



ECS ICT Berhad

25th March 2010

PP16795/03/2011(029282)

Not Rated

Offer Price	RM1.46
New Target Price	RM1.65
Previous Target Price	-
Prev. Recomm.	-
Upside To Target	13%

Stock Codes

Masa	N.A
Bloomberg	N.A

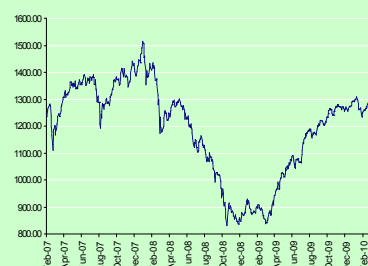
Stock & Market Data

KLCI	1,309.45
Listing	MAIN BOARD
Sector	Technology
Syariah Compliance	Yes
Issued Shares	120mn
Mkt. Capitalisation	RM175.2mn
Estimated Free Float	20%
Majority S'holders	ECS Hldgs (60%) Teo Soo Pin Sdn Bhd (20%) Sengin Sdn Bhd (20%)

Offer for Sale & Public Issue

% of existing share capital	
Offer for sale	16.7%
Eligible Parties	3%
Public	8.3%
Private placement	11.2%
Total	36.7%

KLCI Share Price Performance Chart

*“One of The Leading ICT Distributors”*

ECS ICT Berhad (ECSB) is currently one of the leading ICT distribution companies in Malaysia which boasts with more than RM1bn of annual turnover. The group is set for listing this April 15th 2010 in Bursa Malaysia Main Market. We derive our target price (TP) of RM1.65 after pegging a 20% discount to Notion VTEC FY10 PER of 9.5x to FY10 EPS projection of 21.7sen.

At this TP, the upside potential is likely to reach a commendable 13%. Note that the group is poised to dish out 30% of net profit as dividend in the future. **Subscribe.**

- **Expansion of Broad Range Products**

ECSB is currently authorized to distribute ICT products in Malaysia. The group is keen to expand its business by bringing in wider range of ICT products in the future. Note that this business expansion will likely be done using the IPO proceeds. The group aims for a double digit revenue growth in FY10 as a result of this.

- **Beef Up Enterprise System Market**

With the upcoming improvement in the group's enterprise system business segment, the group is planning to set up a technology centre in Kota Damansara. The centre will serve the purpose of installing the latest enterprise systems such as servers, storages and networks products for testing and demonstration of configuration, proof of concepts and software application.

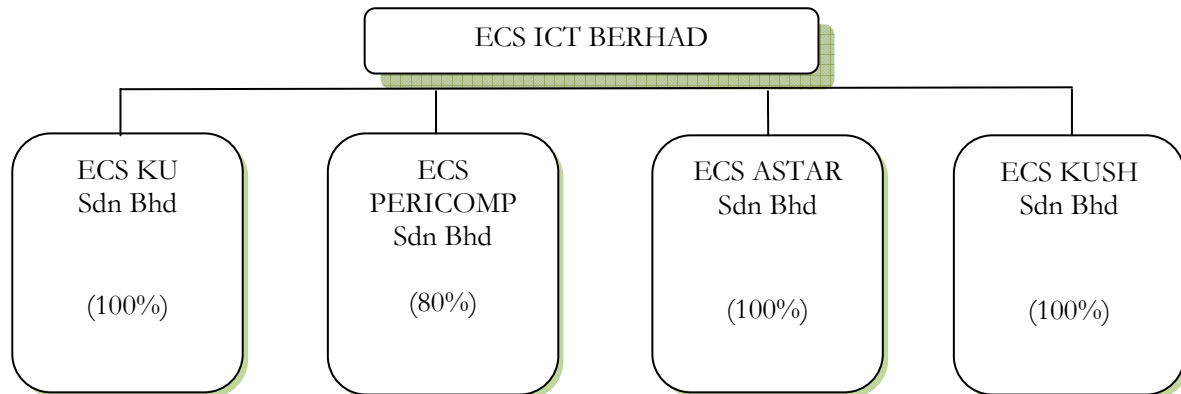
BACKGROUND

Established in 1985, ECSB is engaged in the business of distributing ICT products in Malaysia. In recognition of their MSC status which was obtained on 30th January 2002, the group has changed their name to ECS ICT Sdn Bhd from ANTARA IT Sdn Bhd.

Since obtaining the MSC status, ECS has involved in the provision and development of Internet-based e-commerce systems and e-solution including conducting R&D to cater for their sales and marketing operations.



Note that ECSB distributes ICT products through more than 2,500 resellers nationwide. They also boast as the 'authorized distributor' for over 30 global ICT brand names.

