

Briefing Note
ECS ICT Bhd

Feb 18th, 2013
RM1.21

BUY

Period: 4QFY13

Target (RM)	RM1.40
MASA Codes	ECS / 5162
Bloomberg	ECS MK

Stock & Market Data

KLCI	1824.83
Listing	Main Market
Sector	Technology
Syariah Compliance	Yes
Par Value	RM0.50
Issued Shares	180.0m
Market Capitalisation	RM217.8m
1-year return	21.0%
52-week Hi/Lo	RM0.99 / RM1.40
1M Average Volume	0.1m shares
Estimated Free Float	20%
Major Shareholders: -	
ECS Holdings Ltd	41.0%
MD Foo Sen Chin	12.2%

Key Indicators @ FY14

PER (x)	7.2
PBV (x)	1.0
Net Debt/Equity (%)	Net cash
ROE (%)	14.0

Dividend: A dividend of 2.5sen was declared for the quarter. Total dividend for the year amounted to 5.5sen.

Actual versus expectations: Results were with our expectations coming in at 3% above our forecast.

Result highlights

4Q13 revenue of RM361.3m was ECS's highest quarterly revenue to date. It was driven primarily by the 22.3% growth in the ICT Distribution segment to RM230.9, due to robust sales of desktop PCs and mobility products including tablet PCs and smartphones from RM188.7m in the previous year's quarter. Enterprise Systems segment's contribution saw a 12.1% dip to RM125.5m from RM142.7m due to fewer project implementations. ICT Services contribution was RM4.9m. Total revenue for 4Q improved 8.3% y/y and 5.0% q/q.

Net profit however was impacted by lower gross margin for the quarter to record only a 1.2% improvement y/y. Against the last quarter, the jump was 84.2% as the 3rd quarter was impacted by forex losses arising from the rapid US Dollar appreciation.

For the whole year revenue improved 3.9% y/y to RM1.33bn, of which, ICT Distribution contributed 62.5% (RM842.1m; +7% y/y), 25.4% by Enterprise System (RM469.5m; -1.3%) and balance by ICT Services (RM14.7m; +9.6%). Net profit however declined by 10.2% y/y due to the appreciation of the US Dollar in 3Q and unfavourable product mix in Enterprise System.

Table 1. 3Q results & comparison

FYDec / RM'm	4Q13	4Q12	3Q13	y/y Chg %	q/q Chg %	FY13	FY12	y/y Chg %
Revenue	361.3	333.5	344.2	8.3%	5.0%	1,326.3	1,276.1	3.9%
Gross profit	24.6	24.1	19.5	1.9%	26.0%	81.4	85.0	-4.2%
Pretax profit	13.1	12.9	7.2	1.7%	82.2%	36.6	40.3	-9.1%
Tax	(3.3)	(3.2)	(1.9)	3.1%	76.5%	(9.7)	(10.4)	-6.7%
Net profit	9.7	9.6	5.3	1.2%	84.2%	26.9	29.9	-10.0%
EPS	5.4	5.3	2.9	1.9%	86.2%	14.9	16.6	-10.2%
GP margin	6.8%	7.2%	5.7%	-0.4%	1.1%	6.1%	6.7%	-0.5%
Pretax profit margin	3.6%	3.9%	2.1%	-0.2%	1.5%	2.8%	3.2%	-0.4%
Tax rate	25.6%	25.2%	26.4%	0.3%	-0.8%	26.5%	25.8%	0.7%

ECS declared a dividend of 2.5sen for the quarter bring YTD dividend to 5.5sen, representing a payout of 36.8% on FY13 profit.

Outlook

The management believes that the improved 4Q would serve as a launch pad for better performance in FY14 as the uptake in mobility products is largely expected to continue, as smartphone and tablet PC penetration is still on an uptrend. International Data Corporation has recently forecast sales of tablet PCs and smartphones to grow by 11.6% and 21.3% respectively in 2014.

One of the strategies the company has implemented was to offer a greater array of products at various price points, thereby catering to a broader market segment across all levels of affordability. In this respect, ECS intends to further expand its range of mobility products to take advantage of the rising trend of consumers' adoption of these mobile devices.

