

ECS ICT Bhd

RESULTS UPDATE

NEUTRAL

Current Price : RM 1.48
Target Price : RM 1.70

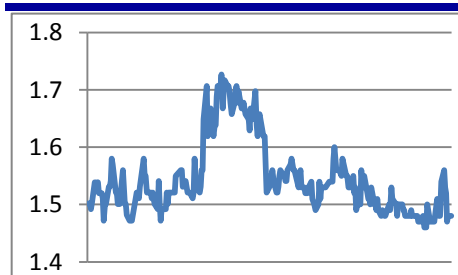
Key Statistics

Bloomberg Ticker	ECS MK
Masa Ticker / Stock Code	ECS/5162
Shares Issued (m)	180
Market Capitalisation (RM'm)	266.4
52 Week Hi/Lo Price (RM)	1.78/1.43
Avg Trading Volume (3-mth)	111,365
Est Free Float (m)	136.7
YTD Returns (%)	-5.13
Beta	0.92

Major Shareholders (%)

ECS HOLDINGS LTD	40.0
SENGIN SDN BHD	12.05

1-Year Share Price Performance



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Silver Lining

We maintain our target price at RM1.70 with a NEUTRAL call. The fair value is based on a 10x PER pegged to its estimated FY16 EPS of 17 sen. We believe this stock will be able to rebound as the group is currently being affected by the weak market sentiments. The much-heralded revolution in the Internet of Things (IoT) will only make its impact in the future and accelerate the sales for ECS's distribution services.

Earnings Review

A total of 6.1% drop in revenue terms was recorded for ECS this quarter compared to Q3FY15. This quarter, the group managed to record a total revenue of RM436.9mil while in Q3FY15, the group's revenue was RM465.1mil. Despite the drop in the group's revenue, PAT improved YoY from RM4.75mil to RM6.15mil. The improvement in PAT translated to a 30% growth in PAT YoY. The decrease in revenue was due to the slower sales in the ICT Distribution segment. As the Enterprise Systems segment recorded an increase in revenue and a better GP margin, this translated into an improvement in PAT. The group's revenue after 3 quarters clocked in at RM1.27bil, standing at 71% of our FY16 forecast. We remain optimistic about the group as traditionally, the last quarter is the best quarter for ECS due to the yearend festivities. Government spending also rises as there is a tendency to spend the unutilised portion of budget allocations.

Table 1 :Investment Highlights & Earnings Forecasts

FYE DEC	2013	2014	2015	2016(F)	2017(F)
Revenue (m)	1,326.3	1,591.1	1,903.3	1,773.3	1,834.3
PBT (m)	36.58	39.20	43.61	40.98	42.49
Net Profit (m)	26.88	29.43	32.48	30.53	31.66
EPS	0.15	0.16	0.18	0.17	0.18
PER	10.2	9.4	8.5	8.7	8.4
PBT Margin %	2.8	2.5	2.3	2.3	2.3
PAT Margin %	2.0	1.8	1.7	1.7	1.7
DPS (sen)	5.5	6.0	11.0	8.0	8.5
Dividend Yield (%)	3.7	4.0	7.4	5.4	5.7
ROE (%)	13.1	13.1	13.7	14	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

Revenue (RM mil)	Q3 FY16	Q2 FY16	QoQ Change (%)	Q3 FY16	Q3 FY15	YoY Change (%)
ICT Distribution	326.7	312.3	(4.4)	326.7	358.0	(8.7)
Enterprise Systems	97.4	79.9	(18.0)	97.4	94.1	3.5
ICT services	12.8	8.0	(37.5)	12.8	13.0	(1.5)
Total	436.9	400.2	(8.4)	436.9	465.1	(6.1)

Source: Interpacific, Company

Table 3: Gross Profit Breakdown

Gross Profit (RM mil)	Q3 FY16	Q2 FY16	QoQ Change (%)	Q3 FY16	Q3 FY15	YoY Change (%)
ICT Distribution	12.3	11.6	(6.0)	12.3	11.8	4.2
Enterprise Systems	7.7	9.0	17.0	7.7	6.9	11.6
ICT services	1.7	1.3	(24.0)	1.7	1.9	(10.5)
Total	21.7	21.9	1.0	21.7	20.6	5.3

Source: Interpacific, Company

Table 4: Gross Profit Margin Breakdown

GP Margin	Q3 FY16	Q3 FY15	YoYChange (%)
ICT Distribution	3.8%	3.3%	15.2
Enterprise Systems	8.0%	7.3%	9.6
ICT services	13.0%	14.9%	(12.8)

Source: Interpacific, Company

Interim Dividend

The group declared a 3 sen interim dividend with a dividend yield of 2% in conjunction with the release of the 3rd Quarter results. The group is still committed in paying a minimum dividend payout ratio of 30% despite the weaker market sentiments.

Expansion of product portfolio

ECS is introducing Enterprise Flash Memory Storage to replace the conventional hard disc drive storage to their Enterprise Systems clients. ECS is also looking to add value to its ICT Services business segment. As for the ICT distribution range, the group continues to be in discussion with different vendors to bring in the latest technology products. One of the latest additions to ECS's portfolio is the DJI Mavic Pro, a portable drone which when folded, is around the size of a water bottle.

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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