

# Analyse this...

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## ECS Holdings Ltd

*Delivered another sets of good results*

 ECS SP  
BUY; TP:\$1.22

 Price @25/02/11: S\$0.885  
52-week range (SGD): 0.28– 0.95  
Market cap – S\$317.9m

### Positive outlook; maintain BUY

- **Positive growth momentum to continue.** The management sounded bullish on its 2011 outlook during the analyst briefing last Friday, and lend support to our positive view on the company. We expect another year of double-digit yoy profit growth and see sgrowth drivers coming from:
  - (1) Full 12-month contributions from Apple's iPad and iPhone. We understand that iPad generated about US\$40m sales in the month of Jan alone for ECS in China, while iPhone is currently out of stock. The new iPad II is expected to be introduced in 2Q11, and should generate another wave of strong consumer interest. Also, it is in discussions with Apple to widen its distribution of iPad and iPhone outside China;
  - (2) Closer working relationships with Dell and Lenovo, the world's second and fourth largest PC makers. It has secured regional agreements for notebooks by Lenovo and for servers and notebooks by Dell; and
  - (3) Further widening its reach in China's 3<sup>rd</sup> and 4<sup>th</sup> tier cities and Indonesia that are experiencing extra ordinary growth due to a low base.

ECS's working capital is expected to improve as contributions from Apple, Dell, and Lenovo grow as these vendors offer better credit terms. In fact, the company is enjoying negative cash cycle days for Apple's iPad.

- **Expects another year of double-digit earnings growth.** Although share price has done well, ECS is still trading at big discount to its regional peers despite achieving comparable returns. We fine tuned our FY11-12 profit forecast, raising 2-3% to factor lower tax rate. ECS remains as a BUY, and we see catalysts from: 1) further healthy quarterly earnings; and 2) a listing of TDR shares (expected to be completed by mid-2011)). We note that the share price of Digital China surged to a new high as its TDR exercise draws closer.

### 4Q10 profit was spot on with our estimate

	4Q10	4Q09	Chng (%)
Sales (\$Sm)	840.5	892.7	-5.9
Operating profit (\$Sm)	13.2	14.9	-11.8
Net profit (\$Sm)	14.7	12.0	22.1
EPS (cts)	4.0	3.3	22.1
Book value per share (cts)	81.2	71.0	14.3

#### Profit ratio

	4Q10	4Q09	Chng (% pts)
Operating profit ratio (%)	1.6	1.7	-0.1
Net profit ratio (%)	1.7	1.3	0.4

#### Balance sheet ratios

	4Q10	4Q09
Net gearing (%)	44.5	44.9
ROE (%)	19.1	15.4
Cash cycle days	40.9	0.1
Current ratio (x)	1.5	1.3

Source: CIMB-GK Research, Company

### What we like

- Good revenue growth in 4Q as non-HP business witnessed good growth
- Continuous improvement in gross margins on the back of better product mix.
- Better working-capital management resulting in shorter cash cycle days, and hence lowering net gearing to only 0.44x.
- Positive surprise in final dividend of 3.6 cts vs. 3cts a year ago.

### Financial analysis

FYE Dec	2008	2009	2010	2011F	2012F
Revenue (\$\$ m)	2,949.9	3,252.0	3,085.4	3,637.1	4,107.6
EBITDA (\$\$ m)	59.0	62.1	52.0	74.2	92.4
EBITDA margins (%)	2.0	1.9	1.7	2.0	2.3
Pretax profit (\$\$ m)	41.6	57.2	67.1	77.4	97.9
Net profit (\$\$ m)	29.6	38.2	53.0	60.6	76.6
EPS (cts)	8.1	10.5	14.5	16.6	21.0
EPS growth (%)	+27%	+29%	+39%	+14%	+26%
P/E (x)	10.7	8.3	6.0	5.2	4.1
Core EPS (cts)	10.5	11.5	14.3	16.5	20.9
Core EPS growth (%)	+43%	+10%	+24%	+16%	+26%
Core P/E (x)	8.3	7.6	6.1	5.3	4.2
FD EPS (cts)	7.6	9.8	13.7	15.6	19.7
FD P/E (x)	11.4	8.8	6.4	5.6	4.4
Gross DPS (cts)	2.7	3.0	3.5	4.0	5.0
Dividend yield (%)	3.1	3.4	4.0	4.6	5.7
P/NTA (x)	1.6	1.4	1.2	1.0	0.8
ROE (%)	13.1	15.4	19.1	18.9	20.2
Net gearing (%)	56.7	44.9	44.5	38.3	27.4
P/CF (x)	9.8	7.8	5.8	5.0	4.0
EV/EBITDA (x)	8.4	7.9	9.5	6.6	5.3
% change in EPS estimates	-	-	-	2.4	2.8

Source: CIMB-GK research, Bloomberg

### Peer comparison

	Price (Local)	Mkt cap (US\$ m)	Core P/E (x) CY2011	Core P/E (x) CY2012	P/BV (x) CY2011	ROE (%) CY2011	Div yield (%) CY2011
ECS	0.87	249.3	5.2	4.1	1.0	18.9	4.6
Digital China	14.1	1,971.3	12.9	9.2	2.5	20.5	2.4
Ingram Micro	20.0	3,132.9	9.1	8.0	0.6	7.3	-
Synnex	49.8	2,321.9	10.6	9.4	1.0	10.0	-
Tech Data	70.2	3,547.0	15.4	12.6	2.6	17.8	3.7
<b>Simple average</b>			<b>10.7</b>	<b>8.7</b>	<b>1.5</b>	<b>14.9</b>	<b>2.1</b>
<b>Simple average - ex ECS</b>			<b>12.0</b>	<b>9.8</b>	<b>1.7</b>	<b>13.9</b>	<b>1.5</b>

Source: CIMB-GK Research, Bloomberg

### Background

ECS is a leading Information and Communication Technology (ICT) product and service provider. Established in 1985, it was listed on the SGX main board in 2001. It is involved in enterprise systems, IT services and the distribution of IT products. Its enterprise systems division designs, installs and implements IT infrastructure for companies while its IT service division provides technical support and training services. ECS distributes IT products through its 21,000 channel partners and resellers in six countries. Major vendors are leading global brand names like Hewlett-Packard (full range of products), Apple, Microsoft, Sun Microsystems, IBM, Oracle, and EMC.

Source: CIMB-GK Research, Company

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