	592	644
Total long-term liabilities	(Btmn)	na.	na.	28	151	103	104	105	106
<b>Total liabilities</b>	<b>(Btmn)</b>	<b>na.</b>	<b>na.</b>	<b>360</b>	<b>824</b>	<b>654</b>	<b>645</b>	<b>697</b>	<b>749</b>
Paid-up capital	(Btmn)	na.	na.	332	332	332	332	332	332
<b>Total equity</b>	<b>(Btmn)</b>	<b>na.</b>	<b>na.</b>	<b>409</b>	<b>462</b>	<b>507</b>	<b>540</b>	<b>632</b>	<b>694</b>
<b>BVPS</b>	<b>(Bt)</b>	<b>na.</b>	<b>na.</b>	<b>1.23</b>	<b>1.37</b>	<b>1.47</b>	<b>1.53</b>	<b>1.78</b>	<b>1.94</b>

### Cash Flow Statement

FY December 31	Unit	2015	2016	2017	2018	2019	2020F	2021F	2022F
Core Profit	(Btmn)	na.	na.	54	58	67	96	113	126
Depreciation and amortization	(Btmn)	na.	na.	11	13	16	20	23	27
Operating cash flow	(Btmn)	na.	na.	41	(130)	378	(76)	293	174
Investing cash flow	(Btmn)	na.	na.	(70)	(127)	(88)	(25)	(24)	(24)
Financing cash flow	(Btmn)	na.	na.	222	160	(216)	(78)	(36)	(79)
<b>Net cash flow</b>	<b>(Btmn)</b>	<b>na.</b>	<b>na.</b>	<b>194</b>	<b>(98)</b>	<b>74</b>	<b>(179)</b>	<b>233</b>	<b>71</b>

### Key Financial Ratios

FY December 31	Unit	2015	2016	2017	2018	2019	2020F	2021F	2022F
Gross margin	(%)	na.	na.	15.9	15.3	21.6	19.5	20.2	20.5
Operating margin	(%)	na.	na.	4.8	4.4	5.2	6.5	7.2	7.5
EBITDA margin	(%)	na.	na.	6.3	5.8	6.5	7.9	8.7	9.1
EBIT margin	(%)	na.	na.	5.6	5.1	5.6	6.9	7.6	7.9
Net profit margin	(%)	na.	na.	3.5	3.2	3.8	4.7	5.3	5.5
ROE	(%)	na.	na.	18.7	13.4	13.8	18.4	19.2	19.0
ROA	(%)	na.	na.	8.4	5.7	5.5	8.2	9.0	9.1
Net D/E	(%)	na.	na.	net cash	net cash	net cash	net cash	net cash	net cash
Interest coverage	(%)	na.	na.	61.8	44.3	25.9	40.7	46.4	51.6
Debt service coverage	(%)	na.	na.	61.8	0.6	25.9	40.7	46.4	51.6
Payout Ratio	(%)	na.	na.	35.9	61.6	71.9	68.5	70.0	70.0

### Main Assumptions

FY December 31	Unit	2015	2016	2017	2018	2019	2020F	2021F	2022F
Sales revenue	(Btmn)	na.	na.	1,142	1,315	1,135	1,419	1,419	1,490
Service revenue	(Btmn)	na.	na.	401	486	639	651	716	788
SG&A/Sales	(%)	na.	na.	11.1	10.9	16.4	13.0	13.0	13.0

## Financial statement

### Profit and Loss Statement

FY December 31	Unit	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20
Total revenue	(Btmn)	425	700	372	530	420	452	623	654
Cost of goods sold	(Btmn)	(360)	(596)	(296)	(423)	(320)	(352)	(522)	(534)
<b>Gross profit</b>	<b>(Btmn)</b>	<b>65</b>	<b>104</b>	<b>76</b>	<b>107</b>	<b>100</b>	<b>100</b>	<b>101</b>	<b>120</b>
SG&A	(Btmn)	(49)	(62)	(62)	(70)	(69)	(91)	(69)	(63)
Other income	(Btmn)	1	3	2	1	2	2	6	(2)
Interest expense	(Btmn)	(1)	(1)	(1)	(1)	(1)	(2)	(1)	(1)
<b>Pre-tax profit</b>	<b>(Btmn)</b>	<b>17</b>	<b>43</b>	<b>15</b>	<b>38</b>	<b>33</b>	<b>9</b>	<b>37</b>	<b>55</b>
Corporate tax	(Btmn)	(4)	(8)	(3)	(5)	(5)	(1)	(7)	(7)
Equity a/c profits	(Btmn)	0	0	0	0	0	0	0	0
Minority interests	(Btmn)	(2)	(5)	(3)	(3)	(5)	(4)	(3)	(5)
<b>Core profit</b>	<b>(Btmn)</b>	<b>11</b>	<b>31</b>	<b>8</b>	<b>31</b>	<b>23</b>	<b>5</b>	<b>26</b>	<b>43</b>
Extra-ordinary items	(Btmn)	0	0	0	0	0	0	0	0
<b>Net Profit</b>	<b>(Btmn)</b>	<b>11</b>	<b>31</b>	<b>8</b>	<b>31</b>	<b>23</b>	<b>5</b>	<b>26</b>	<b>43</b>
EBITDA	(Btmn)	20	48	20	43	38	15	43	61
<b>Core EPS</b>	<b>(Bt)</b>	<b>0.04</b>	<b>0.10</b>	<b>0.03</b>	<b>0.10</b>	<b>0.08</b>	<b>0.02</b>	<b>0.09</b>	<b>0.14</b>
Net EPS	(Bt)	0.04	0.10	0.03	0.10	0.08	0.02	0.09	0.14

