

12 November 2013

# ECS ICT Bhd

## Unfavourable Forex Hits 9M13 Profit

### INVESTMENT MERIT

- 9M13 results hit by unfavourable forex.** ECS's 9M13 revenue improved slightly by +2.4% YoY to RM965.0m, thanks to its ICT Distribution segment (+2.1%) and Enterprise Systems segment (+3.4% YoY). The 9M13 GP margin, however, softened to 5.9% (9M12: 6.5%) as a result of an unfavourable foreign exchange rate and thus, leading its net profit lower to RM17.2m from RM20.2m a year ago.
- Trimmed FY13 earnings by 8.2% but keeping our FY14 forecast unchanged.** We have trimmed our FY13 net profit forecast by 8.2% to RM27.7m in view of its weaker-than-expected 9M13 results which only accounted for 56.9% of our previous full-year estimates. Nevertheless, the group is expected to record a stronger result in 4Q due to a seasonality factor where the group's 4Q normally accounted for about 29%-36% of its full-year earnings based on historical trends.
- Smartphone segment continues to gain traction.** ECS is expecting its smartphone segment to continue gaining traction and record RM15m turnover in 4Q13, bringing the segment's full-year turnover to RM40m. Management believes the strong growth will be underpinned by the expected increasing demand of its better smartphones product mix (i.e. Samsung, Lenovo, Hwawei and ASUS's Padfone) from its enterprise segment customers and IT retail channel resellers. Margin-wise, the segment is expected to generally a higher GP margin of 5%-7% as compared to the traditional ICT product's margin of 4%-5%. We have incorporated the above assumptions into our financial model.
- Positive impact from the recent announced Budget 2014.** According to budget 2014, cost of purchasing ICT equipment and software is allowed as Accelerated Capital Allowance (ACA) to up to 100% (vs. 16% annually) until the year of assessment 2016. Management believes the new policy will encourage more companies to invest in new ICT products in order to further enhance their efficiency as well as productivity. Meanwhile, management also expects the group to benefit from the pre-GST preparation in which demand for ICT equipments tends to increase during the period.
- Fair value remains at RM1.22.** We are keeping our ECS fair value at RM1.22 based on an unchanged targeted FY14 PER of 6.7x, at a steep 59% discount to the FBM Small Cap targeted FY14 PER of 11.4x due to its relatively small-market capitalisation as well as shares liquidity concerns. Dividend-wise, we expect ECS to distribute 5.4 sen of NDPS (or 32.1% dividend payout) in FY13, which is in line with the group's 20.7%-33.2% of dividend payout since listing on Apr-10.

### SWOT ANALYSIS

- Strength:** Market leader for ICT distribution in Malaysia
- Weaknesses:** Low market cap.
- Opportunities:** Exploring cloud computing segment.
- Threats:** Weak consumer demand for its ICT products.

### TECHNICALS

- Resistance:** RM1.40 (R1), RM1.30 (R2)
- Support:** RM1.20 (S1), RM1.15 (S2)
- Comments:** The stock has pull back from recent record high @RM1.40 and currently is diving into range-bound cycle between RM1.25-RM1.15 as profit taking activity takes place. Immediate support is pegged at RM1.20.



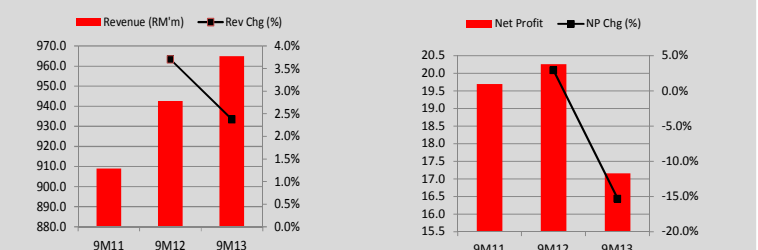
Source: Bloomberg

### Rating

### Fair Value

Last Price	-	RM1.260
Kenanga	Not Rated	RM1.220
Consensus	Neutral	RM1.220

### FINANCIALS



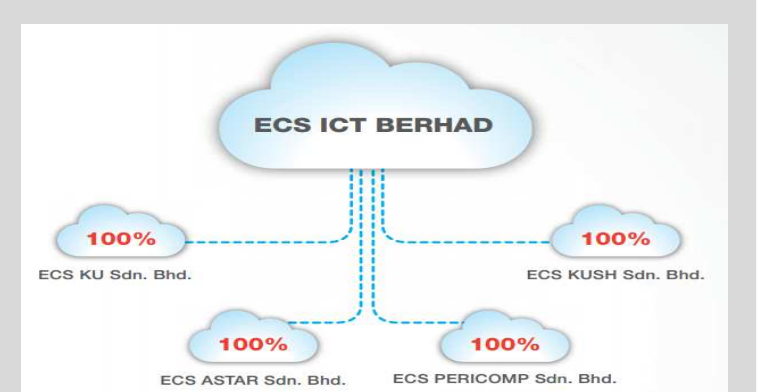
FYE Dec	9M13	9M12	YoY	3Q13	2Q13	QoQ
Revenue	965.0	942.6	2%	344.2	300.5	15%
PBT	23.5	27.4	-14%	7.2	7.5	-5%
Net Profit	17.2	20.3	-15%	5.3	5.5	-4%
EPS (sen)	9.5	11.3	-16%	2.9	3.1	-6%
DPS (sen)	3.0	3.0	0%	3.0	0.0	N.M.

