

## ECS ICT Bhd

### RESULTS UPDATE

## BUY

**Current Price** : RM 0.985  
**Target Price** : RM 1.14

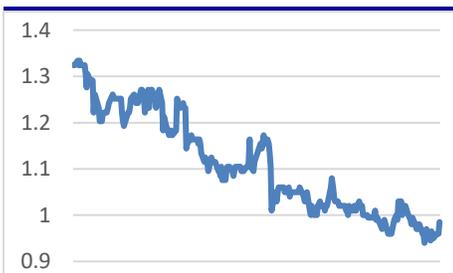
#### Key Statistics

Bloomberg Ticker	ECS MK
Bursa Ticker / Stock Code	ECS/5162
Shares Issued (m)	180
Market Capitalisation (RM'm)	177.3
52 Week Hi/Lo Price (RM)	1.39/0.93
Avg Trading Volume (3-mth)	103,412
Est Free Float (m)	45.2
YTD Returns (%)	-16.4
Beta	0.76

#### Major Shareholders (%)

ECS HOLDINGS LTD	42.8
SENGIN SDN BHD	12.1

#### 1-Year Share Price Performance



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## Improved Margins

We have upgraded our call for ECS ICT to a BUY call with our unchanged fair value of RM1.14 derived from 8x PER pegged to a forecasted FY19 EPS of 14.3sen. Sales were affected by dampened market sentiments post GE-14. Moving forward, we expect turnover for ECS to slow down after the introduction of the Sales and Service Tax in Sep 2018. Nevertheless, the Enterprise Systems and ICT services segment now look towards a pick up as many public/private sector IT systems are due for upgrades.

#### Earnings Review

For the quarter under review, ECS recorded revenues of RM436.2mil, slipping 1% compared to the corresponding quarter last year's turnover of RM440.8mil. The ICT distribution segment was affected by slower market conditions caused by the change in the Government after GE14 and the transitional period between GST and SST. The tax holiday during the transition period between GST and SST however, did boost ECS's turnover QoQ. Revenue grew by 21.8% as compared to Q2FY18. As for the Enterprise systems and ICT services segment, both segments managed to grow with higher sales from server, storage and software while helped ECS enjoy better margins as compared to the previous quarters.

The group's cumulative 9M revenue was in line with our expectations as it came it at 74.7% of our earnings forecast. However, the group's cumulative 9M PAT was below expectations at only at 65.7% of our forecasts. However, our earnings forecast for the year remains within reach with only a marginally improved performance for Q4FY18.

**Table 1 :Investment Highlights & Earnings Forecasts**

FYE Dec (RM'mil)	2015	2016	2017	2018(F)	2019 (F)
Revenue	1,903.3	1,823.4	1,855.0	1,587.3	1,601.0
Gross profit	98.6	92.6	87.5	79.4	80.1
Profit Before Tax	43.6	40.4	35.6	33.1	34.6
Profit After Tax	32.5	30.1	26.3	24.8	25.8
EPS (sen)	18.0	16.7	14.6	13.8	14.3
PER (x)	5.5	5.9	6.7	7.1	6.9
GP Margin (%)	5.2%	5.1%	4.7%	5.0%	5.0%
PBT Margin %	2.3%	2.2%	1.9%	2.1%	2.2%
PAT Margin %	1.7%	1.7%	1.4%	1.6%	1.6%
DPS (sen)	11.0	6.0	5.0	6.0	6.0
Dividend Yield (%)	11.2%	6.1%	5.1%	6.1%	6.1%
ROE (%)	13.7%	11.8%	9.6%	8.7%	8.5%
ROA (%)	7.6%	6.0%	5.6%	5.2%	5.3%
Net Gearing Ratio	Net Cash				

Source: Inter-Pacific

**Table 2: Revenue Breakdown by Business Segment**

Revenue (RM'mil)	Q3FY18	Q3FY17	YoY Change (%)	Q2FY18	QoQ Change (%)
ICT Distribution	306.2	343.3	(10.8)	253.6	20.7
Enterprise Systems	120.9	95.0	27.2	94.3	28.2
ICT services	9.1	7.9	15.5	10.3	(11.4)
Total	436.2	446.2	(2.2)	358.2	21.8

Source: Inter-Pacific, Company

**Table 3: Financial Highlights**

FYE Dec (RM'mil)	Q3FY18	Q3FY17	YoY Chg (%)	Q2FY18	QoQ Chg (%)	9MFY18	9MFY17	YoY Change (%)
Revenue	436.2	440.8	(1.0)	358.2	21.8	1,186.2	1,341.1	(11.5)
GP	24.1	21.1	14.2	18.2	32.5	62.3	61.1	2.0
PBT	10.2	7.2	41.7	5.7	78.7	21.8	20.5	6.4
Taxation	(2.5)	(2.3)	8.7	(1.4)	74.2	(5.5)	(5.8)	5.1
PAT	7.7	4.9	57.1	4.3	80.2	16.3	14.7	10.9
GP Margin (%)	5.5	4.8	15.4	5.1	8.9	5.2	4.6	15.3
PBT Margin (%)	2.3	1.6	43.2	1.6	46.7	1.8	1.5	20.3
PAT Margin (%)	1.8	1.1	58.8	1.2	47.9	1.4	1.1	25.4

Source: Inter-Pacific, Company

ECS declared a single tier interim dividend of 2.5 sen for financial year end 2018 payable on 19<sup>th</sup> Dec 2018, in line with the company's dividend payment previously. The ex-date for the dividend will be on 3<sup>rd</sup> Dec 2018 while the entitlement date will be on 5<sup>th</sup> Dec 2018. The dividend yield currently stands at 2.5%.

Currently, the corporate treasury boasts a cash pile of RM67.1mil or 37.2 sen per share. Management's suggestion is that the large cash pile approximately equal to that size is needed as a buffer to meet working capital needs without resort to any borrowings as large seasonal swings are observed annually in receivables. Hence, no special dividend is expected this year.

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(ii) As of November 9, 2018, the analyst(s) who prepared this report, and the associate(s), has / have an interest in the securities (which may include but not limited to shares, warrants, call warrants and/or any other derivatives) in the following company or companies covered or recommended in this report: (a) Wong Ling Ling - nil.

Signed



Pong Teng Siew  
Director  
Inter-Pacific Research Sdn Bhd

## Ratings System

Ratings:	Description:
BUY	Total return is expected to exceed 15% in the next 12 months
NEUTRAL	Total return is expected to be between above -15% to 15% in the next 12 months
SELL	Total return is expected to be below -15% in the next 12 months

## Abbreviation

Abbreviation	Definition	Abbreviation	Definition
PER	Price Earnings Ratio	CAGR	Compounded Annual Growth Rate
PEG	PER to Growth	CAPEX	Capital Expenditure
EPS	Earnings per Share	DPS	Dividend per Share
FYE	Financial Year End	ROA	Return on Asset
FY	Financial Year	ROE	Return on Equity
CY	Calendar Year	PBT	Profit Before Tax
MoM	Month-on-Month	PAT	Profit After Tax
QoQ	Quarter-on-Quarter	EV	Enterprise Value
YoY	Year-on-Year	EBIT	Earnings Before Interest And Tax
YTD	Year-to-Date	EBITDA	EBIT Depreciation & Amortisation
p.a.	Per Annum	WACC	Weighted Average Cost of Capital
DCF	Discounted Cash Flow	NTA	Net Tangible Asset
FCF	Free Cash Flow	BV	Book Value
NAV	Net Asset Value		

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**Published and Printed by:**

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