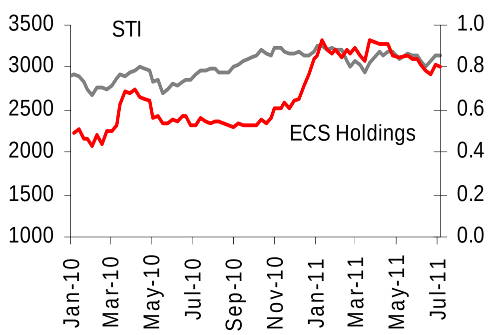
15 July 2011

Initiating Coverage

BUY

Current Price: S$0.765

Fair Value: S$1.08



Reuters Code	ECSH.SI
ISIN Code	E18
Bloomberg Code	ECS SP
Issued Capital (m)	365
Mkt Cap (Sm / USm)	280 / 230
Major Shareholders	
VST Holdings	89.7%
Free Float (%)	10.3%
Daily Vol 3-mth ('000)	68,476
52 Wk Range	0.510 - 0.970

(S$ m)	FY09	FY10	FY11F	FY12F
Revenue	3252.0	3085.4	3724.2	4239.1
EBIT	60.6	68.7	74.9	89.9
P/NTA (x)	1.2	1.1	0.9	0.8
EPS (cts)	10.5	14.5	15.4	18.6
PER (x)	7.3	5.3	5.0	4.1

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ECS Holdings Ltd

Set for a record year; initiate with BUY

Playing the volume game with leading IT vendors. ECS Holdings (ECS) is a leading Information and Communications Technology (ICT) products and services provider with a strong presence in six regional countries. The group thrives on developing a strategic and established relationship with major IT vendors, which include Apple, HP and Microsoft. We expect ECS's earnings momentum to gain traction moving forward, as it had recently clinched new distributorship agreements with Dell and also nationwide distribution rights for Apple's iPad and iPhone in China. A full-year of contribution is expected to accrue in FY11. Nevertheless, we acknowledge that the distribution business carries thin margins; hence ECS would have to depend on strong volume growth to enhance its profitability.

Diverse product offerings and extensive distribution channels. Given ECS's long-standing relationships with a number of leading IT principals, it has the ability to distribute a wide and diverse range of commercial and consumer product categories to its customers. This competitive advantage is further boosted by its extensive distribution network comprising of more than 23,000 partners and resellers. Looking ahead, ECS will also continue its efforts to negotiate with vendors on a regional instead of a standalone-country basis to increase its scalability and gain better economies of scale and scope.

Poised for a record year. We believe that ECS is poised for a record performance in FY11, underpinned by factors highlighted earlier as well as increasing focus and penetration in higher growth markets. This is further supported by the continued recovery in the ICT sector, especially in the Asia-Pacific region. Enterprises in these areas are stepping-up their IT infrastructure upgrading to enhance their competitiveness and consumers are armed with an increasing willingness and ability to splurge on popular electronic devices. We are forecasting double-digit growth for both its revenue and core earnings in FY11 and FY12. Our estimates translate to a CAGR of 10.4% and 22.9% for its top-line and core PATMI during the period from FY06 to FY12F respectively.

Attractive valuations; initiate with BUY. We value ECS based on a PER methodology and ascribe its historical median PER of 7x to our FY11F core EPS forecast. This represents a 25% discount to its peers' CY11 PER of 9.3x, which we think is justifiable due to its low free float (10.3%) and trading liquidity. Nevertheless, our fair value estimate of S$1.08 still implies an attractive upside potential of 41.2%, supported by a healthy prospective dividend yield of 5.0%. As such, we initiate coverage on ECS with a **BUY** rating.

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Section A: Company background

Leading ICT services and products provider. ECS Holdings (ECS) was established in 1985 as an Information and Communications Technology (ICT) products and services provider and was listed on the SGX Mainboard on 9 Feb 2001. The group seeks to enhance its competitive advantage by strengthening its relationships with leading IT vendors such as Hewlett-Packard (HP), Apple, Cisco, IBM, Microsoft, Oracle and Dell amongst others. Thus it has the ability to offer a diverse range of commercial and consumer IT services and products. ECS was initially acquired by VST Holdings (VST) in 2007 at an offer price of S$0.668. VST is involved with the distribution of computer and peripheral products and other IT products of renowned brands principally in China. However, given VST's intention to maintain the listing status of ECS, it sold a portion of its stake to institutional and other accredited investors as well as retail investors to maintain a public free float above 10%. VST now owns 89.7% of ECS.

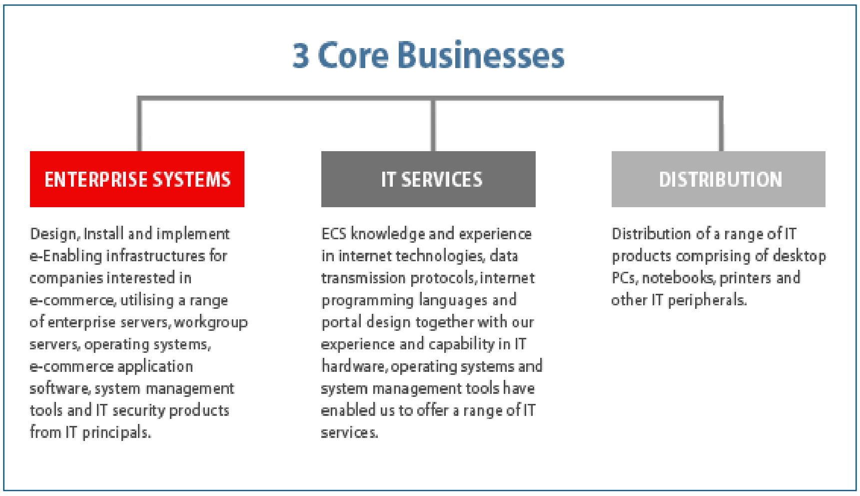
Core businesses:

Enterprise Systems. The Enterprise Systems (ES) division provides enterprise system tools such as middleware, operating systems, databases; and also designs, installs and implements IT infrastructure for organisations. The ES segment formed 36.7% of ECS's total revenue in FY10.

IT Services. The IT Services division entails the provision of a comprehensive range of professional, technical support, maintenance and training services for companies. This segment formed 0.8% of ECS's total revenue in FY10.

