

Update Note

Thursday, May 26th, 2011

ECS ICT RM1.51

BUY

Current Price	RM1.51
New Target Price	RM1.79
Previous Target Price	RM1.63
Previous Recommendation	
Upside To Target	16.5%

Stock Codes

Masa	ECS/5162
Bloomberg	ECS MK

Stock & Market Data

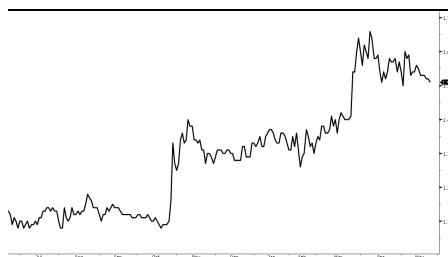
KLCI	1,533.57
Listing	Main Board
Sector	TECHNOLOGY
Syariah Compliance	YES
Par Value	RM0.50
Issued Shares	120.0 m
Market Capitalisation	RM181.2 m
YTD Chg In Share Price	%
52-week Hi/Lo	RM1.70/RM1.05
3M Average Volume	244,529 shares
Estimated Free Float	29%
Majority Shareholders	

ECS Holdings (40.00%)
Teo Soo Pin Sdn Bhd (11.80%)
Sengin Sdn Bhd (12.05%)
(indirect: Teo Soo Pin) Dato' Teo Chiang Quan
(indirect: via Sengin) Foo Sen Chin
Dasar Technologies (5.50%)

Key Indicators @ FYE Dec10

ROA	10.2%
ROE	24.4%
Net Debt/Equity	net cash
Price/Book Value	1.25x

Share Price Performance Chart



1Q11 results were in line with forecasts The quarter's net profit of RM7.03m is 21% of our year's forecast figure and 21.2%YoY higher. The higher profit was on the back of a 11.5%YoY drop in total revenues. This was a result of the high volume but low margin distribution business segment where revenues dropped 15.1%YoY, resulting in a 4.9%YoY drop in pretax contribution.

Distribution segment revenues still comprised 67% (FY10: 66%) of group revenues despite the reduced dependence on the ICT distribution segment. The enterprise systems segment saw revenues fall 1.4%YoY. The business mix however, provided much better margins as segment gross profits rose 75.7%YoY to RM3.7m, compared to gross profits at RM5.0m for the distribution business. ICT value-added services segment, a tiny segment by comparison, saw revenues fall 14.2%YoY, yielding 83.7% higher segment gross profits at RM79k. The shift to greater dependence on the enterprise segment was a planned move. The result was an upward shift in the gross margins to 6.6% (FY09: 5.3%).

On a QoQ basis, the holiday-shortened quarter's revenues fell 11.6%, and gross profits fell 15.8%. The impact fell disproportionately on the ICT distribution business where revenues falling 10.1%QoQ resulted in a 31.9%QoQ fall in pretax contribution. In the enterprise systems segment, a 12.5%QoQ drop in revenue resulted in a similar 12.5%QoQ drop in pretax contribution.

We expect revenue growth to recover in the later quarters in the current financial year. ECS has an estimated 13% share of the USD1b enterprise systems market in Malaysia based on IT consultants Gartner estimates of the market size. The drop in distribution revenue is partly grounded on the drop in the HP proportion of sales, as consumers dropped notebooks in favour of Apple products. ECS has about 50% of the Malaysian volume for HP products. Nevertheless, YTD sales of 6,000 Samsung notebooks partially offset the drop, with contribution coming also from Asus sales. ECS is also an Apple distributor and ECS recently moved into distribution of Apple and other convergence products including Samsung's Galaxy. YTD Apr11, it sold 2,000 units of Samsung's Galaxy range. ECS added distributorship rights for Dell in Mar11. Dell's traditional appeal has been in the enterprise segment. The addition of Dell to its suite of enterprise servers and notebooks will boost enterprise segment sales.

Management of working capital by ECS remains exceedingly good. The group increased its net cash position to RM39.4m even after paying off a RM12.7m bank loan, compared to a net debt of RM27.5m after IPO. Working capital needs were also trimmed owing to the fall in revenues and the reduced reliance on distribution business which features higher inventory needs.

