

**Briefing/Results Note**  
**ECS ICT Bhd**
**Nov 12<sup>th</sup>, 2015**  
**RM1.61**
**HOLD**

Target (RM)	RM1.56 – RM1.78
MASA Codes	ECS / 5162
Bloomberg	ECS MK
<b>Stock &amp; Market Data</b>	
KLCI	1666.07
Listing	Main Market
Sector	Technology
Syariah Compliance	Yes
Par Value	RM0.50
Issued Shares	180.0m
1-year return	+18.2%
52-week Hi/Lo	RM1.02 – RM1.83
1-month Average Volume	0.2m
Market Capitalisation	RM286.2m
Estimated Free Float	20%
Major Shareholders: -	
ECS Holdings Ltd	41.0%
Chairman Foo Sen Chin	12.2%
<b>Key Indicators @ FY16</b>	
PER (x)	9.5
PBV (x)	1.1
Net Debt/Equity (%)	Net cash
ROE (%)	11.9%

**Period:** 3QFY15

**Dividend:** ECS declared a dividend of 8sen, made up of 3sen interim dividend and 5sen special dividend (in conjunction with the Group's 30<sup>th</sup> anniversary). ECS has a policy of paying out minimum 30% dividend.

**Actual versus expectations:** 3Q results were below our expectations! 9MFY15 EPS of 12.3sen made up only 70% of our full forecast.

**Result highlights:** For Q3FY15, ECS recorded higher revenue of RM465.1m (+18.6% y/y & +11.1% q/q) due to higher revenue from ICT Distribution Segment (+28.6% y/y & 12.5% q/q). Revenue from Enterprise Systems and ICT services was lower on an y/y basis but higher on a q/q basis indicating improving contributions from the two lagging segments. Gross profit declined this quarter, as gross profit margin took a dip to 3.9% because of lower value product mix and the impact of very volatile forex rates. Whereas previously, ECS only book in the US\$ rate on receipt of invoice (about 2 weeks later), it now book in the rate on receipt of purchase order, thus locking in the profit

margin for that project. ECS noted that without the impact of forex, gross profit margin would have been 5.3% for the quarter. For 9MFY15, revenue was 23.4% higher while gross profit was 11.9% higher, reflecting 1H growth in revenue and profits. The 9-months period gross profit margin was still a respectable 4.8%.

**Table 1. 3QFY15 results & comparison**

FYDec / RM'm	3QFY15	3QFY14	2QFY15	y/y Chg %	q/q Chg %	9MFY15	9MFY14	y/y Chg %
Revenue	465.1	392.0	418.8	18.6	11.1	1406.8	1139.6	23.4
Cost of sales	(446.8)	(373.2)	(395.1)	19.7	13.1	(1338.8)	(1078.9)	24.1
Gross profit	18.3	18.8	23.7	-2.8	-22.7	68.0	60.8	11.9
Admin & Dist Exp	(14.1)	(11.9)	(13.9)	18.4	2.0	(42.0)	(36.9)	13.6
Other income/(exp)	1.8	2.0	0.5	-10.6	300.0	2.5	1.3	93.0
EBIT	6.0	8.9	10.3	-33.0	-41.9	28.5	25.1	13.6
Interest income/(Exp)	0.5	0.2	0.4	167.0	30.2	1.3	1.0	35.5
Pretax profit	6.5	9.1	10.7	-28.7	-39.1	29.9	26.1	14.4
Tax	(1.7)	(1.8)	(2.7)	-4.9	-34.8	(7.7)	(6.5)	18.3
Net profit	4.8	7.3	8.0	-34.7	-40.6	22.1	19.6	13.1
EPS (sen)	2.6	4.0	4.4	-35.0	-40.9	12.3	10.9	12.8
GP margin (%)	3.9%	4.8%	5.7%	-0.9ppt	-1.7ppt	4.8%	5.3%	-0.5ppt
EBIT margin (%)	1.3%	2.3%	2.5%	-1.0ppt	-1.2ppt	2.0%	2.2%	-0.2ppt
Tax rate (%)	26.8%	20.1%	25.0%	6.7ppt	1.8ppt	25.9%	25.0%	0.9ppt

ICT Distribution – Quarterly revenue increased by 28.6% y/y to RM358m with higher sales of PCs, notebooks and mobility products. Gross profit increased by 13.4% y/y to RM10.7m, reflecting the lower value product mix.

