

## ECS ICT Bhd

### RESULTS UPDATE

## BUY

**Current Price** : RM 1.51  
**Target Price** : RM 1.78

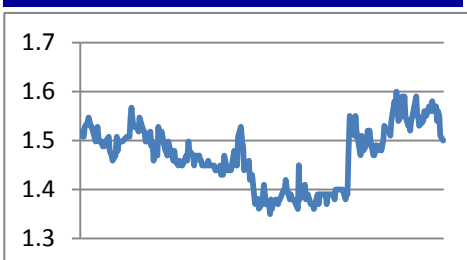
### Key Statistics

Bloomberg Ticker	ECS MK
Masa Ticker / Stock Code	ECS/5162
Shares Issued (m)	180
Market Capitalisation (RM'm)	271.8
52 Week Hi/Lo Price (RM)	1.61/1.33
Avg Trading Volume (3-mth)	206,836
Est Free Float (m)	57.3
YTD Returns (%)	7.14
Beta	0.88

### Major Shareholders (%)

ECS HOLDINGS LTD	41.02
SENGIN SDN BHD	12.05

### 1-Year Share Price Performance



**Analyst:** Wong Ling Ling  
**Email:** wongll@interpac.com.my

## Enterprise Segment to Recover on Digital FTZ

We reiterate our ECS ICT buy call with a fair value of RM1.78 derived from a 10x PER pegged to the FY17 EPS of 17.8sen. The Digital Free Trade Zone announced recently is expected to benefit ECS in many ways. Moreover, we are positive that the earnings for their Enterprise Systems segment will receive a boost this year as corporations are expected to upgrade their servers and also to improve on their cyber-security.

### Earnings Review

The group's revenue increased by 5.8% YoY from RM434.7mil in Q1FY16 to RM460.1mil Q1FY17 due to higher sales from ICT Distribution segment. However, the Enterprise Systems segment recorded a lower turnover as a result of lower sales of servers, networking equipment and software. ECS suffered lower Gross Profit Margins from this quarter due to a more competitive environment and unfavourable product mix. The group's PAT also dropped 6% YoY from RM5.1mil to RM4.8mil.

The results for the first quarter were in line with our expectations. 1Q has always been seasonally a slower quarter in revenue terms as consumers generally delay purchases until year end approaches, in response to yearend bonus payments as well as to enjoy tax incentives.

**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	102.8	103.4
PBT	39.2	43.6	40.3	43.2	44.0
Net Profit	29.4	32.5	30.1	32.1	33.0
EPS (sen)	16.4	18.0	16.7	17.8	18.3
PER	9.2	8.4	9.0	8.5	8.2
GP Margin (%)	5.5	5.2	5.1	5.5	5.4
PBT Margin (%)	2.5	2.3	2.2	2.3	2.3
PAT Margin (%)	1.8	1.7	1.7	1.7	1.7
DPS (sen)	6.0	11.0	6.0	6.5	7.0
Dividend Yield (%)	4.0	7.3	4.0	4.3	4.6
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: Interpacific

**Table 2: Revenue Breakdown**

Revenue	Q1FY17	Q4FY16	QoQ Change (%)	Q1FY17	Q1FY16	YoY Change (%)
ICT Distribution	377.3	431.0	(12.5)	377.3	338.0	11.6
Enterprise Systems	74.7	112.6	(33.7)	74.7	88	(15.1)
ICT services	8.1	8.0	1.3	8.1	8.7	6.9
Total	460.1	551.6	(16.6)	460.1	434.7	5.8

Source: Interpacific, Company

**Table 3: Gross Profit Breakdown**

Gross Profit	Q1FY17	Q4FY16	QoQ Change (%)	Q1FY17	Q1FY16	YoY Change (%)
ICT Distribution	13.3	16.5	(19.4)	13.3	13.0	2.7
Enterprise Systems	5.4	9.6	(43.8)	5.4	6.3	(14.5)
ICT services	1.2	1.9	(36.8)	1.2	1.8	(31.9)
Total	19.9	28.0	(28.9)	19.9	21.1	(5.4)

Source: Interpacific, Company

**Table 4: Segment Profit Margins**

GPM	Q1FY17	Q1FY16	YoYChange (%)
ICT Distribution	3.50%	3.80%	(7.9)
Enterprise Systems	7.20%	7.20%	0.0
ICT services	15.30%	21.00%	(27.1)

Source: Interpacific, Company

**Expecting Better Earnings from Enterprise Segment**

The recent WannaCry malware attack is a blessing in disguise for ECS. As corporations then better appreciate the importance of cyber security, management is positive that more corporations will install cyber-security products to ensure the safety of their data. Organizations will be willing to upgrade their servers and systems as well as a precaution. The group is also looking to expand their current portfolio for cyber-security products.

**Positioning for the Digital Free Trade Zone**

The setting-up of Malaysia’s Digital Free Trade Zone (DFTZ) as a regional logistics hub in Malaysia is expected to benefit ECS in many ways. The group will benefit from the set-up of servers and network infrastructure within the DFTZ. ECS will also position themselves to explore more B2B and B2C e-commerce opportunities. Therefore, it is expected to see an increase the demand for ICT products through higher online business activities where consumers from second or third tier cities will be able to purchase IT products online.

## 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		

**IMPORTANT:** This report has been prepared from sources that are believed to be reliable but we do not hold ourselves responsible for its completeness and accuracy. All opinions and estimates in this report are subject to change without notice. We do not accept any liability that may arise from the use of information in this report. **Inter-Pacific Research SdnBhd** and or its associates may from time to time have interest and/or underwriting commitments in the company being reported. This report is for internal circulation only and the contents or any part thereof **cannot be reproduced** in any manner whatsoever except with the prior written consent of Inter-Pacific Research Sdn Bhd.

**Published and Printed by:**

**Inter-Pacific Research SdnBhd (449005-X)**  
 West Wing, Level 13,  
 Berjaya Times Square,  
 No.1, Jalan Imbi,  
 55100 Kuala Lumpur  
 General Line : 03-2117 1888 Fax : 03-2142 7678