Source: Bloomberg, Company

	2012A	2013F	2014F
PER (x)	7.7	8.3	7.0
PBV (x)	1.2	1.1	1.0

Source: Bloomberg, Company

### CORPORATE STRUCTURE



Source: Kenanga Research

### BUSINESS OVERVIEW

ECS ICT Berhad (Bursa Code: 5162, ECS), which was listed on the Main Market of Bursa Malaysia on 15-Apr 2010 is a leading distribution company for Information & Communications Technology (ICT) products in Malaysia with distribution channels of over 2,500 resellers throughout Malaysia. The main business segment for the company include ICT Products Distribution, Enterprise Systems, and ICT Services, with more than 40 leading principals like Hewlett Packard, IBM, Cisco, Microsoft, Apple, Dell, Oracle, and Samsung.

### BUSINESS SEGMENTS

- ICT Products Distributor.** Covers all major distribution channels through reseller and end user segments. The company has a distribution channel of over 2,500 resellers throughout Malaysia. This segment accounted for 63% of the group's total revenue in 9M13.
- Enterprise Systems.** Selling Enterprise Systems products such as Servers and Data Centers, Network Systems, and Enterprise Software. This segment contributed 36% of the group's total revenue in 9M13.
- ICT Services.** Provides network and system integration, internet solutions, software support, hardware repairs and maintenance for its customers. This segment accounted about 1% of total revenue of the company in 9M13.



**ECS ICT BHD**

Industry: Distribution/Wholesale

Industry Sub-Sector: Distribution/Wholesale

Currency: MYR

Exchange: Bursa Malays

Stock ID	Price @ 11-Nov-13	% Chg 1 yr	% Chg 3 mth	% Chg 6 mth	% Chg 1 day	% Chg 5 day	% Chg YTD
5162							
ECS MK	1.260	13.51	5.88	8.62	-5.97	-1.56	21.15
KLCI	1804.21	9.94	1.40	1.03	-0.34	-0.01	6.82

ECS ICT Bhd distributes information and communication technology products.

**Ownership Statistics**

Institutional Ownership	52.8%
Retail Ownership	46.7%
Insider Ownership	0.5%

**Ownership Type**



Financial Stats		FY11	FY12	FY13E	FY14E
FYE Dec	MYR				
Revenue		1,250.7	1,276.1	1,372.9	1,441.5
EBITDA		41.8	37.7	37.7	44.7
OP		40.1	35.7	37.7	44.7
Pretax		40.9	40.3	37.7	44.7
Net Profit		30.1	29.9	27.7	32.9
EPS (SEN)		16.7	16.6	15.4	18.3

**Balance Sheet**

Non-CA	6.6	6.7	5.7	4.5
CA	317.0	324.8	355.4	387.0
<b>Total Assets</b>	<b>323.6</b>	<b>331.5</b>	<b>361.0</b>	<b>390.5</b>
CL	150.9	143.9	153.3	160.8
Non-CL	0.0	0.0	0.0	0.0
Shareholders fund	172.7	187.6	207.7	229.7
Minority interest	-	-	-	-
<b>Total Equity &amp; Liabilities</b>	<b>323.6</b>	<b>331.5</b>	<b>361.0</b>	<b>390.5</b>

**Cash Flow**

Operating CF	56.3	23.5	22.4	29.0
Investing CF	(3.0)	(2.1)	(1.0)	-
Financing CF	(17.5)	(15.0)	(10.0)	(10.9)
Change in Cash	35.8	6.4	11.4	18.1

**Valuation Stats**

FYE Dec	FY11	FY12	FY13E	FY14E
PER (x)	7.5	7.6	8.2	6.9
P/BV (x)	1.3	1.2	1.1	1.0
EV/EBITDA	3.6	3.7	3.1	2.5
DPS (SEN)	5.33	5.50	5.36	5.84
Dividend Yield (%)	4.2	4.4	4.3	4.6
ROE (%)	18.8	16.6	15.3	15.0
ROA (%)	10.2	9.1	8.7	8.7
EPS Growth (%)	4%	-1%	-7%	19%
Revenue Growth (%)	-1.6%	2.0%	7.6%	5.0%
OP Margin (%)	3.2	2.8	2.7	3.1
NP Margin (%)	2.4	2.3	2.0	2.3