Enterprise Systems - Revenue decreased by 4.5% y/y to RM94.1m, reflecting the private and public sectors' hesitation in committing to new investments. Gross profit declined 20.2% y/y to RM5.7m, impacted by the volatile forex.

ICT Services - Revenue declined by 13.9% y/y to RM13.0m and gross profit declined by 15.7% y/y to RM1.9m.

## Valuation and recommendation



We tweaked our forecast to reflect the cautious attitude of the consumers of both private and public sectors. Previously we said that ECS would be facing some slow down in sales post implementation of GST and the results of Q3 has clearly demonstrated the impact of such slow down, that was exacerbated by the slow down in the global economy which has now flowed through to the local consumers. We foresee that this trend may continue for a while, at least for the next one year.

Our take is that ECS will make about 10 – 12sen EPS per year in “normal” operational profits i.e. quarterly EPS of 2.5 – 3.0sen. Any further upside would come via “special projects” and or new launches of innovative mobility products. For FY16, we anticipate ECS to win at least one big major Enterprise project. On the ICT distribution front, upcoming Microsoft launch of its new mobility products may turn out to be a winner for ECS.

We retain our valuation model that is based on its book value. And our valuation year in now based on the end-FY16 book value per share of RM1.42. Using a multiple of 1.10x – 1.25x (i.e. a 10 – 25% premium to book value) we derive a valuation range of between RM1.56 – RM1.78. **Since the stock is trading within our fair valuation range, we downgrade our recommendation to HOLD. Should the price go above RM1.78, SELL the stock.**

**Table 2. Profit & Loss forecast**

FYDec / RM'm	2012A	2013A	2014A	2015F	2016F
Revenue	1276.1	1326.3	1519.1	1820.0	1900.0
Pretax profit	40.3	36.6	39.2	39.8	40.8
Net profit	29.9	26.9	29.4	29.7	30.4
EPS (sen)	16.6	14.9	16.4	16.5	16.9
Pretax margin (%)	3.2	2.8	2.6	2.2	2.1
Net profit margin (%)	2.3	2.0	1.9	1.6	1.6
PER (x)	9.7	10.8	9.8	9.8	9.5
Dividend (sen)	5.5	5.5	6.0	10.0	6.0
Dividend yield (%)	3.4	3.4	3.7	6.2	3.7
Net Gearing (x)	<i>net cash</i>	<i>net cash</i>	<i>net cash</i>	<i>net cash</i>	<i>net cash</i>
Book value/share (RM)	1.10	1.14	1.24	1.31	1.42
Price/Book (x)	1.5	1.4	1.3	1.2	1.1

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**Table 3. Statement of financial position forecast**

<b>FYDec / RM'm</b>	<b>FY16(f)</b>	<b>FY15(f)</b>	<b>FY14</b>	<b>FY13</b>
<b>Assets</b>				
Plant & Equip	3.5	3.5	3.3	4.0
Intangible asset	0.6	0.6	0.6	0.6
Investment in club	0.1	0.1	0.1	0.1
Deferred tax asset	1.2	1.3	1.4	1.5
<b>Total non current asset</b>	<b>5.3</b>	<b>5.4</b>	<b>5.4</b>	<b>6.1</b>
Inventories	140.0	140.0	119.4	85.6
Receivables	200.0	190.0	197.4	173.3
Cash	103.0	93.3	89.7	83.7
<b>Total current assets</b>	<b>443.0</b>	<b>423.3</b>	<b>406.5</b>	<b>342.6</b>
<b>Total assets</b>	<b>448.3</b>	<b>428.7</b>	<b>411.8</b>	<b>348.7</b>
<b>Equity</b>				
Share capital	90.0	90.0	90.0	90.0
Reserves	165.3	145.7	134.1	114.6
<b>Total Equity</b>	<b>255.3</b>	<b>235.7</b>	<b>224.1</b>	<b>204.6</b>
<b>Liabilities</b>				
Payables	190.0	190.0	185.2	142.1
Tax payable	3.0	3.0	2.5	2.1
<b>Current liabilities</b>	<b>193.0</b>	<b>193.0</b>	<b>187.7</b>	<b>144.2</b>
<b>Total liabilities</b>	<b>193.0</b>	<b>193.0</b>	<b>187.7</b>	<b>144.2</b>
<b>Total equity &amp; liabilities</b>	<b>448.3</b>	<b>428.7</b>	<b>411.8</b>	<b>348.7</b>

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