

MONEY TALK

ECS ICT (ECS MK)

4Q17: Slightly Above Expectations

4Q17 RESULTS

Year to 31 Dec (RMm)	4Q17	qoq % chg	yoy % chg	2017	yoy % chg
Turnover	501.2	12.3	(9.1)	1,855.0	1.7
ICT Distribution	363.4	5.9	(15.7)	1,436.1	2.0
Enterprise Systems	126.7	33.3	12.5	383.1	1.4
ICT Services	11.2	41.6	39.8	35.9	(4.3)
Gross Profit	26.4	25.3	(5.6)	87.5	(5.5)
Operating Profit	14.0	112.4	(17.1)	32.8	(16.0)
Finance Costs	0.0	n.m.	n.m.	0.0	n.m.
Pre-tax Profit	15.2	110.4	(9.2)	35.6	(11.7)
ICT Distribution	9.5	88.3	8.9	22.4	7.5
Enterprise Systems	4.5	119.8	(34.8)	10.3	(34.1)
ICT Services	0.3	77.4	(43.6)	0.7	(49.5)
Others	0.8	n.m.	59.4	2.2	(10.4)
Tax	(3.6)	55.9	(12.5)	(9.4)	(8.3)
Core Net Profit	11.6	136.3	(8.2)	26.3	(12.9)
Margins (%)		+/- ppt	+/- ppt		+/- ppt
Gross	5.3	0.5	0.2	4.7	(0.4)
PBT	3.0	1.4	(0.0)	1.9	(0.3)
Net Profit	2.3	1.2	0.0	1.4	(0.2)

Source: ECS, UOB Kay Hian

- **Slightly above expectations.** ECS ICT (ECS) posted revenue of RM501m (+12.3% qoq, -9.1% yoy) and core net profit of RM11.6m (>100% qoq, -8.2% yoy) in 4Q17. 2017 core net profit of RM26.3m is slightly above our expectations. The strong qoq growth is not a surprise as fourth quarter is seasonally the strongest for ECS.
- **ICT distribution: Sales remained soft but margin improved.** Revenue from the information and communication technology (ICT) distribution fell 15.7% yoy in 4Q17 on lower sales of notebook and mobility products. Positively, the more favourable product mix and lower sales-related expenses lifted pre-tax margin by 0.59ppt yoy to 2.62% in 4Q17, the best quarterly margin in the past couple of years.
- **Enterprise: Encouraging sales growth.** For the enterprise segment, sales grew 12.5% yoy on higher sales from servers and workstation. However, PBT fell 35% yoy as fewer profitable products were sold while 4Q16 recorded higher reversal of impairment on trade receivables.
- We cut our 2018-19 net profit forecasts by 4% and 14% on lower sales and margin assumptions as consumer sentiment remains weak and the public sector's spending on ICT products is unlikely to pick up meaningfully. ECS declared a final 2.5 sen DPS, bringing full-year DPS to 5 sen, in line with our expectations.
- **Maintain HOLD** with a lower target price of RM1.38, pegged to 8.0x 2019F PE (previously 9x 2018F PE) in view of a lack of catalysts and unexciting outlook. Prospective dividend yields are decent at 4.5% and 4.8% for 2018-19 respectively. Entry price: RM1.20.

KEY FINANCIALS

Year to 31 Dec (RMm)	2016	2017	2018F	2019F	2020F
Net Turnover	1,823	1,855	1,971	2,039	2,110
EBITDA	41	34	37	40	44
Operating Profit	39	33	36	38	43
Net Profit (Reported/Actual)	30	26	29	31	34
Net Profit (Adjusted)	30	26	29	31	34
EPS (sen)	16.7	14.6	16.0	17.3	19.0
PE (x)	7.5	8.6	7.9	7.3	6.6
P/B (x)	0.9	0.8	0.8	0.7	0.7
EV/EBITDA (x)	2.9	5.2	3.6	3.0	2.4
Dividend Yield (%)	4.8	4.0	4.5	4.8	5.4
Net Margin (%)	1.7	1.4	1.5	1.5	1.6
Net Debt/(Cash) to Equity (%)	(43.0)	(18.5)	(32.2)	(34.6)	(37.0)
Interest Cover (x)	49.9	n.a.	n.a.	n.a.	n.a.
ROE (%)	11.8	9.6	9.9	10.0	10.3
Consensus Net Profit	-	-	30	-	-
UOBKH/Consensus (x)	-	-	0.97	1.00	-