Distribution. The Distribution division involves the distribution of fast-moving and popular products such as smartphones and multi-media tablets to customers by leveraging on the group's efficient logistical infrastructure and distribution network. This segment formed 62.5% of ECS's total revenue in FY10 and is expected to continue to form the bulk of ECS's sales moving forward, in our opinion.

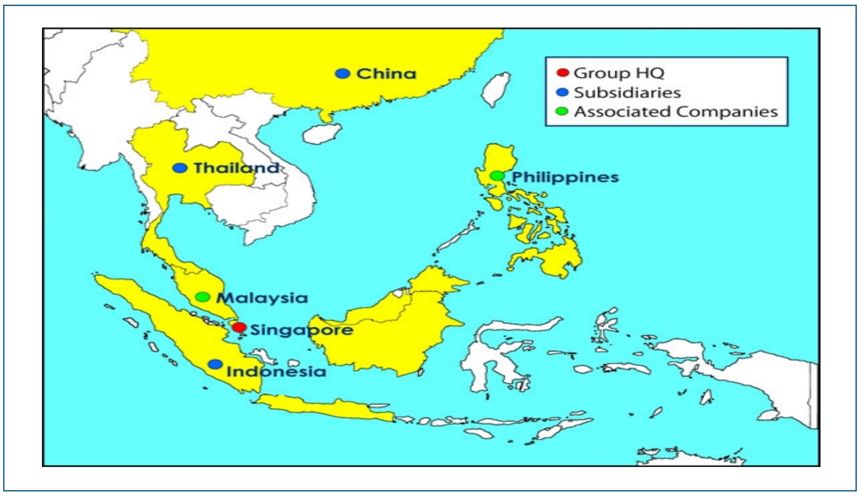
Exhibit 1: Core segments of ECS



Source: Company

Strong regional presence. ECS has a total of 39 offices in six countries, namely China, Singapore, Indonesia, Malaysia, Thailand and the Philippines. In addition, these countries formed a combined network of more than 23,000 partners and resellers. We believe that this expansive market coverage provides ECS with a strong competitive advantage and allows it to improve its reach and efficiency to its customers. China constituted a majority 57.7% of the group's revenue in FY10; Singapore (where ECS is headquartered) contributed 10.0% of total revenue while the remaining South-East Asian countries formed 32.4% of its FY10 sales.

Exhibit 2: Location of ECS's operations



Source: Company

Section B: Investment highlights

Distributorship agreements with leading IT vendors. ECS thrives on developing a strategic and long-lasting relationship with leading IT vendors. These vendors include HP, Apple, Cisco, IBM, Microsoft, Oracle and Dell amongst others. Having a close working relationship with these vendors allows ECS to obtain a firm grasp of the latest trends in ICT technology and thus enables it to align its business strategy for future growth. Besides pre-existing distributorship agreements with IT principals, ECS recently boosted its portfolio by clinching new distributorship agreements with Dell and Lexmark and also expanded its category range for Lenovo.

Drivers behind its volume growth. More significantly, ECS managed to clinch nationwide distribution rights for Apple's iPad (now including iPad 2) and iPhone in China in Nov and Dec 2010 respectively. This is expected to drive its earnings momentum going forward given the huge popularity of these devices and rising affluence in China. We expect strong top-line and bottom-line growth in FY11 as a full-year of contribution sets in. Moreover, ECS's iPad distribution agreement has now been expanded to all its six addressable markets. It is currently the fourth largest distributor of IT products in China by revenue, and is seeking to move up to the top three by the end of 2011. We believe that new distributorship agreements secured recently should lend support in attaining this goal. Nevertheless, we acknowledge that the distribution business typically carries thin margins; hence ECS would have to depend on strong volume growth to enhance its profitability.

Exhibit 3: Selected key IT vendors for ECS

Source: Respective company logos

Diverse product offerings and customer base. Given ECS's established relationships with a number of leading IT principals, it has the ability to distribute a wide and diverse range of commercial and consumer product categories to its customers. These include PCs, tablets, printers, smartphones, servers, data storage and accessories. One key strategy of ECS is that it carries a few brands for each different kind of product which it offers. This allows ECS to reduce its dependency on a single vendor. ECS also has a diversified customer base and its end users ranges from governments, large corporations, SMEs and individuals. Its attractive portfolio of brands also improves its bargaining power with its customers, in our view. With reports suggesting that Apple could be launching its next-generation iPhone in 3QCY11, we believe that the securing of its distributorship rights by ECS would be another re-rating catalyst for its share price. In our opinion, this possibility seems likely given ECS's established relationship with Apple and that it is already distributing some of Apple's popular products such as the iPad.

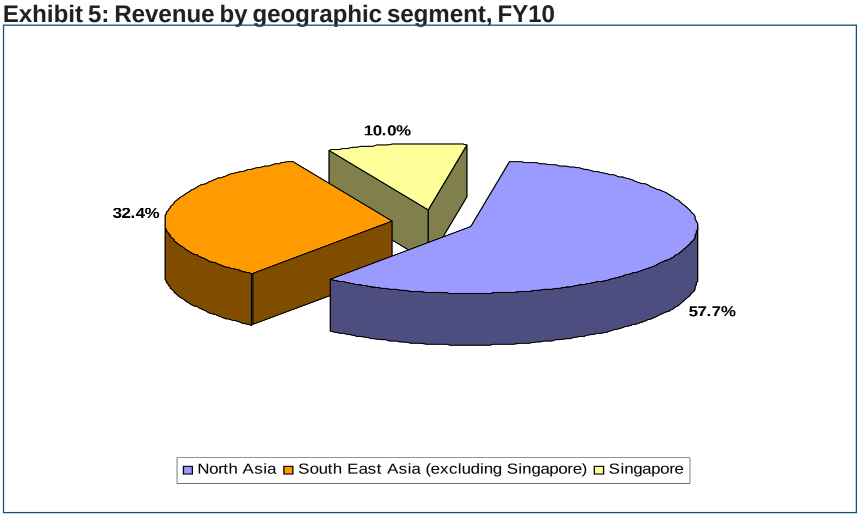
Extensive distribution channels. ECS currently has a wide distribution network comprising of more than 23,000 partners and resellers in six different countries. This allows ECS to extend the reach of its products and services offerings to end users, which is imperative for the distribution business. As ECS also operates in close proximity to its resellers and local partners, we reckon that this enables the group to better understand the local operating environment and respond more quickly to its customers' needs and the changing business environment. Management highlighted that it is targeting to increase its partners and resellers to ~25,000 by year end.

