

ECS ICT Bhd

RESULTS UPDATE

BUY

Current Price : RM 1.47
Target Price : RM 1.78

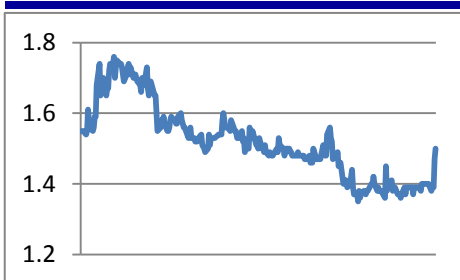
Key Statistics

Bloomberg Ticker	ECS MK
Masa Ticker / Stock Code	ECS/5162
Shares Issued (m)	180
Market Capitalisation (RM'm)	264.6
52 Week Hi/Lo Price (RM)	1.78/1.33
Avg Trading Volume (3-mth)	108,862
Est Free Float (m)	131.2
YTD Returns (%)	6.43
Beta	0.84

Major Shareholders (%)

ECS Holdings Ltd	41.2
SENGIN SDN BHD	12.05

1-Year Share Price Performance



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

Exceptional Performance

We upgrade our call for ECS ICT from NEUTRAL to a BUY call based on a fair value of RM1.78 at 10x PER pegged to the FY17 EPS of 17.8sen. We rolled over our valuations to FY17 forecast. We retain our positive view of ECS as we believe that modernization will continue to increase the society's dependence on electronic gadgets/applications software will definitely boost prospects for ECS in the future.

Earnings Review

The group posted an exceptionally good set of results in the 4Q 2016 quarter with revenue at RM551.6mil, an increase of 11.1%YoY. Higher sales of notebooks and smartphones plus higher sales for networking equipment in the Enterprise Systems segment led to an increase in group total revenue. ECS' smartphone distribution sales were boosted by the sales of Apple's Iphones. 4Q has consistently proven to be the seasonally the best quarter for ECS due to the festive/bonus payment/tax factors and corporate spending for budget allocations for the year. However, the group's Gross Profit remains flattish YoY. A competitive environment in the Enterprise Systems segment pressured margins and caused a drop in gross profits despite ECS recording higher revenues compared to Q4FY15.

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	9.0	8.1	8.8	8.2	8.0
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 (%)	4.1	7.4	4.1	4.4	4.7
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 (RM'mil)	Q4FY16	Q3 FY16	QoQ Change (%)	Q4FY16	Q4FY15	YoY Change (%)
ICT Distribution	431.0	326.7	31.9	431	379.7	13.5
Enterprise Systems	112.6	97.4	15.6	112.6	105.4	6.8
ICT services	8.0	12.8	(37.5)	8	11.5	(30.4)
Total	551.6	436.9	26.3	551.6	496.6	11.1

Source: Interpacific, Company

Table 3: Gross Profit Breakdown

Gross Profit	Q4FY16	Q3 FY16	QoQ Change (%)	Q4FY16	Q4FY15	YoY Change (%)
ICT Distribution	16.5	12.3	34.1	16.5	15.1	9.3
Enterprise Systems	9.6	7.7	24.7	9.6	10.7	(10.3)
ICT services	1.9	1.7	11.8	1.9	1.8	5.6
Total	28.0	21.7	29.0	28.0	27.8	0.7

Source: Interpacific, Company

Table 4: Gross Profit Margin Breakdown

GPM	Q4FY16	Q4FY15	YoYChange (%)
ICT Distribution	3.8%	4.0%	(5.0)
Enterprise Systems	8.5%	10.1%	(15.8)
ICT services	23.8%	15.6%	52.6%

Source: Interpacific, Company

On an annual basis, ECS recorded a total revenue of RM1.823bil. This was a 4.2% decrease compared to FY15. We had forecasted a slight decrease in sales for FY16 due to the pre-GST sales that boosted ECS's FY15 sales. Despite the decrease in actual figures, the top line still exceeded our forecast by 2.8%.

Final Dividend

The group declared a 3 sen final dividend. The ex-date for the dividend payment will be on 30th May 2017 while the entitlement date will be on 1st June 2017. The group declared a total dividend of 6 sen for FY16 which works out to be a dividend payout ratio of 35.8% and translates to an attractive dividend yield of 4.3%. The payout ratio is above the group's dividend policy of a minimum payout ratio of 30%.

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