

**Briefing/Results Note**  
**ECS ICT Bhd**
**May 12<sup>th</sup>, 2015**  
**RM1.64**
**HOLD**
**Period: 1QFY15**

Target (RM)	RM1.46 – RM1.66
MASA Codes	ECS / 5162
Bloomberg	ECS MK

**Stock & Market Data**

KLCI	1805.49
Listing	Main Market
Sector	Technology
Syariah Compliance	Yes
Par Value	RM0.50
Issued Shares	180.0m
Market Capitalisation	RM295.2m
Estimated Free Float	20%
Major Shareholders: -	
ECS Holdings Ltd	41.0%
Chairman Foo Sen Chin	12.2%

**Key Indicators @ FY15**

PER (x)	11.1
PBV (x)	1.2
Net Debt/Equity (%)	Net cash
ROE (%)	11.1%

**Dividend:** As expected no dividend was declared. A dividend of 3sen is still outstanding and stock would go ex- on June 3<sup>rd</sup>.

**Actual versus expectations:** Though 1Q results made up 35.1% of our full forecast, we deemed the results to be inline with our expectations. We are expecting a slower Q2 and Q3, post GST, before rebounding in Q4.

**Result highlights:** 1QFY15's revenue came in at RM522.9m, up 46.2% y/y on higher revenue from ICT Distribution (PCs, notebooks & smart phones), Enterprise systems and ICT Services as a result of pre-GST buying. Q/q, revenue was up 15.8% on higher sales from ICT distribution and Enterprise system. However, sales from ICT services were lower q/q. (See Table 2. Segmental breakdown)

Gross profit improved 34.7% y/y, in line with the higher revenue. But on a q/q basis, gross profit was flat at

RM26.0m. Gross profit (gp) margin however was lower when compared against the other periods. On a y/y basis, gp margin declined 0.4 percentage point (ppt), whereas on a q/q basis, gp margin declined 0.8 ppt.

Further analysis showed the gp margin erosion was across all segments of business. Margin erosion in ICT distribution can be expected given that the average selling price point of its product lines are decreasing as the company worked towards capturing greater market share, especially in the smartphone market. Margin variation in ICT services and Enterprise system could be due to the timing of cost recognition or an increasingly more competitive environment caused by the lower public sector spending on ICT. We believe both factors are contributors.

**Table 1. 1QFY15 result & comparison**

<b>FYDec / RM'm</b>	<b>1QFY15</b>	<b>1QFY14</b>	<b>4QFY14</b>	<b>y/y Chg %</b>	<b>q/q Chg %</b>
Revenue	522.9	357.7	451.5	46.2	15.8
Cost of sales	(496.8)	(338.4)	(425.5)	46.8	16.8
Gross profit	26.0	19.3	26.0	34.9	0.3
Admin & Dist Exp	(14.0)	(12.3)	(12.7)	13.2	10.3
Other income / (exp)	0.2	(0.7)	(0.6)	-	-
EBIT	12.3	6.3	12.7	96.6	-2.9
Interest income / (Exp)	0.4	0.4	0.4	-3.9	-4.8
Pretax profit	12.7	6.7	13.1	90.4	-2.9
Tax	(3.3)	(1.9)	(3.2)	75.6	2.4
Net profit	9.4	4.8	9.9	96.2	-4.7
EPS (sen)	5.2	2.7	5.5	92.6	-5.5
GP margin	5.0%	5.4%	5.8%	-0.4%	-0.8%
EBIT margin	2.4%	1.8%	2.8%	0.6%	-0.5%
Tax rate	26.1%	28.3%	24.8%	-2.2%	1.4%

**Table 2. Segmental breakdown**

Revenue	1Q15	1Q14	4Q14	y/y chg %	q/q chg %
ICT distribution	372.8	251.6	320.3	48.2	16.4
Enterprise systems	137.1	95.5	116.1	43.6	18.1
ICT Services	12.9	10.6	15.1	21.7	-14.6
<b>Total revenue</b>	<b>522.8</b>	<b>357.7</b>	<b>451.5</b>	<b>46.2</b>	<b>15.8</b>
Gross profit	1Q15	1Q14	4Q14	y/y chg %	q/q chg %
ICT distribution	15	10.4	13.5	44.2	11.1
Enterprise systems	9.2	7.3	10	26.0	-8.0
ICT Services	1.8	1.6	2.5	12.5	-28.0
<b>Total gross profit</b>	<b>26.0</b>	<b>19.3</b>	<b>26.0</b>	<b>34.7</b>	<b>0.0</b>
Gross profit margin	1Q15	1Q14	4Q14	y/y chg ppt	q/q chg ppt
ICT distribution	4.0	4.1	4.2	-0.1	-0.2
Enterprise systems	6.7	7.6	8.6	-0.9	-1.9
ICT Services	14.0	15.1	16.6	-1.1	-2.6
<b>Group gp margin</b>	<b>5.0</b>	<b>5.4</b>	<b>5.8</b>	<b>-0.4</b>	<b>-0.8</b>

