ECS ICT Berhad – IPO Update

29 Mar 2010

KDN: PP10837/03/2010(023609)

NOT RATED

IPO Price	RM1.46
Fair Value	-
Upside To Fair Value	-
Public Issue Closing Date	31 Mar 2010
Tentative Listing Date	15 Apr 2010

Stock Codes

Masa	n.a.
Bloomberg	n.a.

Stock & Market Data

KLCI	1,315.14
Listing	Main Board
Sector	Technology
Syariah Compliance	Yes
Par Value	RM 0.50
Issued Shares	120mn
Market Capitalisation	RM175.2mn
Estimated Free Float	25.6%
Major Shareholders	
	ECS Holdings – 40%-43.8%
	TSP – 10%-15.3%
	Sengin – 10%-15.3%

Composition of IPO Shares

Pink Form Allocation	3.6mn
Private Placement	33.4mn
Public	10.0mn

Utilisation of Proceeds

	RMmn
Working Capital	24.3
Proposed - 20% Pericomp Acquisition	5.4
Business Expansion	5.0
Listing Expenses	3.0
Proposed Transfer	1.7

Top Tier ICT Distributor In Malaysia

- **A leading ICT distributor.** ECS ICT Bhd is slated to be listed on 15 April 2010 with a market capitalisation of RM175.2mn. It is a proxy for ICT industry in Malaysia as it is one of the leading ICT distributors that drive the industry growth. It has distribution network of over 2,500 resellers nationwide, presently at 6 states namely Johor, Pahang, Penang, Selangor, Sabah and Sarawak.
- **Broad range of ICT products.** ECS engages in the distribution of volume ICT products (notebooks, desktop, computers, printers and software) and Enterprise Systems (network, communication infrastructure, servers and enterprise software). ECS has more than 2.9K SKU's (Stock Keeping Unit).
- **Strong and long-term working relationship.** ECS has strong working relationship with more than 30 global ICT brand names such as Microsoft, Oracle, Canon and Lexmark; and the longest is with Hewlett Packard (HP) which is of 22 years.
- **Healthy financial background.** ECS is financially healthy as it reported sturdy revenue that surpassed RM1.16bn in FY08. As the revenue is on rising trend, thus we estimate ECS's revenue to jump 15% to about RM1,333.4mn and 10% to about RM1,466.8mn in FY09 and FY10. There is room for growth as the Malaysia's ICT industry has not reached maturity with low PC ownership and low internet penetration rate. The Government's move to increase ICT adoption would provide a huge potential for ECS to tap on.
- **Eye-catching dividend yield.** We understand that ECS is committed to offer 20%-30% dividend payout ratio of its net profit thanks to its sturdy financial position. Based on a 30% payout ratio, we reckon ECS will be able to pay GDPS of 7.0 sen for FY10.
- **Potential Risks.** 1) Potential decline in ICT Spending 2) Potential loss of distributorship(s) 3) Price reductions and obsolescence of inventory and 4) Change in consumer preferences.

Investment Statistics

FYE 31 Dec (RMmn)	2007	2008	2009F	2010F
Revenue	976.9	1,159.5	1,333.4	1,466.8
Growth (%)	28.0%	18.7%	15.0%	10.0%
PBT	18.9	27.1	33.3	36.7
Pre-tax margin (%)	1.9%	2.3%	2.5%	2.5%
Net Profit	13.7	19.8	24.0	27.9
Growth	82.7%	44.5%	21.2%	16.3%
PAT margin (%)	1.4%	1.7%	1.8%	1.9%
EPS (sen)	11.4	16.5	20.0	23.3
PER (x) @ RM1.46	12.8	8.8	7.3	6.3
GDP (sen)	n/a	n/a	6.0	7.0
Yield (%) @ RM1.46	n/a	n/a	4.1	4.8