Exhibit 4: Distribution chain of ECS

Source: OIR

Focusing on higher growth markets. Geographically, ECS's business is focused on higher growth markets in the Asia-Pacific (APAC) region. The growth of the ICT sector in its addressable markets is expected to outpace that of the global ICT market. Enterprises in this region should continue their technological enhancement initiatives at a faster pace in a bid to increase their competitive advantage. Current low ICT penetration rates also imply ample potential for growth and scalability as these economies become more developed over time and increase their investments in IT infrastrucutre. In particular, China, which contributed 57.7% of ECS's revenue in FY10, is expected to remain as ECS's main contributor moving forward given new initiatives undertaken by management to drive growth there. Please refer to the 'Industry Outlook' section for an elaboration on the prospects of ECS's addressable markets.

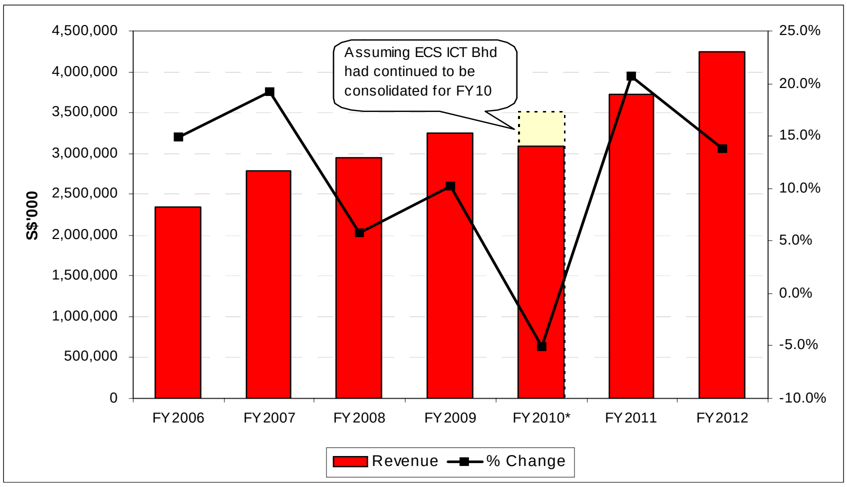
Exhibit 5: Revenue by geographic segment, FY10



Source: Company, OIR

Poised for double-digit growth... We believe that ECS is poised to achieve double-digit growth for both its revenue and core earnings in FY11 and FY12. Our estimates translate to a CAGR of 10.4% and 22.9% for its top-line and core PATMI during the period from FY06 to FY12F respectively. This growth would be underpinned by recent successes in securing new distributorships for high-demand consumer products, broadening its vendor partnerships and increasing penetration in areas with ample growth potential. We still see value for distributors despite their relatively thin-margin business model as they form an important bridge between global brand vendors and end-users.

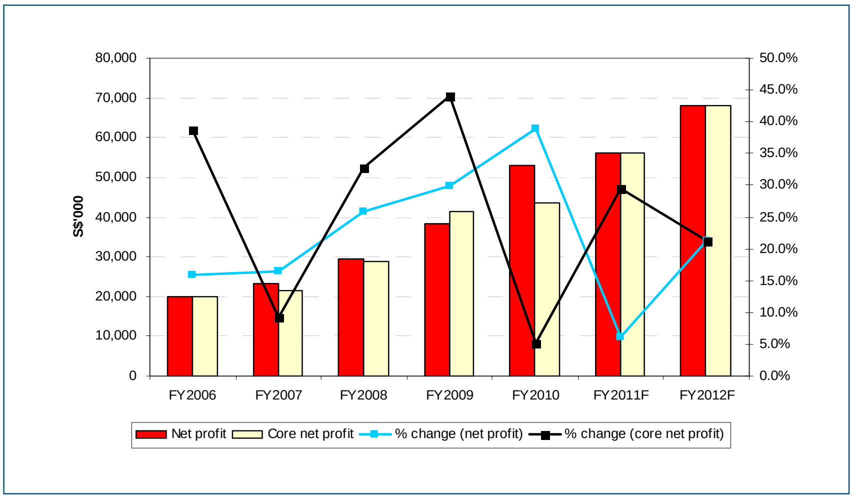
Exhibit 6: ECS revenue, FY06 - FY12F



Source: Company, OIR estimates

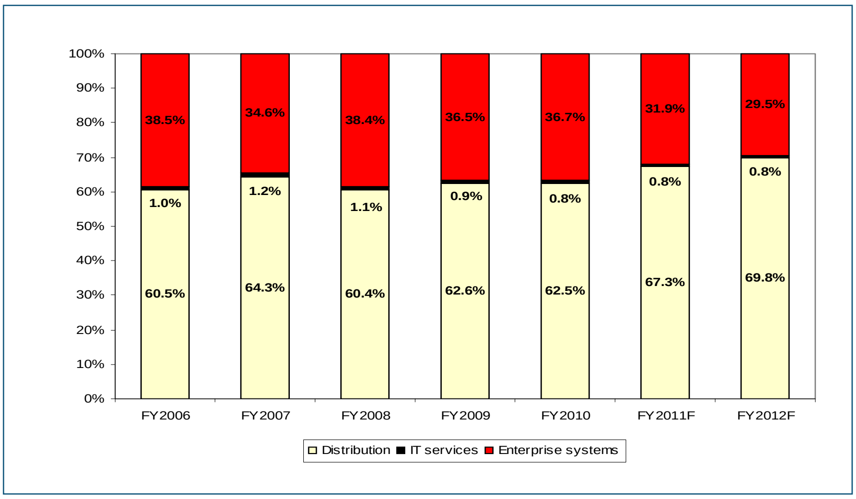
** Reported revenue for FY10 declined 5.1% to S$3.1b due to the deconsolidation of ECS ICT Bhd (ECSB) after its listing on the Bursa Main Board on Apr 2010. We estimate that revenue would instead have increased by 8.0% assuming ECSB had continued to be consolidated, based on an exchange rate of S$1 = RM2.4642.*