### Balance Sheet

FY December 31	Unit	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20
Total current assets	(Btmn)	778	971	637	746	729	824	917	995
Total fixed assets	(Btmn)	27	31	37	35	36	36	53	52
<b>Total assets</b>	<b>(Btmn)</b>	<b>868</b>	<b>1,286</b>	<b>908</b>	<b>1,016</b>	<b>1,004</b>	<b>1,161</b>	<b>1,276</b>	<b>1,380</b>
Total loans	(Btmn)	154	179	2	1	0	0	90	70
Total current liabilities	(Btmn)	413	673	340	447	406	551	699	834
Total long-term liabilities	(Btmn)	30	151	94	98	99	103	117	39
<b>Total liabilities</b>	<b>(Btmn)</b>	<b>443</b>	<b>824</b>	<b>434</b>	<b>545</b>	<b>505</b>	<b>654</b>	<b>816</b>	<b>873</b>
Paid-up capital	(Btmn)	332	332	332	332	332	332	332	332
<b>Total equity</b>	<b>(Btmn)</b>	<b>425</b>	<b>462</b>	<b>474</b>	<b>471</b>	<b>499</b>	<b>507</b>	<b>460</b>	<b>507</b>
<b>BVPS</b>	<b>(Bt)</b>	<b>1.26</b>	<b>1.37</b>	<b>1.39</b>	<b>1.38</b>	<b>1.45</b>	<b>1.47</b>	<b>1.40</b>	<b>1.54</b>

### Cash Flow Statement

FY December 31	Unit	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20
Core Profit	(Btmn)	11	31	8	31	23	5	26	43
Depreciation and amortization	(Btmn)	3	4	4	4	4	4	5	5
Operating cash flow	(Btmn)	(92)	(200)	216	42	73	47	23	68
Investing cash flow	(Btmn)	138	136	(139)	(36)	43	44	80	(80)
Financing cash flow	(Btmn)	(50)	(6,077)	(55)	(0)	(51)	(109)	(79)	(52)
<b>Net cash flow</b>	<b>(Btmn)</b>	<b>(4)</b>	<b>(6,140)</b>	<b>22</b>	<b>5</b>	<b>65</b>	<b>(18)</b>	<b>23</b>	<b>(64)</b>

### Key Financial Ratios

FY December 31	Unit	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20
Gross margin	(%)	15.2	14.9	20.4	20.3	23.9	22.1	16.2	18.4
Operating margin	(%)	3.7	6.0	3.6	7.1	7.5	1.9	5.1	8.8
EBITDA margin	(%)	4.7	6.9	5.3	8.1	9.0	3.4	6.9	9.3
EBIT margin	(%)	4.0	6.4	4.3	7.4	8.0	2.5	6.1	8.5
Net profit margin	(%)	2.6	4.4	2.3	5.8	5.4	1.1	4.3	6.5
ROE	(%)	10.5	26.5	7.6	27.8	19.7	4.0	22.7	35.0
ROA	(%)	5.2	9.5	4.3	13.5	9.7	1.6	9.7	14.3
Net D/E	(%)	net cash	net cash	net cash	net cash	net cash	net cash	net cash	net cash
Interest coverage	(%)	37.8	34.5	21.2	67.0	65.8	6.6	40.1	55.7
Debt service coverage	(%)	0.5	1.1	21.2	67.0	65.8	6.6	1.8	3.3

