

08 November 2012

## ECS ICT

### Below expectations

- |                                |  |
|--------------------------------|--|
| <b>Period</b>                  | <ul style="list-style-type: none"> <li>9M12/3Q12</li> </ul>  |
| <b>Actual vs. Expectations</b> | <ul style="list-style-type: none"> <li>The 9M12 net profit of RM20.6m came in below our expectations and accounted for 61.4% and 60.9% of ours and the street's full-year estimates respectively.</li> </ul>   |
| <b>Dividends</b>               | <ul style="list-style-type: none"> <li>Announced a single tier interim dividend of 3.0 sen/share. The ex-date has been set on 26 Nov 2012.</li> </ul>  |
| <b>Key Result Highlights</b>   | <ul style="list-style-type: none"> <li><b>YoY</b>, the 9M12 revenue rose 3.7% to RM942.6m thanks to higher performance from all its three business segments namely ICT distribution (+1.3%), Enterprise systems (+6.2%) and IT services (+9.1%). Enterprise systems and IT services were mainly boosted by higher sales of networking products, enterprise software and the completion of a few project transactions. The group's net profit meanwhile rose 2.9% to RM20.3m as a result of improved sales, higher interest income and a lower effective tax rate of 26.1% vs. 26.8% a year ago.</li> <li>In the quarter, the group also incurred notable higher distribution expenses of RM23.0m (9M11: RM18.5m) due to its aggressive campaign to recruit resellers for its smartphone and tablet distribution business segment.</li> <li><b>QoQ</b>, the 3Q12 revenue inched up by 6% due to seasonality factor. The net profit increased by 16.4% to RM6.5m mainly attributed to stronger sales from its higher GP margin Enterprise Systems segment. The group's PBT margin and net profit margin have improved to 2.6% and 2.0% respectively (from 2.4% and 1.8% previously) as a result of higher sales in the enterprise system segment.</li> </ul> |
| <b>Outlook</b>                 | <ul style="list-style-type: none"> <li>The lower consumer demand for Notebook PCs coupled with the higher price tag of the popular ultrabook has hurt the sales of its ICT distribution segment. Recently, the group has also started to distribute Google's Nexus 7 (tablet) to its IT channel retailers with the much-anticipated ASUS Padphone 2 and iPad mini to come soon by early next year. We believe this will provide an additional revenue stream to the group in the future.</li> <li>The Enterprise segment's prospect remains bright, underpinned by demand from cloud computing system and data server system, particularly from the telecommunication sector.</li> </ul>   |
| <b>Change to Forecasts</b>     | <ul style="list-style-type: none"> <li>Post-results, we have reduced our FY12 and FY13 net profits by 14.6% each to RM28.6m and RM30.4m respectively after imputing in a higher SG&amp;A margin assumption of 3.8% (vs. 3.5% previously) and a lower revenue growth of 3.0% (vs. 7.9% previously) from the ICT distribution segment.</li> </ul>  |
| <b>Rating</b>                  | <b>Downgraded to MARKET PERFORM</b>  |
| <b>Valuation</b>               | <ul style="list-style-type: none"> <li>We have cut our ECS' TP to RM1.03 based on a lower +1SD FY13 targeted PER of 6.1x (vs. +2SD previously) on our adjusted lower FY13 EPS of 16.9 sen due to the more cautious outlook on the ICT distribution segment.</li> </ul>   |
| <b>Risks</b>                   | <ul style="list-style-type: none"> <li>Lack of or delays in new ICT products.</li> </ul>   |

## MARKET PERFORM ↓

Price: **RM1.09**  
 Target Price: **RM1.03** ↓

### Share Price Performance



KLCI	1,645.53
YTD KLCI chg	7.5%
YTD stock price chg	30.8%

### Stock Information

Bloomberg Ticker	ECS MK Equity
Market Cap (RM m)	196.2
Issued shares	180.0
52-week range (H)	1.19
52-week range (L)	0.80
3-mth avg daily vol:	167,952
Free Float	38%
Beta	0.9

### Major Shareholders

ECS HOLDINGS LTD	41.0%
SENGIN SDN BHD	12.1%
OASIS HOPE SDN BHD	8.6%

### Summary Earnings Table

FYE Dec (RM'm)	2011A	2012E	2013E
Turnover	1250.7	1316.0	1408.7
EBIT	40.8	38.8	41.3
PBT	40.9	38.8	41.3
<b>Net Profit (NP)</b>	<b>30.1</b>	<b>28.6</b>	<b>30.4</b>
Consensus (NP)		-	-
Earnings Revision		-15%	-15%
EPS (sen)	25.1	15.9	16.9
EPS growth (%)	-2.3%	-36.8%	6.4%
GDPS (sen)	8.0	5.1	5.4
NTA/Share (RM)	1.4	1.1	1.2
PER (X)	6.8	10.7	10.1
Gearing (%)	N.Cash	N.Cash	N.Cash
Dividend Yield (%)	5.6%	5.4%	5.7%

