ECS ICT

ICT sector remains strong

MARKET PERFORM ↔

Price: RM1.17
Target Price: RM1.22 ↔

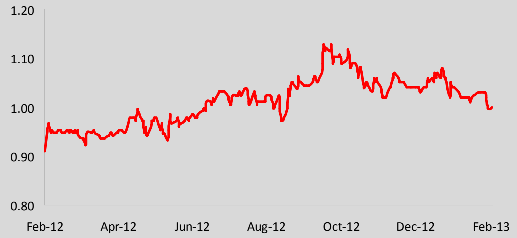
We believe ECS will continue to shine in 2013 underpinned by: 1) the stronger sales of its enterprise network systems driven mainly by cloud computing and the various government initiatives, 2) the introduction of more products/brands in 2013 and 3) the decent GDP growth expected for the year. The group has secured a few new product distributorships such as Lenovo smartphone, Microsoft surface RT tablet PC, IBM's enterprise cloud computing solutions and Samsung mobility devices for the enterprise market in 1QFY13. With the current widening of its products range and distribution channels, we expect the group's ICT distribution segment to continue to perform strongly. There are no changes in our ECS' FY13E-14E earnings forecasts. We are reiterating our MARKET PERFORM call on ECS with an unchanged target price of RM1.22, based on a targeted FY14 PER level of 6.7x. Note that this valuation is still undemanding vis-à-vis the FBM Small Cap average Fwd. PER of 8.6x.

Enterprise system division outlook remains upbeat. Despite the segment recording a higher revenue of RM109m (+4.0% YoY) in 1Q13, its gross profit margin has been shrinking at 9.1% as opposed to 12.2% a year ago. The margin contraction is, however, not a major concern as 1Q12 saw an exceptionally high margin due to higher incentives and various one-off sales rebates. Overall, the division has recorded a high double-digit annual growth over the past two financial years, underpinned by the stronger sales of enterprise network data applications as well as software applications. Going forward, management believes that the enterprise system division will continue to grow judging from the higher adoption rate of cloud computing and the various government initiatives such as the ETP and Digital Malaysia Master Plan.

More ICT products to be introduced in 2013. The stronger sales of consumer mobility products (i.e. tablet and notebook) have lifted the group's ICT distribution segment revenue to grow by +10.2% YoY to RM208m in 1QFY13. This is despite its biggest notebook and PC vendor – HP revenue contribution (to ECS) being lower at 35% from 40% a year ago. Going forward, the group's ICT distribution segment is likely to be further boosted by the expected higher demand for Ultrabook PCs as more advanced models are introduced at much cheaper and affordable prices. Meanwhile, ECS is also looking to further widen its smartphone products range by adding new brands to its current portfolio. Thus far, the group has bagged the ASUS (Padfone), Huawei and Samsung brands in its smartphone portfolio. Apart from the product range expansion, the group has also successfully broadened its distribution channels to more than 3,000 nationwide as compared to about 2,500 in 2010.

ICT sector outlook remains strong. We believe that ECS's strategy to expand its product portfolio and brands in the non-traditional segments, e.g. smartphone and cloud computing is in line with the rising demand for higher mobility products as users are now keen on easy access and information on-the-go. Based on the latest IDC forecast, Malaysia's IT spending (excluding IT services) is expected to grow by 7.2% YoY in CY13, mainly driven by 1) higher tablet/smartphone sales (+27.1% YoY) and 2) higher telecommunication equipment sales, particularly on the enterprise network (+18.6%). This is in line with our in-house economic team view, where they expect Malaysia to record a decent annual GDP growth rate of 5.3% in CY13.

Share Price Performance



KLCI	1,766.07
YTD KLCI chg	4.6%
YTD stock price chg	12.5%

Stock Information

Bloomberg Ticker	ECS MK Equity
Market Cap (RM'm)	210.6
Issued shares	180.0
52-week range (H)	1.19
52-week range (L)	0.95
3-mth avg daily vol:	88,387
Free Float	38%
Beta	0.9

Major Shareholders

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

Summary Earnings Table

FYE Dec (RM'm)	2012A	2013E	2014E
Turnover	1276.1	1373.1	1441.8
EBIT	39.0	41.1	44.7
PBT	40.3	41.1	44.7
Net Profit (NP)	**29.9**	**30.2**	**32.9**
Consensus (NP)		31.3	31.9
Earnings Revision		-	-
EPS (sen)	16.6	16.8	18.3
EPS growth (%)	-0.9%	1.0%	8.9%
NDPS (sen)	5.5	5.4	5.8
BVPS (RM)	1.0	1.2	1.3
PER (X)	7.1	7.0	6.4
Gearing (%)	N.Cash	N.Cash	N.Cash
Dividend Yield (%)	4.7%	4.6%	5.0%

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Income Statement

FY Dec (RM m)	2010A	2011A	2012A	2013E	2014E
Revenue	1271.5	1250.7	1276.1	1373.1	1441.8
EBITDA	42.5	42.4	40.9	43.1	46.9
Depreciation	1.4	1.6	1.9	2.1	2.2
Operating Profit	41.1	40.8	39.0	41.1	44.7
Other Income	0.1	0.0	0.0	0.0	0.0
Interest Exp	1.9	-0.2	-1.3	0.0	0.0
Associate	0.0	0.0	0.0	0.0	0.0
Exceptional Items	0.0	0.0	0.0	0.0	0.0
PBT	39.4	40.9	40.3	41.1	44.7
Taxation	10.3	10.8	10.4	10.9	11.8
Minority Interest	-0.1	0.0	0.0	0.0	0.0
Net Profit	28.9	30.1	29.9	30.2	32.9
Core Net Profit	**28.9**	**30.1**	**29.9**	**30.2**	**32.9**

