**INITIATION REPORT**

15 Mar 2011

ECS ICT Berhad		<i>Market Price:</i>	RM1.40
		<i>Market Capitalisation:</i>	RM168.0m
		<i>Board:</i>	Main Market
<i>Recommendation:</i>	BUY	<i>Sector:</i>	Technology
<i>Target price:</i>	RM1.83	<i>Stock Code/Name:</i>	5162 / ECS

*Analyst: Edmund Tham***ECS****The ICT Hub***Fulfilling Malaysia's
Knowledge Economy**Source: ECS***BACKGROUND**

ECS ICT Berhad (ECSB) is an MSC-status company, and its group of subsidiaries had started out back in the year 1985 with the establishment of ECS KU Sdn Bhd. Today, the group is a leading distribution hub for Information & Communications Technology (ICT) products in Malaysia via its subsidiaries ECS Astar S/B and ECS Pericomp S/B.

Listed on the Main Market of Bursa Malaysia in April 2010, ECSB is an associate company (41% stake) of ECS Holdings Limited (listed on Singapore's SGX) which is one of the leading ICT distributors in Asia Pacific, with a network of more than 21,000 channel partners across China, Thailand, Malaysia, Singapore, Indonesia and the Philippines.

Meanwhile, VST Holdings Ltd is a company listed on the Stock Exchange of Hong Kong (SEHK) and is currently the holding company of ECS Holdings Limited.

ECSB is a "one-stop" distributor for a comprehensive range of ICT products comprising notebooks, desktop computers, printers, software, network and communication infrastructure, servers, and enterprise software. These products are supplied from more than 30 major ICT MNCs, such as Hewlett Packard (HP), IBM, Cisco, Microsoft, Apple, Oracle/Sun Microsystems, Epson, Samsung, Buffalo, Adobe, Juniper, Blue Coat, VMWare and Google.

"Distributes comprehensive range of ICT products from major ICT principals"

With a nationwide channel network of more than 2,500 resellers comprising retailers, system integrators and corporate dealers, ECSB also provides value-added product support and technical services.

ECS ICT: Major subsidiaries:

Subsidiary	Core business
ECS Astar	marketing and distribution of computers, peripherals and software
ECS Pericomp	marketing and distribution of enterprise ICT products
ECS KU	providing ICT systems and services
ECS Kush	providing management, financial, warehousing and logistic services

Source: ECS

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**ECS: Timeline of Milestones**

Year	Milestone
1985	Began marketing of PCs (under K.U. Sistem S/B)
1986	Management buyout of K.U. by ECS founders. Formation of Pericomp S/B to distribute peripherals.
1994	Setting up Penang branch.
1997/ 1998	KUS Holdings S/B and Astar S/B won the Enterprise 50 Awards.
2000	KUS Holdings S/B became a 60% subsidiary of ECS Holdings Ltd
2001	Listing of ECS Holdings Ltd on SGX's Mainboard.
2004	KUS Group adopted the ECS identity. ECS ICT was awarded MSC status.
2005	Start of programme to install credit card terminals at resellers' sales points.
2006	Implemented Enterprise Knowledge Portal.
2007	Established warehouses in Kota Kinabalu and Kuching.
2008	Installation of 720 credit card terminals with over 107 retailers. Implemented the FPX payment gateway. Established sales offices in JB and Kuantan. Moved to new integrated corporate office and warehouse facility in Kota Damansara.
2010	Listing of ECS ICT on the Main Board of Bursa Malaysia

Source: ECS

“Experienced management team”

The group is headed by an experienced management team that is led by its Managing Director, Mr Foo Sen Chin. Mr Foo has 32 years of experience in the ICT industry and is an Advisor to the current council of PIKOM (Association of the Computer and Multimedia Industry). Other key management figures include Mr Soong Jan Hsung (an Executive Director involved in sales and marketing), Mr Tee Ang Kuan (General Manager) and Mr Chan Puay Chai (Financial Controller).

Currently, ECS ICT Bhd's major shareholders are ECS Holdings Ltd (listed on SGX)(41%), Teo Soo Pin S/B (12%)(with deemed interest by group Chairman, Dato' Teo Chiang Quan) and

Sengin S/B (12%)(with deemed interest by group MD, Mr Foo).

