

MEDIA CLIPPING

Client :	ECS ICT Berhad	Date :	16 March 2015
Media :	Edge Weekly	Section :	Business
Language :	English		

TRADE WISE

ECS ICT to ride Xiaomi wave

BY LIEW JIA TENG

ECS ICT Bhd, which has just been awarded the distributorship of the MiPad in Malaysia by Xiaomi Inc, is hoping to ride the popularity of China's No 1 consumer electronics brand, which in just five years, has risen to become the world's No 3 smartphone player.

"The whole world is talking about Xiaomi nowadays. Its products are marketed online in almost every part of the world, which is why local investors were quite surprised that we got the distributorship of MiPad," ECS ICT group CEO Soong Jan Hsung tells *The Edge*.

Beijing-based Xiaomi has been making waves in the smartphone space, selling 61.1 million units in China last year through its extensive online and operator channels, a model it has also adopted for other markets. Its strategy is to make sleek smartphones and gadgets and sell them at a fraction of the price of Apple's devices.

ECS ICT (fundamental: 2.0; valuation: 2.4) was appointed authorised distributor of the Xiaomi tablets early this month.

Following the announcement, on March 5, the information and communications technology (ICT) distributor's share price spiked from RM1.37 to RM1.60 before falling back to RM1.47 last Friday. Year to date, the counter has risen 29 sen or 25%, lifting the company's market capitalisation to RM264.6 million.

Soong points out that this is the first distributorship for a Xiaomi product in Malaysia and one of the world's earliest.

He says the company, through its IT and mobile device reseller channels, could enable Xiaomi to extend its reach, with its physical distribution networks complementing the smartphone maker's virtual platform.

ECS ICT has been distributing smartphones and tablets since 2012 and is always looking for new brands and products to represent, Soong adds.

"We are the distributor for Apple products, so it's a natural progression for us to now look at Xiaomi. We started talking to it more than two years ago, [but] there wasn't much response until recently, [when] we got the breakthrough," he says.

This is Soong's first media interview since he was redesignated managing director from



Soong: Generally, Malaysians still want to look at the product before they buy it

executive director, replacing the outgoing Foo Sen Chin on Jan 1.

Xiaomi, he says, is convinced that it requires retail channels and distribution partnerships to sell its products in Malaysia, especially in tier two and tier three cities.

"Xiaomi knows it is new to the distribution business. So, it wants to grow big with us and it's going to be a long-term partnership," says Soong, adding that no sales target was mentioned in the contract.

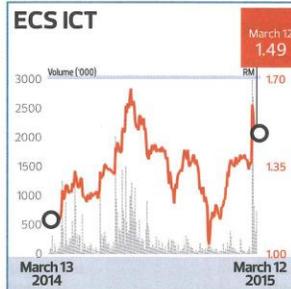
Xiaomi's global business model has been to sell its products via its web store. The tablet was launched in Malaysia through its online store on Feb 10 and all the units were sold within 65 seconds.

With the appointment of ECS ICT, local IT and mobile device resellers will now be able to sell the MiPad, which is priced at RM799 — the same as on the web store.

On the competition posed by Xiaomi's web store, Soong says buying on the Internet has yet to catch on among Malaysians, particularly those in small towns.

"Generally, Malaysians still want to look at the product before they buy it. If you buy a product online, you won't have the chance to do that."

More importantly, if a potential customer is unable to get a tablet online, he will be



Valuation score*	2.40
Fundamental score**	2.00
TTM P/E (x)	9.11
TTM PEG (x)	0.96
P/NAV (x)	1.20
TTM Dividend yield (%)	3.69
Market capitalisation (mil)	268.20
Shares outstanding (ex-treasury) mil	180.00
Beta	1.09
12-month price range	1.04-1.66

*Valuation score - Composite measure of historical return & valuation & profitability
**Fundamental score - Composite measure of balance sheet strength & profitability
Note: A score of 3.0 is the best to have and 0.0 is the worst to have

able to buy it at the stores.

"We have locked in thousands of the MiPad a month. There are still constraints but we will order enough for the market. Customers can get the tablet on the spot instead of having to wait for weeks [if they purchase on the web store]," says Soong.

He notes that while ECS ICT is the only distributor of Xiaomi products in Malaysia now, there is no mention in the contract that it is the sole or exclusive distributor.

Hence, it has to perform well in distributing the MiPad before it expects Xiaomi to award it the distributorship of more products.

In the second half of 2015, ECS ICT plans to bring in wearable gadgets and accessories.

"Wearable technology products, be they watches or glasses, that were introduced two

years ago were not that intelligent. But today, there are more applications and the products are getting more sophisticated," Soong says.

Many of ECS ICT's principals, including ASUS and Lenovo, have wearable products in the pipeline and the company is waiting for the right time to bring them to this market.

ECS ICT has more than 5,000 resellers in its nationwide channel network, comprising retailers, system integrators and corporate dealers. The group distributes smartphones from Lenovo, ASUS and BenQ. It has close to 40 renowned brands in its ICT distribution portfolio and distributes a wide range of products, including notebooks, personal computers, tablets, printers, software and servers from more than 30 principals.

ECS ICT has a healthy balance sheet with zero borrowings and net cash of RM90 million as at Dec 31, 2014. It also has a policy to pay at least 30% of its net profit as dividends.

In the financial year ended Dec 31, 2014 (FY2014), ECS ICT set a new revenue record of RM1.6 billion, up 20% from RM1.3 billion a year ago, thanks to strong smartphone sales. Net profit grew from RM26.9 million to RM29.4 million.

With Xiaomi in the picture, Soong says ECS ICT is aiming to achieve a revenue of more than RM1.6 billion in FY2015.

"It's my task to set new records year after year. It's not easy because our revenue base is big but hopefully, we shall grow based on the momentum generated last year," he adds.

International Data Corp predicts that smartphone sales in Malaysia will grow to US\$2.4 billion this year from US\$2.2 billion in 2014.

ECS ICT has proposed a final single-tier dividend of three sen per share for FY2014. Together with the first single interim dividend paid on Dec 11 last year, the group has declared total dividends per share of six sen, which translates into a payout of RM10.8 million or 36.7% of net profit.

Note: The Edge Research's fundamental score reflects a company's profitability and balance sheet strength, calculated based on historical numbers. The valuation score determines if a stock is attractively valued or not, also based on historical numbers. A score of 3 suggests strong fundamentals and attractive valuations. Visit www.theedgemarkets.com for more details on a company's financial dashboard.