Balance Sheet

FY Dec (RM m)	2010A	2011A	2012A	2013E	2014E
Fixed Assets	3.1	4.5	4.7	3.6	2.5
Intangible Assets	0.0	0.0	0.0	0.0	0.0
Other FA	1.5	1.5	1.5	1.5	1.5
Inventories	81.5	84.3	79.8	85.8	90.0
Receivables	149.4	166.0	171.9	185.0	194.2
Other CA	0.0	0.0	0.0	0.0	0.0
Cash	30.7	66.6	73.0	86.2	103.9
Total Assets	266.8	323.6	331.5	362.7	392.7
Payables	104.3	148.1	141.1	151.7	159.1
ST Borrowings	12.7	0.0	0.0	0.0	0.0
Other ST Liability	0.0	0.0	0.0	0.0	0.0
LT Borrowings	0.0	0.0	0.0	0.0	0.0
Other LT Liability	0.0	0.0	0.0	0.0	0.0
Minorities Int.	0.0	0.0	0.0	0.0	0.0
Net Assets	**147.4**	**172.7**	**187.6**	**208.1**	**230.4**
Share Capital	85.9	85.9	90.0	90.0	90.0
Reserves	61.5	86.8	97.6	118.1	140.4
Equity	**147.4**	**172.7**	**187.6**	**208.1**	**230.4**

Cashflow Statement

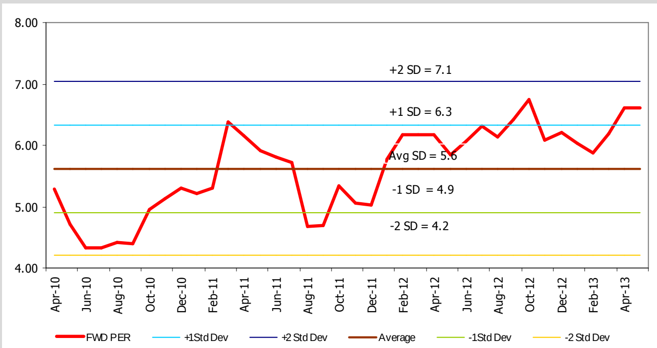
FY Dec (RM m)	2010A	2011A	2012A	2013E	2014E
Operating CF	29.3	56.2	22.2	23.9	29.2
Investing CF	(6.2)	(3.0)	(2.1)	(1.0)	(1.0)
Financing CF	(16.7)	(17.3)	(13.7)	(9.7)	(10.5)
Change In Cash	6.5	35.8	6.4	13.2	17.7
Free CF	23.2	53.2	20.1	22.9	28.2

Financial Data & Ratios

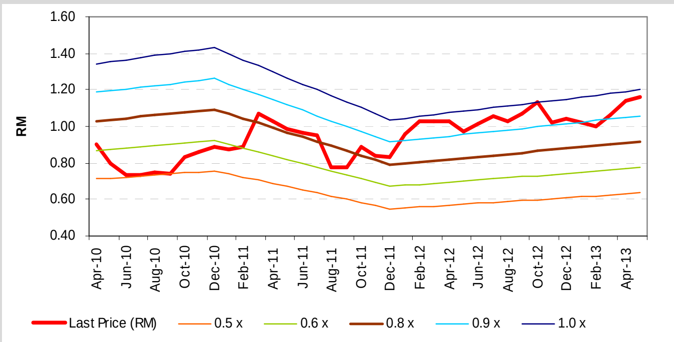
FY Dec (RM'm)	2010A	2011A	2012A	2013E	2014E
Growth					
Turnover (%)	-5.5	-1.6	2.0	7.6	5.0
EBITDA (%)	13.0	-0.3	-3.5	5.4	8.7
Operating Profit (%)	13.8	-0.8	-4.4	5.3	8.9
PBT (%)	17.5	4.0	-1.7	2.0	8.9
Core Net Profit (%)	20.0	4.2	-0.9	1.0	8.9
Profitability (%)					
EBITDA Margin	3.3	3.4	3.2	3.1	3.3
Operating Margin	3.2	3.3	3.1	3.0	3.1
PBT Margin	3.1	3.3	3.2	3.0	3.1
Core Net Margin	2.3	2.4	2.3	2.2	2.3
Effective Tax Rate	26.3	26.4	25.8	26.5	26.5
ROA	10.8	9.3	9.0	8.3	8.4
ROE	19.6	17.5	15.9	14.5	14.3
DuPont Analysis					
Net Margin (%)	2.3	2.4	2.3	2.2	2.3
Assets Turnover (x)	4.8	3.9	3.8	3.8	3.7
Leverage Factor (x)	1.8	1.9	1.8	1.7	1.7
ROE (%)	19.6	17.5	15.9	14.5	14.3
Leverage					
Debt/Asset (x)	0.0	0.0	0.0	0.0	0.0
Debt/Equity (x)	0.1	0.0	0.0	0.0	0.0
Net Cash/(Debt)	-18.0	-66.6	-73.0	-86.2	-103.9
Net Debt/Equity (x)	-0.1	-0.4	-0.4	-0.4	-0.5
Valuations					
EPS (sen)	17.1	16.7	16.6	16.8	18.3
NDPS (sen)	5.3	5.3	5.5	5.4	5.8
BVPS (RM)	1.3	1.4	1.0	1.2	1.3
PER (x)	4.5	4.7	7.1	7.0	6.4
Net Div. Yield (%)	4.6	4.6	4.7	4.6	5.0
PBV (x)	0.9	0.8	1.1	1.0	0.9
EV/EBITDA (x)	4.2	3.4	3.4	2.9	2.3

Source: Company, Kenanga Research

Forward PER Band Standard Deviation



Forward PBV



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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