Exhibit 7: ECS net profit, FY06 - FY12F



Source: Company, OIR estimates

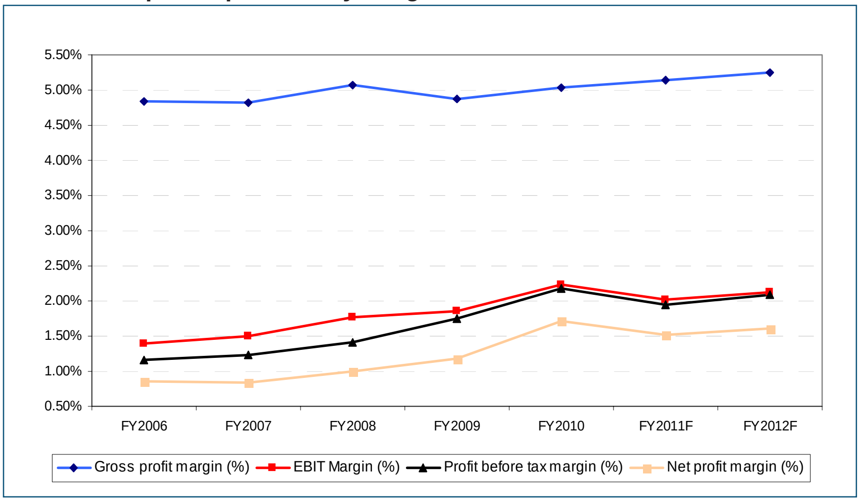
Exhibit 8: Segmental breakdown



Source: Company, OIR estimates

...aided by margin enhancing initiatives and better economies of scale. ECS is continuously seeking to improve its efficiency. It has upgraded its enterprise resource planning (ERP) system to enhance its business process efficiency and employee productivity and is also streamlining its logistical processes to ensure timely delivery. ECS will also continue its efforts to negotiate with vendors on a regional instead of a standalone-country basis to spur its volume growth and gain better economies of scale and scope. This, coupled with its focus to realign its product portfolio to achieve a better product mix, should aid in improving the group's margins moving forward.

Exhibit 9: Reported profitability margins



Source: Company, OIR estimates

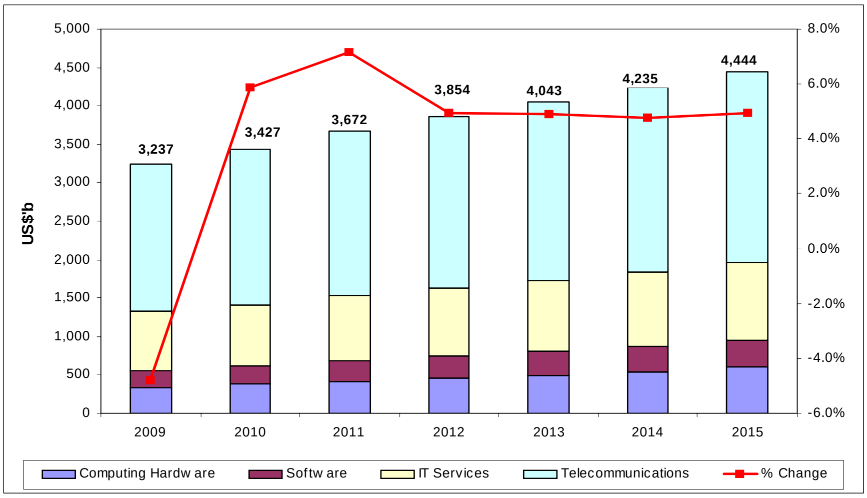
Note: FY10 figures include one-off gains of ~S$12.6m from the listing of ECSB on the Bursa Main Board, which saw ECS's stake reduced from 60% to 41%. Hence ECSB would be held as an associate thereafter instead of a subsidiary.

Synergistic and value-added IT services segment. Although the IT services segment contributed only 0.8% of ECS's revenue in FY10, we believe that this division is complementary to its business and thus creates value to the group. ECS is able to enhance its IT services given its strong relationships with established IT principals, which provide it with the relevant advanced professional training and certifications in emerging technologies. Last but not least, margins in this segment are typically the highest and hence any top-line increases would add favourably to its bottom-line.

Section C: Industry outlook

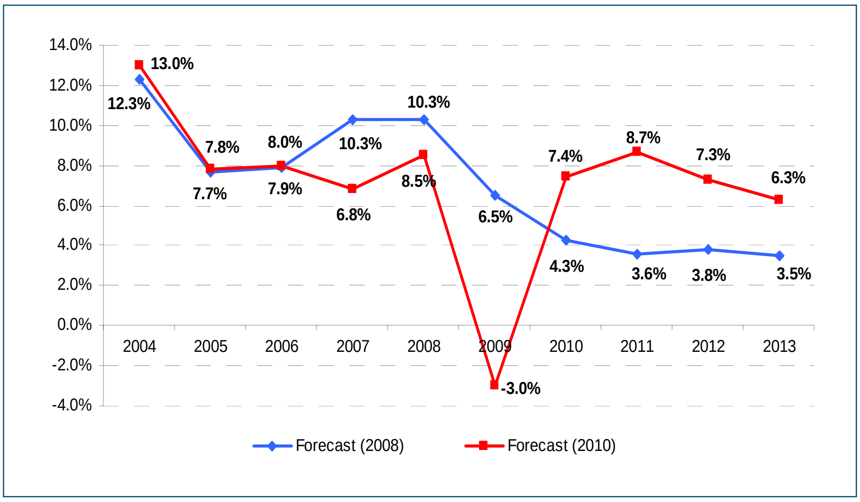
Continued recovery in ICT sector. The use of IT has become an integral element in the corporate environment, as companies increasingly seek to enhance their competitive advantages via constant technological upgrades. Industry watcher Gartner recently upgraded its projection for overall IT spending for 2011 from 5.6% to 7.1% and from 4.5% to 5.0% for 2012. This follows up from the 5.9% growth registered in 2010 after a 4.8% contraction in 2009 due to the global financial crisis. We reckon that corporate IT capex will remain fairly robust as firms see the importance of investing in new technology and upgrading their infrastructure to improve their productivity and operational efficiency. This is further substantiated by the World Information Technology and Services Alliance's (WITSA) assessment that a built-up demand after the financial crisis would provide a boost in ICT spending, with growth projected to hit 8.7% in 2011 before steadily tapering down (Exhibit 10).