### Main Assumptions

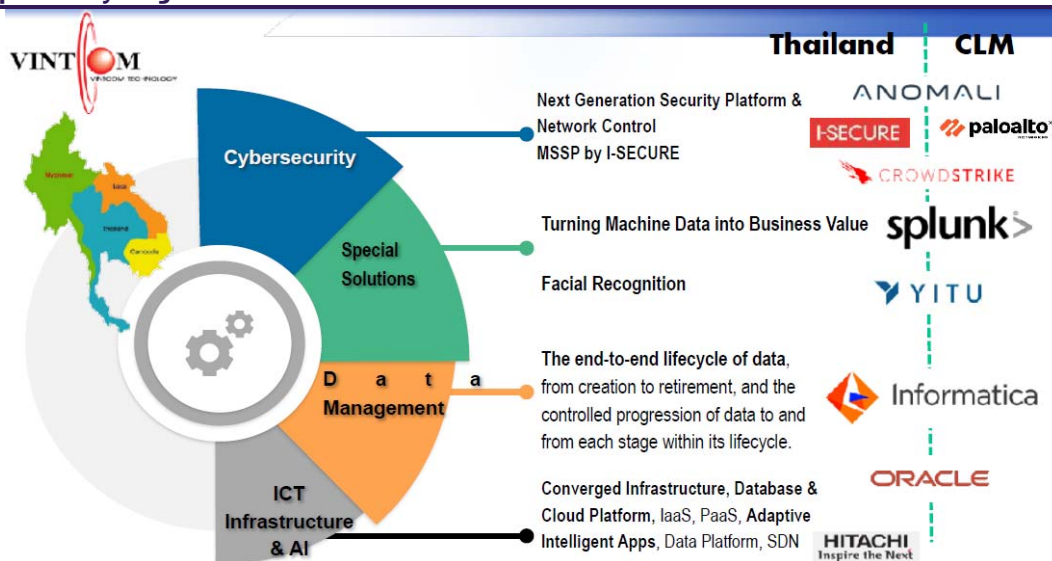
FY December 31	Unit	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20
Sales revenue	(Btmn)	322	524	218	351	258	308	481	491
Service revenue	(Btmn)	103	176	154	179	162	144	142	163
SG&A/Sales	(%)	11.5	8.9	16.7	13.1	16.4	20.1	11.1	9.6

## Investment highlights

**Capturing the digital transformation trend.** VCOM is in a good position to capture the digital transformation trend (banking core solutions, converged infrastructure, database and cloud platform) with products and services already in its portfolio to meet these needs. Apart from this, it is able to service rising concerns over cyber threats (hacking, sniffing, malware, denial of service attack, etc.) in the digital world via providing cyber security services (23% of its total revenue in 2019) for its clients.

**Growth opportunity outside Thailand.** Expanding growth opportunities to outside Thailand, VCOM has licenses to sell some of its products and services in Cambodia, Laos and Myanmar. Management reports a 90% market share in Cambodia. It is thus well positioned to expand its growth outside Thailand, confirmed by the rise in revenue from CLM countries to Bt441mn in 1H20 from Bt366mn in 2017.

**Figure 1: Opportunity to grow outside Thailand**



Source: SCBS Investment Research, VCOM

**Earnings growth outlook in 2021F less exciting than 2020F.** VCOM achieved strong 77% YoY earnings growth in 1H20 to Bt69mn thanks to the recognition of a huge overseas project, which was fully booked in 1H20. We thus expect earnings to decline HoH, but overall 2020F earnings should be solid at Bt96mn, an increase of 44% YoY. Looking into 2021F, revenue visibility is unclear as there is no backlog and management has not yet provided financial guidance for next year. We believe the high base in 2020F limits the earnings growth in 2021F. We estimate earnings at Bt113mn, growing 17% YoY.

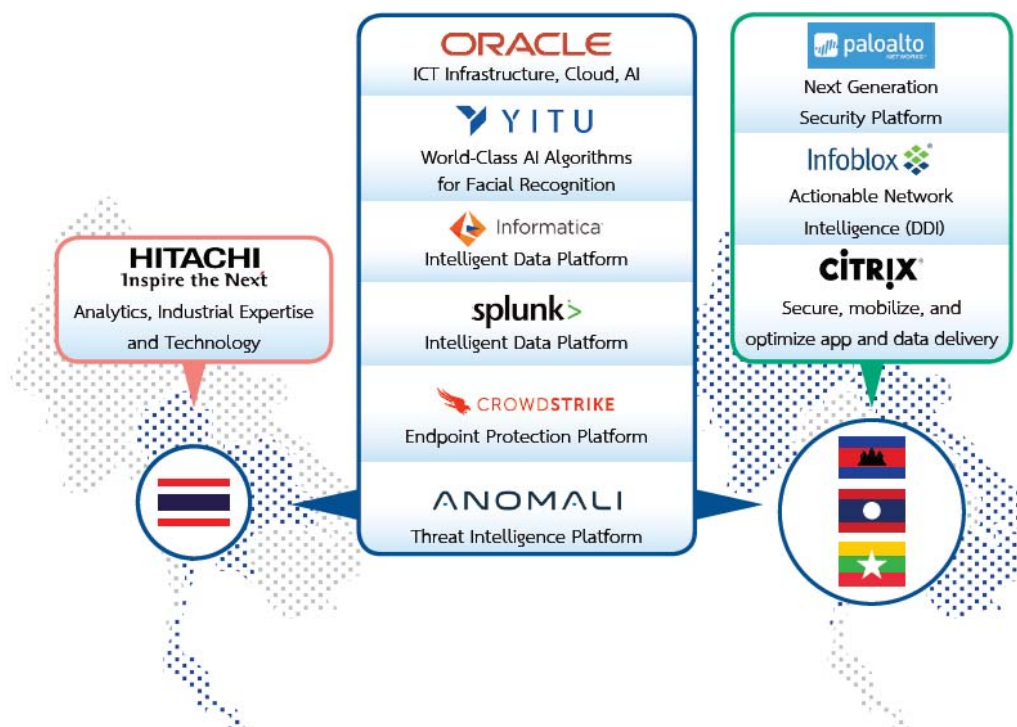
## Background

### Overview of VCOM

VCOM is an IT distributor of internationally recognized products that are specifically designed for enterprises. It offers a comprehensive range of IT solutions and services including servers, storage units, engineered systems or converged infrastructure solutions, network security, networking devices, database systems, operating systems, virtualization systems, middleware, software development tools and database management software for data integration, big data management, cloud data management and data quality and security. In addition to these services, VCOM offers professional, maintenance and installation services for all products that it distributes.

