

**ECS ICT Bhd**

**RESULTS UPDATE**

**BUY**

**Current Price** : RM 1.55  
**Target Price** : RM 1.98

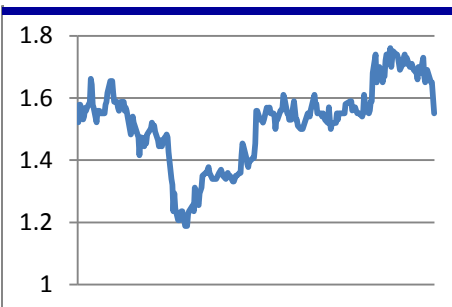
**Key Statistics**

Bloomberg Ticker	ECS MK
Masa Ticker / Stock Code	ECS/5162
Shares Issued (m)	180
Market Capitalisation (RM'm)	279.0
52 Week Hi/Lo Price (RM)	1.78/1.18
Avg Trading Volume (3-mth)	209,222
Est Free Float (m)	62.8
YTD Returns (%)	-0.64
Beta	0.98

**Major Shareholders (%)**

ECS HOLDINGS LTD	41.02
SENGIN SDN BHD	12.05

**1-Year Share Price Performance**



**Analyst:** Wong Ling Ling  
**Email:** wongll@interpac.com.my

**Let it Fly**

We maintain our BUY call with a target price of RM1.98 (27% upside) based on a 10x PER pegged to its estimated FY16 EPS of 19.8 sen. The PER valuation place it among the cheapest stock relative to its growth history as well as growth potential. We still favour ECS despite the decrease in earnings this quarter YoY due to strong pre-GST sales last year. We believe that ECS' earnings will be back on track as it looks toward adopting new technologies in their product portfolio. We still like ECS due to its 1)Strong Fundamentals 2)Net Cash Position 3) Leading position as ICT Distributor in Malaysia

**Results review**

ECS's first quarter YoY result fell a little short of our expectations due to the exceptional quarter sales they experienced in Q1FY2015. The exceptional results last year was because of the pre-GST sales that boosted ECS's earnings for that quarter. Hence, the group's results this quarter was not outstanding as compared to Q1FY2015. The first quarter result showed a decrease of 16.9% in revenue terms, from RM522.9mil to RM434.7mil. This was due to the pre-GST boost in sales in Q1 FY15 that led to an extraordinary quarter. Profit Before Tax (PBT) dropped by 45% YoY from RM12.7mil to RM4.6mil. The ICT Distribution segment is still the main contributor for ECS but even for this segment, there was a 9% drop YoY in revenue terms.

**Table 1 :Investment Highlights & Earnings Forecasts**

FYE Dec	2013	2014	2015	2016(F)	2017(F)
Revenue (m)	1,326.2	1,591.1	1,903.3	2,074.6	2,282.1
PBT (m)	36.7	39.2	43.6	48.0	52.8
Net Profit (m)	26.9	29.4	32.5	35.7	39.3
EPS (sen)	14.9	16.3	18.1	19.8	21.8
PBT Margin (%)	2.8	2.5	2.3	2.3	2.3
Net Profit Margin (%)	2.0	1.8	1.7	1.7	1.7
PER (x)	11.1	10.2	8.9	8.1	7.4
DPS (sen)	5.5	6.0	11.0	8.0	8.5
Net Dividend Yield (%)	3.3	3.9	7.2	5.2	5.6
ROE (%)	13.7	13.7	13.8	14.0	14.1
ROA (%)	7.9	7.7	7.1	6.6	6.0
Net Gearing Ratio (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Interpacific

**Table 2: Revenue Breakdown and YoY Comparison**

RM 'mil	Revenue			Gross Profit		
	1QFY15	1QFY16	YoY Change (%)	1QFY15	1QFY16	YoY Change (%)
ICT Distribution	372.8	338.0	(9.3)	15.1	13.0	(13.9)
Enterprise Systems	137.1	88.0	(35.8)	9.0	6.3	(30.0)
ICT Services	12.9	8.7	(32.6)	1.8	1.8	0.0
Total	522.8	434.7	(16.9)	25.9	21.1	(18.5)

Source: Company

◆ **Soaring High with Drones**

ECS added drones to their distribution portfolio recently. ECS was appointed as the first distributor in Malaysia to distribute DJI’s aerial drones and Osmo camera. The models that are being distributed are Phantom 3 and Phantom 4 drones as well as Osmo camera that are equipped with a stabilized handheld 4k camera. The company is targeting recreational hobbyists and the commercial sectors. Goldman Sachs forecast that in the next 5 years, drones sales will reach USD21bil globally.

◆ **Smartwatches to take over fitness bands**

Smartwatches are expected to take over from fitness bands in the future as smartwatches have additional functions as compared to the traditional fitness bands. IDC forecasted that a total of 111mil units of wearable devices will be shipped by end of 2016.

## Ratings System

Ratings:	Description:
BUY	Total return is expected to exceed 15% in the next 12 months
NEUTRAL	Total return is expected to be between above -15% to 15% in the next 12 months
SELL	Total return is expected to be below -15% in the next 12 months

## Abbreviation

Abbreviation	Definition	Abbreviation	Definition
PER	Price Earnings Ratio	CAGR	Compounded Annual Growth Rate
PEG	PER to Growth	CAPEX	Capital Expenditure
EPS	Earnings per Share	DPS	Dividend per Share
FYE	Financial Year End	ROA	Return on Asset
FY	Financial Year	ROE	Return on Equity
CY	Calendar Year	PBT	Profit Before Tax
MoM	Month-on-Month	PAT	Profit After Tax
QoQ	Quarter-on-Quarter	EV	Enterprise Value
YoY	Year-on-Year	EBIT	Earnings Before Interest And Tax
YTD	Year-to-Date	EBITDA	EBIT Depreciation & Amortisation
p.a.	Per Annum	WACC	Weighted Average Cost of Capital
DCF	Discounted Cash Flow	NTA	Net Tangible Asset
FCF	Free Cash Flow	BV	Book Value
NAV	Net Asset Value		

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**Inter-Pacific Research SdnBhd (449005-X)**  
 West Wing, Level 13,  
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 55100 Kuala Lumpur  
 General Line : 03-2117 1888 Fax : 03-2142 7678