Valuation and recommendation

We believe FY14 will be a better year than FY13, arising from various factors. As noted above, increasing usage of mobile devices will drive sales of its mobility products. Secondly, we anticipate that ICT spending will also increase arising from the Budget 2014 initiatives and incentives given with the pending implementation of GST in 2015.

Though there is likelihood that ECS profit in FY14 may exceed our forecast, we do not see ECS to be growing in FY15 and beyond. ECS is in a mature industry, operating in an environment that is undergoing fiscal consolidation and therefore ICT spending by the Government is likely to moderate. We at the moment are keeping our forecast unchanged.

The attractive part of ECS remains its cash hoard, which at RM83.7m is equivalent to 46.5sen per share.

ECS has reiterated that it will maintain its dividend policy of 30% payout and has not shown any indication of capital management. Hence we retain our fair value of RM1.40, which is a 25% discount to our valuation of RM1.87 that was arrived basis a 10sen dividend payout every year and cash distribution of 20sen per share. As the price has depreciated giving an upside of 15.7%, we upgrade our recommendation to **BUY**.

Table 2. Profit & Loss Forecast

FYDec / RM'm	2010A	2011A	2012A	2013A	2014F	2015F
Revenue	1271.5	1250.7	1276.1	1326.3	1360.0	1350.0
Pretax profit	39.4	40.9	40.3	36.6	40.3	38.0
Net profit	28.9	30.1	29.9	26.9	30.2	28.9
EPS (sen)	16.1	16.7	16.6	14.9	16.8	16.0
<i>Pretax margin (%)</i>	3.1	3.3	3.2	2.8	3.0	2.8
<i>Net profit margin (%)</i>	2.3	2.4	2.3	2.0	2.2	2.1
<i>PER (x)</i>	7.5	7.2	7.3	8.1	7.2	7.6
<i>Dividend (sen)</i>	-	5.3	5.5	5.5	5.5	5.5
<i>Dividend yield (%)</i>	-	4.4	4.5	4.5	4.5	4.5
Net Gearing (x)	0.1	net cash	net cash	net cash	net cash	net cash
Book value/share (RM)	0.80	1.00	1.10	1.14	1.20	1.25
Price/Book (x)	1.5	1.2	1.1	1.1	1.0	1.0

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Background

Established in 1985, ECS is in the business of distributing ICT products in Malaysia. ECS' range of products includes volume ICT products (notebooks, desktop, computers, printers and software) and value enterprise systems (network, communication infrastructure, servers and enterprise software). ECS has working relationships with more than 30 global brands such as Hewlett Packard, Asus, Dell, IBM, Cisco, Microsoft, Apple, Oracle, Epson, Samsung, Buffalo, Adobe, Juniper, Blue Coat, VMWare and Google. ECS has a nationwide distribution network of more than 3,000 resellers consisting of retailers, system integrators and corporate dealers.

ECS is part of the ECS group of companies that has similar businesses in China, Singapore, Thailand, Philippines, and Indonesia. By agreement, the companies' activities within the group do not cross borders to interfere with one another. Moreover, ECS in each country has separate dealership agreement with the international principals, even though the products distributed are the same. ECS Holdings Ltd (listed on SGX, Singapore) holds 41% of ECS.

ECS's business can be segmented into 3 categories, namely.

1. ICT products – Distribution of Notebooks, Tablet PCs, Personal computers, Printers, Software. LCD monitors, etc.
2. Enterprise systems – Distribution of Servers, Network Systems, Data centers, Enterprise software.
3. ICT Services - Provision of after sales services, integration and commission of ICT systems via more than 30 engineering personnel. In total, personnel have more than 150 certifications from 15 principals.

To support its business ECS has 4 major distribution hubs i.e. head office and flagship warehouse in Kota Damansara in Selangor, Jelutong in Penang, Kuching in Sarawak, and Kota Kinabalu in Sabah. It also has 2 regional offices in Kuantan, Pahang and Johor Bahru, Johor.

The key success factors for ECS has been: -

1. Established track record with more than 25 years in business
2. Partnership with key ICT players that trace back to the days when they commenced business
3. Distributes a wide range of products – more than 3,000.
4. Established distribution network with more than 3,000 resellers. Distribution network is supported by a fully integrated ERP system.
5. Strong technical team to provide after sales service, system integration and commission.
6. Strong financial management especially on cost control and inventory management. A strong balance sheet provides the working capital for holding the numerous products in inventory.

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