

Briefing / Results Note
ECS ICT Bhd
Feb 13th, 2015
RM1.38
BUY
Period: 4QFY14

Target (RM)	RM1.46 – RM1.66
MASA Codes	ECS / 5162
Bloomberg	ECS MK

Stock & Market Data

KLCI	1789.07
Listing	Main Market
Sector	Technology
Syariah Compliance	Yes
Par Value	RM0.50
Issued Shares	180.0m
Market Capitalisation	RM248.4m
1-year return	12.9%
52-week Hi/Lo	RM1.02 / RM1.73
1M Average Volume	0.1m shares
Estimated Free Float	20%
Major Shareholders: -	
ECS Holdings Ltd	41.0%
Chairman Foo Sen Chin	12.2%

Key Indicators @ FY14

PER (x)	9.3
PBV (x)	1.0
Net Debt/Equity (%)	Net cash
ROE (%)	11.1%

Dividend: A dividend of 3sen was declared for the quarter, bring total payout of 36% for the year, compiling with mandated payout of at least 30%.

Actual versus expectations: Results were above our expectations even as we were expecting Q4 to perform better.

Result highlights: 4Q revenue came in at RM451.1m (+25% y/y; 15.2% q/q) on higher revenue from ICT Distribution (PCs, notebooks & smart phones) at RM320.3m that was up 38.7% y/y. Enterprise and Services' performance for the quarter was flat. As a result, gross profit improved 5.8% y/y and 38% q/q simply due to higher volume of units moved.

For the year, revenue came in at RM1.59bn (+20% y/y) and gross profit at RM86.7m (+6.5% y/y). The higher revenue was due to better performance of ICT distribution (+32.1% y/y) whereas Enterprise and Services' performance was flat. Gross profit margin declined as the increased revenue arises from the sale

of smart phones that has lower gross profit margin. Admin and distribution expenses increased by 5.6% (expected, since more units were sold) but were compensated by lower effective tax rate of 24.9% versus 26.5% last year. All in, this resulted in EPS increasing to 16.4 sen/share (+10.1% y/y).

FYDec / RM'm	4QFY14	4QFY13	3QFY14	y/y Chg %	q/q Chg %	FY14	FY13	y/y Chg %
Revenue	451.5	361.3	392.0	25.0	15.2	1591.1	1326.3	20.0
Cost of sales	(425.5)	(336.7)	(373.2)	26.4	14.0	(1504.4)	(1244.8)	20.9
Gross profit	26.0	24.6	18.8	5.8	38.0	86.7	81.4	6.5
Admin & Dist Exp	(12.7)	(12.5)	(11.9)	1.4	6.0	(49.6)	(47.0)	5.6
Oth income / (exp)	(0.6)	0.7	2.0	-196.0	-130.7	0.7	0.8	-12.9
EBIT	12.7	12.7	8.9	-0.3	42.2	37.8	35.2	7.3
Interest income / (Exp)	0.4	0.4	0.2	18.8	111.7	1.4	1.4	2.6
Pretax profit	13.1	13.1	9.1	0.2	43.7	39.2	36.6	7.2
Tax	(3.2)	(3.3)	(1.8)	-2.9	77.5	(9.8)	(9.7)	0.8
Net profit	9.9	9.7	7.3	1.3	35.3	29.4	26.9	9.5
EPS	5.5	5.4	4.0	1.9	37.5	16.4	14.9	10.1
GP margin	5.8%	6.8%	4.8%	-1.0%	1.0%	5.5%	6.1%	-0.7%
EBIT margin	2.8%	3.5%	2.3%	-0.7%	0.5%	2.4%	2.7%	-0.3%
Tax rate	24.8%	25.6%	20.1%	-0.8%	4.7%	24.9%	26.5%	-1.6%

Outlook

ICT spending in Malaysia is expected to grow by 5% in 2015 to US\$10.6m (*Source: IDC*) on the back of higher hardware and software sales. Smart phones will grow at a quicker pace of 8% to US\$2.4bn.

