

# ECS ICT Bhd

## GST Fever

By the Kenanga Research Team | [research@kenanga.com.my](http://research@kenanga.com.my)

	Rating	Fair Value
Last Price		RM1.45
Kenanga	Trading Buy	RM1.64
Consensus	N.A.	N.A.

### INVESTMENT MERIT

- Positive surprises.** The recent announced 3Q14 results appeared encouraging where ECS ICT Bhd (ECS) recorded a strong net profit of RM7.2m (+38.0% YoY) on the back of 14.0% YoY jump in turnover. The strong set of results were mainly fuelled by: (i) higher ICT distribution segment (+30.3% YoY to RM278.5m), thanks to the strong sales recorded in corporate PCs, notebooks as well as the high-margin Smartphones division and (ii) ICT services division (+384.2% YoY to RM15.0m) due to the consolidation of sales recorded for extended warranty services from the Enterprise System segment. Its enterprise Systems division, however, remained slow and recorded RM98.5m turnover, no thanks to the slower sales of high-end equipments like server, storage and software products. The strong set of 3Q14 numbers led the group's EBIT to grow to RM25.1m (+11.7% YoY) for 9M14 with a decent margin of 2.2%.
- GST fever but.....** The country's ICT sales are expected to remain buoyant ahead of the GST implementation date (April 1<sup>st</sup> 2015), where corporates are expected to rush for the upgrade of hardware to prepare for the new tax environment. Note that the strong set of earnings for the past six months suggested that ECS had started to benefit from the first wave of GST fever. Meanwhile, the recently announced 2015 Budget also provided some incentives, where corporates are allowed to accelerate capital allowance for new hardware upgraded. All these could further boost the ICT sentiment moving forward which we believe ECS will be one of the key beneficiaries.
- .....slower sales expected in post-GST period.** ECS is expecting its sales to halt temporary post the GST implementation as consumer may have already made their purchases pre-GST but expect to resume its growth path from 3Q15 onwards in view of the rapid advance in technologies and/or gadgets introduction. Thus, management believes that these rapid technologies/gadgets would continue to spur consumers' demand for ICT products.
- Continue to expand its smartphones portfolio.** ECS is currently in talks with several smartphone brands to further expand its smartphone portfolio under its ICT Distribution segment. The group has bagged Lenovo, Asus and BenQ to be included in its smartphone portfolio, where the latter enjoyed the sole distributorship status in Malaysia. Meanwhile, BenQ has already started to release its new homegrown smartphones (F5 & T3 models) in this quarter. These new models are catered for consumers who aim for affordable mid-price range unit that are able to run LTE network. On top of that, we also understand that ECS is currently looking to secure one more brand names to be included in its smartphone portfolio by Dec-14. On the other hand, ECS is looking to boost its Enterprise System segment by working with other System Integrators and vendors to provide and access a wider range of products to broader customer base.
- Trading Buy with a TP of RM1.64, based on a targeted 10.0x FY15 PER.** We think that the premium is justified as the Group is penetrating into a higher margin segment (Smartphone) and it is one of the key beneficiaries from the GST fever moving forward, and cushioned by its earnings growth story. Moreover the valuation is also undemanding as it is at 16.0% discount to the FBM Small Cap FWD PER of 11.9x.

### Stock Information

Stock Name	ECS ICT BHD
CAT Code	5162
Industry	Distribution/Wholesale
Industry Sub-sector	Distribution/Wholesale
YTD stock price chg	25.00%
Market Cap (RM m)	261.00
Issued shares (m)	180.00
52-week range (Hi)	1.73
52-week range (Low)	1.1
3-mth avg daily vol:	205261.9
Free Float	21%
Beta	0.91
Altman's Z-score	6.45

