

# Datatec

15% y-o-y growth in H122, with buoyant demand

H122 trading update

IT services

15 September 2021

**Price** ZAR32.15

**Market cap** ZAR6.5bn

ZAR14.16/US\$

Net debt (US\$m) at 28 February 2021 60.9

Shares in issue 203.2m

Free float 62%

Code DTCJ

Primary exchange Johannesburg

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 (IT services) and Analysys Mason (consulting).

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After the announcement of Datatec's strategic review on 25 August 2021, [our sum-of-the-parts valuation](#) note indicated that continuing strong industry growth globally provided reassurance for Datatec's H122 results. This has been borne out with management confirming it expects H122 revenue to rise by 15% y-o-y to c US\$2.26bn (H121: US\$1.96bn). For comparison, H121 was 48% of FY21 revenues, with H122 52% of our FY22 estimate. This strong performance was seen across all divisions, with revenues for Logicalis rising 19% y-o-y, Westcon 12% and Analysys Mason 34% as the group continued to benefit from remote working, increased cloud usage and secured networking trends. Datatec is operationally geared, so we expect this top-line performance to be even stronger at the EBITDA and earnings levels. We see scope to upgrade our estimates but will wait for the full H122 results, due around 28 October 2021.

Year end	Revenue (US\$m)	PBT* (US\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
02/20	4,214	79.1	9.9	7.00	22.9	3.1
02/21	4,109	73.1	13.6	7.06	16.7	3.1
02/22e	4,317	79.1	16.5	5.50	13.8	2.4
02/23e	4,548	101.6	24.9	8.28	9.1	3.6

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

Logicalis's H122 revenues rose 19% y-o-y to US\$822m (H121: US\$693m), with revenues at Westcon International climbing 12% y-o-y to US\$1,390m (H121: US\$1,123m) and revenues at Analysys Mason surging 34% y-o-y to US\$43m (H121: US\$32m). In each case, the H121 comparators have been restated to better reflect whether Datatec acted as agent (revenues reported net) or principal (revenues reported gross) as detailed in our FY21 results note, [Robust underlying performance across the board](#).

As we mentioned in our August note, [Strategic review to unlock embedded value](#), the negative impact of the COVID-19 pandemic has been relatively short lived for the IT services sector. As the sector gathers pace, Gartner expects worldwide IT spending to grow 8.6% y-o-y in 2021, with growth projected in every region globally, despite the COVID-19 pandemic. Looking ahead, the only note of caution is around global semiconductor supply, which has extended Datatec's lead times on certain hardware product deliveries, leading to a significant backlog at both Logicalis and Westcon International.

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