Exhibit 10: Forecasted IT spending by Gartner



Source: Gartner, OIR

Exhibit 11: Forecasted global ICT spending (% annual change) by WITSA

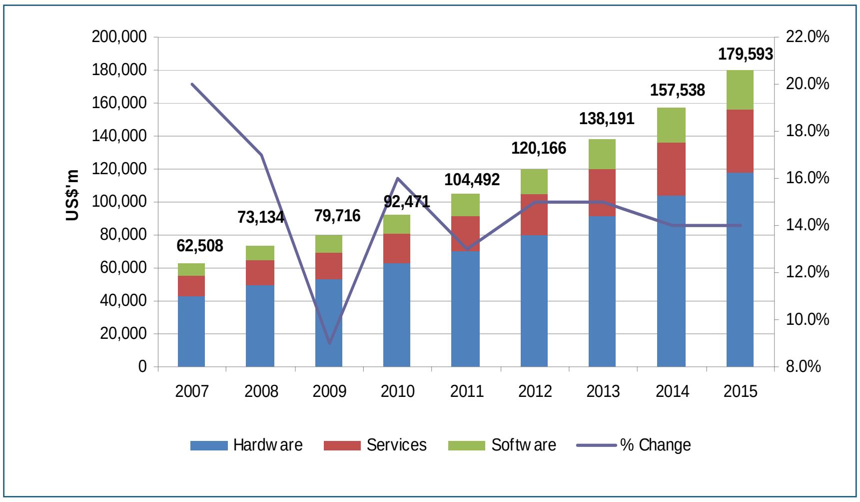


Source: WITSA, OIR

APAC leading the way. Emerging economies including the APAC region is expected to lead the way moving forward in the growth of the IT market. We opine that companies in this region should continue their IT replacement cycle at a faster pace as they seek to hasten their technological advances to narrow the gap between themselves and their more developed counterparts. Research firm International Data Corporation (IDC) stated that the IT market for APAC ex. Japan saw growth of 13% in 2010, and forecasted a further 10% growth this year. On the other hand, other mature economies such as Western Europe and the U.S. are expected to expand at a slower but sustainable rate. We see current low ICT penetration rates in addressable markets of ECS as potential for the group to increase its demand trajectory as these areas have ample opportunities for growth. This is supported by government initiatives to strengthen IT infrastructure and increasing affordability by consumers in these markets.

China in particular carries huge growth potential. China is likely to remain as the most important market for ECS, in our opinion. This is because ECS clinched the distributorship rights for the iPad and iPhone in China in Dec last year. China contributed 57.7% of ECS' revenue in FY10 and this is expected to increase moving forward as the full-year contribution from the sale of these products sets in. Moreover, the Chinese government has earmarked IT as one of its key focus during its 12th Five-Year Plan. This is likely to entail investments in IT infrastructure and networks including rural areas which would boost sales for IT services and products providers such as ECS. We understand that ECS is targeting the emerging fourth and fifth-tier cities where many of its vendors also anticipate good growth. Research firm Business Monitor International (BMI) projected a CAGR of 14.1% for China's IT market from 2007 to 2015 as depicted in Exhibit 12.

Exhibit 12: China's IT market



Source: BMI, OIR

Rising consumerism in popular electronic devices... We believe that evolving consumer electronics products with enhanced functionality and designs should help to generate fresh consumer demand. This trend is likely to be more prominent in emerging markets with growth outpacing that of the global economy, leading to rising affluence. This increases disposable incomes of consumers, thus increasing their willingness and ability to splurge on electronic devices to improve their lifestyle. We expect ECS to be a key beneficiary of this trend as its key markets encompasses some of these developing nations such as China, Indonesia and Malaysia.

Exhibit 13: Selected emerging consumer electronics market

US$'b	2009	2014	CAGR 2009 - 2014
Markets in which ECS has a presence			
China	146.7	223.5	8.8%
Malaysia	8.1	10.9	6.1%
Indonesia	6.5	11.7	12.5%
Thailand	6.1	12.7	15.6%
Philippines	3.5	5.5	9.9%
Potential penetration markets by ECS			
India	20.9	45.6	16.9%
Vietnam	4.1	6.7	10.7%

Source: Business Insights, OIR

According to the Nielsen Global Online Consumer Survey for 1QCY11, APAC ex. Japan's Consumer Confidence Index jumped ten points QoQ to reach 107, the highest score on record. In addition, we are encouraged that Indonesia (116 points), Philippines (110 points), Singapore (109 points) and China (108 points) came in as the third, fifth, seventh and ninth most optimistic nation in the global survey respectively. Malaysia and Thailand, in which ECS has a strong presence, also recorded an optimistic outlook with scores of 105 and 106 respectively. We believe that ECS is also on the lookout for suitable partners to penetrate new markets such as India and Vietnam. This should help to support the earnings trajectory of its Distribution segment moving forward, which formed 62.5% of total revenue in FY10.

…fuelled by smartphones and media tablets. Smartphones and media tablets are touted as the key drivers for the surging demand of consumer electronic devices. According to IDC, the worldwide smartphone market is projected to grow 54.8% in 2011, with a total of 472m smartphones estimated to be shipped. Gartner similarly painted a rosy picture for smartphone sales; forecasting a 57.7% increase in 2011 to reach 468m units. Total unit sales is estimated to cross the 1b mark in 2015 (Exhibit 14).

