

# Datatec

The positives outweigh the negatives

Datatec's H123 results suggest continuing revenue momentum in H123 driven by enterprise demand for cybersecurity, networking and cloud infrastructure, although with a mixed picture across the group. Excluding Analysys Mason, group revenues rose 9% y-o-y to US\$2.41bn, while gross profits fell 5% to US\$338m and adjusted EBITDA rose by 16% to US\$88m. Underlying EPS fell by 67% to 2.2 US cents (3.6 US cents including Analysys Mason), affected by restructuring and other one-off costs. Net debt (for continuing operations) dropped 17% from FY22 to US\$111m, reflecting effective working capital management and strong cash flow generation. Although the backlog continued to grow across each division, there are signs that this may be close to peaking as the rate of growth slows, supporting our view that the backlog will start to unwind in H223, through FY24. The global macroeconomic outlook remains uncertain, especially in Europe, but group profit margins would benefit if supply chain issues were to start to ease and the backlog reduced. There are also signs of an improving environment for Logicalis LatAm in H223. The £135.1m special dividend from the sale of Analysys Mason is due to be paid on 5 December 2022.

Year end	Revenue (US\$m)	PBT* (US\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
02/21	4,109	73.1	13.6	6.6	17.2	2.8
02/22	4,637	85.0	18.7	39.3	12.5	16.8
02/23e	4,919	95.9	19.6	6.5	12.1	2.8
02/24e	5,117	107.3	25.2	8.4	9.4	3.6

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

A more detailed note will follow shortly, where we will review our forecasts.

Westcon delivered a notably strong performance, reporting a 16% rise in revenue, leading to an 86% increase in adjusted EBITDA to US\$65m (a 4% margin) boosted by the strong dollar, while EBITDA was held back by a high level of IFRS 2 charges for the division's maturing five-year management incentivisation scheme.

The Logicalis division has been split in two, with Logicalis Latin America being broken out separately from Logicalis International.

Logicalis International experienced good growth in orders, but profitability continues to be disrupted by supply chain issues, with software fulfilment and implementation often dependent on delayed hardware deliveries. Revenues rose 6% to US\$576m, while adjusted EBITDA softened by 7% to US\$27m (a 4.7% margin). Recurring revenues constituted 43% of divisional revenues (US\$245m).

Logicalis LatAm faced challenging trading conditions, suffering from supply chain issues, although with continued growth in cloud-based services. Revenue declined by 21% to US\$219m (51% recurring revenue), with adjusted EBITDA falling 78% to US\$4m (a 1.8% margin).

H123 interim results

IT services

3 November 2022

**Price** **ZAR42.50**

**Market cap** **ZAR9.4bn**

ZAR18.2/US\$

Net debt (US\$m) (continuing operations) at 31 August 2022 111

Shares in issue 221.8m

Free float 86%

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 International (IT services); and Logicalis LatAm (IT services in Latin America).

## Analysts

Richard Williamson +44 (0)20 3077 5700

Katherine Thompson +44 (0)20 3077 5700

[tech@edisongroup.com](mailto:tech@edisongroup.com)

[Edison profile page](#)

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