Recommendation

Whilst we still expect only gradual share price outperformance, expected dividends at 8.5 sen/share in FY11 sustainable into the longer term or 5.5% yield are very attractive. ECS maintains a target payout of 30% of profits, and this attractive stream will significantly add to investor returns. PER multiples remain at an inexpensive 5.5X FY11 earnings. We have raised our TP 10% higher to RM1.79 based on a 6.3x earnings multiple with its small capitalisation stock stature still acting as a constraint, but a re-rating may be on hand. We believe the share fully deserves better valuations than currently being observed. **BUY**

Investment Statistics

YE 31 Dec (RM m)	2007	2008	2009	2010	2011F
Net Profit	13.7	18.8	24.1	28.9	33.5
Growth	82.0%	37.1%	28.0%	20.0%	15.8%
Consensus					
EPS (sen)	11.4	15.7	20.1	24.1	27.9
DPS (sen)	-	-	-	8	8.5
NTA/Share (sen)	n.m.	n.m.	69.45	122.81	144.72
Net Cash/(Debt) (RM m)	n.m.	n.m.	(27.46)	17.44	28.74
Net Debt (cash)/Equity	n.m.	n.m.	30.7%	-11.8%	-16.6%
PER	n/a	n/a	6.77	6.39	5.52
Dividend Yield	n/a	n/a	n/a	5.2%	5.5%
ROE	n/a	n/a	n/a	24.4%	20.9%
ROA	n/a	n/a	n/a	10.2%	12.0%
P/NTA (x)	n/a	n/a	n/a	1.25	1.06

Income Statement (RM m) FYE 31 st Dec	Revenue	PBT	Profit After Tax	YoY Growth	PBT Margin	PAT Margin
2004	450.7	6.1	4.2		1.4%	0.9%
2005	686.1	9.1	6.7	59.5%	1.3%	1.0%
2006	766.0	10.5	7.5	11.9%	1.4%	1.0%
2007	977.0	18.9	13.7	82.7%	1.9%	1.4%
2008	1,159.5	27.1	19.8	44.5%	2.3%	1.7%
2009	1,345.6	33.5	25.0	26.3%	2.5%	1.9%
2010	1,271.5	39.4	28.9	17.6%	3.1%	2.3%

Income Statement (RM 000s)	3M to Mar-10	3M to Sep-10	3M to Dec-10	3M to Mar-11	% chg QoQ	% chg YoY	12M to Mar-10	12M to Mar-11	% chg YoY
FYE 31 st Dec									
Revenue	315,097	329,808	315,467	278,902	-11.5%	-11.6%	n/a	1,235,317	n/a
Cost of sales	-296,533	-308,695	-293,648	-260,369	-12.2%	-11.3%	n/a	-1,151,958	n/a
Gross profit	18,564	21,113	21,819	18,533	-0.2%	-15.1%	n/a	83,359	n/a
Other operating expenses	-10,347	-11,440	-10,253	-9,504	-8.1%	-7.3%	n/a	-42,253	n/a
Other operating income	6	693	117	250	4067%	114%	n/a	1,066	n/a
Results from operating activities	8,223	10,366	11,683	9,279	12.8%	-20.6%	n/a	42,172	n/a
Interest expense	-540	-456	-565	-80	-85.2%	-85.8%	n/a	-1,408	n/a
Interest income	13	16	48	62	376.9%	29%	n/a	168	n/a
Profit before tax	7,696	9,926	11,166	9,261	20.3%	-17.1%	n/a	40,932	n/a
Tax expense	-1,897	-2,840	-2,824	-2,235	17.8%	-20.9%	n/a	-10,675	n/a
Minority Interest	0	0	0	0	n/a	n/a	n/a	0	n/a
Profit for the period	5,799	7,086	8,342	7,026	21.2%	-15.8%	n/a	30,257	n/a

Effective Tax Rate (%)	24.65%	28.61%	25.29%	24.13%				26.08%	
GP Margin	5.89%	6.4%	6.92%	6.64%				6.75%	
Pretax Margin	2.44%	3.01%	3.54%	3.32%				3.31%	

The opinion and information contained herein are based on available data believed to be reliable and this report is provided for information purposes only. It is not to be construed as an offer, invitation to buy or sell the securities mentioned herein. Jupiter Securities Sdn Bhd does not warrant the accuracy stated in any manner herein and no reliance upon such things by anyone should give rise to any claim whatsoever. The directors and staff of Jupiter Securities Sdn Bhd may have an interest in the securities mentioned.