

## ECS ICT Bhd

### RESULTS UPDATE

## NEUTRAL

**Current Price** : RM 1.17  
**Target Price** : RM 1.31

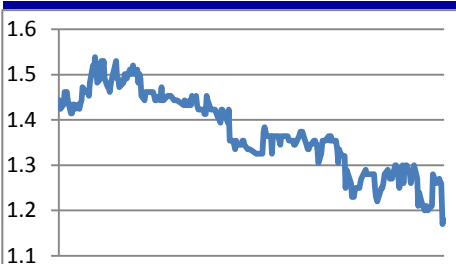
#### Key Statistics

Bloomberg Ticker	ECS MK
Bursa Ticker / Stock Code	ECS/5162
Shares Issued (m)	180
Market Capitalisation (RM'm)	212.4
52 Week Hi/Lo Price (RM)	1.61/1.16
Avg Trading Volume (3-mth)	57,982
Est Free Float (m)	47.6
YTD Returns (%)	-3.28
Beta	0.89

#### Major Shareholders (%)

ECS HOLDINGS LTD	41.5
SENGIN SDN BHD	12.1

#### 1-Year Share Price Performance



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

## Challenging Market Ahead

We revise our call on ECS ICT with a NEUTRAL call with a fair value of RM1.31 derived from 8x PER pegged to a forecasted FY18 EPS of 16.4sen. We have adjusted our earnings estimates lower to accommodate the lower level of ICT spending in Malaysia and the more challenging consumer spending environment.

#### Earnings Review

For the full year under review, ECS managed to record a higher turnover despite the challenging market conditions in the ICT market. Revenue grew 1.7% YoY from RM1.82bil in FY2016 to RM1.85bil in FY2017. The increase in revenue was mainly attributable to a bigger volume in ICT distribution segment and Enterprise Systems segment. However, regardless of the higher revenue, the group's Gross Profit decreased due to the more competitive market.

On a quarterly basis, ECS's revenue fell QoQ by 9.1% from RM551.6mil in Q4FY16 to RM501.2mil in Q4FY17 mainly contributed to by lukewarm sales of Iphone 8 and the late introduction of Iphone X that only came in late 2017.

ECS's full year net profit fell short of our expectations by 10% mainly attributable to the lower GP margin in all 3 segments due to a more competitive market.

**Table 1 :Investment Highlights & Earnings Forecasts**

FYE Dec (RM'mil)	2015	2016	2017	2018(F)	2019 (F)
Revenue	1,903.3	1,823.4	1,855.0	1,894.6	1,918.3
Gross profit	98.6	92.6	87.5	94.7	95.9
Profit Before Tax	43.6	40.4	35.6	39.4	41.3
Profit After Tax	32.5	30.1	26.3	29.5	30.7
EPS (sen)	18.0	16.7	14.6	16.4	17.1
PER (x)	6.5	7.0	8.0	7.1	6.9
GP Margin (%)	5.2	5.1	4.7	5.0	5.0
PBT Margin %	2.3	2.2	1.9	2.1	2.2
PAT Margin %	1.7	1.7	1.4	1.6	1.6
DPS (sen)	11.0	6.0	5.0	6.0	6.0
Dividend Yield (%)	9.4	5.1	4.3	5.1	5.1
ROE (%)	13.7	11.8	9.6	10.1	9.9
ROA (%)	7.6	6.0	5.6	6.2	6.2
Net Gearing Ratio	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Inter-Pacific

**Table 2: Revenue Breakdown by Business Segment**

Revenue	Q4FY17	Q3FY17	QoQ Change (%)	Q4FY17	Q4FY16	YoY Change (%)
ICT Distribution	363.3	343.3	5.8	363.3	431.0	(15.7)
Enterprise Systems	126.7	95.0	33.4	126.7	112.6	12.5
ICT services	11.2	7.9	41.8	11.2	8.0	40.0
Total	501.2	466.2	7.5	501.2	551.6	(9.1)

Source: Inter-Pacific, Company

**Table 3: Gross Profit Breakdown by Business Segment**

Gross Profit	Q4FY17	Q3FY17	QoQ Change (%)	Q4FY17	Q4FY16	YoY Change (%)
ICT Distribution	15.3	13.5	13.3	15.3	16.5	(7.3)
Enterprise Systems	9.3	6.1	52.5	9.3	9.6	(3.1)
ICT services	1.8	1.5	20.0	1.8	1.9	(5.3)
Total	26.4	21.1	25.1	26.4	28.0	(5.7)

Source: Inter-Pacific, Company

**Table 4: Financial Highlights**

FYE Dec (RM'mil)	4QFY17	4QFY16	YoY Chg (%)	3QFY17	QoQ Chg (%)	FY17	FY16	YoY Change (%)
Revenue	501.1	551.6	(9.2)	446.16	12.3	1,855.0	1,823.4	1.7
GP	26.4	28.0	(5.7)	21.08	25.3	87.5	92.6	(5.5)
PBT	15.2	16.7	(9.3)	7.21	110.3	35.6	40.4	(11.7)
Taxation	(3.6)	(4.1)	(12.5)	(2.33)	55.9	(9.34)	(10.2)	(8.3)
PAT	11.6	12.6	(8.2)	4.89	136.3	26.3	30.1	(12.9)
GP Margin (%)	5.3	5.1	3.8	4.7	11.5	4.7	5.1	(7.2)
PBT Margin (%)	3.0	3.0	(0.1)	1.6	87.3	1.9	2.2	(13.2)
PAT Margin (%)	2.3	2.3	1.1	1.1	110.4	1.4	1.7	(14.3)

Source: Inter-Pacific, Company

Moving forward, ECS plans to tap into the fast growing e-sport market and the e-commerce platforms for the ICT distribution segment. The group has introduced the Thunderobot Gaming Notebook to target the gaming laptop market while ECS is currently working closely with their vendors to launch more stores on local e-commerce platforms.

ECS declared a 2.5sen dividend along with the quarterly results bring the total dividend per share to 5 sen in FY2017. The ex-date for the final dividend was set on 25<sup>th</sup> May 2018 while the entitlement date was set on 30<sup>th</sup> May 2018. At the closing price of RM1.17, this translates to a dividend yield of 4.3% for the year on a payout ratio of 34.3%. The lack of possible new earnings drivers in the near term precludes a BUY recommendation in spite of an attractive dividend yield.

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Signed



Pong Teng Siew  
Director  
Inter-Pacific Research Sdn Bhd

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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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**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