VCOM is currently an authorized distributor for ten well-known brands.

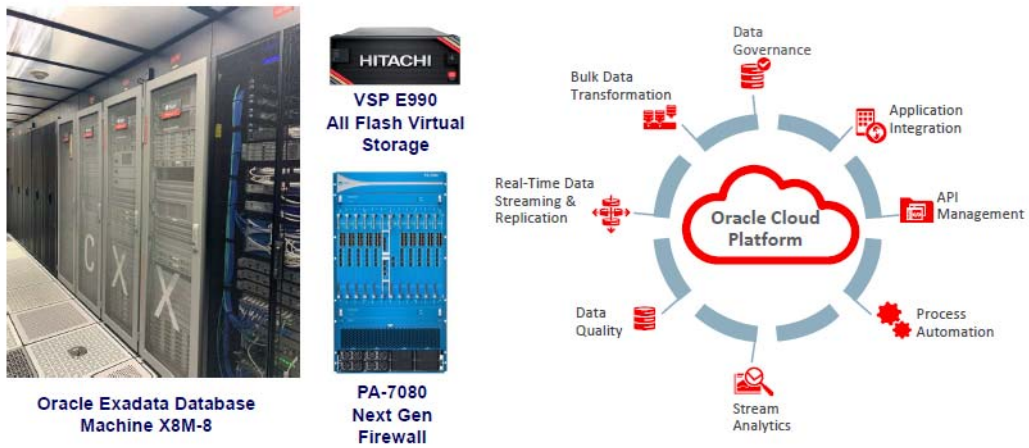
**Figure 2: Products under VCOM umbrella**



Source: SCBS Investment Research, VCOM

VCOM's target customers are system integrators (SI), whose services include the consolidation of multiple systems into one unified system to deliver a broad range of applications as needed by end users, specifically medium and large enterprises in both public and private sectors. Its products enable system integrators to achieve optimal efficiency in the data management process. It engages in regular transactions with various SI clients, most of which are leading companies with expertise in system integration, consultancy, and ICT development. The company also distributes some products directly to a few end users and SI clients. The majority of these end users are corporate clients that are utilizing their own IT department to perform system integration or who are implementing an ongoing project for which they have already purchased VCOM's products through system integrators.

**Figure 3: Example of products offered by VCOM**



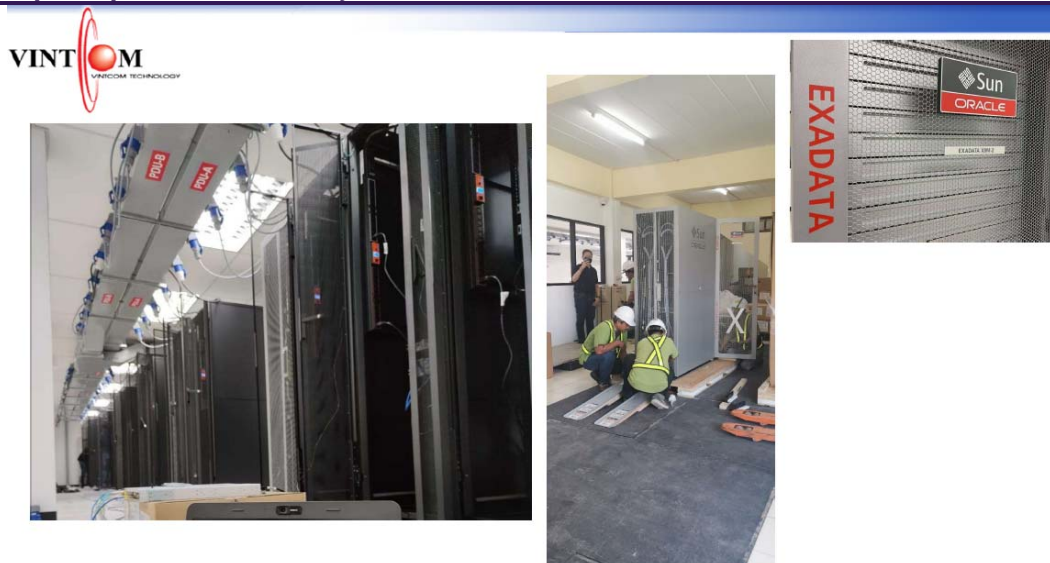
Source: SCBS Investment Research, VCOM

**Figure 4: Example of products offered by VCOM**



Source: SCBS Investment Research, VCOM

**Figure 5: Example of products offered by VCOM**



Source: SCBS Investment Research, VCOM

**VCOM has four subsidiaries:**

1) Vintcom Technology (Myanmar) Company Limited (100% stake). This was incorporated in the Republic of the Union of Myanmar in 2015 to provide installation services, consultation and maintenance services for computer systems.

