

# Datatec

H125 results

## Better profitability across the board

Software and comp services

Datatec's H125 results confirmed improved profitability in each division, resulting in a 56% y-o-y increase in underlying EPS to 11.4c. Group revenue declined 5.5% y-o-y, mainly reflecting a shift towards net revenue-reported software, but gross profit increased 3.5% due to a better product mix. Combined with good cost control, adjusted EBITDA increased by 18.5% y-o-y, resulting in a 0.9pp increase in the adjusted EBITDA margin to 4.1%. The group closed H125 with net debt of \$108m, down from \$123m at the end of FY24. Despite softer European markets, the company expects all divisions to report improved financial performance in FY25. We are reviewing our forecasts.

Year end	Revenue (\$m)	PBT* (\$m)	Diluted EPS* (c)	DPS (c)	P/E (x)	Yield (%)
02/23	5,143	86.5	24.1	77.7	8.8	36.5
02/24	5,458	76.5	19.7	7.0	10.8	3.3
02/25e	5,731	111.3	27.4	8.5	7.8	4.0
02/26e	5,991	127.1	31.6	9.9	6.5	4.8

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Group revenue declined 5.5% y-o-y to \$2.61bn, gross profit increased 3.5% y-o-y to \$433m and adjusted EBITDA increased 18.5% y-o-y to \$106m. Datatec reported basic EPS of 11.3c (+81% y-o-y) and headline basic EPS of 10.5c (+66% y-o-y). Underlying basic EPS was 11.4c (+56% y-o-y), just under half our FY25 forecast of 25.4c. Following a peer analysis, management no longer excludes unrealised foreign exchange gains/losses from its underlying EPS figure. Prior to this adjustment, H124 EPS was 9.6c.

Westcon revenue declined 2.9% y-o-y to \$1.80bn, mainly due to net revenue-reported software sales but also reflecting weaker demand for networking products. Conversely, gross margin increased 1pp to 12.0%, helped by product mix and a growing contribution from Flex financial services. Adjusted EBITDA increased 14.4% to \$71.2m with the margin increasing 0.6pp to 4.0%. Logicalis International revenue declined 10.9% y-o-y to \$575m due to an increase in the proportion of software and services revenue. Gross profit was 4% higher, boosting the margin by 4.1pp to 28.5% and adjusted EBITDA increased 35% to \$38.4m, with a margin of 6.7% (up 2.3pp y-o-y). Logicalis Latin America revenue declined 18.1% to \$215m, mainly due to a lower opening backlog, although order intake has improved during the period. Gross profit declined 14.8%, resulting in a small improvement in gross margin to 22.4%. With operating costs reduced 21% y-o-y, adjusted EBITDA only declined 6.3%, while the margin increased 0.3pp to 2.6%.

Lower working capital requirements helped offset higher interest rates, resulting in a significant increase in cash from operating activities; net debt reduced from \$174.8m a year ago and \$123.1m at end FY24 to \$108.4m at the end of H125. The company announced an interim dividend of ZAR0.75, equivalent to 4.3c at current exchange rates. Trading is improving in Latin America and is robust in the US, whereas there is some softness in certain European markets. Management expects to deliver a better financial performance in FY25 than in FY24. We are reviewing our forecasts.

24 October 2024

**Price** **ZAR37.55**
**Market cap** **ZAR8.74bn**

Net debt at end H125 ZAR17.6/\$

\$108.4m

Shares in issue 232.6m

Free float 84%

Code DTCJ

Primary exchange JSE

Secondary exchange N/A

### Share price performance



### Business description

Datatec is a South Africa-listed multinational ICT business, serving clients globally, predominantly in the networking and telecoms sectors. The group operates through three main divisions: Westcon International (distribution); Logicalis International (IT services); and Logicalis LatAm (IT services in Latin America).

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