



ECS ICT Berhad

Main Market/ Syariah Compliant

Recommendation :

Speculative Buy for risk tolerant investors. Target price RM1.58.

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Offer Price:	RM 1.46
IPO Closing Date:	31 st March 2010
Listing Date:	15 th April 2010
Par Value	RM 0.50
Enlarged and paid up capital	RM 60,000,000.00
Authorised Share Capital	RM 500,000,000.00
Market Capitalization	RM 175,200,000.00

Proceeds Utilisation:	Amount (RM 000)	Time frame
1 .To fund the Proposed 20% Pericomp Acquisition	5,440	< 7 days
2 .Business expansion	5,000	12 months
3. Working capital	24,320	12 months
4 .Listing expenses	3,000	6 months
5. To fund the Transfers	1,660	< 7 days
Total	39,420	

ECS ICT Berhad is a growing Information & Communication Technology (ICT) products distributor in term of revenues & earnings since 2006.

The company would continue to benefit from Ninth (9th) Malaysian Plan (RM12.9 billion has been allocated for ICT-related development programmes between 2006 and 2010), and growing economy environment especially when ICT spending is expected to increase on the back of government efforts to target 50% broadband household penetration by 2010 from 23.6% in 2008.

For a full 12-month unaudited FYE 2009, ECS ICT Berhad recorded a RM1.3 billion sales revenue and an after-tax-profit of RM25 million. This translated into EPS of RM0.268 based on 93 million shares (before Public Issue of 27 million shares), and a PE ratio of 5.44 times.

1. HISTORY & BACKGROUND

ECS ICT was incorporated on 14 July 1995 and granted MSC status. The company was

subsequently converted to a public limited company on 26 May 2009.

2. PRINCIPAL ACTIVITIES

ECS ICT Berhad is involved in distribution of ICT Products (such as servers, PCs, notebooks, printers, scanners, wireless products, etc), enterprise systems and provision of ICT services. There are four subsidiary companies under ECS ICT Berhad, namely, 80% owned *ECS Pericomp Sdn Bhd (Pericomp)* and wholly owned *ECS Astar Sdn Bhd(Astar)*, *ECS Ku Sdn Bhd (Ku)*, and *ECS Kush Sdn Bhd (Kush)*.

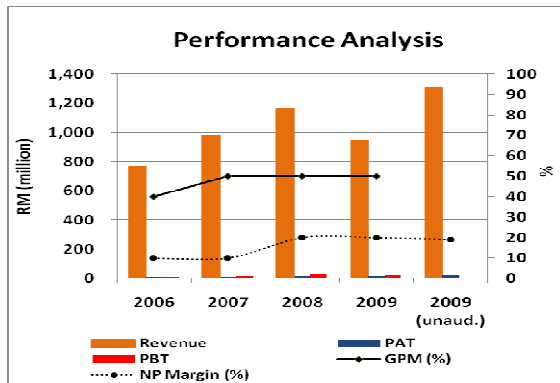
3. KEY PERSONNEL

Mr. Foo Sen Chin, Managing Director with engineering qualification and more than 20 years of experience in ICT Industry.

He is also the Executive Director of ECS Holdings Limited, a listed entity in Singapore Stock Exchange since 2001.

4. REVENUES SEGMENTATION

RM'mil	9m09	FY2008	FY2007	FY2006
ICT Distribution	678.87	849.43	750.53	573.14
Entrep. System	257.23	293.09	224.17	190.64
ICT services	14.20	24.80	15.80	10.43
Others	6.38	7.58	5.94	5.29
Total	940.36	1,159.53	976	765.99



As can be seen from the table above, ICT Distribution segment has been a consistent revenue contributor to ECS ICT Berhad since 2006 with an average of 73% a year; this is followed by Enterprise Systems segment with average revenue contribution of 24% annually over the same period.

5. MARKET TARGET

ECS ICT Berhad has established a diverse base of 2,500 resellers comprising of retailers, system integrators and corporate dealers.

In first 9-month of 2009, ECS ICT Berhad's top 10 customers accounted for 23% of revenues generated with a single largest customer contributed nearly 4.8%.

In a market strategy to take ECS ICT Berhad into higher height, the company will continue to expand and improve in areas of ERP system enhancement, and customer services enhancement thru B2B System, Credit Card Terminal Scheme (CCTS) & Trade Card Programme (TCP).

6. INDUSTRY MARKET SIZE

Year	Total ICT Spending (RM mil)	ECS ICT market share (%)	Value of market share (RM mil)
2007	12,300	7.9%	976.9
2008	13,000	8.9%	1,170.0

Malaysia has seen growth in ICT industry with RM12.3 billion spending in 2007 and RM13.0 billion in 2008.

And, ECS ICT Berhad has captured a bigger market share in this enlarged ICT industry spending pie (from 7.9% in a RM12.3 billion spending in 2007 to 8.9% in RM13.0 billion spending in 2008).

At 5.5% increased spending in ICT industry from 2007 to 2008, ECS ICT Berhad was able to expand its market share by nearly 1%. However, in percentage term, this 1% extra market share meant that the company has actually widened its market reach by an increase of 12.6%.