**Domestic Peers Comparison (CY12)**

	PER	P/BV	P/NTA	P/CF	Div Yield	Mkt Cap
MESINIAGA BHD	17.53	0.67	0.67	N.A.	9.50	133.5
SIMPLE AVG	17.53	0.67	0.67	N.A.	9.50	
ECS ICT BHD	7.00	1.10	1.17	9.08	4.66	226.8
FTSE Bursa Malaysia KLCI	16.91	2.35			5.85	

Market Cap (mil)	226.8	Return on Capital (%)**	15.1
Total Debt (mil)**	0.0	Return on Assets (%)**	9.0
Total Assets (mil)**	308.1	Return on Common Eqy (%)**	15.1
Total Capital (mil)**	195.0	Sales Growth **	5.0
Tot Debt/Tot Ast (%)**	0.0	Diluted EPS Cont Ops**	0.03
Tot Debt/Tot Cap (%)**	0.0	Current Qtr EPS Est	N/A
Tot Debt/Com Eqy (%)**	0.0	Current Yr EPS Est	0.17
Tot Debt/EBITDA (x)**	0.00	Beta (x)	0.69
Book Value (x)**	1.08	Relative Index	FTSE Bursa Malaysia KLCI
Number of Shares Outstanding (mil)	180.0	Index Weighting	N/A
Avg 6M Daily Vol Traded (mil)	0.1	Alt. Relative Index	FTSE BURSA MALAYSIA EMAS
Avg 6M Daily Value Traded (mil)	0.1	Alt. Index Weighting	N/A
Net Gearing (x)	-	2nd Alt. Relative Index	FTSE Bursa Mal Small Cap
Free Float (%)	27.5	2nd Alt. Index Weighting	N/A
Share Price 52 Week High	1.40	Consensus Target Price	N/A
Share Price 52 Week Low	0.99	Target Price (H)	N/A
Altman's Z-Score	6.9	Target Price (L)	N/A
Interest Coverage Ratio	4473.3	Consensus Recommendation	HOLD
<b>Top 3 Major Shareholders:</b>	<b>%</b>	Expected Earnings Report Date	2/20/2014
ECS HOLDINGS LIMITED	41.0	Last Gross DPS (sen)	3.0
SENGIN SDN BHD	12.1	Last Net DPS (sen)	3.0
OASIS HOPE SDN BHD	8.6	Last Dividend EX Date	11/26/2013

\*\*Trailing numbers as of the most recent quarter end: 2013 Q2

**Quarterly Financial Data**

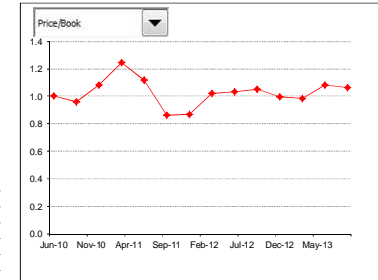
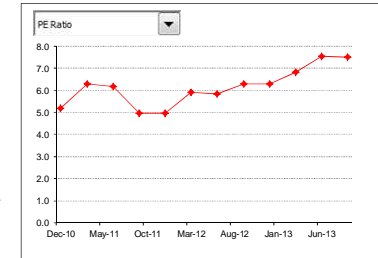
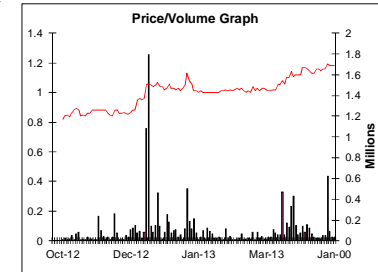
	3Q12	4Q12	1Q13	2Q13	3Q13
Revenue	327.9	333.5	320.3	300.5	344.2
OP	7.7	11.9	8.0	7.2	7.2
Pretax	8.6	12.9	8.8	7.5	7.5
Net Profit	6.5	9.6	6.4	5.5	5.3
EPS (sen)	3.60	5.30	3.50	3.10	2.90
EPS Growth (QoQ)	14.9%	47.2%	-34.0%	-11.4%	-6.5%
Revenue Growth (QoQ)	2.3%	1.7%	-4.0%	-6.2%	14.6%
OP Margin	2.3%	3.6%	2.5%	2.4%	2.1%

**Revenue Breakdown**

	2010	855.3	67%	2011	797.5	64%	2012	787.2	62%
ICT distribution									
Enterprise systems		404.8	32%		439.4	35%		475.5	37%
ICT services		11.4	1%		13.8	1%		13.4	1%
<b>Total</b>		<b>1,271.5</b>	<b>100%</b>		<b>1,250.7</b>	<b>100%</b>		<b>1,276.1</b>	<b>100%</b>

**Geographic Breakdown - Revenue**

	2010	1,271.5	100%	2011	1,250.7	100%	2012	1,276.1	100%
Malaysia									
<b>Total</b>		<b>1,271.5</b>			<b>1,250.7</b>			<b>1,276.1</b>	



Source: Bloomberg, Kenanga Research

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