Chart 1: Company Structure

Source: Prospectus, BIMB Securities

Table 1: Financial Summary

FYE Sept	FY06	FY07	FY08	FY09e	FY10f	FY11f
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	765,995	976,990	1,159,534	1,253,820	1,483,617	1,892,631
Net profit	7,547	13,733	19,800	23,451	26,075	36,686
EPS (sen)	8.1	14.8	21.3	22.6	21.7	30.6
Net profit margin (%)	0.99	1.41	1.71	1.87	1.76	1.94
PER (x)*	18.02	9.86	6.85	6.46	6.72	4.77
DPS (sen)				-	-	-
Dividend Yield (%)				-	-	-

**Based on offer price of RM1.46*

Source: Prospectus, BIMB Securities

BUSINESS PROFILE

- ICT distribution**

ECSB is the distributor and marketer for a comprehensive range of ICT products to approximately 2,500 resellers in Malaysia. These ICT products include PCs, notebooks, printers, scanners, software and other peripherals. They are also authorized to set up service centre and provide warranty services for the ICT products sold by them. The resellers which consist mainly of retailers, corporate dealers and system integrators will then resell their products to consumer and small & medium companies (SMEs)

- Enterprise system**

This unit functions as the distributor of value ICT products to resellers. Resellers would comprise of system integrators and corporate dealers. This unit task is carried by Pericom, which distributes to a network of approximately 500 resellers in Malaysia. The resellers will then resell to large corporation, MNCs, SMEs and also the Malaysian government.



- **ICT services**

This unit provides ICT services to large corporation and customers such as Pericomp and Astar. The group also provides value added services to clients which include

- (i) Hardware support, maintenance and repair (including sales of spare parts)
- (ii) System integration, which involves consultation, designing of networks, installation of hardware and software and implementation and management of ICT systems.

INDUSTRY OVERVIEW: ICT Distribution

The ICT distribution market is where a distributor buys, holds title to, and sells products and services of its principals which are manufacturers and publishers to resellers who in turn sell directly to business and end-users. There are numerous ICT distributors in Malaysia ranging from large corporation to small and medium-sized companies. Market reach in the ICT distribution market is vital as major ICT principals such as HP and Microsoft would prefer to work with ICT distributors that have proven track records, extensive logistical capabilities, broad reseller base, effective marketing services and financially strong.

The total ICT spending in Malaysia in selected ICT categories is estimated to be around RM13bn annually. Based on this, ECSB commands about 9% market share in the ICT business. Given the strong possibility of encouraging GDP growth this year, the value of ICT business is expected to vault by 15% Y-o-Y to RM15bn. This is in line with our revenue growth projection for ECSB which is expected to jump by 18% YoY in FY10.

ECSB PLUS POINTS:

- **Partnership with World Leading ICT Principals**

ECSB's largest partner, HP Malaysia, has been their ICT principal for last 22 years and has been contributing more than 70% of ECSB's purchase. ECSB, in addition to that, has been a distribution partners for many reputable and globally successful brand names such as IBM, Lexmark, Cisco and Apple (> 5 years). Samsung, Microsoft, Juniper, Epson, Sun and Canon are among other globally leading brands that they distribute. These major ICT principals are highly competitive globally and would provide a direction of the latest trends in ICT technology.

- **Broad Range of Products**

ECSB has distribution rights of over 30 international ICT brands covering a full range of consumer and corporate ICT markets. Diverse range of product would shield the group from adverse impact of decline in demand. Given their successful listing soon, their clients can expects wider range of product as a significant portion of the IPO proceeds will be used to expand their business in this.



- **Extensive Network of Resellers and End Customers.**

ECSB has extensive distribution network throughout Malaysia comprising of approximately 2,500 resellers who service end-customers in every category from SMEs to large enterprises, government sector and consumers. Given the wide range of clients and ability to provide a complete value chain of services in ICT business would certainly help to build loyalty among its clients. This will directly help to boost ECSB's recurring sales in the future.

RISKS AND CONCERNS

- **Price reduction and obsolescence of inventory**

In the ICT distribution business, ECSB is subject to the risk of inventories write down as a result of price reduction from the ICT principals due to technological changes. Although ICT principals usually gives up to 2 months notice before the launching of a new product but the group is still subject to certain amount of loss should the existing product cannot be sold in timely manner.

