Update on ECS ICT Berhad 3Q 2013 by Maybank Investment Bank – Head of Retail Research, Mr Tee Sze Chiah – 8 November 2013

ECS ICT (MYR1.28): Forget about FY13; FY14 looks more promising

We attended ECS ICT's post results briefing this morning. While the 3QFY13 results were rather disappointing, we walked away the meeting feeling more upbeat about the company. The implementation of more Enterprise Systems in the 4Q as well as margin recovery should help lift earnings in 4Q.

To recap, ECS ICT's 9M net profit fell 15% YoY to MYR17.2m. Delays in the implementations of Enterprise Systems and higher USD denominated input cost arising from the weaker MYR caused 9MFY13 PBT margin declining by 0.53ppts to 2.30%, from 2.83% in 9MFY12.

Going forward, management expects a stronger 4Q. Higher contributions from the Enterprise Systems as well as efforts to mitigate the fluctuation of the USD should help margins normalise. The company also reviews its selling prices on weekly basis instead of monthly basis to better reflect the input costs.

Management reckoned that the Asian-based smartphones like Lenovo, ZTE and Huawei are recording faster growth. Hence, by securing more product offerings from these Asian brands, the Company is hoping to tap on the growth potential in this segment.

The Budget 2014 could provide the ICT industry the next leg of growth. The government's effort to expand internet coverage and to enhance the broadband speed will boost the sales of mobile devices while the accelerated capital allowance on ICT equipment will also encourage investment in new ICT products. More importantly, the implementation of GST in 2015 should spur the sales of ICT equipment in 2014.

Share price has fallen a tad after the weak 3Q results. Brokers are still neutral on the stock. At current price, ECS is trading at a prospective FY14 PER of 7.1x, which is higher than its 3-year historical average PER of 6.1x.