

08 May 2012

ECS ICT Berhad

Continues to shine

We visited ECS recently and came back with a positive view. The outlook of the group remains bright and we expect ECS to record a high single-digit revenue growth in FY12 underpinned by i) higher sales from ultrabook and tablet, ii) better enterprise systems segment, iii) rising smartphone business iv) and a better consumer spending. Its FY12 net profit is expected to growth by a double digit, thanks to higher margin to be enjoyed on its upcoming smartphone business. Management has earlier guided that the smartphone business will commence in June 2012. We have raised our FY12-FY13 net profit by 2.4% and 4.1% to RM33.5m and RM35.6m, respectively, after taking the new smartphone business into consideration. In line with our earnings upgrade, we have raised our TP to RM1.70 (from RM1.66 previously) based on the unchanged target PER of 6.1x. Maintain **OUTPERFORM** rating.

ICT distribution segment is expected to be boosted by higher ultrabook laptop and tablet sales. ECS is optimistic on its ICT distribution segment and is targeting to grow it by 10% YoY for FY12, underpinned by the increasing number of distribution brands for its ultrabook laptops and encouraging sales in its tablet business. The group has expanded its single ultrabook laptop brand (ASUS) to another three well-known brands (i.e. Lenovo, HP and Dell) in 1Q12. Its tablet business meanwhile is also showing encouraging sales thanks to the new iPad and popular Samsung's Galaxy Tab series. We expect the ICT distribution segment to record a 7.9% YoY growth in turnover with sustainable GP margin of 4.5%. We understand that laptop, tablet, and ultrabook sales account for c.60% of ICT distribution segment turnover.

Enterprise Systems remained upbeat. The group is expected to record a similar YoY growth of 8-9% for its enterprise systems products (i.e. server, network systems, data centers and enterprise software), underpinned by higher industry demand for its Cloud Computing products with a sustainable gross profit margin of c.10%.

Targeting to push its smartphone business in June 2012. We understand the group has recently secured a deal from one of the biggest smartphone makers from China and is targeting to launch it in the Malaysian in June 2012. Despite the deal not being an exclusive distributorship and the smartphone brand already existed in the local market, we however view the agreement positively. With existing strong distribution channels coupled with hundreds of potential phone resellers, ECS could potentially benefit from this new market segment. IDC, the leading provider of data-driven research and analysis in the region, is expecting the smartphone segment to record a sales value of USD1.6b (RM4.9b) in Malaysia in year 2012. We estimate this segment to contribute around RM29.0m for FY12 and marginally higher GP margin than distribution segment. In addition, IDC Research is expecting Malaysia's IT spending to record a 5-year CAGR of 9.9% for the period of 2010-2015 (including the smartphone segment) while without the smartphone segment, the CAGR is expected at 6.7%.

Expecting double digit net profit growth in FY12 to RM33.5m (+11% YoY) underpinned by 1) higher sales from its ICT distribution segment driven by better sales of ultrabook and tablets, 2) rising smartphone business 3) better enterprise systems 4) and also a better consumer spending.

OUTPERFORM ↔

Price: RM1.59
Target Price: RM1.70 ↑

Share Price Performance



Stock Information

Bloomberg Ticker	ECS MK Equity
Market Cap (RM m)	190.8
Issued shares	120.0
52-week range (H)	1.61
52-week range (L)	1.13
3-mth avg daily vol:	125,533
Free Float	35%
Beta	0.9

Major Shareholders

ECS HOLDINGS LTD	41.0%
SENGIN S/B	12.1%
OASIS HOPE S/B	8.6%

Summary Earnings Table

FYE Dec (RM m)	2011A	2012E	2013E
Turnover	1250.7	1355.1	1450.5
EBIT	40.8	45.5	48.4
PBT	40.9	45.5	48.4
Net Profit (NP)	30.1	33.5	35.6
Consensus (NP)		34.2	N.A.
Earnings Revision		+2.4%	+4.1%
EPS (sen)	25.1	27.9	29.7
EPS growth (%)	-2.3%	11.1%	6.4%
GDPS (sen)	8.0	10.7	11.4
NTA/Share (RM)	1.43	1.62	1.83
PER (X)	5.6	5.6	5.2
Gearing (%)	Net cash	Net cash	Net cash
Dividend Yield (%)	6.1	6.8	7.2