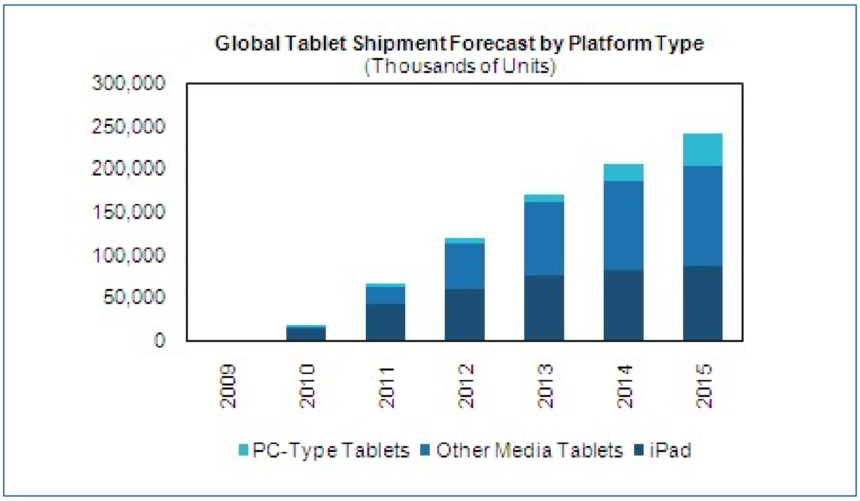
Exhibit 14: Worldwide smartphone sales

Operating System ('000)	2010	2011	2012	2015
Symbian	111,577	89,930	32,666	661
Market Share (%)	37.6	19.2	5.2	0.1
Android	67,225	179,873	310,088	539,318
Market Share (%)	22.7	38.5	49.2	48.8
Research In Motion	47,452	62,600	79,335	122,864
Market Share (%)	16	13.4	12.6	11.1
iOS	46,598	90,560	118,848	189,924
Market Share (%)	15.7	19.4	18.9	17.2
Microsoft	12,378	26,346	68,156	215,998
Market Share (%)	4.2	5.6	10.8	19.5
Other Operating Systems	11,417.40	18,392.30	21,383.70	36,133.90
Market Share (%)	3.8	3.9	3.4	3.3
Total Market	**296,647**	**467,701**	**630,476**	**1,104,898**

Source: Gartner, OIR

Tablets are also expected to experience phenomenal growth in the years ahead. Industry watcher IHS iSuppli predicted that the total shipment of tablets will increase from 19.7m units in 2010 to 242.3m units in 2015, representing a CAGR of 65.2%. In particular, media tablet shipments including Apple's iPad is estimated to form 83.4% of its 2015 forecast, with PC-type tablets making up the remainder. The expected strong growth of media tablets is likely to have a cannibalising effect on PCs. Gartner had recently lowered its PC market forecast for 2011 by 1.2 percentage points (ppt) to 9.3%. IDC was less optimistic on the PC market, with expectations of a 4.2% growth in worldwide PC shipments (previously forecasted to be 7.1%) in 2011. Since ECS operates within both the tablet and PC segments, we believe that moving forward, ECS would have to drive sales of its tablet products faster to offset the slowdown in PC and netbook sales.

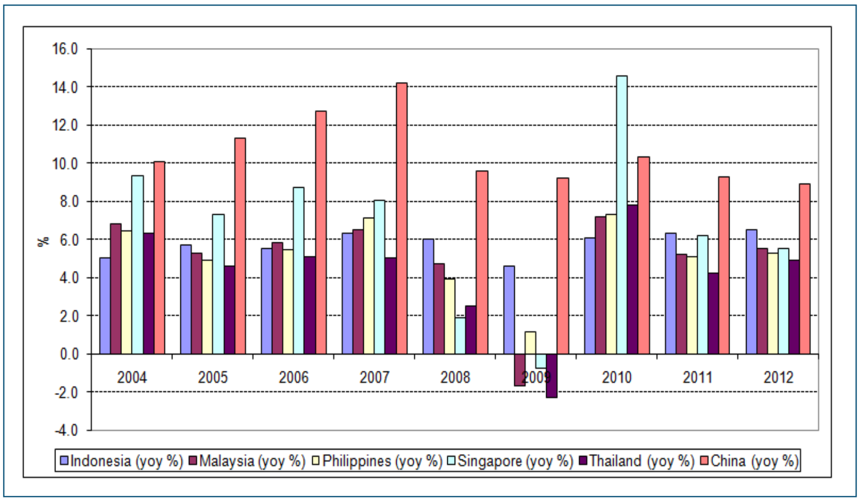
Exhibit 15: Worldwide tablet sales



Source: IHS iSuppli

Risks still exist amidst uncertain economic outlook. Notwithstanding these positive trends, we believe that risks still exist. Recent tightening measures in China to counter the effects of inflation (CPI of 6.4% in June, a three-year high) could stifle the appetite of corporations in their pace of IT infrastructure upgrading and dampen consumer sentiment. In the event of slower-than-expected growth in IT spending, ECS would be adversely affected in all its core business segments. The technology sector is very cyclical in nature and hence spending on IT products is strongly correlated to the macroeconomic outlook. The increasing uncertainty surrounding the U.S. and the sovereign debt crisis in the EU could cause organisations and consumers to adopt a more cautious approach. Looking at the GDP figures of ECS's key markets, we note that only Indonesia is expected to experience a growth magnitude larger than 2010 for 2011. Nevertheless, this was largely due to the strong rebound experienced in 2010 after the financial tsunami as well as a lower base effect then. Growth for 2012 is forecasted to exceed that of 2011, with the exception of China and Singapore. This should help to sustain growth in the ICT sector, barring any unforeseen circumstances.

Exhibit 16: GDP figures for selected nations



Source: Bloomberg, MAS, CEIC, Consensus Economics May 2011

Section D: SWOT analysis

Exhibit 17: SWOT analysis

Strengths	Weaknesses
Established relationships with leading IT vendors	Narrow margins for IT products distribution business
Diverse products and services offering	Low free float (10.3%) and trading liquidity
Wide distribution network and channels	High dependency on major vendors
Synergistic and value-added IT services	
Attractive dividend yield	
Opportunities	**Threats**
Penetration into new markets	High working capital requirements
Securing of new distributorship agreements	Loss of distributorship agreements
Widening its distribution channels	Slower-than-expected growth in IT spending
Negotiation with vendors on a regional basis to reap economies of scale	Political and economic risks in emerging economies which ECS operates in
Proposed TDR listing to raise funds and diversify shareholder base, although posing dilution risks	

Source: OIR

Key risks:

High dependency on key vendors. ECS's continued success depends largely on its partnerships with its vendors. Hence there could be over-reliance on certain key suppliers, in particular HP and Apple, which together formed more than half of ECS's purchases. HP recently cut its sales and earnings guidance for both 3QFY11 and FY11, citing weak PC sales as one of the reasons. Nevertheless, we postulate that HP would form a smaller percentage of ECS's purchases moving forward as it expands its vendor partnerships and product range. Should ECS suffer any loss of significant distributorship agreements, its revenue and negotiating power with its customers would be adversely affected. Notwithstanding this, we understand that ECS has not lost or discontinued any major distributorships. We believe this is due to 'stickiness' developed over its long-standing working relationships with key vendors. This risk is further mitigated by efforts to increase its agency partnerships with more renowned brand vendors. It also carries different brands for each product type in its portfolio as a means of diversification, which also allows it to broaden its range of products and services offered.