2) Vintcom Technology (SG) Company Limited (100% stake). This was incorporated in Singapore in 2018 to act as an IT distributor in Singapore.

3) vServePlus Company Limited (51% stake). This was incorporated in Thailand in 2016 and was set up to provide IT services and project management services. At present, vServePlus is an authorized distributor for 17 global brands.

**Figure 6: List of authorized products at vServePlus**

Brand	Trademark	Main Product
Dell EMC		Computer server and storage unit
Fujitsu		Scanner
Hikvision		CCTV
HPE		Computer server, storage unit and network system
HP Inc (HPI)		Printer, PC and notebook
Huawei		Network system, computer server and storage unit
Intermec		Operating system software
Lenovo		Computer server, PC, notebook and tablet
Symantec		Operating system software
Xiaomi		Computer server and storage unit
BenQ		Projector
Vocollect		Mobile computer and scanner
Nexstgo		Computer server and notebook
ASUS		Computer server, PC, notebook and tablet
Acer		PC and notebook
VMWare		Operating system software
ViewSonic		Projector and LCD Monitor

Source: SCBS Investment Research, VCOM

vServePlus services are available in nine service centers across Thailand, two in Bangkok and the remaining in seven other provinces. Additionally, vServePlus has been officially authorized to operate Xiaomi Service Center and Lenovo Service Center at Fortune Town. Services on tap at these authorized service centers are similar to those available in vServePlus service centers, and include warranty service for new products, consulting service for IT-related problems and repair service for both warranty and out-of-warranty products.

**Figure 7: Example of services offered by vServePlus**



Source: SCBS Investment Research, VCOM

4) I-Secure Company Limited (100% stake). I-Secure was incorporated in Thailand in 2006 to provide computer and network security monitoring services, which makes it a managed security service provider (MSSP). The primary function of an MSSP is to provide outsourced management and monitoring of network security to protect the digital infrastructure of enterprises. An MSSP also plays an important role in alleviating the pressure faced by enterprises arising from costs associated with hardware, software and human resources or the lack of in-house security specialists.

In addition to establishing its own security operations center (SOC), I-Secure has developed a software package that is specifically designed to monitor and manage cyber threats. As an outsourced service provider, I-Secure undertakes a broad range of activities, including monitoring and managing cyber threats, detecting malicious activities and attacks, implementing proactive mechanisms for responding to cyberattacks and collecting data to accurately identify the vulnerabilities or loopholes exploited by cybercriminals.

In addition to providing integrated consulting services in the area of data and network security, I-Secure distributes and offers rental services for computer parts, programs and related equipment, as well as a comprehensive range of cyber security training solutions. Its primary customers are government agencies, leading corporations in the financial services sectors and other leading companies in the real estate, manufacturing and retail industries. These customers have outsourced their managed security services to I-Secure in an effort to minimize investment in IT infrastructure and overcome the challenges brought by a lack of in-house security specialists.

I-Secure specializes in providing managed security and installation services for a broad range of products under sixteen brands.



**Figure 8: Products under I-Secure**

Brand	Trademark	Main Product
Splunk		Platform for security information and event management Platform for security operation and automation Platform for IT operation
ArcSight		Platform for security information and event management
Palo Alto Networks		Next generation security platform Network and endpoint protection platform (NDR, EPP, EDR)
Check Point		Next generation security platform Advance threat protection
Fortinet		Next generation security platform Advance threat protection
Imperva		Application protection Data protection
Incapsula		Application protection DDoS protection
CrowdStrike		Endpoint protection platform Threat intelligence
Attivo Networks		ThreatDefend deception and response platform
Rapid7		Vulnerability management Penetration testing Dynamic application security testing
CyberArk		Privilege account security Privilege account monitoring Privileged threat analytics Endpoint privilege management
BeyondTrust		Privilege account management Privilege account monitoring Endpoint privilege management Vulnerability management
Dynatrace		Application performance management Cloud infrastructure monitoring
Ruckus		Enterprise network infrastructure Smart wireless LAN systems
Aruba		Enterprise network infrastructure Smart wireless LAN systems
VMWare		Platform for virtualization Platform for virtual cloud network

Source: Source: SCBS Investment Research, VCOM

Figure 9: Example of services offered by I-Secure

**Focus Products** We utilized only the best products and vendors to serve customers needs

**I-SECURE WE CARE TRUST**

Source: SCBS Investment Research, VCOM

**Latest developments**

**Investment in M Intelligence.** In August 2020, VCOM announced that it had taken 22% in M Intelligence (“Mintel”) share capital via subscription to that company’s 132,000 newly issued ordinary shares. Mintel is the distributor for digital transformation products specializing in analysis and data analytics for customer relationship management (CRM) to support marketing, sales and services. Mintel is also the distributor of its own software developed to enhance communication and transfer customer experiences. Mintel also provides software maintenance services including training. Mintel is a profitable company with net profit of around Bt1mn per year; the contribution from Mintel will be booked as equity income.

