

**Briefing / Results Note**  
**ECS ICT Bhd**
**Feb 29<sup>th</sup>, 2016**  
**RM1.55**
**BUY**
**Period:** 4QFY15

Target (RM)	RM1.57 – RM1.79
MASA Codes	ECS / 5162
Bloomberg	ECS MK

**Stock & Market Data**

KLCI	1654.72
Listing	Main Market
Sector	Technology
Syariah Compliance	Yes
Par Value	RM0.50
Issued Shares	180.0m
1-year return	+24.0%
52-week Hi/Lo	RM1.18 – RM1.77
1-month Average Volume	0.2m
Market Capitalisation	RM279.0m
Estimated Free Float	20%
Major Shareholders: -	
ECS Holdings Ltd	41.0%
Chairman Foo Sen Chin	12.2%

**Key Indicators @ FY16**

PER (x)	9.2
PBV (x)	1.1
Net Debt/Equity (%)	net cash
ROE (%)	11.8

**Dividend:** A 3.0 sen per share dividend was proposed. Together with a 3.0 sen and 5.0 sen special dividend paid in December 2015, total payout would amount to 60.9% of FY15's net profit.

**Actual versus expectations:** After a less than impressive 3Q results, ECS made up for the shortfall by exceeding our lowered expectations!

**Result highlights:** ECS achieved 5.0% higher net profit of RM10.3m in 4Q15 (4Q14: RM9.9m) on higher revenue by 10.0% to RM496.5m (4Q14:RM451.5m) Revenue from ICT Distribution grew for the 10th consecutive quarter, increasing 18.6% to RM379.7m (4Q14: RM320.3m) on higher sales of notebooks and tablets. Slower implementation of corporate projects resulted in revenue from Enterprise Systems and ICT Services decreasing to RM105.4m and RM11.4m, respectively in 4Q15 (4Q14: RM116.1m and RM15.1m, respectively).

Full year FY15 results was the best ever financial performance by ECS, with net profit rising 10.4% to RM32.5m (FY14: RM29.4m) on higher revenue of 19.6% to RM1.9bn (FY14: RM1.6bn). The major contributor to the topline was ICT Distribution (+28.5% y/y to RM1.4bn) on higher sales of PCs, notebooks, and mobility products. Enterprise Systems revenue was sustained in FY15 at RM426.3m, while revenue from the ICT Services segment dipped 5.9% to RM48.1m.

**Table 1. 4QFY15 results & comparison**

FYDec / RM'm	4QFY15	4QFY14	3QFY15	y/y Chg %	q/q Chg %	FY15	FY14	y/y Chg %
Revenue	496.5	451.5	465.1	10.0	6.8	1903.3	1591.1	19.6
Cost of sales	(465.9)	(425.5)	(446.8)	9.5	4.3	(1804.7)	(1504.4)	20.0
Gross profit	30.6	26.0	18.3	18.0	67.5	98.6	86.7	13.7
Admin & Dist Exp	(14.6)	(12.7)	(14.1)	15.2	3.1	(56.5)	(49.6)	14.0
Other income/(exp)	(3.0)	(0.6)	1.8	378.0	-264.3	(0.5)	0.7	-171.3
EBIT	13.1	12.7	6.0	3.0	118.7	41.6	37.8	10.0
Interest income/(Exp)	0.7	0.4	0.5	66.7	32.1	2.0	1.4	44.4
Pretax profit	13.7	13.1	6.5	5.0	111.7	43.6	39.2	11.2
Tax	(3.4)	(3.2)	(1.7)	4.9	95.7	(11.1)	(9.8)	13.9
Net profit	10.3	9.9	4.8	5.0	117.5	32.5	29.4	10.4
EPS (sen)	5.7	5.5	2.6	3.6	119.2	18.0	16.4	9.8
GP margin (%)	6.2	5.8	3.9	0.4ppt	2.2%	5.2	5.5	-0.3ppt
EBIT margin (%)	2.6	2.8	1.3	-0.2ppt	1.3%	2.2	2.4	-0.2ppt
Tax rate (%)	24.8	24.8	26.8	0.0ppt	-2.0%	25.5	24.9	0.6ppt

ECS recently announced that its wholly owned subsidiary ECS Astar Sdn Bhd had obtained distributorships to distribute the Apple Watch, Motorola Moto 360 and ASUS ZenWatch 2. It also won the rights to distribute the Huawei Watch. The smartwatches will be distributed through its newly established watch channel, in addition to its traditional channels of IT and mobile retailers, Consumer Electronic Chain Stores and E-commerce sites. To date, it has a distribution network that exceeds 5,500 resellers across Malaysia.