## Valuation and recommendation



We retain our forecast for now, as uncertainty exists over how consumers will react post GST. Based on Singapore's experience, spending was back to normal after a 6 months lull. However we believe our experience may be different. Already we noted numerous instances of profiteering, especially among food vendors at the street level. With more disposal income going towards satisfying the basic needs (especially among the lower income folks), consumers may be more inclined to stretch the period before changing to a new smartphone or PC. Likewise, companies fresh from investing in ICT to comply with GST will also be in no mood to invest further. However all is not doomed, as companies in the telecommunications and banking sectors will continue to invest, as there is money to be made.

We retain our valuation model that is based on its book value. Based on average of end- FY15 book value per share of RM1.33 and using a multiple of 1.10x – 1.25x (i.e. a 10 – 25% premium to book value) we derive a valuation range of between RM1.46 – RM1.66. **Since the stock is trading within our fair valuation range, we downgrade our recommendation to HOLD. Should the price go above RM1.66, SELL the stock.**

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**Table 1. Profit & Loss forecast**

FYDec / RM'm	2012A	2013A	2014A	2015F	2016F
Revenue	1276.1	1326.3	1519.1	1511.6	1511.6
Pretax profit	40.3	36.6	39.2	35.4	35.4
Net profit	29.9	26.9	29.4	26.7	26.9
EPS (sen)	16.6	14.9	16.4	14.8	14.9
Pretax margin (%)	3.2%	2.8%	2.6%	2.3%	2.3%
Net profit margin (%)	2.3%	2.0%	1.9%	1.8%	1.8%
PER (x)	9.9	11.0	10.0	11.1	11.0
Dividend (sen)	5.5	5.5	6.0	6.0	6.0
Dividend yield (%)	3.4	3.4	3.7	3.7	3.7
Net Gearing (x)	Net cash	Net cash	Net cash	Net cash	Net cash
Book value/share (RM)	1.10	1.14	1.24	1.33	1.42
Price/Book (x)	1.5	1.4	1.3	1.2	1.2

**Table 2. Statement of financial position forecast**

FYDec / RM'm	FY16(f)	FY15(f)	FY14	FY13
<b>Assets</b>				
Plant & Equip	3.5	3.5	3.3	4.0
Intangible asset	0.6	0.6	0.6	0.6
Investment in club	0.1	0.1	0.1	0.1
Deferred tax asset	1.2	1.3	1.4	1.5
<b>Total non current asset</b>	<b>5.3</b>	<b>5.4</b>	<b>5.4</b>	<b>6.1</b>
Inventories	120.0	120.0	119.4	85.6
Receivables	200.0	200.0	197.4	173.3
Cash	123.8	107.6	89.7	83.7
<b>Total current assets</b>	<b>443.8</b>	<b>427.6</b>	<b>406.5</b>	<b>342.6</b>
<b>Total assets</b>	<b>449.1</b>	<b>433.0</b>	<b>411.8</b>	<b>348.7</b>
<b>Equity</b>				
Share capital	90.0	90.0	90.0	90.0
Reserves	166.1	150.0	134.1	114.6
<b>Total Equity</b>	<b>256.1</b>	<b>240.0</b>	<b>224.1</b>	<b>204.6</b>
<b>Liabilities</b>				
Payables	190.0	190.0	185.2	142.1
Tax payable	3.0	3.0	2.5	2.1
<b>Current liabilities</b>	<b>193.0</b>	<b>193.0</b>	<b>187.7</b>	<b>144.2</b>
<b>Total liabilities</b>	<b>193.0</b>	<b>193.0</b>	<b>187.7</b>	<b>144.2</b>
<b>Total equity &amp; liabilities</b>	<b>449.1</b>	<b>433.0</b>	<b>411.8</b>	<b>348.7</b>

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