

22 February 2012

ECS ICT

Result above expectations

OUTPERFORM ↔

Price: RM1.40
Target Price: RM1.45 ↔

ECS ICT Berhad's (ECSB) FY11 net earnings of RM30.1m were above our FY11 full year forecast of RM27.8m as a result of it recording better profit contribution from its Enterprise Systems segment and seeing a reduction in the interest expense incurred by RM1.5m. Meanwhile, for its ICT distribution segment, the company recorded lower revenue from the ICT Distribution segment (-6.8%, YoY) because of a softer market for consumer notebook PC sales. We project FY12E-13E net profits of RM30.5m-RM32.9m respectively. We are maintaining our outperform rating on ECS and maintaining our TP of RM1.45. Our TP is based on a PER of 5.7x over our FY12 forecast EPS of 25.4 sen.

Higher net profit with better margins. ECS's FY11 full year net profit came in at RM30.1m, which was 5.6% and 8.3% higher than the consensus and our estimate respectively. The better-than-expected net profit was mainly driven by higher margin contribution from Enterprise Systems (4.2% vs 3.5%) and reduced interest expense (-77% YoY to RM0.4m). This is despite the group's turnover being marginally lower by -1.6% YoY to RM1.25b. The lower turnover as compared to the previous year was mainly due to the lower revenue contribution from its ICT Distribution segment (-6.8%, YoY to RM797m) due to the softer market for consumer notebooks and PCs. Meanwhile, its enterprise system segment recorded a higher turnover of RM439m (+8.6% YoY) as a result of better sales of its software.

QoQ higher, supported by Enterprise Systems segment. For 4Q11, ECS's turnover was at RM341.8m (+7.5%), underpinned by strong revenue from its enterprise system segment (+25.9% to RM136.2m), which was mainly driven by higher software sales. The segment's PBT margin has also improved to 5.6% as compared to 3.9% in the preceding quarter. The higher PBT margin has helped the group to boost its net profit to RM10.4m or +25.8% QoQ.

Declared a final dividend of 8 sen/share. ECT has declared a single tier final dividend of 8 sen, the ex-date of which has been fixed on 29 May. This translates to a payout ratio of 31.8%, which is slightly above its dividend policy that has been set at a minimum 30% payout ratio.

FY2012 Outlook. We believe the market for consumer notebook/PC will continue to decline at a slower pace due to the rise of the tablet PC market. While ECS currently holds tablet PC distributorships such as Apple iPad and Samsung Galaxy Tab and probably the upcoming iPad 3 distributorship, the company could still aim for other higher-margin products in order to drive up the sales of its ICT distributorship segment. We are maintaining our OUTPERFORM call with a TP of RM1.45. We have applied a 5.7x forward PER on its FY2012 EPS of 25.4 sen to derive the TP above.

STOCK DATA

Bloomberg Ticker	ECS MK Equity	YTD price chg	12.0%
Market Cap	168.0	YTD KLCI chg	2.2%
Issued shares	120.0	Beta	0.9
52-week range (H)	1.70	Major Shareholders	
52-week range (L)	1.13		
3-mth avg daily vol.	32,152		
Free Float	34.7%		
Altman Z-score	7.0		
		ECS HOLDINGS	41.0%
		SEN CHIN FOO	12.2%
		SENGIN SDN BHD	12.1%

AT A GLANCE

Target Price (RM):	ECS ICT Berhad	Maintain
Valuation:	5.7x forward PER to FY12E EPS of 25.4 sen	
Current Price (RM):	1.40	
Report Reason:	4QFY11 results	

Action:	Outperform	Maintain
Reason:	-	
Basis of call:	-	
Catalyst:	-	

FYE31Sep RMm	2011A	2012E	2013E
Turnover	1250.7	1,303.7	1,357.9
Net Profit (NP)	30.1	30.5	32.9
Consensus (NP)		31.4	N.A.
Earnings Revision:	N.A.	0%	0%
Earnings Revision Rationale:	-		

SHARE PRICE CHART



The Research Team
research@kenanga.com.my

Tel: 603-2713 2292

Result Review

FYE 30 Sep (RM'm)	4Q11	3Q11	QoQ Chg	4Q10	YoY Chg	12M11	12M10	YTD Chg
Revenue	341.8	317.9	7.5%	315.5	8.3%	1,250.7	1,271.5	-1.6%
Gross Profit	26.7	17.9	49.0%	15.6	71.3%	81.3	77.1	5.4%
Pretax profit	14.0	9.6	45.9%	11.2	25.7%	40.9	39.4	4.0%
Taxation	3.6	2.6	39.1%	2.8	26.6%	10.8	10.3	4.4%
Net Profit	10.5	7.1	48.3%	8.3	25.4%	30.1	28.9	4.2%
EPS (sen)	8.7	5.9	47.5%	7.0	24.3%	25.1	25.7	-2.3%
PBT margin (%)	4.1%	3.0%	35.7%	3.5%	16.0%	3.3%	3.1%	5.7%
Net profit margin (%)	3.1%	2.2%	38.0%	2.6%	15.7%	2.4%	2.3%	5.9%
Effective tax rate (%)	25.5%	26.7%	-4.7%	25.3%	0.7%	26.4%	26.3%	0.4%