Narrow margins in IT distribution business. The IT products distribution business carries thin margins due to intense competition and increasingly shorter product life-cycle. Technology is constantly evolving, hence it is not an uncommon trend for IT principals to reduce the prices of their products over the life of their products as newer ones are launched. Hence ECS is actively undertaking cost control measures and improving its internal work processes to mitigate margin pressure. The group also applies other matrixes such as ROCE and not just gross margins when evaluating its overall portfolio mix.

Working capital intensive business. ECS functions in a working capital intensive business. Hence proper management of its inventory and accounts receivables is paramount to the sustainability of its operations. We estimate that ECS's cash conversion cycle days increased from 38.5 days in FY09 to 41.0 days in FY10. Most of the markets which ECS operates in carry relatively higher political and economic risks. Hence any adverse economic conditions could result in a credit crunch for its customers and in the worst case scenario, default could occur. ECS seeks to manage such risks by putting in place proper credit collection practices and requesting collateral from its customers, especially in newer territories. Hence bad debts written off is of a minimal amount. Additional financing is also often needed to fund its working capital needs. This is exemplified in the signing of a US$89m syndicated loan facility in Aug 2010. ECS's net gearing stands at 65.8% (target is not to exceed 70%) as at 31 Mar 2011, versus 44.6% at end FY10.

Slower-than-expected growth in IT spending. We had earlier highlighted the continued recovery in the ICT sector, particularly in emerging markets which ECS has a key presence in. This is driven by the ongoing IT replacement cycle and increasing willingness and ability to spend on newer electronic gadgets with improved designs and functionality. However, a slower-than-expected growth in IT spending by both organisations and consumers would directly impact the demand for ECS's services and products and hence impede its earnings momentum.

Section E: Peer comparison and valuation

Peer comparison. ECS is currently trading at a huge discount to its peers and also below its historical average PER of 8.0x since listing. We opine that current valuations are undemanding, given that its operating performance and net margin are comparable to that of its peers while offering a higher ROE (even after stripping out gains from the listing of ECSB in FY10), notwithstanding the fact that its gross margin is lower than most of its peers. We believe that a re-rating of its share price is likely in the near term, given recent initiatives by management to magnify its footprint in the region. We see strong growth potential and scalability for the group, underpinned by the securing of high-profile distribution agreements, successful negotiations with major vendors (including Apple, Dell, Lenovo etc) for the distribution of products on a regional basis and efforts to widen its distribution network.

Exhibit 18: Peer comparison table

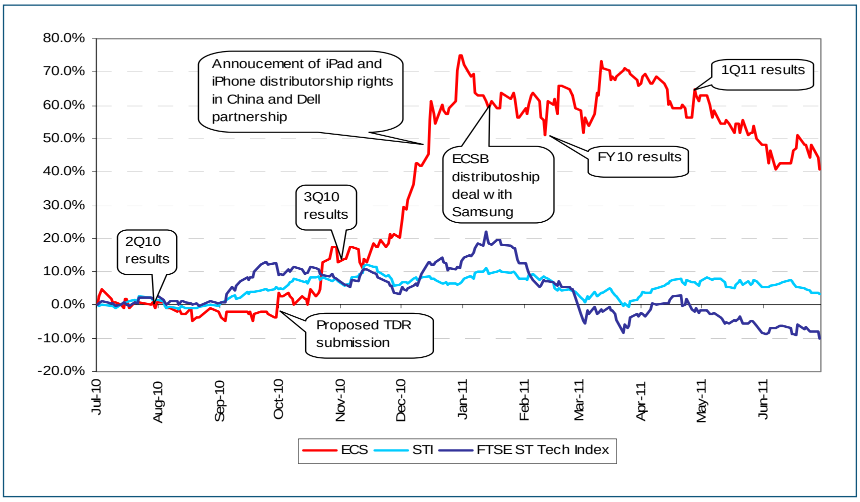
	Curr	Price	Trailing PER (x)	Est Curr PER (x)	Est Nxt PER (x)	PBR (x)	Gross Margin (%)	EBIT Margin (%)	Net Margin (%)	ROE (%)
Excelpoint Technology	SGD	0.052	6.8	NA	NA	0.5	7.0	0.8	0.5	6.0
Karin Technology	SGD	0.225	8.7	5.9	5.5	0.8	9.2	2.7	2.2	12.0
Unidux Electronics	SGD	0.090	3.3	NA	NA	0.6	5.0	1.3	1.4	19.1
Willas-Array Electronics	SGD	0.160	3.7	3.8	3.4	0.7	10.2	3.3	2.3	19.5
Singapore-listed peers average			**5.6**	**4.8**	**4.5**	**0.6**	**7.8**	**2.0**	**1.6**	**14.1**
Digital China	HKD	12.58	13.1	11.3	9.6	2.3	6.9	1.7	1.8	19.6
Ingram Micro Inc	USD	17.31	9.2	9.5	7.6	0.8	5.5	1.4	0.9	10.2
Pine Technology	HKD	0.184	7.2	NA	NA	0.3	11.4	1.8	1.2	5.2
Synnex Technology	TWD	70.9	19.3	16.0	13.6	3.0	3.6	1.6	2.0	16.1
Tech Data Corp	USD	46.99	10.3	9.5	8.5	1.0	5.3	1.4	0.9	10.2
Overseas-listed peers average			**11.8**	**11.6**	**9.8**	**1.5**	**6.5**	**1.6**	**1.3**	**12.3**
Overall average			**9.1**	**9.3**	**8.0**	**1.1**	**7.1**	**1.8**	**1.5**	**13.1**
ECS Holdings*	**SGD**	**0.765**	**5.1**	**5.0**	**4.1**	**0.9**	**5.0**	**1.9**	**1.4**	**15.6**

Source: Bloomberg, OIR estimates for ECS and Karin Technology

****ECS's estimated EBIT margin, net margin and ROE are after adjustment for exceptional items***

Outperforming benchmark indexes over the past year. Over the past one year period, ECS's share price has returned 41.7%, outperforming the broader market and the FTSE ST Technology Index (FSTI) by 37.1 ppt and 51.0 ppt respectively. YTD however, it has underperformed the STI by 5.2 ppt although still outperforming the FSTI by 13.3 ppt. We believe this could be due to risk aversion arising from ECS's exposure to China given recent fears of a hard landing as well as the impact of the Japan earthquake and tsunami on component shortages. Nevertheless, despite tightening measures by the Chinese government, China is still projected to grow at 9.3% and 8.9% in 2011 and 2012 respectively. Strong emphasis has also been placed on IT infrastructure development as China seeks to increase its competitiveness. Regarding the Japan calamity, we do not foresee material impact on ECS as recovery efforts have been stepped up and its partner vendors have sought supplies from alternative locations such as Taiwan and Korea.

