

ECS ICT Bhd

RESULTS UPDATE

BUY

Current Price : RM 1.64
Target Price : RM 2.00

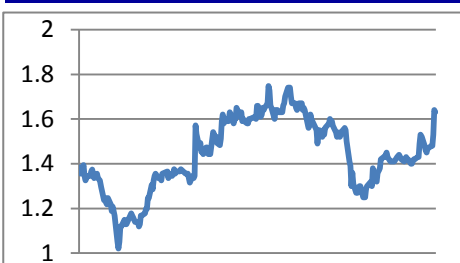
Key Statistics

Bloomberg Ticker	ECS MK
Masa Ticker / Stock Code	ECS/5162
Shares Issued (m)	180
Market Capitalisation (RM'm)	293.4
52 Week Hi/Lo Price (RM)	1.83/1.02
Avg Trading Volume (3-mth)	136,860
Est Free Float (m)	43.7
YTD Returns (%)	38.14
Beta	0.94

Major Shareholders (%)

ECS HOLDINGS LTD	41.02
SENGIN SDN BHD	12.05

1-Year Share Price Performance



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On track for record high revenue

We maintain our BUY call with a target price of RM2.00 (21.9% upside) based on a 9.5x PER to its estimated FY16 EPS of 21.1. We revise our earnings forecast for FYE2015 with a 5% increase in revenue as the Group is performing much beyond our expectations. We believe ECS ICT will perform due to 1) Stable earnings 2) Improving dividend yield 3) An exciting quarter ahead 4) Strong net cash position that enables company expansion.

Results Review

The Group's revenue for 3QFY2015 clocked in at RM465.1mil compared to RM392mil recorded last year, or an increase of 18.6%YoY. However, the company's PBT decreased by 28.7%YoY to RM6.5mil. The decrease in profit was mainly due to unfavourable exchange rate movements where the Ringgit dropped against the USD especially sharply during Sep 2015. The depreciation of the RM also caused the gross profit margin to fall to 3.9% 3Q 2015, down from 4.8% in the corresponding quarter the previous year. The Group is confident that as the Ringgit stabilizes against the USD, they will be able to better hedge against a strengthening USD and pass higher costs on to their customers. The other reason for the decrease in gross profit margin was because of the impact of the less favorable product mix. The ICT Distribution segment provides the lowest profit margin to the group of its three business segments but it contributes the most revenue to the group.

Table 1 : Earnings Forecasts

FYE 31st Dec	2013	2014	2015(F)	2016(F)	2017(F)
Revenue (m)	1,326.2	1,591.1	1,795.0	1,965.8	2,134.2
EBITDA (m)	36.7	39.2	43.3	47.8	51.2
Net Profit (m)	26.0	29.4	33.2	37.9	40.1
EPS (sen)	14.9	16.3	18.4	21.1	22.2
EBITDA Margin (%)	2.8	2.5	2.4	2.4	2.4
Net Profit Margin (%)	2.0	1.8	1.8	1.9	1.9
Gross Profit Margin (%)	6.1	5.5	5.2	5.1	5.1
PER (x)	11.17	10.22	8.30	7.27	6.87
DPS (sen)	5.5	6.0	8.0	8.0	8.5
Net Dividend Yield (%)	3.3	3.9	5.2	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: Company

◆ **Increase in dividend payout**

ECS declared a special dividend of 5 cents per share and an interim dividend of 3 cents thus making it a total of 8 cents per share. The dividend yield therefore improved to 5.2%. The payout ratio jumped from 36.7% to 65%. Special dividends were paid to the shareholders as the Group is celebrating its 30th anniversary this year.

◆ **Exciting quarter lies ahead**

The last quarter of the year is by tradition, seasonally the most profitable quarter as the Group expects consumer spending to increase as festive season and annual bonus payment season arrives. The Group will also be announcing the launch of several new products that are potentially catalysts that will boost sales. Such products include Microsoft Surface Pro 4 (ECS ICT is the sole distributor in the consumer segment), Ipad Pro and wearable devices. The Group will also work closely with system integrators to secure more projects for the Enterprise Systems segment. Large scale projects such as RAPID, the MRT projects require mini computer /mainframe hardware systems for planning/modeling/execution /operational control as well as routine ticketing functions.

Table 2 : 3QFY15 Revenue Breakdown

Revenue (RM mil)	3Q FY15	3Q2014	YoY Change (%)
ICT Distribution	358.0	278.5	28.5%
Enterprise Systems	94.1	98.5	-4.5%
ICT services	13.0	15.0	-13.3%
Total	465.1	392.0	18.6%

Source: Company

Table 3 : 3Q FY15 Gross Profit Breakdown

Business Segment	Gross Profit (RM mil)		Gross Profit Margin (%)	
	3Q FY15	3Q FY14	3Q FY15	3Q FY14
ICT Distribution	10.7	9.5	3.0	3.4
Enterprise Systems	5.7	7.1	6.1	7.2
ICT services	1.9	2.2	14.6	14.7
Total	18.3	18.8	3.9	4.8

Source: Company

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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