

ECS ICT Bhd

Catching the Gadget Fever

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INVESTMENT MERIT

- 4QFY14 results above expectation.** ECS ICT Bhd (ECS) registered 4Q14 net profit (NP) of RM9.8m (+1.3% YoY; +35.3% QoQ), bringing its FY14 NP to RM29.4m (+9.5% YoY) which beat our full-year net profit forecast by 5%. The key positive deviation was mainly due to the higher-than-expected revenue driven by: (i) ICT Distribution segment (+38.7% YoY to RM320.3m), on the back of strong PC sales as well as the high-margin Smartphones division, and (ii) ICT services division (+308.2% YoY to RM15.1m) due to the consolidation of sales recorded for extended warranty services from the Enterprise System segment. Its Enterprise Systems division, however, continued to slow down (-7.5% YoY to RM116.1m) owing to the slower sales of storage, Hi-end printer and software products.
- GST to boost group earnings in its second wave.** The group has yet to benefit from the GST fever in 4Q14 as anticipated by the management given that the early beneficiaries of the pre-GST implementation are mostly the software-related companies. However, the group expects its earnings to receive a boost in 1Q15 from last minute purchase by consumers and companies (to upgrade their IT system to be compatible with the GST software) which will induce a hike in sales in computers, notebook and servers. Meanwhile, ECS is expecting sales to normalise post-GST implementation as the market digests pre-GST purchases. Nonetheless, management believes the downside is limited as new technology or models will be released almost every month to entice trendy consumers to upgrade their computers or gadgets.
- Continue to grow its smartphone distribution segment.** ECS recently strengthened its high-margin mobility products portfolio by partnering with Xiaomi to be the latter's first authorised distributor for the Xiaomi MiPad tablets in Malaysia. Besides, ECS had also recently signed another Smartphone brand (Microsoft Lumia) to further expand its smartphone portfolio, which already consists of brands like Lenovo, Asus and BenQ. The group has been appointed by Microsoft to distribute four models of the Microsoft Lumia smartphones in Malaysia. We foresee more world-renowned brands partnering with ECS given its vast and reliable reseller network of more than c.5,000 outlets nationwide. Note that the group's mobility segment (which consists of smartphone and tablets) accounted for c.20% of the group's total turnover in FY14 from c.10% a year ago.
- Price hike in ICT devices neutral to the Group.** While we understand that there is a hike in the costs of ICT devices due to the strengthening of USD, ECS being an ICT product distributor sees no impact to their earnings as the group has the ability to transfer such increase to the end consumers.
- Reiterating our Trading Buy call with a higher TP of RM1.76 (from RM1.64).** While we view that consumer spending would turn tepid post-GST, we believe that the Group's earnings will continue to remain resilient due to the constant flow of new models launching, which will continue to attract IT-savvy customers. All in, we have increased our FY15E earnings by 7.3% to RM31.7m (from RM29.5m previously) after raising our revenue assumption from the ICT Distribution segment by 8% as a result of the Group's rapid expansion of its mobility segment (to receive more distributorship from current and new clients). Post-earnings upgrade, our TP has been raised to RM1.76 from RM1.64 based on an unchanged targeted FY15E PER of 10.0x, which is in line with the FBM Small Cap FWD PER of 10.3x. Coupled with a dividend payout of 30%, which translates into a DPS of 5.3 sen or 3.5% yield, the stock could potentially reward shareholders with a decent total upside of c.20%.

	Rating	Fair Value
Last Price		RM1.51
Kenanga	Trading Buy	RM1.76
Consensus	N.A.	N.A.

Stock Information

Stock Name	ECS ICT Berhad
CAT Code	5162
Industry	Distribution/ Wholesale
Industry Sub-sector	Distribution/ Wholesale
YTD stock price chg	28.0%
Market Cap (RM m)	271.8
Issued shares (m)	180.0
52-week range (Hi)	1.73
52-week range (Low)	1.02
3-mth avg daily vol:	248,258
Free Float	38%
Beta	1.0
Altman's Z-score	6.2

Major Shareholders

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

Financials

FYE Dec (RM'm)	2014A	2015E	2016E
Revenue	1,591.1	1,670.3	1,759.7
EBIT	37.8	40.1	44.0
NP	29.4	31.7	34.3
EPS (sen)	16.4	17.6	19.1
BV/Share (RM)	1.2	1.1	1.2
PER	9.2	8.6	7.9
PBV	1.2	1.4	1.2
Net Gearing (X)	N.Cash	N.Cash	N.Cash
NDPS	5.5	5.3	5.7
Dividend Yield	3.6%	3.5%	3.8%

Quarterly Financial Data

	2Q14	3Q14	4Q14
Revenue	389.9	392.0	451.5
Revenue Growth (QoQ)	9.0%	0.5%	15.2%
EBIT	9.96	8.91	12.68
OP Margin	2.6%	2.3%	2.8%
Net Profit (NP)	7.5	7.3	9.9
EPS (sen)	4.2	4.0	5.5
EPS Growth (QoQ)	56%	-5%	38%

	PER (FY15)	Div. Yld (%)	Mkt Cap (RM'm)
Peers Comparisons			
ECS ICT BHD	8.6	3.5	271.8
FBM KLCI	16.8	3.1	1.04t

31 March 2015

Daily Charting – ECS ICT Bhd



Comment: Recall that on the 24th of Mar, we highlighted ECS (Technical Buy @ RM1.57) when its share price confirmed a “Bullish Pennant” chart pattern. However, the share price had failed to perform within our expectations, with ECS undergoing a consolidation phase post its breakout. Technical picture are showing signs that momentum is waning, as we note that both the Stochastic and RSI indicators had started to trend downwards. This indicates that the share price could continue to consolidate until a fresh catalyst emerges.

About the stock:

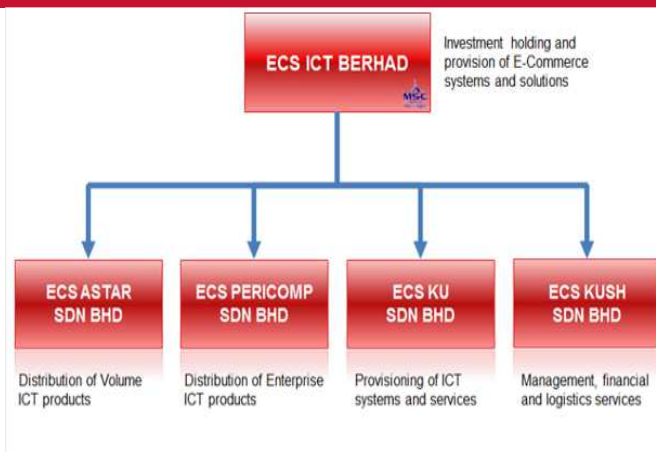
Name : ECS ICT Berhad
Bursa Code : ECS
CAT Code : 5162

Key Support & Resistance level

Resistance	: RM1.65 (R1)	RM1.73 (R2)	RM1.90 (R3)
Support	: RM1.50 (S1)	RM1.40 (S2)	RM1.33 (S3)
Outlook	: Neutral		

Source: Kenanga Research

CORPORATE STRUCTURE



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 the country. 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.
- Enterprise Systems. Selling Enterprise Systems products such as Servers and Data Centers, Network Systems, and Enterprise Software.
- ICT Services. Provides network and system integration, internet solutions, software support, hardware repairs and maintenance for its customers.

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