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Earnings Estimates

FYE 30 Dec (RMm)	2009A	2010A	2011A	2012E	2013E
Turnover	1345.6	1271.5	1250.7	1355.1	1450.5
EBIT	36.1	41.1	40.8	45.5	48.4
Pretax profit	33.5	39.4	40.9	45.5	48.4
Net Profit	24.1	28.9	30.1	33.5	35.6
EBIT margin	2.7%	3.2%	3.3%	3.4%	3.3%
Pretax margin	2.7%	3.2%	3.3%	3.4%	3.3%
Net profit margin	2.5%	3.1%	3.3%	2.5%	2.5%
Effective tax rate	25.4%	26.3%	26.4%	26.4%	26.4%
Growth ratios					
Turnover	16.0%	-5.5%	-1.6%	8.3%	7.0%
EBIT	30.9%	13.8%	-0.8%	11.6%	6.4%
Pretax profit	41.4%	17.5%	4.0%	11.1%	6.4%
Net profit	56.3%	20.0%	4.2%	11.1%	6.4%
ROE	26.9%	19.6%	17.5%	17.1%	16.2%
ROA	8.1%	10.8%	9.3%	9.3%	9.0%
Net Gearing (x)	0.31	Net Cash	Net Cash	Net Cash	Net Cash
Per share data					
EPS (sen)	26.2	25.7	25.1	27.9	29.7
EPS growth (%)	56.3%	-1.9%	-2.3%	11.1%	6.4%
PER (x)	N.A.	5.8	5.6	5.6	5.2
Gross DPS (sen)	N.A.	8.0	8.0	10.7	11.4
Div. Yield (%)	N.A.	5.3	5.3	6.7	7.2
NTA/Share	N.A.	1.31	1.43	1.62	1.83
Historical Price Ratio	2007	2008	2009	2010	2011
PER (x) – High	N.A.	N.A.	N.A.	5.88	6.61
PER (x) – Last	N.A.	N.A.	N.A.	5.18	4.98
PER (x) – Low	N.A.	N.A.	N.A.	4.01	4.40
PBV (x) – High	N.A.	N.A.	N.A.	1.70	1.38
PBV (x) – Last	N.A.	N.A.	N.A.	1.08	N.A.
PBV (x) – Low	N.A.	N.A.	N.A.	1.07	0.92

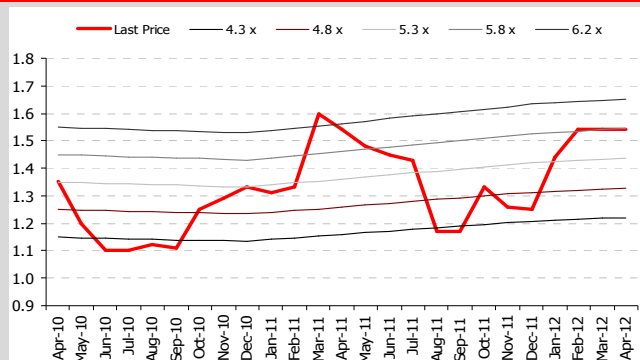
Source: Kenanga Research

Balance Sheet

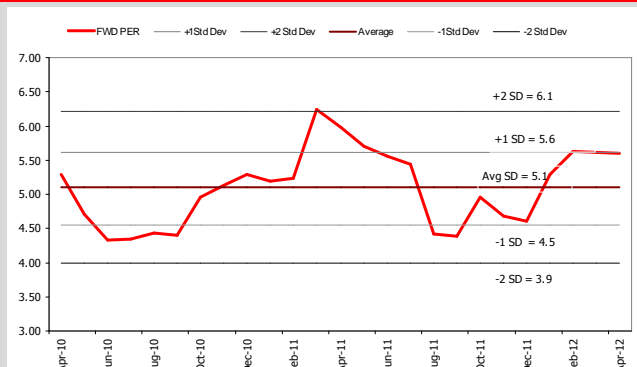
FYE 30 Dec (RMm)	2009A	2010A	2011A	2012E	2013E
Non Current Assets	5.1	5.2	6.6	5.9	5.0
Current Assets	292.7	261.7	317.0	352.9	389.5
Total Assets	297.8	266.8	323.6	358.8	394.5
Current Liabilities	156.4	106.3	150.9	163.3	174.8
Non Current Liabilities	51.9	13.1	0.0	0.0	0.0
Shareholders' Fund	89.6	147.4	172.7	195.5	219.7
Minority Interests	6.2	-	-	-	-
Equity & Liabilities	297.8	266.8	323.6	358.8	394.5

Source: Kenanga Research

Fwd PER Band



Fwd PER Standard Deviation



Source: Bloomberg, Kenanga Research

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	:	A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
MARKET PERFORM	:	A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERPERFORM	:	A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

OVERWEIGHT	:	A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
NEUTRAL	:	A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT	:	A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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