Source: ECS, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM1.26
Target Price	RM1.38
Upside	+9.5%
(Previous TP)	RM1.50)

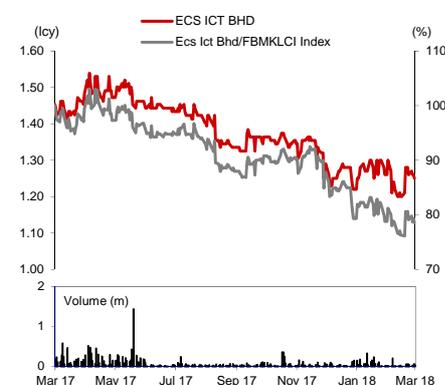
COMPANY DESCRIPTION

ECS ICT is a leading distributor of ICT products.

STOCK DATA

GICS sector	Information Technology
Bloomberg ticker	ECS MK
Shares issued (m)	180.0
Market cap (RMm)	226.8
Market cap (US\$m)	57.8
3-mth avg turnover (US\$m)	0.02

PRICE CHART



ANALYST

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FINANCIAL STATEMENTS

PROFIT & LOSS

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Net Turnover	1,855	1,971	2,039	2,110
EBITDA	34	37	40	44
Depreciation & Amortisation	(1)	(1)	(1)	(1)
EBIT	33	36	38	43
Other Income	1	1	1	1
Associate Contributors	1	0	0	0
Net Interest Income/(Expense)	2	2	3	4
Pre-tax Profit	36	38	41	46
Tax	(9)	(9)	(10)	(11)
Minorities	0	0	0	1
Net Profit	26	29	31	34
Net Profit (Adjusted)	26	29	31	34

CASH FLOW

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Operating	(34)	51	26	28
Pre-tax Profit	36	38	41	46
Tax	(9)	(9)	(10)	(11)
Depreciation & Amortisation	1	1	1	1
Associates				
Working Capital Changes	(62)	25	(6)	(7)
Other Operating Cashflows	1	(4)	0	(2)
Investing	(13)	(2)	(2)	(2)
Capex (Growth)	(1)	(2)	(2)	(2)
Investments	(12)	0	0	0
Others	0	0	0	0
Financing	(8)	(10)	(11)	(12)
Dividend Payments	(10)	(10)	(11)	(12)
Issue of Shares	0	0	0	0
Proceeds from Borrowings	0	0	0	0
Loan Repayment	0	0	0	0
Others/Interest Paid	2	0	0	0
Net Cash Inflow (Outflow)	(56)	39	14	14
Beginning Cash & Cash Equivalent	110	55	94	108
Changes Due to Forex Impact	0	0	0	1
Ending Cash & Cash Equivalent	55	94	108	123

Source: ECS UOB Kay Hian

BALANCE SHEET

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Fixed Assets	3	3	3	3
Other LT Assets	14	14	14	14
Cash/ST Investment	51	94	108	123
Other Current Assets	405	415	429	444
Total Assets	472	526	554	584
ST Debt	0	0	0	0
Other Current Liabilities	200	235	243	251
LT Debt	0	0	0	0
Other LT Liabilities	0	0	0	0
Shareholders' Equity	272	291	311	332
Minority Interest	0	0	0	1
Total Liabilities & Equity	472	526	554	584