7. BUSINESS MODEL

ECS ICT Berhad derives its revenue and profits in 2 ways :-

- (1) By offering a wide range of ICT products and enterprise systems originating from leading international ICT principals; such as, HP, Samsung, IBM, Cisco, etc.
- (2) By providing customers with substantial range of services; namely in system integration, network and internet solutions, etc.

In other words, the company basically can only determine its sales and marketing strategies by focusing on its reseller base.

6. SELECTED FINANCIAL STATE. ANALYSIS

Selected Bal Sheet (RM mil)	2009 (9-m)	2008	2007	2006
Current Assets	273.8			
Cash in hand	22.8			
Inventory	105.1			
Trade receiv.	134.4			
LT Assets	5.0			
Total Assets	278.8			
T.Current Liab.	201.9			
ST Debt	52.2			
Trade payable	93.8			
T.LT Liab.	0.35			
LT debt	0.35			
Total Liab.	202.2			
S/holders Equity	76.5			
Selected Income State (RM mil)	2009 (9-m)	2008	2007	2006
Revenue	940.3	1,159.5	976.9	765.9
PBT	23.4	27.1	18.9	10.5
EBITDA	26.4	31.9	23.2	14.2
PAT	17.4	19.8	13.7	7.5
Other info.				
# o/s shares	93.0			
BV per share	0.82			
EPS	0.18			
Ratio Analysis	2009 (9-m)	2008	2007	2006
Table 1.1 Profitability Ratio				
1. ROA	6.30%			
2. ROE	22.8%			
3. ROCE	22.7%			
Table 1.2 Liquidity Ratio				
1. Current Ratio	1.36 x			
2. Quick Ratio	0.84 x			
3. IS Ratio	0.11 x			
Table 1.3 Management Efficiency Ratio				
1. ITO	8.47			
Table 1.4 Leverage Ratio				
2. LTDebt/Equity	0.004			
3. T.Debt/Equity	0.686			
4. Interest cover	13.3			

*ITO = Inventory turnover

ROA = Return on asset ROE = Return on equity

PBT=Profit before tax; PAT=Profit after tax.

Profitability Ratio (Table 1.1)

ECS ICT Berhad recorded a ROE of 22.8% for the first 9-month of 2009. This % was encouraging, and would be enhanced to 32.6% if were to be based on the unaudited PAT of RM25 million for 12-month 2009.

The company has seen its profit-after-tax earnings increasing steadily over the past 4 years (RM25 million PAT for 12-month 2009) with a CAGR of 27.0%.

Comment : The company could still expand its earnings number in 2010; but, It would depend on how aggressive its' marketing strategy be for 2010.

Liquidity Ratio (Table 1.2)

The current ratio of 1.36 x (times) indicated that ECS ICT Berhad has the ability to pay its current liability with current asset. In other words, it has RM1.36 in current asset for every RM1.00 of current liability.

However, the quick ratio of 0.84 x (times) showed that for every RM1.00 ECS ICT Berhad's current liability, the company has RM0.84 to cover those immediate obligations.

Comment : The company did not have a strong liquidity position.

Management Efficiency Ratio (Table 1.3)

ECS ICT Berhad held a high level of inventory turnover at 8.47 x, this showed that it has the ability to sell its inventory fast.

Leverage Ratio (Table 1.4)

While gearing ratio of 0.686 remained on the high side; but, the high interest cover ratio of 13.3 showed that ECS ICT Berhad was in a strong position to service its interest expense on its short term obligations.

Comment : This high gearing ratio should come lower after the IPO as a high portion of

money raised from this listing exercise would be used for working capital, and this would help to reduce the pressure on its short term borrowings.

attain a 8% growth in sales; thus, the expected share price of ECS ICT Berhad would be RM1.58

8. MARGIN ANALYSIS

Ratios	9-m 2009	2008	2007	2006
GPM (%)	5.2%	5.1%	4.9%	4.3%
NPM (%)	1.9%	1.7%	1.4%	1.0%
Revenue	940.3	1,159.5	976.9	765.9
PAT	17.46	19.80	13.73	7.54
PBT	23.45	27.10	18.94	10.57

*GPM = Gross profit margin NPM = Net profit margin
 PAT = Profit after Tax PBT = Profit before Tax

ECS ICT Berhad kept its gross profit margin consistent between 4.3% and 5.2% (from 2006 to 9-mth 2009); but, the net profit margin only stood between 1.0% and 1.9% in the same period.

The cost of sales accounted for more than 94% of its sales revenue during the reported financial period.

Comment : ECS ICT Berhad operates in a small profit margin industry. The company needs high volume business in order make good profit. A slow spending ICT industry would thus affect its profitability level.

9. VALUATION

ECS - IPO Price: of RM 1.46	
Price / EPS	7.77
Price / Sales per share	0.14
Price / Book Value	1.76
Net Asset Backing	0.82

*EPS, sales per share, book value and net asset is based on FPE 9-m 2009.

Given the “accelerated” sales growth (started from small base) pattern in the past 3 years, ECS ICT Berhad should continue to see a growth in sales for 2010; but, it would be at a smaller growth rate.

Based on the declining percentage in sales growth, we would reckon the company to