

ECS ICT Bhd

RESULTS UPDATE

NEUTRAL

Current Price : RM 1.49
Target Price : RM 1.70

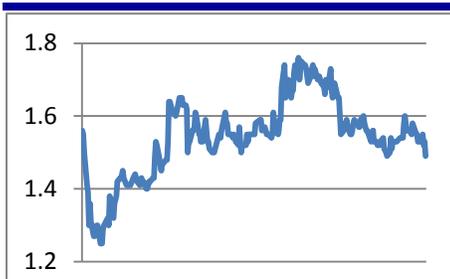
Key Statistics

Bloomberg Ticker	ECS MK
Masa Ticker / Stock Code	ECS/5162
Shares Issued (m)	180
Market Capitalisation (RM'm)	268.2
52 Week Hi/Lo Price (RM)	1.78/1.18
Avg Trading Volume (3-mth)	55,852
Est Free Float (m)	62.8
YTD Returns (%)	-4.49
Beta	0.97

Major Shareholders (%)

ECS HOLDINGS LTD	41.02
SENGIN SDN BHD	12.05

1-Year Share Price Performance



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Tougher Market Conditions

We lower our target price to RM1.70 (14% upside) with a NEUTRAL call. The fair value is based on a 10x PER pegged to its estimated FY16 EPS of 17 sen. We lowered our forecast due to the slowdown in the consumer and government spending. However, we still keep to our positive outlook for ECS as it looks towards introducing the latest in ICT trends in their product portfolio.

Earnings Review

Revenue for the Q2FY16 continued to show a downtrend, decreasing by 4.4% YoY to RM400.2mil as compared to Q2FY15 where group revenue managed to clock in at RM418.8mil. ECS's PAT for this quarter fell to RM6.3mil from RM8mil for Q2FY15. This translates to a 21.3% drop for the group's PAT. For 1HFY16, ECS recorded a total revenue of RM834.9mil which shows a drop of 11.3% compared to 1HFY15. The post GST effect is finally kicking in as consumer spending on electronic gadgets slows down. The drop in the group's performance is generally due to the softer market conditions that comes with slower sales in the ICT Distribution segment, mainly the mobility products. Besides, the Enterprise Systems segment recorded a drop of 10.9% in terms of revenue. However, this segment managed to provide a higher Gross Profit Margin that increased PBT by 12.4% to RM3.3mil. As for the ICT Services segment, lower sales were recorded, leading to a decrease of RM2.9mil in revenue.

Table 1 : Investment Highlights & Earnings Forecasts

FYE DEC	2013	2014	2015	2016(F)	2017(F)
Revenue (m)	1,326.3	1,591.1	1,903.3	1,773.3	1,834.3
PBT (m)	36.58	39.20	43.61	40.98	42.49
Net Profit (m)	26.88	29.43	32.48	30.53	31.66
EPS	0.15	0.16	0.18	0.17	0.18
PER	9.9	9.3	8.3	8.8	8.3
PBT Margin %	2.8	2.5	2.3	2.3	2.3
PAT Margin %	2.0	1.8	1.7	1.7	1.7
DPS (sen)	5.5	6.0	11.0	8.0	8.5
Dividend Yield (%)	3.59	3.92	7.19	5.23	5.56
ROE (%)	13.1	13.1	13.7	14	14.1
ROA (%)	7.9	7.7	7.1	6.6	6.0
Net Gearing Ratio	Net Cash				

Source: Interpacific

Table 2: Revenue Breakdown

Revenue	Q1 FY16	Q2 FY16	QoQ Change (%)	Q2FY15	Q2 FY16	YoY Change (%)
ICT Distribution	338	312.3	(7.6)	318.4	312.3	(2)
Enterprise Systems	88	79.9	(9.2)	89.7	79.9	(11)
ICT services	8.7	8	(8.0)	10.8	8	(26)
Total	434.7	400.2	(7.9)	418.8	400.2	(4)

Source: Interpacific, Company

Table 3: Segment Breakdown

Gross Profit	Q1 FY16	Q2 FY16	QoQ Change (%)	Q2FY15	Q2 FY16	YoY Change (%)
ICT Distribution	13.5	11.6	(14)	14	11.6	(17)
Enterprise Systems	8.1	9	11	8	9	13%
ICT services	1.9	1.3	(32)	1.7	1.3	(24)
Total	23.5	21.9	(7)	23.7	21.9	(8)

Source: Interpacific, Company

Table 4: Gross Profit Margin

GP Margin	Q2FY15	Q2 FY16	YoY Change (%)
ICT Distribution	17.20%	16.40%	(5)
Enterprise Systems	9.10%	11.20%	23%
ICT services	4.20%	3.70%	(12)

Source: Interpacific, Company

Introduction of the latest gadgets in ICT trends

ECS began distributing Virtual Reality (VR) goggles from Orion namely, Orion S1 with built in headsets and Orion V1 without the headsets. The group is positive that the VR goggles would drive smartphone sales as the VR goggles can help users achieve first-hand experience in multimedia applications.

Goldman Sachs forecasted that a total of USD11bil will be generated from drone sales to the construction industry while USD6bil will be generated from the agricultural market worldwide in field crop fertiliser applications and field inspection. ECS is also looking to target the commercial market with new drone models and brands in the second half of the year.

As for the Enterprise Systems segment, the group will introduce enterprise Flash Memory Storage to replace the conventional disc drive storage. The group is also eyeing for new projects for 2HFY16 from the public and private sector for example, ticketing system MRT2.

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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