

ECS ICT Bhd

RESULTS UPDATE

BUY

Current Price : RM 1.33
Consensus Price : RM 1.64
Target Price : RM 1.70

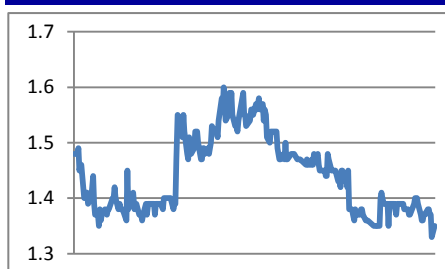
Key Statistics

Bloomberg Ticker	ECS MK
Masa Ticker / Stock Code	ECS/5162
Shares Issued (m)	180
Market Capitalisation (RM'm)	239.4
52 Week Hi/Lo Price (RM)	1.61/1.33
Avg Trading Volume (3-mth)	43,869
Est Free Float (m)	48.4
YTD Returns (%)	-3.57
Beta	0.78

Major Shareholders (%)

ECS HOLDINGS LTD	41.02
SENGIN SDN BHD	12.05

1-Year Share Price Performance



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Positioning amidst Challenging Market Conditions

We reiterate our ECS ICT buy call with a fair value of RM1.70 derived from a 10x PER pegged to the FY18 EPS of 17sen. We roll forward our forecast to FY18 and adjusted our earnings forecast to better reflect the challenging market sentiments accordingly. We retain a positive view of ECS as the final quarter has always been the strongest quarter for the year. The public and private sectors are believed to be nearer to spending on upgrading their infrastructure and we believe that ECS will be able to ride on the growth on sales in the E-commerce side.

Earnings Review

ECS recorded higher revenues of RM446.2mil, an increase of 2.1% YoY as compared to Q3FY16 mainly attributable to higher turnover in the ICT Distribution segment. However, the net profit of RM4.8mil was a 20% drop YoY as compared to the Q3FY16 net profit of RM6.1mil. The Enterprise Systems and ICT Services segments margins were affected by more intensive competition and weak market sentiments. Profit margins were affected as ECS strove to maintain market share. The group's cumulative 9M revenue came in at 72% of our full year forecast. Weak market sentiments made for a challenging year for ECS. However, management is positive that the last quarter will be a better quarter for the year as they believe that the private and public sector will ramp up their spending on infrastructure.

Table 1 :Investment Highlights & Earnings Forecasts

FYE Dec (RM'mil)	2014	2015	2016	2017(F)	2018(F)
Revenue	1,591.1	1,903.3	1,823.4	1,869.1	1,914.2
Gross profit	86.7	98.6	92.6	93.5	95.7
PBT	39.2	43.6	40.3	39.3	40.8
Net Profit	29.4	32.5	30.1	29.2	30.6
EPS (sen)	16.4	18.0	16.7	16.2	17.0
PER	8.1	7.4	7.9	8.2	7.8
GP Margin (%)	5.5	5.2	5.1	5.0	5.0
PBT Margin (%)	2.5	2.3	2.2	2.1	2.1
PAT Margin (%)	1.8	1.7	1.7	1.6	1.6
DPS (sen)	6.0	11.0	6.0	6.5	7.0
Dividend Yield (%)	4.5	8.3	4.5	4.9	5.3
ROE (%)	13.1	13.7	11.8	13.0	13.1
ROA (%)	7.1	7.6	6.0	6.2	6.1
Net Gearing Ratio	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Inter-Pacific

Table 2: Revenue Breakdown by Business Segment

Revenue	Q3FY17	Q2FY17	QoQ Change (%)	Q3FY17	Q3FY16	YoY Change (%)
ICT Distribution	343.3	352.2	(2.5)	343.3	326.7	5.1
Enterprise Systems	95.0	86.8	9.4	95.0	97.4	(2.5)
ICT services	7.9	8.6	(8.1)	7.9	12.8	(38.3)
Total	466.2	447.6	4.2	466.2	436.9	6.7

Source: Inter-Pacific, Company

Table 3: Gross Profit Breakdown by Business Segment

Gross Profit	Q3FY17	Q2FY17	QoQ Change (%)	Q3FY17	Q3FY16	YoY Change (%)
ICT Distribution	13.5	12.3	9.8	13.5	12.3	9.8
Enterprise Systems	6.1	6.3	(3.2)	6.1	7.7	(20.8)
ICT services	1.5	1.4	7.1	1.5	1.7	(11.8)
Total	21.1	20.0	5.5	21.1	21.7	(2.8)

Source: Inter-Pacific, Company

Table 4: Financial Highlights

FYE Dec (RM'mil)	3QFY17	3QFY16	YoY Chg (%)	2QFY17	QoQ Chg (%)	9MFY17	9MFY16	YoY Change (%)
Revenue	446.16	436.91	2.1	460.09	(3.0)	1,353.8	1,271.8	6.4
GP	21.08	21.70	(2.9)	19.95	5.7	61.07	64.65	(5.5)
PBT	7.21	8.34	(13.5)	6.55	10.1	20.47	23.65	(13.5)
Taxation	(2.33)	(2.20)	5.9	(1.73)	34.5	(5.75)	(6.09)	(5.5)
PAT	4.89	6.15	(20.5)	4.82	1.4	14.72	17.57	(16.2)
GP Margin (%)	4.7	5.0	4.9	4.3	9.0	4.5	5.1	(11.3)
PBT Margin (%)	1.6	1.9	(15.3)	1.4	13.5	1.5	1.9	(18.7)
PAT Margin (%)	1.1	1.4	(22.1)	1.0	4.5	1.1	1.4	(21.3)

Source: Inter-Pacific, Company

ECS continues to expand their product portfolio in both the ICT Distribution and Enterprise Systems segments. For the ICT Distribution segment, ECS will shift some focus to gaming laptops in the future as gaming laptops gained more popularity recently. On the E-commerce front, ECS managed to launch 5 official brand stores on Lazada's platform namely, Lenovo, Motorola, DJI, Hewlett Packard and ASUS and the group is getting ready to tap the Online Revolution sales on 11th Nov. ECS is also looking to launch official stores on the Shopee and 11th Street platforms by end-2017.

In line with the group's dividend policy, ECS declared a 2.5 sen interim dividend per share this quarter which translates to a 1.8% dividend yield as of the current price of RM1.37. The Ex-Date for the interim dividend will be on the 27th Nov 2017 while the entitlement date will be on the 29th Nov 2017.

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(ii) As of November 6, 2017, 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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