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## Result Highlight

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE, Dec (RM'm)	FY12	FY12	Chg	FY11	Chg	FY12	FY11	Chg
Turnover	327.9	309.3	6.0%	317.9	3.2%	942.6	908.9	3.7%
GP	21.2	17.9	18.4%	17.9	18.6%	61.0	54.6	11.6%
EBIT	8.3	7.2	16.2%	9.5	-12.7%	26.4	27.0	-2.0%
PBT	8.6	7.5	14.2%	9.6	-10.7%	27.4	26.9	1.9%
Taxation	2.1	1.9	7.7%	2.6	-20.2%	7.1	7.2	-1.0%
<b>Net Profit (NP)</b>	<b>6.5</b>	<b>5.6</b>	<b>16.4%</b>	<b>7.1</b>	<b>-7.3%</b>	<b>20.3</b>	<b>19.7</b>	<b>2.9%</b>
EPS (sen)	5.4	4.7	14.9%	5.9	-8.5%	16.9	16.4	3.0%
GP margin	6.5%	5.80%		5.6%		6.5%	6.0%	
EBIT margin	2.5%	2.32%		3.0%		2.8%	3.0%	
PBT margin	2.6%	2.43%		3.0%		2.9%	3.0%	
NP margin	2.0%	1.82%		2.2%		2.1%	2.2%	
Effective tax rate	23.9%	25.34%		26.7%		26.1%	26.8%	

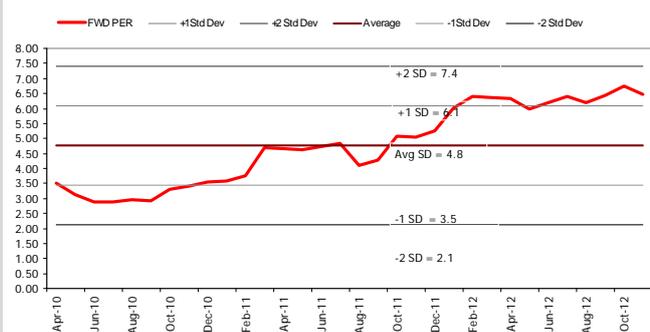
Source: Company, Kenanga Research

## Segmental Breakdown

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE, Dec (RM'm)	FY12	FY12	Chg	FY11	Chg	FY12	FY11	Chg
<b>Segment Revenue</b>								
- ICT distribution	195.2	212.9	-8.3%	208.3	-6.3%	605.7	597.6	1.3%
- Enterprise Systems	137.5	91.9	49.7%	119.2	15.4%	333.7	314.2	6.2%
- ICT services	5.2	4.6	13.6%	5.3	-2.7%	13.1	12.0	9.1%
<b>Total</b>	<b>337.9</b>	<b>309.3</b>	<b>9.2%</b>	<b>332.8</b>	<b>1.5%</b>	<b>952.5</b>	<b>923.9</b>	<b>3.1%</b>
<b>Segment PBT</b>								
- ICT distribution	2.1	3.9	-45.0%	4.8	-55.4%	10.1	14.0	-28.1%
- Enterprise Systems	6.1	2.9	109.5%	4.2	46.4%	15.8	10.9	44.3%
- ICT services	0.2	0.4	-31.9%	0.1	73.2%	0.8	0.4	122.9%
<b>Total</b>	<b>8.5</b>	<b>7.2</b>	<b>18.2%</b>	<b>9.1</b>	<b>-7.0%</b>	<b>26.6</b>	<b>25.3</b>	<b>5.3%</b>

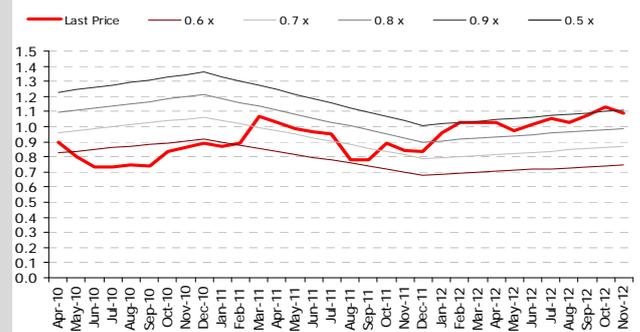
Source: Company, Kenanga Research

## Forward PER Standard Deviation



Source: Bloomberg, Kenanga Research

## Forward PBV



**Stock Ratings are defined as follows:**

**Stock Recommendations**

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM: A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**Sector Recommendations\*\*\***

- OVERWEIGHT : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

***\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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