ECS ICT's group corporate headquarters (HQ) and a 40,000 square feet warehouse are now situated at Kota Damansara in Petaling Jaya. At its main warehouse, the group handles an average daily intake of 5 containers and outflow of 25 lorries. The group also has offices across the country in Penang (with warehouse), Kuantan, Johor Bahru, Kota Kinabalu (with warehouse) and Kuching (with warehouse).

PERFORMANCE – FY10

4Q/ 31 Dec	4Q10	4Q09^	vov %	3Q10	qoq%
Rev (RMm)	315.5	n.a.	n.a.	329.8	(4.3)
EBIT (RMm)	11.6	n.a.	n.a.	9.7	19.6
NPAT (RMm)	8.3	n.a.	n.a.	7.1	17.7
EPS (sen)	7.0	n.a.	n.a.	5.9	17.7

[^]prior to IPO, quarterly figures were not published

12M/ 31 Dec	FY10	FY09	vov %
Rev (RMm)	1271.5	1345.6	(5.5)
EBIT (RMm)	40.3	33.8	19.3
NPAT (RMm)	28.9	24.1	20.1
EPS (sen)	24.1	20.1	20.1

*EPS calculated using shares of 120mil, for comparison purposes

Overall, in its most recent results release, ECS ICT's FY10 group revenues had declined marginally from RM1,345.6 million to RM1,271.5 million. This was attributed to the slower sales of volume-products (consumer notebooks) in the group's ICT distribution business segment. Nonetheless, the group's gross margin continued to improve from 5.5% previously (in FY09) to 6.6% for FY10.

“Better product mix”

Meanwhile, ECS ICT had posted a 20.1% increase in group net profit after tax (NPAT) to RM28.9 million for its financial year ended 31st December 2010 (FY10). This increase in group NPAT was achieved in spite of the lower revenue of RM1.27 billion, due to the favourable product sales mix that saw an increase in the sales of higher-margin enterprise systems.

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Comparing year-on-year, the group had recorded 4Q/FY10 revenue and a profit before tax (PBT) of RM315.5 million and RM11.2 million respectively, compared with the corresponding 4Q/FY09 figures of RM405.2 million and RM10.1 million, respectively.

OUTLOOK/CORP. UPDATES

According to International Data Corporation's (IDC) projections, the information and communications technology (ICT) industry in Malaysia is expected to grow at a rate of 9% for 2011. With this, as ECS ICT is one of the market leaders in the ICT distribution segment, we expect the group to perform encouragingly during 2011. Furthermore, the group had recently secured new ICT leading brands for distribution.

“Domestic economy growing steadily”

The latest available Malaysian economic data revealed reasonably positive growth rates in y-o-y percentage terms. Malaysia had reported a very respectable 4Q/2010 GDP growth of +4.8% (+7.2% for full year 2010 GDP), stable 4Q/2010 unemployment rate of 3.2% and manageable CPI of 2.4% (January 2011). Meanwhile, Bank Negara Malaysia (BNM) had last reaffirmed its accommodative overnight policy rate (OPR) of 2.75% recently.

“Focus on major brands, popular products”

ECS ICT's management is selective on the brands and products that the group chooses to distribute. In order to keep its inventory turnover high and to meet the expectations of major ICT principals, ECS ICT prefers to distribute popular products, especially those belonging to major brands.

Towards this end, ECS ICT has managed to secure the distribution rights for a range of products from major ICT suppliers, such as Samsung, YTL Communications (YES 4G) and Dell. We nevertheless note that, despite being a distributor for Apple in Malaysia, ECS ICT does

not distribute iPhones and iPads in Malaysia, due to Apple's current distribution strategy.

“Samsung, YES and Dell”

During January 2011, ECS ICT had signed an agreement to distribute the entire range of Samsung notebooks and Galaxy Tab in Malaysia. Prior to this, ECS also distributed LCD monitors, printers and consumables and large format LCD monitors for Samsung.

In October 2010, ECS Astar has signed an exclusive agreement with YTL Communications to distribute its YES 4G products. ECS had shipped out 6500 units of these 4G products to 50 authorized retailers in the Klang Valley during November and December 2010.

