Mercury Securities Sdn Bhd

RESULTS REPORT

21 Feb 2012

# ECS ICT Berhad		***Market Price:***	*RM1.40*
		Market Capitalisation:	*RM168.0m*
		Board:	*Main Market*
Recommendation:	*HOLD*	***Sector:***	*Technology*
Target price:	*RM1.55*	***Stock Code/Name:***	*5162 / ECS*

Analyst: *Edmund Tham*

KEY FINANCIALS

Key Stock Statistics	2012F
Earnings/Share (sen)	27.2
P/E Ratio (x)	5.2
Net Dividend/Share (sen)	8.0
NTA/Share (RM)	1.61
Book Value/Share (RM)	1.61
Issued Capital (mil shares)	120.0
52-weeks share price (RM)	1.13 – 1.70
Major Shareholders:	%
-ECS Holdings Ltd	41.0
-Sengin S/B	12.2
-Oasis Hope S/B	8.6
-Dasar Technologies S/B	5.5

Ratios Analysis	2009^	2010	2011	2012F
Book Value/Sh.(RM)	0.69	1.23	1.44	1.63
Earnings/Sh.(sen)	20.1	24.1	25.1	27.2
Net Dividend/Sh. (sen)	0.0	8.0	8.0	8.0
Div. Payout Ratio (%)	0.0	33.2	31.8	29.4
P/E Ratio (x)	7.0	5.8	5.6	5.2
P/Book Value (x)	2.0	1.1	1.0	0.9
Net Dividend Yield (%)	0.0	5.7	5.7	5.7
ROE (%)	28.9	19.6	17.5	16.7
Net Gearing (or Cash)(x)	0.33	(0.12)	(0.39)	(0.47)

**Based on 120 million shares*
^listed in 2010, so 2009 figures (where available) are proforma

P&L Analysis (RM mil)	2009^	2010	2011	2012F
Year end: Dec 31				
Revenue	1345.6	1271.5	1250.7	1301.4
Operating Profit	36.1	41.1	40.8	43.4
Depreciation	(1.9)	(3.2)	(1.6)	(1.6)
Interest Expenses	(2.6)	(1.9)	(0.4)	0.0
Pre-tax Profit (PBT)	33.5	39.4	40.9	44.1
Effective Tax Rate (%)	25.4	26.3	26.4	26.0
Net Profit (NPAT)	24.1	28.9	30.1	32.6
Operating Margin (%)	2.7	3.2	3.3	3.3
Pre-tax Margin (%)	2.5	3.1	3.3	3.4
NPAT Margin (%)	1.8	2.3	2.4	2.5

**RM0.50 par value*
^listed in 2010, so 2009 figures are proforma

PERFORMANCE – 4Q/FY11

4Q/ 31 Dec	4Q11	4Q10	yoy %	3Q11	qoq%
Rev (RMm)	341.8	315.5	8.3	317.9	7.5
EBIT (RMm)	13.7	11.6	18.8	7.7	79.5
NPAT (RMm)	10.5	8.3	25.4	7.1	48.3
EPS (sen)	8.7	7.0	25.4	5.9	48.3

12M/ 31 Dec	FY11	FY10	yoy %
Rev (RMm)	1250.7	1271.5	(1.6)
PBT (RMm)	40.9	39.4	4.0
NPAT (RMm)	30.1	29.0	3.8
EPS (sen)	25.1	24.2	3.8

**EPS based on 120 million shares*

ECS ICT's 4Q/FY11 results (for quarter ended 31st December 2011) were well within our earlier expectations.

"4Q Results within expectations"

The group recorded 4Q/FY11 recorded revenue of RM341.8 million, higher by 8.3% y-o-y. This was due to higher revenue from its Enterprise Systems business segment. The group's 4Q/FY11 NPAT of RM10.5 million was better by 25.4% y-o-y, mainly due to the better profit contribution from Enterprise Systems and also reduced interest expenses.

For FY11, the group recorded revenue of RM1,250.7 million, a decrease of 1.6% y-o-y. This was a result of lower revenue from its ICT Distribution segment. Nevertheless, group NPAT of RM30.1 million was higher by 3.8% y-o-y due to better profit contribution from Enterprise Systems and reduced interest expenses. 52% of the group's FY11 gross profits were contributed by the Enterprise Systems business segment.

The group's ICT Distribution segment revenue had decreased by 6.8% during FY11 mainly due to the softer market for consumer notebook PCs, which was mitigated by encouraging tablet PC sales. The group's Enterprise Systems segment revenue had increased by 8.6% y-o-y mainly due to higher software sales. Meanwhile, the group's IT Services segment revenue had increased by 20.4% due to more projects secured. Of the 3 segments, only the Enterprise Systems segment recorded better PBT during the year. Meanwhile, the group's 4Q/FY11 NPAT was better by 48.3% q-o-q versus 3Q/FY11, mainly due to the higher profit contribution from both its ICT Distribution and Enterprise Systems segments.