STRENGTHS AND PROSPECTS

Table 1: SWOT Analysis

Strengths	Weaknesses
• Strong company recognition • Broad range of products • Well-established partnership • Professional technical support • Efficient distribution infrastructure • Effective financial management • Innovative business infrastructure	• Dependency on ICT principals for its continued appointment as a distributor • Reliance on key management and skilled employees • Existing operations only in Malaysia
Opportunities	**Potential Threats**
• Government's initiative to boost broadband penetration • Launch of High Speed Broad Band (HSBB) services by Telekom Malaysia may be a driver of growth • National WIMAX initiative • Expected increase in ICT adoption rate at rural and sub-urban areas	• Potential decline in ICT Spending • Potential loss of distributorship(s) • Price reductions & product obsolescence • Change in consumer preferences

ECS's distribution infrastructure is also supported through its purpose-built logistics centre which is a 80,000 sq ft flagship office cum warehouse facility located in Kota Damansara, Selangor. ECS's main warehouse facility handles an average in-take of 5 containers and an output of 25 lorries/day which generate daily sales of RM4mn to RM5mn.

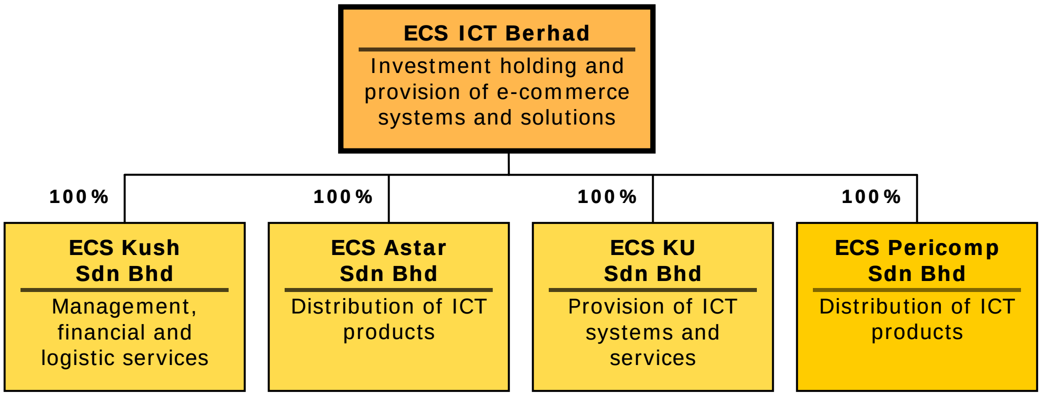
Weaknesses and threats are moderate; Main concern lies on the potential slowdown in ICT spending in Malaysia, which may lead to an overall sluggish performance of the ICT industry. ECS may be vulnerable to the loss of any one or more of its distributorships. But so far, its relationships with its existing Principals have been cordial and mutually dependent. Other weaknesses are part of ECS's normal course of business.

ECS has bright prospects. Major demand drivers are the steady growth in internet broadband penetration as government plan to boost it to 50% by 2010 and the continued efforts to increase the ICT adoption rate in Malaysia.

ECS is expected to benefit from recent ICT developments in Malaysia, such as the proliferation of WIMAX coverage and the launch of HSBB services. These developments would potentially translate to higher demand for consumer ICT products as well as enterprise systems.

COMPANY INFORMATION

Corporate Structure of ECS ICT Berhad



Source: Company

Founded in 1985, ECS ICT Berhad was awarded the MSC status and currently focuses only on the Malaysian market presence in Johor, Pahang, Penang, Selangor, Sabah and Sarawak. Its core business is the distribution of ICT products, such as notebooks, desktop computers and printers, as well as providing enterprise systems (network, servers and communications infrastructure).

ECS has a strong working relationship with over 30 global brands such as HP, Microsoft, Oracle, Canon and Lexmark. It also has a nationwide distribution network of over 2,500 reseller's consisting of retailers, systems integrators and distributors of the company.