KEY METRICS

Year to 31 Dec (%)	2017	2018F	2019F	2020F
Profitability				
EBITDA Margin	1.8	1.9	1.9	2.1
Pre-tax Margin	1.9	1.9	2.0	2.2
Net Margin	1.4	1.5	1.5	1.6
ROA	5.6	5.5	5.6	5.9
ROE	9.6	9.9	10.0	10.3
Growth				
Turnover	1.7	6.3	3.4	3.5
EBITDA	(15.8)	8.0	7.2	11.1
Pre-tax Profit	(11.7)	6.6	7.7	13.1
Net Profit	(12.9)	10.0	7.7	9.9
Net Profit (Adjusted)	(12.9)	10.0	7.7	9.9
EPS	(12.9)	10.0	7.7	9.9
Leverage				
Debt to Total Capital	0.0	0.0	0.0	0.0
Debt to Equity	0.0	0.0	0.0	0.0
Net (Debt)/Cash to Equity	(0.2)	(0.3)	(0.3)	(0.4)
Interest Cover (x)	n.a.	n.a.	n.a.	n.a.

Bloomberg Consensus

Recommendation	Buy	Sell	Hold	Valuation Ratios	12/16	12/17	12/18E	12/19E	
10/8/2017	50%	0%	50%	P/E	8.4	8.4	7.4	6.3	
Target Price			1.25	EV/EBIT	3.8	-	-	-	
Upside			0.8%	EV/EBITDA	3.7	-	4.4	3.6	
				P/S	0.1	-	0.1	0.1	
				P/B	1.0	-	-	-	
				Div Yield (%)	4.3	-	5.6	-	
Income Statement	12/16	12/17	12/18E	12/19E	Profitability Ratios (%)				
Revenue	1,823	1,855	1,958	2,095	Gross Margin	5.1	-	5.0	-
Gross Income	93	-	98	-	EBITDA Margin	2.1	-	1.9	2.2
Operating Income	37	-	37	45	Operating Margin	2.0	-	1.9	2.1
Pre-tax Income	40	-	40	48	Profit Margin	1.7	1.4	1.5	1.7
Net Income Adjusted	30	26	30	36	Return on Assets	6.5	-	5.9	6.4
EPS Adjusted	0.17	0.15	0.17	0.20	Return on Equity	12.2	-	11.7	11.5
Dividends Per Share	0.06	-	0.07	-					
Payout Ratio (%)	36	-	41	-					
EBITDA	39	-	38	46					

Peer Comparison

Company	Ticker	Share Price 28 Feb 18 (RM)	Market Cap (RM)	PE FY17 (x)	PE FY18F (x)	P/B FY17 (x)	P/B FY18F (x)	Yield FY18F (%)
DKSH Holdings Malaysia	DKSH MK	3.94	621	11.9	10.9	n.a.	n.a.	n.a.
Yee Lee Corporation	YEE MK	2.20	422	10.6	9.6	n.a.	n.a.	2.0
Average				11.3	10.3	n.a.	n.a.	2.0
ECS ICT	ECS MK	1.26	227	8.6	7.4	n.a.	n.a.	5.6

Source: Bloomberg

Technical View



Source: Bursa Station Professional

ECS ICT (ECS MK)

Technical SELL on strength with -7.9% potential downside

Last price : RM1.26

Target price : RM1.20, RM1.16

Resistance : RM1.40

Stop-loss : RM1.41

SELL on rebound with a target price of RM1.16 and stop-loss at RM1. Based on our last SELL call on 3 Nov 17, ECS hit our targets at RM1.30 and RM1.26 before falling to a low of RM1.20. Currently, ECS continues to form lower highs and lower lows that indicate a downtrend. This is supported by the downtick in the RSI while the DMI is on the verge of making a bearish crossover. We expect ECS will continue the bearish movement and drop to its previous lows at RM1.20 and RM1.16.

Expected Timeframe: 2 weeks to 3 months

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