Mr. Soong Jan Hsung, Chief Executive Officer of ECS, said, "we intend to better this record. In fact, we have already started the ball rolling by entering the wearables market through the distribution of smartwatches from January 2016 onwards. For our growth strategies, we will be targeting to add more brands and products into our portfolio throughout the year."

## Valuation and recommendation



Over the last 2 years, ECS has proven that they have capabilities to expand their portfolio of products from predominantly notebooks and PCs and accessories to mobility products like smartphones and tablets. Its new venture is into wearables market; at the moment electronic watches. We at the moment are not so sanguine on the wearables market as prices has yet to reach a point to appeal to the mass market. Henceforth, we are forecasting a flat performance for FY16. Much will be dependent on consumers' sentiment (that has taken a hit due to numerous cost-push factors), and the consumer's adoption of new products like wearables.

We retain our valuation model that is based on its FY16 book value of RM1.43. Using a multiple of 1.10x – 1.25x (i.e. a 10 – 25% premium to book value) we derive a valuation range of between RM1.57 – RM1.79. We reiterate our BUY recommendation.

**Table 2. Profit & Loss forecast**

FYDec / RM'm	2012A	2013A	2014A	2015A	2016F
Revenue	1276.1	1326.3	1519.1	1903.3	1900.0
Pretax profit	40.3	36.6	39.2	43.6	40.8
Net profit	29.9	26.9	29.4	32.4	30.4
EPS (sen)	16.6	14.9	16.4	18.0	16.9
Pretax margin (%)	3.2%	2.8%	2.6%	2.3%	2.1%
Net profit margin (%)	2.3%	2.0%	1.9%	1.7%	1.6%
PER (x)	9.3	10.4	9.5	8.6	9.2
Dividend (sen)	5.5	5.5	6.0	10.0	6.0
Dividend yield (%)	3.5	3.5	3.9	6.5	3.9
Net Gearing (x)	net cash	net cash	net cash	net cash	net cash
Book value/share (RM)	1.10	1.14	1.24	1.32	1.43
Price/Book (x)	1.4	1.4	1.2	1.2	1.1

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**Table 3. Statement of financial position forecast**

<b>FYDec / RM'm</b>	<b>FY16(f)</b>	<b>FY15</b>	<b>FY14</b>	<b>FY13</b>
<b>Assets</b>				
Plant & Equip	3.5	3.4	3.3	4.0
Intangible asset	0.6	0.6	0.6	0.6
Investment in club	0.1	0.1	0.1	0.1
Deferred tax asset	1.5	1.7	1.4	1.5
<b>Total non current asset</b>	<b>5.7</b>	<b>5.7</b>	<b>5.4</b>	<b>6.1</b>
Inventories	140.0	110.8	119.4	85.6
Receivables	200.0	197.3	197.4	173.3
Cash	104.0	116.2	89.7	83.7
<b>Total current assets</b>	<b>444.0</b>	<b>424.4</b>	<b>406.5</b>	<b>342.6</b>
<b>Total assets</b>	<b>449.7</b>	<b>430.1</b>	<b>411.8</b>	<b>348.7</b>
<b>Equity</b>				
Share capital	90.0	90.0	90.0	90.0
Reserves	166.4	146.8	134.1	114.6
<b>Total Equity</b>	<b>256.4</b>	<b>236.8</b>	<b>224.1</b>	<b>204.6</b>
<b>Liabilities</b>				
Payables	190.0	190.0	185.2	142.1
Tax payable	3.3	3.3	2.5	2.1
<b>Current liabilities</b>	<b>193.3</b>	<b>193.3</b>	<b>187.7</b>	<b>144.2</b>
<b>Total liabilities</b>	<b>193.3</b>	<b>193.3</b>	<b>187.7</b>	<b>144.2</b>
<b>Total equity &amp; liabilities</b>	<b>449.7</b>	<b>430.1</b>	<b>411.8</b>	<b>348.7</b>

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