Source: Kenanga Research

Earnings Estimates

FYE 31 Dec (RMm)	2009A	2010A	2011A	2012E	2013E
Turnover	1345.6	1271.5	1250.7	1,303.7	1,357.9
EBIT	36.1	41.1	40.8	41.2	44.5
Pretax profit	33.5	39.4	40.9	41.3	44.7
Net Profit	24.1	28.9	30.1	30.5	32.9
EBIT margin	2.7%	3.2%	3.3%	3.2%	3.3%
Pretax margin	2.5%	3.1%	3.3%	3.2%	3.3%
Effective tax rate	25.4%	26.3%	26.5%	26.0%	26.0%
Growth ratios					
Turnover	16.0%	-5.5%	-1.6%	4.2%	4.2%
EBIT	30.9%	13.8%	-0.8%	1.0%	8.0%
Pretax profit	41.4%	17.5%	4.0%	1.0%	8.0%
Net profit	56.3%	20.0%	4.2%	1.3%	8.0%
ROE	26.9%	19.6%	17.5%	15.9%	15.2%
ROA	8.1%	10.8%	9.3%	10.1%	10.0%
Net Gearing (x)	0.31	Net Cash	Net Cash	Net Cash	Net Cash
Per share data					
EPS (sen)	26.2	25.7	25.1	25.4	27.5
EPS growth (%)	56.3%	-1.9%	-2.3%	1.1%	8.0%
PER (x)	N.A.	5.8	5.6	5.5	5.1
Gross DPS (sen)	N.A.	8.0	8.0	7.6	8.2
Div. Yield (%)	N.A.	5.7	5.7	6.1	6.6
NTA/Share (RM)	N.A.	1.31	1.43	1.64	1.84
Historical Price Ratio	2006	2007	2008	2009	2010
PER (x) – High	N.A.	N.A.	N.A.	N.A.	5.88
PER (x) – Last	N.A.	N.A.	N.A.	N.A.	5.18
PER (x) – Low	N.A.	N.A.	N.A.	N.A.	4.01
PBV (x) – High	N.A.	N.A.	N.A.	N.A.	1.70
PBV (x) – Last	N.A.	N.A.	N.A.	N.A.	1.08
PBV (x) – Low	N.A.	N.A.	N.A.	N.A.	1.07

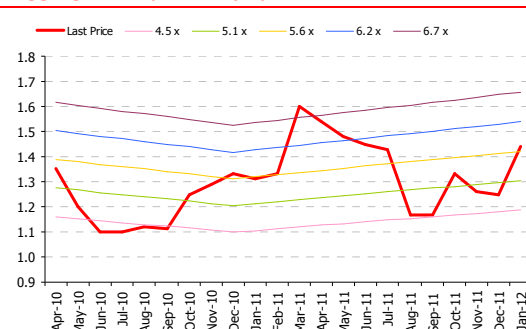
Source: Kenanga Research

Balance Sheet

FYE Dec (RMm)	2009	2010	2011A	2012E	2013E
Non Current Assets	5.1	5.2	6.6	10.1	12.7
Current Assets	292.7	261.7	317.0	295.8	322.7
Total Assets	297.8	266.8	323.6	305.8	335.4
Current Liabilities	156.4	106.3	150.9	109.9	114.5
Non Current Liabilities	51.9	13.1	0.0	0.0	0.0
Shareholders' Fund	89.6	147.4	172.7	195.9	220.9
Equity & Liabilities	297.8	266.8	323.6	305.8	335.4

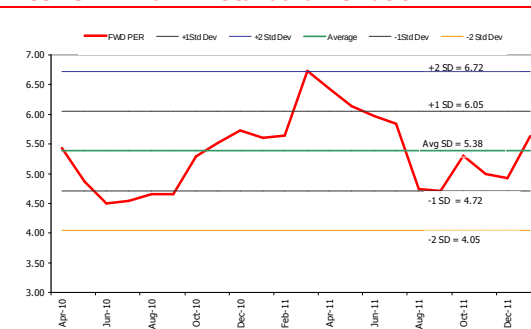
Source: Kenanga Research

ECS ICT - Fwd PER Band



Source: Kenanga Research

ECS ICT - Fwd PER Standard Deviation



Source: 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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KENANGA INVESTMENT BANK BERHAD (15678-H)

8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: www.kenangaresearch.com



Chan Ken Yew
Associate Director