### Major Shareholders

ECS HOLDINGS LIMITED	41.02%
SENGIN SDN BHD	12.05%
OASIS HOPE SDN BHD	8.58%

### Financials

FYE Dec (RM'm)	2013A	2014E	2015E
Revenue	1,326.3	1,392.6	1,476.1
EBIT	33.4	39.6	39.9
Net Profit (NP)	26.9	27.9	29.5
EPS (sen)	14.9	15.5	16.4
BV/Share (RM)	1.0	0.9	1.0
PER	9.7	9.4	8.8
Price/BV (x)	1.4	1.6	1.5
Net Gearing (x)	N.Cash	N.Cash	N.Cash
NDPS (sen)	5.5	4.6	4.9
Dividend Yield (%)	3.8%	3.2%	3.4%

### Quarterly Financial Data

	1Q14	2Q14	3Q14
Revenue	357.7	389.9	392.0
Revenue Growth (QoQ)	-1.0%	9.0%	0.5%
EBIT	6.26	9.96	8.91
OP Margin	1.8%	2.6%	2.3%
Net Profit (NP)	4.8	7.5	7.3
EPS (sen)	2.7	4.2	4.0
EPS Growth (QoQ)	-50%	56%	-5%

### Peers Comparisons

	PER (FY14)	Div. Yld (%)	Mkt Cap (RM'm)
ECS ICT Bhd	9.4	3.2	261.0
FBMKLCI	16.2	3.3	1.04t



Daily Charting – ECS ICT Berhad



**Comment:** During the past one month, ECS had staged a reversal from the bottom of its trend channel. The share price is currently settled just below its immediate resistance level of RM1.45 (R1), between its 50-day and 100-day SMA levels. Indicator-wise, the MACD has just crossed its zero line with a bullish divergence, indicating that momentum is building up. Both Stochastic and RSI indicator are also hooking upwards, suggesting that buying interest is piling up. With follow through buying interest and fresh catalyst, we view that the share price could rally further up, retesting its trend channel resistance level of RM1.53 (R2) in the near term.

About the stock:

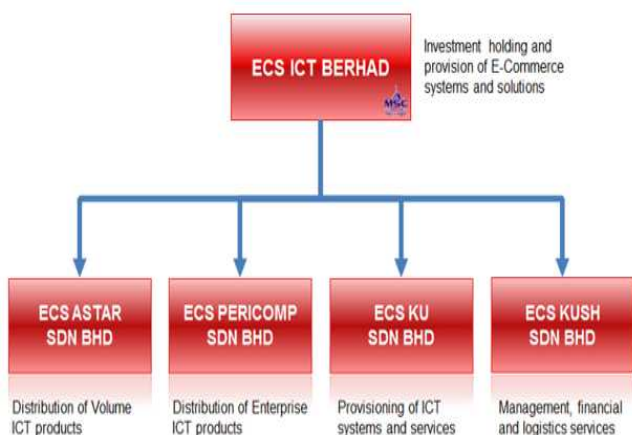
**Name** : ECS ICT Bhd  
**Bursa Code** : ECS  
**CAT Code** : 5162

Key Support & Resistance level

Resistance	: RM1.45 (R1)	RM1.53 (R2)	RM1.73 (R3)
Support	: RM1.35 (S1)	RM1.21 (S2)	RM1.10 (S3)
Outlook	: Bullish		

Source: Kenanga Research

CORPORATE STRUCTURE



BUSINESS OVERVIEW

- ECS ICT Berhad (Bursa Code: 5162, ECS), which was listed on the Main Market of Bursa Malaysia on 15-Apr 2010 is a leading distribution company for Information & Communications Technology (ICT) products in Malaysia with distribution channels of over 2,500 resellers throughout the country. The main business segment for the company include ICT Products Distribution, Enterprise Systems, and ICT Services, with more than 40 leading principals like Hewlett Packard, IBM, Cisco, Microsoft, Apple, Dell, Oracle, and Samsung.

BUSINESS SEGMENTS

- ICT Products Distributor.** Covers all major distribution channels through reseller and end user segments. The company has a distribution channel of over 2,500 resellers throughout Malaysia.
- Enterprise Systems.** Selling Enterprise Systems products such as Servers and Data Centers, Network Systems, and Enterprise Software.
- ICT Services.** Provides network and system integration, internet solutions, software support, hardware repairs and maintenance for its customers. This segment accounted about 1% of total revenue of the company in 9M13.

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