

## ECS ICT

TECHNOLOGY

**Buy**

Bloomberg Ticker: ECS MK | Bursa Code: 5162

### High dividend yield stock

ECS ICT is a distributor of ICT products in Malaysia, and is thus a proxy to ICT spending in Malaysia. It announced its FY11 results last night, which places the stock on an FY11 PER of only 5.6x with a net cash per share of 56 sen! Its proposed dividend also translates into an attractive net dividend yield of 5.7%. We have not met with management and our Buy recommendation is purely based on publicly available information.

#### ECS ICT is a distributor of ICT products

- **ECS ICT distributes information & communication technology (ICT) products in Malaysia.** It was listed in April 2010 at RM1.46 per share. ECS ICT is an MSC-status company, and distributes a comprehensive range of ICT products including notebooks, personal computers, printers, software, network and communication infrastructure, servers, and enterprise software from more than 30 leading principals like Hewlett Packard, IBM, Cisco, Microsoft, Apple, Dell, Oracle, Epson, Samsung, Buffalo, Adobe and Google. It has a nationwide channel network of more than 2,500 resellers comprising retailers, system integrators and corporate dealers.
- **ECS ICT is a 41% associate of ECS Holdings Ltd which is listed in Singapore.** ECS Holdings Ltd is one of the leading ICT distributors in Asia Pacific. Other major shareholders of ECS ICT are directors Foo Sen Chin (indirectly 12%) and Dato Teo Chiang Quan (indirectly 11.8%).
- ICT distribution accounted for 64% of sales and 50% of PBT in FY11, whereas Enterprise Systems accounted for 36% of sales and 45% of PBT. ICT distribution comprises distribution of ICT products like personal computers, notebooks, printers etc to resellers and hence the margins are lower. Enterprise Systems entails the distribution of network and communication, server and software products so the margins are higher.

#### Last night it announced its FY11 results and dividend payout

- **ECS ICT announced its FY11 results last night, which places the stock on a PER of only 5.6x.** For FY11, it earned an EPS of 25.1 sen, which although flat compared to FY10 EPS of 25.7 sen, puts the stock on a PER of only 5.6x.
- **Its recommended dividend gives an attractive net dividend yield of 5.7%.** It also recommended a single tier dividend of 8 sen per share, payable on 15 June 2012. At its current share price of RM1.40, this translates into an attractive net dividend yield of 5.7%. The recommended dividend represents a payout ratio of 32% compared to its dividend policy of minimum payout of 30% of net profit.
- **Strong operating cashflow boosted its net cash per share to 56 sen!** Its operating cashflow in FY11 was strong at RM56m, which boosted its net cash from RM18m to RM67m! This translates into a net cash per share of 56 sen. NTA/share stood at RM1.44.
- **ECS ICT is a Buy on its attractive net dividend yield of 5.7%.** Note that we have not met with management and our assessment is purely based on publicly available information. In the current low interest rate environment where investors are looking for dividend yield, this stock stands out and it is trading on a PER of only 5.6x, P/NTA of 0.97x with a strong net cash backing of 56 sen per share. Although earnings growth has been flattish over the past three years, its ROE of 17% is very good considering it is a net cash company. ECS ICT can also be regarded as a proxy to spending on ICT products in Malaysia. At our target price of RM1.70, net dividend yield is still attractive at 4.7% and P/NTA is reasonable at 1.2x considering its high ROE of 17%.

#### 12-month upside potential

Target price	1.70
Current price (as at 21 Feb)	1.40
Capital upside (%)	21
Net dividends (%)	5.7
Total return (%)	26.7

#### Key stock statistics

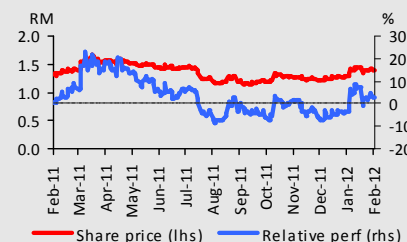
Market cap (RM m)	168
Issued shares (m)	120
Free float (%)	15

52-week range (RM)	1.13 – 1.66
3-mth avg volume ('000)	32
3-mth avg turnover (RM m)	0

#### Share price performance

	1M	3M	6M
Absolute (%)	9.4	10.2	19.7
Relative (%)	6.5	0.9	12.1

#### Share price chart



#### Key financial data

FYE 31 Dec	FY08*	FY09*	FY10	FY11
FD EPS (sen)	n/a	26.2	25.7	25.1
P/E (x)	n/a	5.3	5.4	5.6
Net DPS (sen)	n/a	n/a	8.0	8.0
Div yield (%)	n/a	n/a	5.7	5.7
BVPS (RM)	n/a	n/a	1.23	1.44
P/B (x)	n/a	n/a	1.1	1.0

\*Pre-listing

#### Analyst

Leong Hon Sze  
hsleong@ecmlibra.com  
+603 2089 2987



## DISCLOSURE & DISCLAIMER

### Stock rating definitions

Strong buy	- High conviction buy with expected 12-month total return (including dividends) of 30% or more
Buy	- Expected 12-month total return of 15% or more
Hold	- Expected 12-month total return between -15% and 15%
Sell	- Expected 12-month total return of -15% or less
Trading buy	- Expected 6-month total return of 15% or more arising from positive news flow. However, upside may not be sustainable.

### Sector rating definitions

Overweight	- Industry expected to outperform the market over the next 12 months
Neutral	- Industry expected to perform in-line with the market over the next 12 months
Underweight	- Industry expected to underperform the market over the next 12 months

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ECM Libra Capital Sdn Bhd (579116-A)  
2nd Floor, West Wing, Bangunan ECM Libra  
No. 8 Jalan Damansara Endah  
Damansara Heights  
50490 Kuala Lumpur  
Tel: (603) 2089 1888  
Fax: (603) 2096 18