ECS will continue to leverage on the increasing demand for mobile devices. It is optimistic it will sign on another phone manufacturer, after adding BenQ in 3Q.

It will be relaunching its upgraded business-to-business (B2B) platform that will allow retailers and resellers to make purchases and payment seamlessly. The platform will be user friendly and fully integrated with its ERP (Enterprise Resource Planning) system on a real time basis thus allowing for efficient inventory management.

Its lookout for M&A targets has not materialise into something tangible. Nevertheless, it remains diligent in its search for the right candidate.

Valuation and recommendation



Even as 4Q results came in above our expectations, we do not think the performance can be repeated. Our pessimism is based on 1. Expected lower government payout to its employees as the government embarks on lowering operating expenditure; 2. Higher products prices due to depreciation of the ringgit; 3. GST implementation will further erode consumer confidence; and 4. Higher competition as more brands fight it out in the marketplace. ECS can counter this threat via 2 possibilities i.e. 1. Erode gross margins to capture or maintain market share or 2. Maintain gross margins and reduce market share. Both of the scenarios will result in lower profitability. We at this moment are unable to quantify the impact quantum on ECS's bottom line, but our estimates point to slight erosion in topline and bottom line. We are forecasting ECS to make 14.8 and 14.9 sen respectively, for FY15 and FY16. Nevertheless, we believe such numbers are a worthy performance.

We retain our valuation model that is based on its book value. Based on average of end- FY15 book value per share of RM1.33 and using a multiple of 1.10x – 1.25x (i.e. a 10 – 25% premium to book value) we derive a valuation range of between RM1.46 – RM1.66. **Since the stock is trading below our fair valuation range, we upgrade our recommendation to BUY. Should the price go above RM1.66, SELL the stock.**

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Table 1. Profit & Loss forecast

FYDec / RM'm	2012A	2013A	2014A	2015F	2016F
Revenue	1276.1	1326.3	1519.1	1511.6	1511.6
Pretax profit	40.3	36.6	39.2	35.4	35.4
Net profit	29.9	26.9	29.4	26.7	26.9
EPS (sen)	16.6	14.9	16.4	14.8	14.9
Pretax margin (%)	3.2%	2.8%	2.6%	2.3%	2.3%
Net profit margin (%)	2.3%	2.0%	1.9%	1.8%	1.8%
PER (x)	8.3	9.3	8.4	9.3	9.2
Dividend (sen)	5.5	5.5	6.0	6.0	6.0
Dividend yield (%)	4.0	4.0	4.3	4.3	4.3
Net Gearing (x)	Net cash	Net cash	Net cash	Net cash	Net cash
Book value/share (RM)	1.10	1.14	1.24	1.33	1.42
Price/Book (x)	1.3	1.2	1.1	1.0	1.0

Table 2. Statement of financial position forecast

FYDec / RM'm	FY16(f)	FY15(f)	FY14	FY13
Assets				
Plant & Equip	3.5	3.5	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	1.2	1.3	1.4	1.5
Total non current asset	5.3	5.4	5.4	6.1
Inventories	120.0	120.0	119.4	85.6
Receivables	200.0	200.0	197.4	173.3
Cash	123.8	107.6	89.7	83.7
Total current assets	443.8	427.6	406.5	342.6
Total assets	449.1	433.0	411.8	348.7
Equity				
Share capital	90.0	90.0	90.0	90.0
Reserves	166.1	150.0	134.1	114.6
Total Equity	256.1	240.0	224.1	204.6
Liabilities				
Payables	190.0	190.0	185.2	142.1
Tax payable	3.0	3.0	2.5	2.1
Current liabilities	193.0	193.0	187.7	144.2
Total liabilities	193.0	193.0	187.7	144.2
Total equity & liabilities	449.1	433.0	411.8	348.7

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