OUTLOOK/CORP. UPDATES

According to International Data Corporation's (IDC) projections, the information and communications technology (ICT) industry in Malaysia is expected to grow at a rate of 9.3% for 2012. As ECS ICT is the market leader in the local ICT distribution business sector, we expect the group to perform positively during 2012.

"Steady domestic demand"

Malaysia had reported a reasonable unemployment rate of 3.1% (November 2011) and CPI of 3.0% (December 2011). Bank Negara Malaysia (BNM) had maintained its overnight policy rate (OPR) at 3.0%. Meanwhile, Malaysia recorded a solid 4Q/2011 GDP growth of 5.2%, amidst weak economic growth in the developed regions (US, EU and Japan). Some export-focused sectors may face slower demand.

ECS ICT's management is selective on the brands and products that the group chooses to distribute. In order to keep its inventory turnover fast and to meet the expectations of major ICT principals, ECS ICT prefers to distribute popular products, especially those belonging to major brands. ECS ICT's management plans to continue increasing its product range and also to further develop its higher-margin Enterprise System business segment.

To recap, during FY11, ECS ICT was **appointed as a distributor** for a few major IT brands such as Apple, Dell, Samsung, ASUS and Lenovo. The group had launched its partnership with Mahindra Satyam to implement the Oracle E-Business Suite (an application software for mid-sized companies). The group also set-up a technology centre to provide infrastructure for supporting product demos and proof-of-concept development. The centre showcases Oracle's Sun Fire servers, Solaris and Exadata Database Machines, IBM's Netezza and HP's Vertica systems.

Recently, the group also signed **2 supplementary agreements** to existing deals. 1 deal **-** as a Microsoft Online Services Channel Developer to distribute Microsoft Office 365 products via Cloud Computing and the other deal – with Intermec to distribute Vocollect products for Warehouse Management System.

VALUATION/CONCLUSION

ECS ICT had paid out a single-tier final dividend of 4 sen per share, totaling RM4.8 million (for its FY10 ended 31st December 2010) in June 2011. The group's total net dividend payout for FY10 amounted to 8 sen per share, which constituted more than 30% of group NPAT in FY10. For FY11, while there was no interim dividend, a final dividend of 8 sen per share was proposed. The proposed payable date is 15th June 2012 for deposited ECS ICT shares as at 31st May 2012. For FY12, **we expect that ECS ICT would maintain this dividend payout level.**

Thus far, ECS (+12.0% YTD) has **outperformed the KLCI** (+2.2% YTD) in 2012. During the past year, global equity markets have been impacted by events such as the "sovereign debt" situation in Europe, the Tohoku natural disaster in Japan, the "debt ceiling" issue in the US and also the "Arab Spring" upheavals in the Middle East/North Africa. As ECS is not an especially large market-cap stock, this may put a dampener on its market visibility and trading volume.

"Revise to Hold Call"

Based on our forecast of ECS's FY12 EPS and estimated P/E of 5.7 times, we set a **FY12-end Target Price (TP) of RM1.55.** This TP represents a Hold Call and offers 10.7% upside from the market price on the date of this report. Our TP for ECS reflects a P/BV of 0.95 times over its FY12F BV/share.

Our TP takes into account the stock's **positive price movement** in recent months and also our **cautious view on the overall macroeconomic environment.** For FY12, we are hopeful that ECS ICT could obtain stronger contributions from the Enterprise Systems, Ultrabooks and Tablet PCs segments. This would offset any further weakness in Notebook and Netbook sales.

Ultrabooks are a new category of notebook computers that seek to fill the gap between lightweight laptops and tablets. Intel defined the ultrabook category as a new class of laptops that are extremely thin (less than 20 mm or 0.8 inches) and lightweight, packaged along with high-powered, low voltage processors, long battery life, near instant-on and instant-resume capabilities, and fast storage. Ultrabooks are also distinguished from netbooks by offering more power in the form of additional RAM, as well as better storage and larger screen sizes, features that also make them pricier.

ECS ICT is **well placed to maintain its market leadership position** – given its range of ICT products, extensive distribution infrastructure, partnerships with numerous key ICT principals, high operational efficiency, strong technical support team and effective financial management systems.

We find that ECS ICT's P/E and P/BV valuations are undemanding. Additionally, the group's dividend yield and ROE are also reasonably attractive. The group has been in a net cash position since its FY10 and has **paid-off all its borrowings during its FY11.**

Typical for any ICT business, ECS' future earnings performance could be affected by – possible fluctuations in economic conditions, business and consumer sentiment. Routine risk factors include foreign exchange translation, increased peer competition, issues with account receivables, increased inventory turnover days, slim margins, short product life cycle and market acceptance level of various ICT products. On a positive note, group management revealed that there was no material impact from the widespread floods in central Thailand, which had affected the supply chain situation of HDDs (hard disk drives), among others.

ECS: Share Price

Source: NextView