In early March 2011, Dell and ECS Astar S/B, a subsidiary of ECS ICT sealed a partnership agreement announcing ECS' appointment as Dell's strategic authorized distributor of Dell's commercial and consumer products and solutions nationwide. Dell's range of products include commercial and consumer notebooks, desktops and workstations (including Vostro, Latitude, XPS, Inspiron, OptiPlex, Precision), gaming (Alienware), as well as enterprise solutions.

VALUATION

In lieu of the positive group performance in FY10, ECS's management has recommended for shareholders' approval a final tax-exempt dividend of 4 sen per share for its FY10. Together with the interim dividend of 4 sen per share paid earlier in 2010, the group's total net dividend payout for FY10 would amount to 8 sen per share, or RM9.6 million, which would constitute 33.2% of the group's NPAT in FY10.

At ECS' current market price, this would amount to an attractive FY10 net dividend yield of 5.7%. From the time of ECS' IPO last year, we note that ECS has a dividend policy of paying out approximately 30% from its annual net profits.

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“FY10: 33% dividend payout”

Even with a relatively close adjusted beta of 0.94 to the KLCI, ECS has managed to slightly outperform the KLCI this year (by +5.3% vs. -1.2% year-to-date (YTD)). Recently, equity markets have been impacted by the political unrest and upheavals in a number of Middle East and North African nations. However, as ECS is not a particularly large market-cap stock, this may put a dampener on its market visibility and trading volume.

“Target Price: 30% upside”

Based on our forecast of ECS’s FY11 EPS and estimated P/E of 6 times, we set a **FY11-end Target Price (TP) of RM1.83**. This TP represents an attractive 30.7% upside from its current market price. Our TP for ECS reflects a P/BV of just 1.27 times over its FY11F BV/share. We arrived at our TP after taking into consideration the valuations of ECS Holdings Ltd (on SGX), VST Holdings Ltd (on HKSE) and also other ICT peers in the region.

“Well poised to grow”

ECS ICT is well poised to grow, taking into account its market leadership position, range of ICT products, distribution infrastructure, partnerships with key ICT principals, strong technical support team and effective financial management systems. We find that ECS’s P/E and P/BV valuations are undemanding. Additionally, the group’s dividend yield and ROE are also quite attractive, while it is in a net cash position.

“Risk factors”

We nevertheless note that ECS’ future earnings performance could be affected by – possible fluctuations in economic conditions, business and consumer sentiment, and also factors such as foreign exchange translation, increased peer competition, issues with trade receivables, problems with suppliers/customers, increased inventory turnover days, thinning margins and market acceptance of various products.

ECS: 6-month Share Price



Source: NextView

ECS: Product & Services

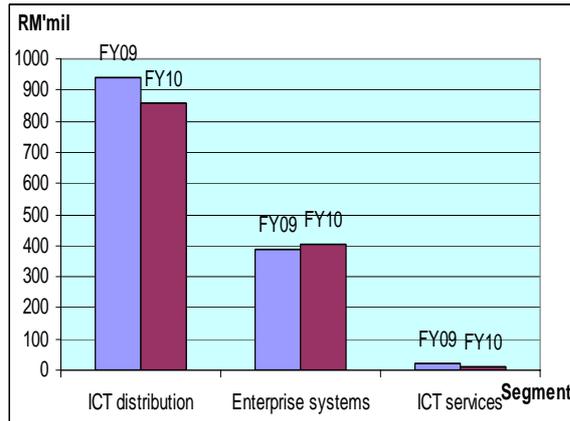
Segment	Type of items
ICT products	Notebooks, PCs, printers, software, LCT monitors
Enterprise systems	Servers, network systems, data centres, enterprise software
ICT services	More than 30 engineering personnel providing support for ICT products. Over 150 certifications from 15 principals.