Figure 10: Mintel services



Source: Source: SCBS Investment Research, VCOM

## Industry Overview

According to IDC, a leading global provider of market intelligence and advisory services, 61% of Thailand's GDP will be digitalized by 2022. Growth in every industry will be fuelled by digitally enhanced products and services, operations, management and communications, as well as customer and user engagement, ultimately driving Bt2trn in IT-related spending from 2019 to 2022. Digitally transformed enterprises will adopt a digitized operating model that is different from traditional enterprises and centered on three core elements.

**1) Hyperspeed.** The ability to create and enhance digital products and services at an exponentially faster rate.

**2) Hyperscale.** Strengthening IT infrastructure to accommodate immense business expansion.

**3) Hyperconnect.** The ability to develop innovative technologies and expand digital supply chains through open source and data communities.

The shift toward digital transformation is primarily driven by a rapid emergence of new innovations that affect competition and operations through accelerated disruption. In addition, startups are beginning to leverage disruptive approaches and adopt platform thinking to evolve their business models and compete at hyperscale. Business growth is predominantly powered by economies of learning and artificial intelligence that dramatically enhance competencies. Meanwhile, demand for cybersecurity and network security has become increasingly prominent in the new digital environment due to increased dependence on information technology. IT-dependent organizations are exposed to adversarial risk and loopholes resulting from the complexity and expansion of attack surface.

To facilitate and respond to business growth and digital transformation, the company offers an extensive array of products and services, ranging from IT infrastructure to cyber and network security solutions specifically designed for enterprises. Professional services such as system design, development and implementation are also provided to fulfill customer needs. These projects and services enable organizations to compete in the digital economy, drive disruptive changes in their operations and adapt to technological changes more rapidly.

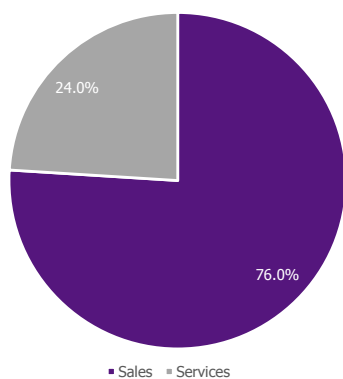
## Financial analysis

### Revenue breakdown

**Breakdown by sales & services.** As of 1H20, 76% of its revenue came from sales (hardware and software) and 24% from services. This proportion fluctuates depending on sales revenue. Going forward, the company targets sales and services to each provide 50% of revenue.

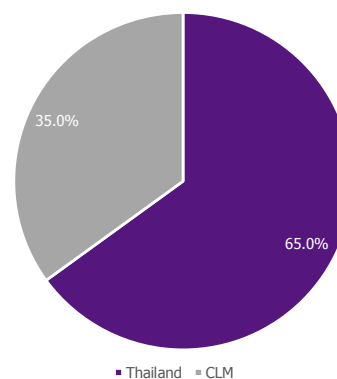
**Geographic breakdown.** VCOM has licenses to sell its products in CLM (Cambodia, Laos and Myanmar) countries and these provide around 35% of revenue as of 1H20.

**Figure 11: Revenue breakdown by sales & services in 1H20**



Source: SCBS Investment Research, VCOM

**Figure 12: Geographic revenue breakdown in 1H20**



Source: SCBS Investment Research, VCOM

### Profitability

**Increasing portion of service revenue to boost gross margin.** The gross margin on sales has ranged from 8-13% in the past three years with margin for services at 25-38%, giving it a blended gross margin of 15-22%. Going forward, management plans to increase the proportion of service revenue to 50%.

### Financial strength

**A net cash company.** VCOM has a strong balance sheet with a net cash position. This positions it to take any M&A opportunity that comes up - as seen in the purchase of 22% in Mintel. This will increase the variety of products on offer and also support business expansion.

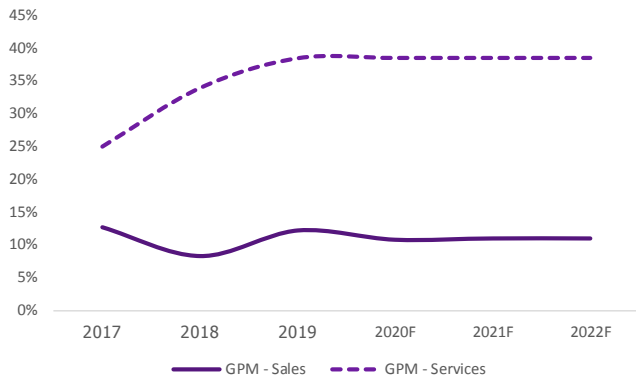
### Earnings outlook

**Growth passed peak in 2Q20.** We expect earnings to be lower HoH in 2H20 after it booked a huge US\$5mn in revenue from an overseas project in 1H20 - with no repeat in 2H20F. Overall, we forecast 2020F earnings at Bt96mn, up 44% YoY. In 2021F, we believe earnings growth will slow to 17% YoY to Bt113mn off the high base.

