ECS ICT hopes to ride second phase of HSBB

BY **SYARINA HYZAH ZAKARIA**

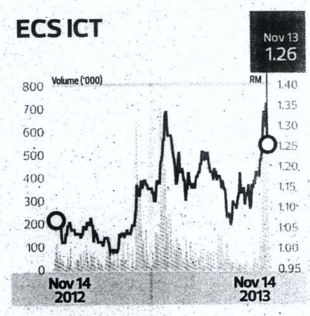
Although information and communications technology (ICT) distribution sales have remained lacklustre and ICT spending is expected to slow further in the coming years, ECS ICT Bhd hopes the second phase of the high-speed broadband (HSBB) rollout will help boost its earnings.

"We expect to benefit in two ways. First, we have a wide range of enterprise products to support the rollout of any major infrastructure project such as HSBB. We have the necessary equipment for the project to supply to the appointed resellers and system integrators, products like servers, storage and networking," its managing director Foo Sen Chin tells *The Edge*.

Furthermore, once HSBB is fully deployed, the expanded Internet coverage and enhanced broadband speed are expected to encourage the sales of mobile devices, a segment ECS ICT will concentrate on in the future.

"This higher demand will also be advantageous to us as we have begun to offer mobility products like smartphones and tablet PCs to the domestic market," says Foo.

In the past, when the first phase of HSBB was deployed, ECS ICT provided enterprise system products from vendors such as Hewlett-Packard, Oracle and Cisco to the telecommunications and ICT service providers.



The company distributes a comprehensive range of ICT products that includes notebooks, personal computers, printers, software, network and communication infrastructure, servers and enterprise software from more than 30 well-established principals, such as Fujitsu, Lenovo, LG, Microsoft, Asus, Autodesk, Trend Micro and Symantec.

Moreover, the company has a network of more than 3,000 resellers across China, Thailand, Malaysia, Singapore, Indonesia and the Philippines, where it has access through ECS Holdings Ltd, a Singapore associate company.

Be that as it may, ECS ICT's net profit has been flat in the past three years, ranging between RM28.9 million and RM30.14 million and margins have been under pressure. Hence, the second phase of the HSBB rollout is expected to help strengthen its earnings.

The company's product portfolio caters for both corporate and end-user markets via its enterprise system and ICT distribution segments.

In FY2012 ended Dec 31, it recorded a net profit of RM29.86 million or 16.6 sen per share, marginally higher than the RM30.14 million posted a year earlier, driven by the enterprise system and ICT distribution segments, which contributed about 55% and 40% respectively to gross profit. The remainder was from its service segment.

However, Foo assures that the company is not just waiting for the rollout to commence but has already started taking various measures to mitigate falling net profit.

"That said, margin pressure is nothing new in our industry. In recent years, we have been focusing on increasing our bottom line by beefing up our portfolio with higher margin offerings, such as mobility products, and focusing on the enterprise sector where we can provide more value-add through ICT services," he stresses.

The company has also undertaken other initiatives to improve its efficiency by implementing an integrated enterprise resource planning system to help management minimise product holding costs and to encourage its retailers to participate in prompt payment incentive programmes.

For its third quarter ended Sept 30, the group recorded a net profit of RM5.28 million or 2.9 sen per share, down 23.9% from RM6.54 million a year earlier, on the back of RM344.19 million in revenue. It also declared an interim dividend of three sen.

The company had a cash balance of RM76.6 million as at Sept 30 and was in a net cash position. According to the notes accompanying its results, earnings in all three segments fell as a result of a steep rise in the dollar against the ringgit.

"These contributions are expected to be similar this year and in the following year," says Foo. He expects the company's next growth driver to be the mobility industry.

"A year ago, we entered the smartphone distribution channel, in line with the convergence between the IT and communications sectors.

"We are already distributing the entire range of Lenovo and Huawei smartphones. Also, we are able to distribute Samsung smartphones to the corporate market. Naturally, we are looking to expand the smartphone portfolio to meet customer demand.

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"More recently, we ventured into the cloud computing segment, via our partnership with IBM, to distribute SmartCloud solutions to the enterprise market. We are targeting to sign up with more cloud service providers to enable Malaysian corporates to select the provider that adequately meets their needs," he says.

Inter Pacific Research recently upgraded ECS ICT to a "buy" based on FY2014 forecast earnings per share of 19.9 sen and PER of 7.5 times with a target price of RM1.49, up from RM1.16.

"We like ECS ICT for its strong cash position, its opportunity to reap benefits from Budget 2014 announcements and its more than decent dividend payouts that we forecast at 5.7 sen, 6 sen and 6.5 sen for FY2013F, FY2014F and FY2015F respectively, promising a yield of between 4% and 4.8%," it says in a report.

In FY2012, ECS ICT paid a dividend per share of 5.5 sen for a yield of 4.3%, based on last Thursday's closing price of RM1.26.

Moreover, the accelerated capital allowance for the cost of purchasing ICT equipment and software that came into effect in 2009 has been extended until the 2016 assessment year.

"The extension, coupled with the looming implementation of the Goods and Services Tax on April 1, 2015, will incentivise companies to ratchet up corporate spending on planned systems upgrading ahead of schedule in order to avoid additional cost. Likewise, consumers can be expected to bring forward spending on ICT products to 2014 before GST is implemented," the research house adds.

Year to date, ECS ICT has risen 21.15% and at its close of RM1.26 on Thursday, its market capitalisation stood at RM226.8 million. E