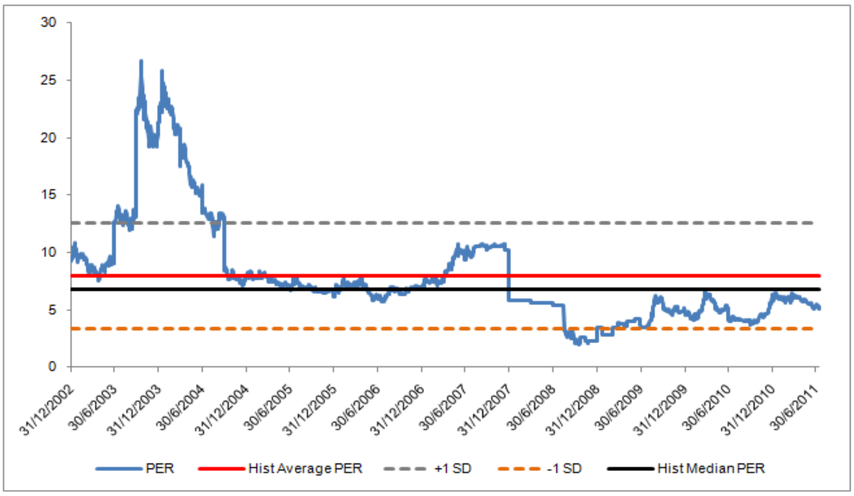
Exhibit 19: Share price performance and key events



Source: Bloomberg, OIR

Potential for more upside ahead; initiate with BUY. We like ECS for its experienced management team, extensive distribution network and strong relationships with a diverse range of global IT principals. We value ECS based on a PER methodology and ascribe its historical median PER of 7x to our FY11F core EPS forecast. This represents a 25% discount to its peers' CY11 PER of 9.3x, which we think is justifiable due to its low free float (10.3%) and trading liquidity. Nevertheless, our fair value estimate of S$1.08 still implies an attractive potential upside of 41.2%, supported by a healthy prospective dividend yield of 5.0%. As such, we initiate coverage on ECS with a **BUY** rating. Re-rating catalysts for its share price is likely to come from the securing of new IT vendors and/or products and services offerings to enhance the group's portfolio; as well as better-than-expected financial performance.

Exhibit 20: ECS PER since IPO



Source: Bloomberg, OIR

ECS Holdings' Key Financial Data

EARNINGS FORECAST Year Ended 31 Dec (S$m)	FY09	FY10	FY11F	FY12F
Revenue	3,252.0	3,085.4	3,724.2	4,239.1
EBITDA	63.5	71.0	77.1	92.3
EBIT	60.6	68.7	74.9	89.9
Net finance costs	-4.7	-7.7	-9.2	-9.1
Associates	1.2	6.0	6.8	7.4
Profit before tax	57.2	67.1	72.5	88.2
Income tax expense	-14.0	-12.9	-14.9	-18.5
Minority interests	4.9	1.2	1.4	1.6
PATMI	38.2	53.0	56.2	68.1
Core PATMI	41.3	43.4	56.2	68.1

BALANCE SHEET As at 31 Dec (S$m)	FY09	FY10	FY11F	FY12F
Bank and cash balances	51.1	92.5	113.4	94.0
Other current assets	766.3	762.4	898.9	1,023.2
Property, plant, and equipment	8.3	7.6	8.4	9.0
Total assets	873.4	944.5	1,109.6	1,222.4
Debt	175.3	224.8	271.5	262.4
Current liabilities excluding debt	418.7	419.1	492.9	559.2
Total liabilities	596.7	646.8	767.4	824.6
Shareholders equity	259.5	296.6	339.6	393.7
Minority interests	17.2	1.1	2.5	4.1
Total equity and liabilities	873.4	944.5	1,109.6	1,222.4

CASH FLOW Year Ended 31 Dec (S$m)	FY09	FY10	FY11F	FY12F
Op profit before working cap. chg.	65.7	63.0	77.1	92.3
Working cap and taxes	-36.4	-64.0	-77.5	-76.6
Net cash from operations	29.3	-1.0	-0.4	15.7
Purchase of PP&E	-1.9	-2.8	-3.0	-3.0
Other investing flows	2.2	-10.3	1.1	0.9
Investing cash flow	0.3	-13.1	-1.9	-2.1
Financing cash flow	-26.7	57.2	23.2	-33.1
Net cash flow	2.9	43.1	20.9	-19.5
Cash at beginning of year	49.5	51.1	92.5	113.4
Cash at end of year	51.1	92.5	113.4	94.0

KEY RATES & RATIOS	FY09	FY10	FY11F	FY12F
EPS (SG cents)	10.5	14.5	15.4	18.6
Core EPS (SG cents)	11.3	11.9	15.4	18.6
NTA per share (SG cents)	61.9	72.0	83.8	98.6
Net profit margin (%)	1.2	1.7	1.5	1.6
PER (x)	7.3	5.3	5.0	4.1
Price/NTA (x)	1.2	1.1	0.9	0.8
EV/EBITDA (x)	6.6	5.8	5.7	4.9
Dividend yield (%)	3.9	4.7	5.0	6.1
ROE (%)	15.4	19.1	17.7	18.6
Net gearing (%)	47.9	44.6	46.5	42.8

Source: Company data, OIR estimates

SHAREHOLDING DECLARATION:
The analyst/analysts who wrote this report holds NIL shares in the above security.

RATINGS AND RECOMMENDATIONS:
OCBC Investment Research's (OIR) technical comments and recommendations are short-term and trading oriented.
- However, OIR's fundamental views and ratings (Buy, Hold, Sell) are medium-term calls within a 12-month investment horizon. OIR's Buy = More than 10% upside from the current price; Hold = Trade within +/-10% from the current price; Sell = More than 10% downside from the current price.
- For companies with less than S$150m market capitalization, OIR's Buy = More than 30% upside from the current price; Hold = Trade within +/- 30% from the current price; Sell = More than 30% downside from the current price.

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