### Dividend payout policy

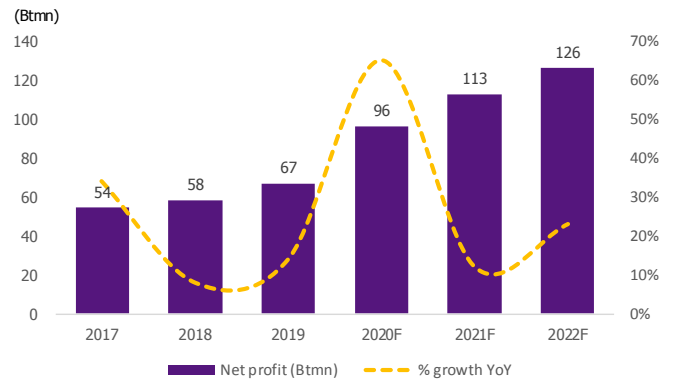
**Not less than 50% of net profit.** VCOM has a dividend payout policy of not less than 50% of net profit. However, it paid 60% in 2018 and 70% in 2019. In 1H20, VCOM announced a dividend of Bt0.1/sh, implying 71.4% dividend payout.

**Figure 13: GPM trend**



Source: SCBS Investment Research, VCOM

**Figure 14: Earnings growth outlook**



Source: SCBS Investment Research, VCOM

## Valuation and recommendation

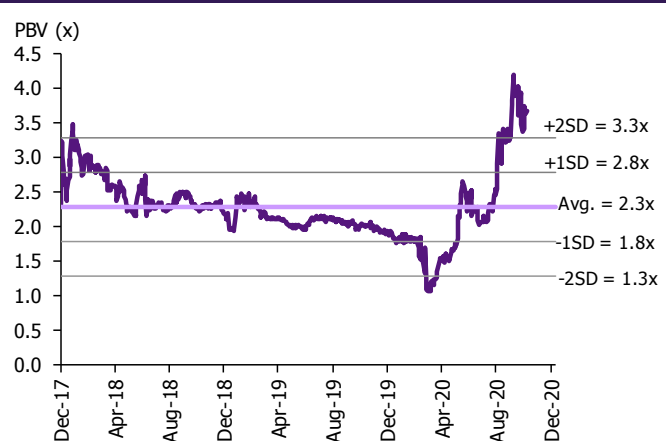
**NEUTRAL, TP of Bt6.0.** We use the PE method to value this company as by nature, its revenue moves up and down depending on the flow of projects to be recognized each year. Our TP is based on 16.0x PE in 2021F. Although it will benefit from the digital transformation trend, the share price has surged 86% YTD and its outlook for 2021F is unclear. Our tactical recommendation is therefore NEUTRAL. We will revisit our recommendation once we see a clearer path for earnings growth in 2021F.

**Figure 15: PE Band**



Source: SCBS Investment Research, Bloomberg

**Figure 16: PBV Band**



Source: SCBS Investment Research, Bloomberg

## Key risks

**1) Risk of reliance on Oracle products.** The company was appointed as an authorized distributor of Oracle Corporation products in 2010. The sale of Oracle products in 2018 and 2019 accounted for 62% and 51% of VCOM's revenue, respectively. Management recognizes the potential consequences of heavy reliance on Oracle products and it is thus striving to increase the variety of its products and services to diversify the risk of reliance on Oracle products.

**2) Customer concentration risk.** In 2018 and 2019, the company's top 10 corporate customers collectively accounted for 54% and 44% of total revenue respectively. No single company provided more than 30% of total revenue. The top ten corporate customers vary from year to year, depending on the potential of SI customers to secure projects or win a bid for projects by end users. VCOM is aware of the risk of customer concentration and is working to expand its customer base to CLM countries to reduce over-dependence on large corporate customers.

**3) Risk of technological change.** VCOM is engaged in the world of IT which by nature changes rapidly as technology advances. New products with advanced features are continually launched to serve and fulfill the changing needs of customers. Inability to adapt to changes in the market or offer up-to-date products and services may lead clients to switch to competitor products. To counter this, VCOM very closely monitors news, information and changes in related industries and works to offer products and services that correspond to changing demands to prevent loss of business opportunities or competitive disadvantage.

**4) Risk of legal disputes.** VCOM is in the midst of a legal dispute with potential damages of Bt120mn or 27.3% of its equity or 10.4% of its total assets as of 2019. To instill confidence in investors and protect the interest of shareholders concerning potential damages that may arise from the legal dispute, VNET Capital (major shareholder of VCOM) has entered into a memorandum of understanding with VCOM to guarantee damages attributable to the legal dispute. More specifically, VNET has pledged that, while the case is still pending, it will keep at a minimum, enough VCOM shares to cover the potential amount of damages. If the court finds VCOM guilty and issues a compensation order, VNET agrees to sell the securities and use the proceeds as compensation for damages.

