

ECS ICT Bhd

RESULTS UPDATE

BUY

Current Price : RM 1.61
Target Price : RM 1.98

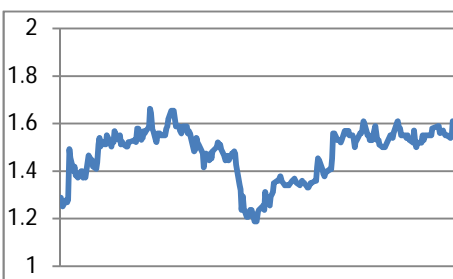
Key Statistics

Bloomberg Ticker	ECS MK
Masa Ticker / Stock Code	ECS/5162
Shares Issued (m)	180
Market Capitalisation (RM'm)	289.8
52 Week Hi/Lo Price (RM)	1.77/1.18
Avg Trading Volume (3-mth)	72,067
Est Free Float (m)	43.7
YTD Returns (%)	1.28
Beta	0.97

Major Shareholders (%)

ECS HOLDINGS LTD	41.02
SENGIN SDN BHD	12.05

1-Year Share Price Performance



Analyst: Research Team
Email: research@interpac.com.my

WATCH it grow

We maintain our BUY call with a target price of RM1.98 (for a 22.98% upside) based on a 10x PER pegged to its estimated FY16 EPS of 19.8 sen. Due to the strong financial performance by ECS in FY15, we have revised our earnings forecast for FY16 and FY17. We are positive about the stock given prospects for ECS ICT: 1) Reliable earnings growth 2) Attractive dividend yield 3) Strong net cash position even after a special dividend 4) ECS' position as the pre-eminent local IT & gadgets distributor.

◆ Results review

The last quarter of the year was indeed the best quarter for ECS ICT. The group recorded the highest revenue amongst all 4 quarters for FY15 at RM496.5mil or a YoY increase of 10% from RM451.5mil. Higher sales from notebooks and tablets were the main growth driver. The group's Profit Before Tax (PBT) rose 5% YoY to RM13.7mil. The outstanding financial performance for the year is reflected in the leap in the group net profit by 10.4% from RM29.4mil to RM32.5mil. For the 12-month period ended 31 Dec-2015, the group clocked in the highest revenue to-date at RM1.9bil. This was an increase of 19.6% compared to FYE14's RM1.59bil. The ICT Distribution segment was the star performer for the group with a 28.5% growth in terms of revenue. The increment was mainly due to the higher sales of notebooks, PCs and mobility products.

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

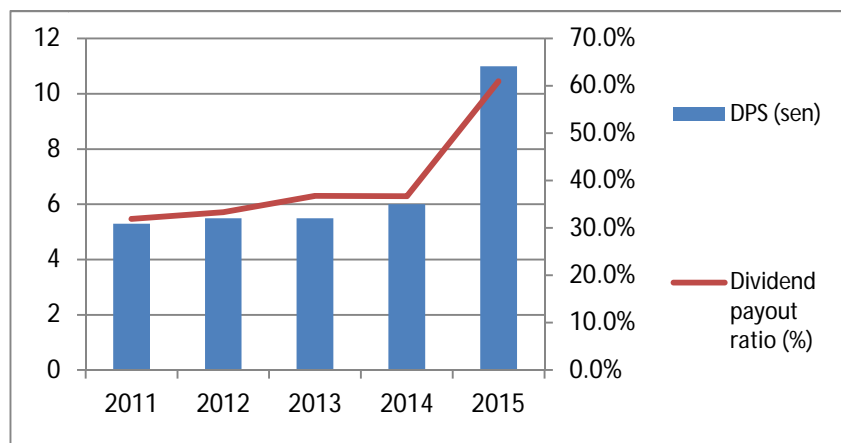
Table 2: Revenue Breakdown and YoY Comparison

Segment (RM mil)	4Q14	4Q15	YoY Change	FY14	FY15	YoY Change
ICT Distribution	320.3	379.7	18.5%	1,112.3	1,428.9	28.5%
Enterprise Systems	116.1	105.4	(9.2%)	427.6	426.3	(0.3%)
ICT Services	15.1	11.4	(24.5%)	51.2	48.1	(6.1%)
Total	451.5	495.5		1,591.1	1,903.3	

Source: Company

◆ **Final dividend of 3 sen**

ECS declared a final dividend of 3 sen this quarter that adds up to a total of 11 sen in FY15 following the 5 sen dividend declared in the previous quarter. The ex-date for the final dividend is on 31st May 2016. The dividend yield stands at 7.2% and the dividend payout ratio at 60.9%.



Source: Company

◆ **Largest smartwatch distributor in Malaysia**

ECS is the largest smartwatch distributor locally representing multiple brands in Malaysia. Among brands that ECS had obtained distributorship rights are the Apple Watch, Motorola Moto 360, ASUS ZenWatch 2 and Huawei Watch. Of the four brands, ECS is the sole distributor for Motorola's Moto 360. The group just started distributing the watches in Jan 2016 and all smartwatches will be distributed through its newly established watch channel during the introductory phase.

◆ **Earnings outperforming forecasts**

The group recorded its highest revenue to-date at RM1.9 bil exceeding our estimates by approximately 6% even after scaling it up in the preceding quarter.

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		

IMPORTANT: This report has been prepared from sources that are believed to be reliable but we do not hold ourselves responsible for its completeness and accuracy. All opinions and estimates in this report are subject to change without notice. We do not accept any liability that may arise from the use of information in this report. **Inter-Pacific Research SdnBhd** and or its associates may from time to time have interest and/or underwriting commitments in the company being reported. This report is for internal circulation only and the contents or any part thereof **cannot be reproduced** in any manner whatsoever except with the prior written consent of Inter-Pacific Research Sdn Bhd.

Published and Printed by:

Inter-Pacific Research SdnBhd (449005-X)
West Wing, Level 13,
Berjaya Times Square,
No.1, Jalan Imbi,
55100 Kuala Lumpur
General Line : 03-2117 1888 Fax : 03-2142 7678