

ECS ICT Bhd

1Q13 Results

NEUTRAL

Current Price RM 1.17
Target Price RM 1.16
Consensus Price RM 1.02

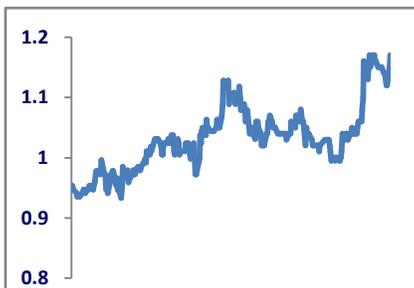
Key Statistics

Bloomberg Ticker	ECS MK
Masa Ticker / Stock Code	ECS / 5162
Shares Issued (m)	180.0
Market Capitalisation (RM'm)	210.6
52 Week Hi/Lo Price (RM)	1.19/0.95
3 Mths Avg Vol (Shares)	91,940
Est Free Float (m)	52.4
YTD Returns (%)	12.5
Beta	0.9

Major Shareholders (%)

ECS Holdings Ltd	41.0
Sengin Sdn Bhd	12.0

1-Year Share Price Performance



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Enterprise System Losing Steam?

Highlights:

- ◆ **Valuation:** We downgrade our call to **NEUTRAL** with a lower target price of RM1.16 (previously RM1.19) pegged to our adjusted FY13F EPS of 17.9sen. ECS' stock price has risen steadily since its 4Q12 results and we feel that it has lost steam due to a degree of margin compression creeping in. Nevertheless, we still like ECS for decent dividends and defensive strong balance sheet (Net cash of 37.3sen/share).
- ◆ **Below expectations:** 1Q13 revenue of RM320.3m accounted for only 22.8% and 24.2% of ours and consensus' estimates. The +4.9% YoY growth was mainly spurred by its ICT Distribution segment which grew +5.2% YoY. 1Q13 net profit however saw a double digit drop to RM6.4m (-21.2% YoY from RM8.1m, 1Q12) as margin contracted due to a significant drop at its Enterprise System's gross profit margins due to a less favourable product mix. First quarter net profit only accounted for 19.3% and 20.4% of ours and consensus estimates.
- ◆ **Uninspiring Enterprise :** Although ECS' Enterprise System revenue saw an increase of +4.0% YoY, the segment's profit before tax dropped from RM6.81m in 1Q12 to RM3.81m in 1Q13 (-44.0% YoY) which we understand was due to its product mix, which yielded exceptionally high margins in 1Q12. Profit before tax margins dropped by a sharp 3.0ppt from 6.5% in 1Q12 to 3.5% in 1Q13.

FYE Dec	2010A	2011A	2012F	2013F	2014F
Revenue (m)	1,271.5	1,250.7	1,276.1	1,353.3	1,435.4
Pretax Profit (m)	39.4	40.9	40.3	43.6	47.6
Net Profit (m)	28.9	30.1	29.9	32.2	35.2
EPS (sen)	16.1	16.7	16.6	17.9	19.6
Pretax margin (%)	3.1	3.3	3.2	3.2	3.3
Net Profit margin (%)	2.3	2.4	2.3	2.4	2.5
PER (x)	7.3	7.0	7.1	6.5	6.0
DPS (Sen)	5.3	5.3	5.5	5.7	6.0
Dividend Yield (%)	4.6	4.6	4.7	4.9	5.1
ROE (%)	19.6	17.5	15.9	15.4	15.0
ROA (%)	10.8	9.3	9.0	9.3	9.4
Net Gearing Ratio (%)	10.6	Net Cash	Net Cash	Net Cash	Net Cash
BV/Share (RM)	0.8	1.0	1.0	1.2	1.3
Price/Book Ratio (x)	1.4	1.2	1.1	1.0	0.9
NTA/share (RM)	0.8	1.0	1.0	1.2	1.3

FY Dec (RM' m)	1Q13	1Q12	YoY chg	4Q12	QoQ chg
Revenue	320.3	305.4	4.9	333.5	(4.0)
Gross Profit	19.6	21.8	(10.1)	24.1	(18.6)
Gross Margin (%)	6.1	7.1	(14.3)	7.2	(15.3)
Pre-tax profit	8.8	11.3	(22.0)	12.9	(31.5)
Pre-tax margin	2.7	3.7	(25.6)	3.9	(28.7)
Tax expenses	(2.4)	(3.2)	(24.0)	(3.2)	(25.3)
Net Profit (ex MI)	6.4	8.1	(21.2)	9.6	(33.6)
Net Profit margin (%)	2.0	2.7	(24.9)	2.9	(30.9)
EPS(Sen)	3.5	4.5	(21.2)	5.3	(33.6)

- ◆ **Seasonal effect:** The drop of -4.0% YoY in revenues from RM333.5m in 4Q12 and net profit by -30.9%QoQ from RM2.9m was not unexpected. Most of its Enterprise System projects are typically executed nearer to yearend, hence both compression of profit margins as well as sales figures.
- ◆ **Reprocessing data:** Accordingly, we trimmed our revenue estimates downwards by -3.7% for both FY13F and FY14F to RM1.35b and RM1.43b respectively and reduced EPS by -0.4sen and -0.1sen to 17.9sen in FY13F and 19.6sen in FY14F respectively.

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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