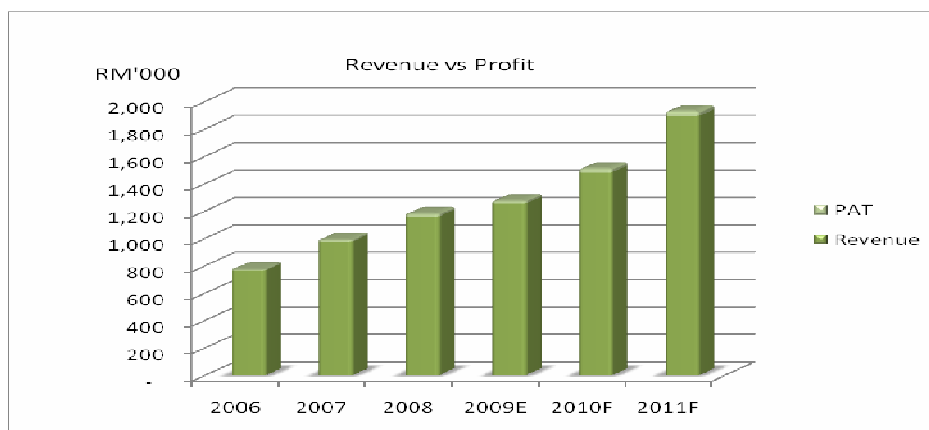
- **Short term distributorship agreements**

Most of the distributorship agreement would normally be revised on a yearly basis. The group is exposed to the risk of losing any one of existing distributorship agreements as there is no guarantee of distributorship continuity after the lapse 1-year time frame.

FINANCIALS

ECSB's annual revenue growth has been impressive despite the global recession in 2009. This shows the demand for ICT products is resilient and recession proof. The group's 9M09 revenue jumped by 7% compared to the same period a year ago despite the country's being in technical recession during that time. During this period, net profit margin was at steady rate of 1.8% compared to 1.7% a year ago. We expect the group's revenue to jump by an impressive 18% YoY in FY10 to be bolstered by encouraging ICT spending courtesy of the strong GDP growth of above 5% for the year. We do not forecast any dividend projection in our forecast despite the group's pledge of 30% dividend payout in the future.

Chart 2: Revenue and Profit



Source: Prospectus, BIMB Securities



VALUATION

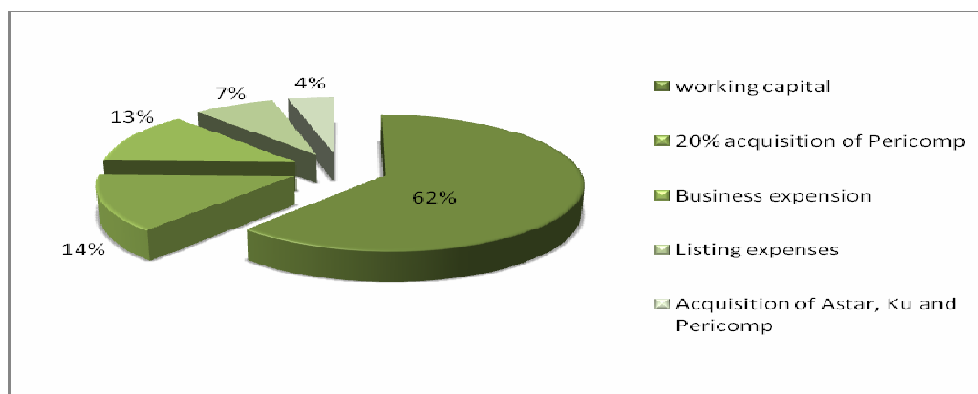
TP wise, we decide to peg ECSB to Notion VTEC given the latter’s market leader status in Malaysia’s ICT sector. Applying a 20% discount to Notion VTEC FY10 PER of 9.5x to FY10 EPS forecast of 21.7sen, we derive a fair value of RM1.65/share. The discount accorded to ECSB is justified given ECSB’s smaller revenue and market capitalization against Notion VTEC. Upside potential from this fair value is expected to fetch a commendable 13%. The catalyst to share price include strong ICT spending this year thanks to the rapid global economic recovery post global credit crisis. Subscribe.

Table 2: Peer Comparison

Company	Market Cap. (RMmn)	Last Price (RM)	Net Income (RM m)		EPS(sen)		PER (x)		Div. Yield (%)		ROE (%)
			FY09	FY10	FY09	FY10	FY09	FY10	FY09	FY10	FY10
ECSB	175.2	1.46	20.7	26.1	22.6	21.7	6.46	6.72	n/a	2.7	23.1
H-Display Bhd	12.6	0.06	-25.0	1.75	12	0.9	n/a	6.67	n/a	n/a	4
Key Asic	305.9	0.38	10.9	19.8	1	2.5	29.53	15.00	n/a	n/a	10
Notion VTEC Bhd	503.9	3.26	35.9	51.5	26	34.4	10.70	9.45	n/a	n/a	27.9
Sis international	HKD406.52	HKD1.50	17.9	n/a	0.07	n/a	6.4	n/a	n/a	n/a	5

Source: Bloomberg

Chart 3: Utilisation of IPO Proceeds



Source: Prospectus

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