Source: ECS

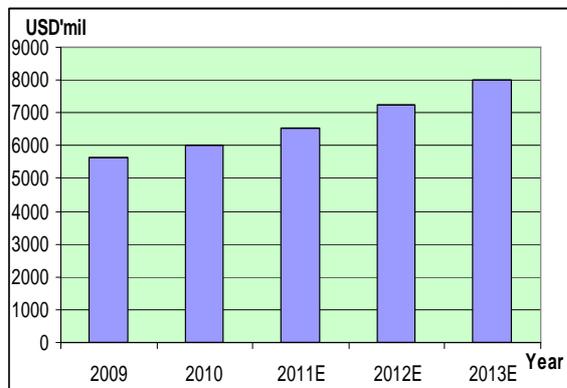
ECS: distributor for many top ICT brands



Source: ECS

**ECS: Revenue by segment (FY09 & FY10)**

Source: ECS

**ICT spending in Malaysia:
(9.1% CAGR to reach USD'8bil in 2013)**

Source: International Data Corp (IDC)

**Regional economic growth (GDP):
(a general indicator to ICT demand)**

Country	4Q/2010	Full year 2010
Malaysia	4.8	7.2
Singapore	12.0	14.5
Thailand	3.8	7.8
Indonesia	6.9	6.1
Philippines	7.1	7.3
China	9.8	10.3

Source: Bloomberg/Google

Peer comparison:

Company	Listing	Mkt.Price	Mkt.Cap	P/E (x)	P/BV (x)	ROE (%)	Div.Yield (%)
		(Local currency)					
ECS ICT	Malaysia	1.40	168.0m	4.6	1.0	21.1	6.4
ECS Holdings	Singapore	0.82	299.6m	5.9	1.1	19.1	3.5
VST Holdings	HK	2.47	3109.5m	7.5	1.7	20.7	0.0
Digital China	HK	13.78	15036.9m	15.3	3.2	22.5	2.0
Synnex	Taiwan	65.80	98912.3m	17.4	2.9	16.2	3.3
Ingram Micro	US	20.03	3191.8m	10.3	1.0	10.2	0.0
Tech Data	US	48.75	2272.9m	11.1	1.1	10.2	0.0

Source: Bloomberg

*ECS ICT figure are ourFY11 estimates

KEY FINANCIALS

Key Stock Statistics	2011F
EPS (sen)	30.5
P/E (x)	4.6
Net Dividend/Share (sen)	9.0
NTA/Share (RM)	1.44
Book Value/Share (RM)	1.44
Issued Capital (mil shares)	120.0
52-weeks share price (RM)	1.05 – 1.49
Major Shareholders:	%
-ECS Holdings Ltd	41.0
-Teo Soo Pin S/B	12.0
-Sengin S/B	12.0

Per Share Data	2008^	2009^	2010	2011F
Book Value (RM)	n.a.	0.69	1.23	1.44
Earnings (sen)	16.5	20.1	24.1	30.5
Net Dividend (sen)	n.a.	0.0	8.0	9.0
Payout Ratio (%)	n.a.	0.0	33.2	29.5
PER (x)	8.5	7.0	5.8	4.6
P/Book Value (x)	n.a.	2.0	1.1	1.0
Net Dividend Yield (%)	n.a.	0.0	5.7	6.4
ROE (%)	n.a.	28.9	19.6	21.1
Net Gearing (cash) (x)	n.a.	0.33	(0.12)	(0.13)

*Calculated using shares of 120mil, for comparison purposes

^listed in 2010, so 2008-2009 figures (where available) are proforma

P&L Analysis (RM mil)	2008^	2009^	2010	2011F
Year end: Dec 31				
Revenue	1159.5	1345.6	1271.5	1373.4
Operating Profit	31.0	36.1	41.1	51.3
Depreciation	(1.0)	(1.9)	(3.2)	(4.4)
Interest Expenses	(3.9)	(2.6)	(1.9)	(2.1)
Pre-tax Profit	27.1	33.5	39.4	49.5
Effective Tax Rate (%)	27.0	25.4	26.3	25.8
Net Profit	19.8	24.1	28.9	36.6
Operating Margin (%)	2.7	2.7	3.2	3.7
Pre-tax Margin (%)	2.3	2.5	3.1	3.6
Net Margin (%)	1.7	1.8	2.3	2.7

*RM0.50 par value

^listed in 2010, so 2008-2009 figures are proforma

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