

ECS ICT Bhd

RESULTS UPDATE

BUY

Current Price : RM 1.55
Target Price : RM 1.86

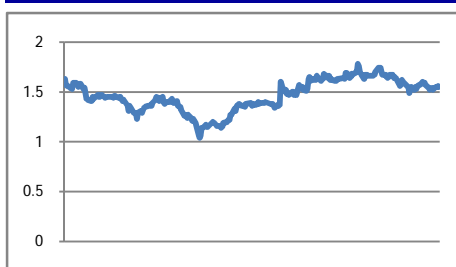
Key Statistics

Bloomberg Ticker	ECS MK
Masa Ticker / Stock Code	ECS/5162
Shares Issued (m)	180
Market Capitalisation (RM'm)	268.2
52 Week Hi/Lo Price (RM)	1.83/1.02
Avg Trading Volume (3-mth)	262,558
Est Free Float (m)	43.7
YTD Returns (%)	26.27
Beta	0.93

Major Shareholders (%)

ECS HOLDINGS LTD	41.02
SENGIN SDN BHD	12.05

1-Year Share Price Performance



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Standing Pat Post-GST

We reiterate our BUY call with a lower target price of RM1.86 based on 9.6x PER lower from our previous 10x PER pegged to its estimated FY15 EPS of 19.4sen. We believe that ECS ICT is undervalued due to 1) strong earnings 2) Net cash position that leads to an attractive dividend yield of 3.8% 3) Introduction of Microsoft Windows 10 and the latest mobility products will increase demand in Malaysia's ICT market.

◆ Post GST earnings

The revenue for the second quarter had decreased by 20% to RM417.4m compared to the previous quarter of RM522.8m. We did expect that the revenue for this quarter to drop due to the implementation of GST that weakened the demand for mobility products and due to a payback after a pre-GST buying spree.

ECS ICT's 2QFY15 revenue clocked in at RM418.8m, 7% higher than the RM389.9m in the corresponding quarter the previous year backed by the increase in their ICT distribution segment. The company's Profit Before Tax (PBT) improved by 3.3% to RM10.7m compared to the corresponding quarter last year of RM10.3m.

For the 6 months period 30 June 2015, the company's revenue stood at 55% of our earnings forecast on track to exceed our expectations.

Table 1 : Investment Highlights & Earnings Forecasts

FYE 31st Dec	2013	2014	2015(F)	2016(F)	2017(F)
Revenue (m)	1326.2	1591.1	1,703.1	1,823.9	1,951.5
EBITDA (m)	36.7	39.2	37.8	40.3	43.1
Net Profit (m)	26.9	29.4	28.3	27.3	26.3
EPS (sen)	14.9	16.3	18.8	21.6	24.8
EBITDA Margin (%)	2.77	2.46	2.22	2.00	1.80
Net Profit Margin (%)	2.03	1.85	1.66	1.50	1.35
P/E Ratio (x)	11.98	10.96	9.86	8.88	7.99
Net Dividend Yield (%)	3.1	3.4	3.8	4.1	4.1
ROE (%)	13.7	13.7	13.8	14.0	14.1
ROA (%)	7.9	7.7	7.1	6.6	6.0
Gross Profit Margin (%)	6.1	5.5	5.2	5.1	5.1
Pretax profit margin (%)	2.8	2.5	2.3	2.3	2.3
Dividends per share (sen)	5.5	6.0	6.0	6.5	6.5

Source: Company

◆ **Single tier dividend of 6 sen per share total expected for FY 2015**

ECS declared a single final dividend payment of 3sen per share for FY2014 in Feb 2015. An interim dividend of 3 sen is expected in Dec 2015 and ECS is on track to pay a total dividend of 6 sen in respect of FY2015. This represents a yield of 3.8%.

◆ **Business not affected by Low-Yat incident**

The incident in Low-Yat had reduced shoppers' footfall leading to a significant drop in sale of IT products at the mall. However, it appears customers who avoided Low Yat Plaza simply chose to shop at other IT themed malls in the city. ECS' management remarked that their sales are not really affected since the Low Yat loss is being offset the incremental in sales in the other digital malls.

◆ **Wearable devices to make an impact in the future**

ECS is planning to bring in more wearable devices into our Malaysian market by the end of the year. Management thinks that the lack of applications for wearable devices is the major factor that is preventing wearable devices from leaving a mark in the technology market. IDC estimates that there will be a jump of 173.3% from 26.4mil units shipped in 2014 to 72.1 mil units shipped worldwide in 2015. They are positive that the smart watches will be make an impact in the future just like how smartphones did.

Table 2 : 2QFY15 Revenue Breakdown

Revenue (RM'm)	2QFY14	2QFY15	YoY chg (%)
ICT Distribution	261.98	300.07	14.5
Enterprise Systems	117.48	113.32	(3.5)
ICT services	10.46	4.03	(61.47)
Total	389.92	417.41	7.05

Source: Company

Recommendation We reiterate our BUY call with a lower target price of RM1.86 based on 9.6x PER lower from our previous 10x PER pegged to its estimated FY15 EPS of 19.4sen. We believe that ECS ICT is undervalued due to 1) still resilient earnings 2) A solid balance sheet - net cash position that allows ECS to maintain an attractive dividend yield of 3.8% 3) Rollout of Microsoft Windows 10 that allows seamless switch of applications between mobility devices and traditional computing devices should boost sales of mobility products and increase demand in Malaysia's ICT market.

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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Published and Printed by:

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