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**Declared (ประกาศเจตนารมณ์)**

7UP, ABICO, AF, ALT, AMARIN, AMATA, AMATAV, ANAN, APURE, B52, BKD, BM, BROCK, BUI, CHO, CI, COTTO, DDD, EA, EFORL, EP, ERW, ESTAR, ETE, EVER, FSMART, GPI, ILINK, IRC, J, JKN, JMART, JMT, JSP, JTS, KWG, LDC, MAJOR, META, NCL, NOBLE, NOK, PK, PLE, ROJNA, SAAM, SAPPE, SCI, SE, SHANG, SINGER, SKR, SPALI, SSP, STANLY, SUPER, SYNEX, THAI, TKS, TOPP, TRITN, TTA, UPF, UV, WIN, ZIGA

**N/A**

3K-BAT, A, A5, AAV, ABM, ACAP, ACC, ACE, ACG, ADB, AEC, AEONTS, AFC, AGE, AH, AHC, AIT, AJ, AJA, AKR, ALL, ALLA, ALUCON, AMC, AOT, APCO, APCS, APEX, APP, AQ, ARIN, ARIP, AS, ASAP, ASEFA, ASIA, ASIAN, ASIMAR, ASN, ATP30, AU, AUCT, AWC, BA, BAM, BC, BCT, BDMS, BEAUTY, BEC, BEM, BFIT, BGT, BH, BIG, BIZ, BJC, BLAND, BLISS, BOL, BR, BSM, BTNC, BTW, CAZ, CBG, CCET, CCP, CGD, CHARAN, CHAYO, CHG, CITY, CK, CKP, CMAN, CMO, CMR, CNT, COLOR, COMAN, CPH, CPL, CPR, CPT, CPW, CRANE, CRC, CRD, CSP, CSR, CSS, CTW, CWT, D, DCON, DHOUSE, DOD, DOHOME, DTCL, DV8, EASON, ECF, EE, EKH, EMC, EPG, ESSO, ETC, F&D, FANCY, FLOYD, FMT, FN, FORTH, FVC, GENCO, GIFT, GL, GLAND, GLOBAL, GLOCON, GRAMMY, GRAND, GREEN, GSC, GTB, GULF, GYT, HFT, HPT, HTECH, HUMAN, HYDRO, ICN, IFEC, IHL, IIG, III, ILM, IMH, INGRS, INOX, INSET, IP, IRCP, IT, ITD, JAS, JCK, JCKH, JCT, JUBILE, JUTHA, JWD, KAMART, KC, KCM, KND, KIAT, KK, KKC, KOOL, KTIS, KUMWEL, KUN, KWM, KYE, LALIN, LEE, LEO, LH, LIT, LOXLEY, LPH, LST, MACO, MANRIN, MATCH, MATI, MAX, M-CHAI, MCS, MDX, MEGA, METCO, MGT, MICRO, MIDA, MILL, MITSIB, MJD, MK, ML, MM, MODERN, MORE, MPIC, MVP, NC, NCH, NDR, NER, NETBAY, NEW, NEWS, NEX, NFC, NPK, NRF, NTV, NUSA, NVD, NYT, OHTL, OISHI, OSP, OTO, PACE, PAE, PAF, PERM, PF, PICO, PIMO, PJW, PMTA, POLAR, POMPUI, PORT, POST, PPM, PR9, PRAKIT, PRAPAT, PRECHA, PRIME, PRIN, PRO, PROUD, PTL, RAM, RBF, RCI, RCL, RICHY, RJH, ROCK, ROH, RP, RPC, RPH, RS, RSP, S, S11, SAFARI, SALEE, SAM, SAMART, SAMCO, SAMTEL, SANKO, SAUCE, SAWAD, SAWANG, SCGP, SCM, SCP, SDC, SEAFSCO, SEG, SF, SFLEX, SFP, SFT, SGF, SHR, SIAM, SICT, SIMAT, SIS, SISB, SK, SKE, SKN, SKY, SLM, SLP, SMART, SMT, SO, SOLAR, SONIC, SPA, SPCG, SPG, SPVI, SQ, SR, SSC, STAR, STARK, STC, STEC, STGT, STHAI, STI, STPI, SUC, SUN, SUTHA, SVH, SVOA, SWC, SYMC, T, TACC, TAPAC, TC, TCC, TCCC, TCJ, TCOAT, TEAM, TEAMG, TGPRO, TH, THANA, THE, THG, THL, THMUI, TIGER, TITLE, TIW, TK, TKN, TM, TMC, TMI, TMW, TNDT, TNH, TNPC, TOA, TPAC, TPBI, TPCH, TPIPL, TPIPP, TPLAS, TPOLY, TPS, TQM, TR, TRC, TRT, TRUBB, TSE, TSF, TSI, TSR, TSTE, TTI, TTT, TTW, TVT, TWP, TWZ, TYCN, UAC, UMI, UMS, UNIQ, UP, UPA, UPOIC, UREKA, UT, UTP, UVAN, VARO, VCOM, VI, VIBHA, VL, VNG, VPO, VRANDA, W, WAVE, WG, WGC, WINNER, WORK, WORLD, WP, WPH, WR, YCI, YGG, YUASA, ZMICO

**Explanations**

Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of June 24, 2019) are categorised into: companies that have declared their intention to join CAC, and companies certified by CAC.