Currently ECS is the authorised distributors for the following brands:-

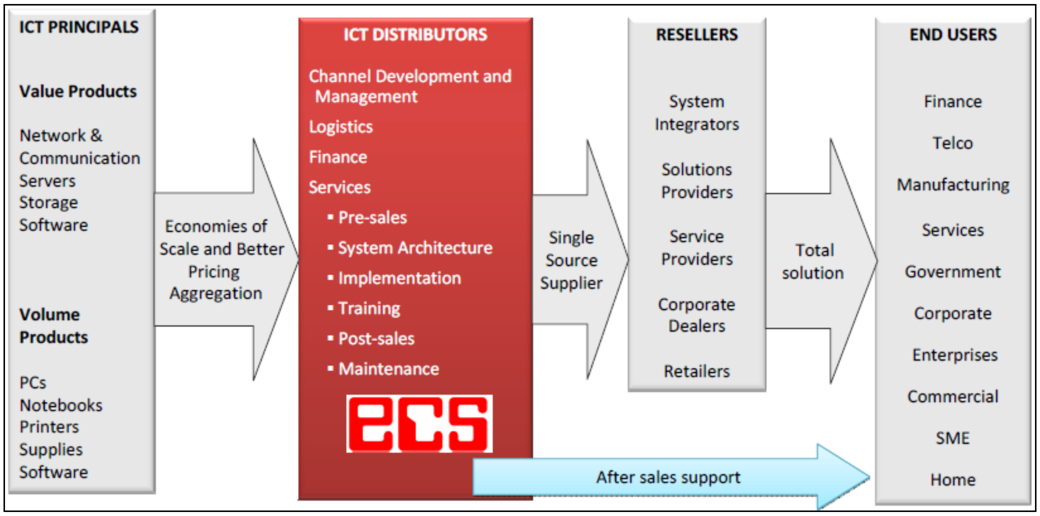
Source: Company

ECS' business can be broadly categorised into the following 3 segments:-

ICT Products	Enterprise Systems	ICT Services
• Notebooks & PCs • Printers • Software • LCD monitors	• Servers • Network systems • Data centers • Enterprise software	• 30+ ICT engineers • 150 certifications from 15 ICT principals

Industry Positioning

As an ICT Distributor, ECS is considered as the single source supplier to a fragmented group of resellers. The resellers act as the ICT industry's final leg before the ICT products reaches the hands of end-users, which comprises almost all industry sectors and consumers.



Source: Company

ECS is categorised as a tier-1 Distributor in the ICT Distribution market. ECS faces competition from other top-tier distributors such as Ingram Micro Malaysia (IM Malaysia and Servex. IM Malaysia is a subsidiary of the world largest ICT Distributor in terms of revenue, while Servex is the subsidiary of Acer.

Segment	Revenue	ICT Distributor
Tier One	> RM600m revenue	- ECS - IM Malaysia - Servex
Tier Two	RM300m to RM600m revenue	- Planet Technology - Jos Malaysia
Tier Three	RM100m to RM300m revenue	- SiS Distribution - Achieva Technology
Tier Four	< RM100 million revenue	- Pineapple - Digital Paper - Applied Business System - ACA Pacific - Patimas-HPD - Others

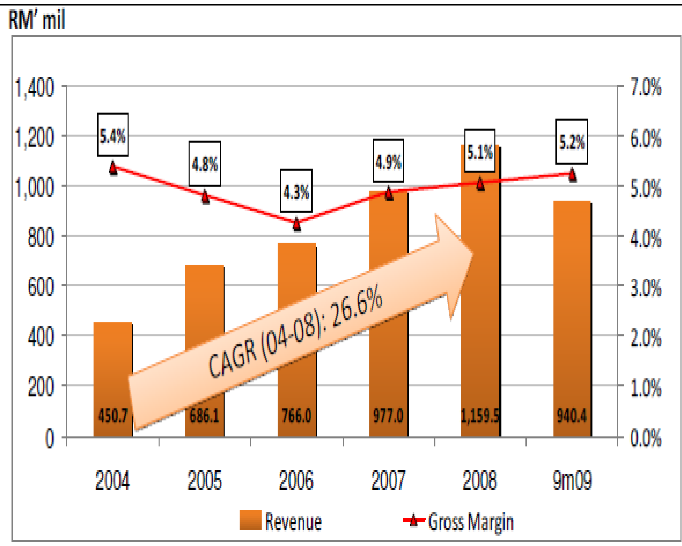
Source: Company

Based on the prospectus, ECS has about 8% of market share in the ICT Distribution market in Malaysia as of 2007, which is highly commendable considering the volume of ICT Spending in Malaysia of approximately RM12.3bn.

ECS positioning in the ICT Distribution Market is solidified as the barriers to entry in the industry is perceived to be high. In summary, existing players and new entrants must possess large working capital, established track record and large reseller base.

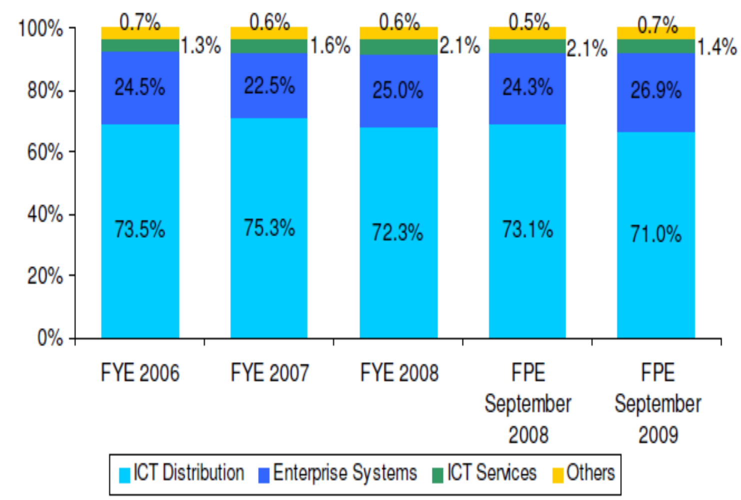
FINANCIAL PERFORMANCE

Chart 1: Rising Revenue Trend



Source: Company

Chart 2: Sales Contributions



Source: Company

ECS's revenue is mainly derived from the distribution of ICT products which accounted of 73% in the FY08, Enterprise System raking in 25% and the remaining is from the ICT services.

No earnings forecast is provided, thus we are projecting revenue for FY09 and FY10 to grow by 15% and 10%, respectively. We are assuming modest growth rates as compared to ECS's revenue CAGR of 26.6% in 2004-2008, mainly due to the increasingly large revenue base of ECS, not as a result of a decline in the ICT industry.

Based on a 15% increment in FY09, net EPS is expected to jump to 20.0 sen from 16.5 sen in FY08. Also, ECS's pretax margins have been remarkable over the 5-year period, increasing from 1.4% in FY04 to 2.3% in FY08 averaging a notable 1.7% per annum.

ECS is recommending an attractive dividend policy of distributing 20%-30% of earnings. This translates into 4.8% gross dividend yield in FY10, assuming ECS disburses 30% dividend payout. At the analyst briefing during the IPO launch, ECS indicated that it is considering making a maiden dividend of 4 sen from its FY09 profits, during Q2 of 2010. Based on our projection, gross dividend in 2010 may be pushed up to 11 sen or at a yield of 7.5%.

FUTURE PLANS

Upon listing, ECS plans to improve on its business via the following:-

1. **Enhancing distribution infrastructure to handle higher revenue capacity**

   - To increase distribution and logistics efficiency through the integration of its warehouse management system and customer relationship management system with its existing ERP system

   - To improve end-to-end customer interaction experience, such as from online ordering (via B2B System) to e-payment (FPX, Credit Card Terminal & Trade Card Program)

2. **Expanding outside the Klang Valley**

   - To establish sales office and warehouses in major towns to improve delivery time and service quality

3. **Developing the higher margin enterprise system market**

   - To increase product range of value ICT products

   - To set up a technology centre for testing and demonstration of configurations, proof of concepts and software applications

Definition of Investment Ratings

Stock ratings used in this report are defined as follows:

BUY	Share price expected to appreciate more than 15% over a 12-month period
TRADING BUY	Share price expected to appreciate 10% or more within a 3- to 6-month period
NEUTRAL	Share price expected to be within +/- 15% over a 12-month period
TAKE PROFIT	Target price reached, may accumulate if share price drops more than 15% below target price
SELL	Share price expected to depreciate more than 15% over a 12-month period
NOT RATED	MIMB does not provide research coverage or rating for this company

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