

**Briefing/Results Note**  
**ECS ICT Bhd**

**Aug 07<sup>th</sup>, 2015**  
**RM1.55**

**BUY**

Period: 2QFY15

Target (RM)	RM1.56 – RM1.78
MASA Codes	ECS / 5162
Bloomberg	ECS MK

**Stock & Market Data**

KLCI	1694.64
Listing	Main Market
Sector	Technology
Syariah Compliance	Yes
Par Value	RM0.50
Issued Shares	180.0m
1-year return	-2.25%
52-week Hi/Lo	RM1.02 – RM1.83
1-month Average Volume	0.2m
Market Capitalisation	RM279.0m
Estimated Free Float	20%
Major Shareholders: -	
ECS Holdings Ltd	41.0%
Chairman Foo Sen Chin	12.2%

**Key Indicators @ FY15**

PER (x)	8.8
PBV (x)	1.1
Net Debt/Equity (%)	net cash
ROE (%)	12.9

**Dividend:** As expected no dividend was declared. ECS has a policy of paying out minimum 30% dividend.

**Actual versus expectations:** Above expectations! 1H EPS of 9.7sen made up 65.5% of our full forecast.

**Result highlights:** For Q2 FY2015, ECS recorded higher revenue of RM418.8m, an increase of 7.4% versus RM389.9m last year. The higher revenue was mainly from ICT Distribution Segment. Pretax profit increased by 3.3% to RM10.7m compared last year's quarter of RM10.3m.

ICT Distribution - Revenue increased by 21.5% with higher sales from mobility products namely tablets and smartphones while pretax profit increased by 29.7% to RM7.2m.

Enterprise Systems - Revenue decreased by 23.7% with lower sales of software products and high-end printers, while pretax profit decreased by 18.2% to RM3.0m.

ICT Services - Revenue increased by RM378,000, but

due to lower GP margins, pretax declined by RM211,000.

For 1HFY15, ECS recorded revenue of RM941.6m, an increase of 25.9% vs last year's RM747.6m due to higher revenue from all three segments. Pretax profit was up by 37.5% to RM23.4m.

**Table 1. 2QFY15 results & comparison**

FYDec / RM'm	2QFY15	2QFY14	1QFY15	y/y Chg		1HFY15	1HFY14	y/y Chg	
				%	q/q Chg %			%	%
Revenue	418.8	389.9	522.9	7.4	-19.9	941.6	747.6	25.9	
Cost of sales	(395.1)	(367.2)	(496.8)	7.6	-20.5	(891.9)	(705.7)	26.4	
Gross profit	23.7	22.7	26.0	4.3	-9.1	49.7	42.0	18.5	
Admin & Dist Exp	(13.9)	(12.7)	(14.0)	9.1	-0.7	(27.8)	(25.0)	11.3	
Other income / (exp)	0.5	(0.0)	0.2	-	-	0.7	(0.7)	-	
EBIT	10.3	10.0	12.3	3.1	-16.6	22.6	16.2	39.2	
Interest income / (Exp)	0.4	0.4	0.4	9.5	1.8	0.8	0.8	2.4	
Pretax profit	10.7	10.3	12.7	3.3	-16.1	23.4	17.0	37.5	
Tax	(2.7)	(2.8)	(3.3)	-5.1	-19.7	(6.0)	(4.7)	27.4	
Net profit	8.0	7.5	9.4	6.5	-14.8	17.4	12.3	41.4	
EPS (sen)	4.4	4.2	5.2	4.8	-15.4	9.7	6.8	42.6	
GP margin (%)	5.7	5.8	5.0	-0.2ppt	0.7ppt	5.3	5.6	-0.3ppt	
EBIT margin (%)	2.5	2.6	2.4	-0.1ppt	0.1ppt	2.4	2.2	0.2ppt	
Tax rate (%)	25.0	27.2	26.1	-2.2ppt	-1.1ppt	25.6	27.6	-2.0ppt	

ICT Distribution - Revenue increased by 34.6% with higher sales mainly from PCs, notebooks and mobility products namely tablets and smartphones. Pretax profit increased by 60.8% to RM15.3m.

Enterprise Systems - Revenue increased by 6.5% mainly due to higher sales of servers and pretax profit increased by 23.7% to RM6.8m.

ICT Services - Revenue increased by RM2.7m. However due to lower GP margin, pretax profit decreased by 27.7% to RM612,000.

Pretax profit was lower when compared with Q1 surge due to higher spending by both commercial sector and consumers, prior the implementation of Goods and Services Tax. The higher margins earned in this quarter was due to the product mix.

## Valuation and recommendation



We tweaked our forecast to reflect the higher earnings for 1H. We now forecast ECS to make 17.6sen for FY15 and 18.1sen in FY16. We anticipate the topline will be driven ICT distribution with higher sales of mobility products following the introduction of Windows 10 for PCs and Surface and new models for smartphones.

We retain our valuation model that is based on its book value. And our valuation year is now based on the average of end-FY15 and end-FY16 book value per share of RM1.36 and RM1.48, i.e. 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 below our fair valuation range, we upgrade our recommendation to BUY. Should the price go above RM1.76, SELL the stock.**

**Table 2. Profit & Loss forecast**

FYDec / RM'm	2012A	2013A	2014A	2015F	2016F
Revenue	1276.1	1326.3	1519.1	1800.0	1900.0
Pretax profit	40.3	36.6	39.2	42.3	43.6
Net profit	29.9	26.9	29.4	31.7	32.7
EPS (sen)	16.6	14.9	16.4	17.6	18.1
Pretax margin (%)	3.2	2.8	2.6	2.4	2.3
Net profit margin (%)	2.3	2.0	1.9	1.8	1.7
PER (x)	9.3	10.4	9.5	8.8	8.5
Dividend (sen)	5.5	5.5	6.0	6.0	6.0
Dividend yield (%)	3.5	3.5	3.9	3.9	3.9
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	1.36	1.48
Price/Book (x)	1.4	1.4	1.2	1.1	1.0

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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	220.0	220.0	197.4	173.3
Cash	94.5	72.6	89.7	83.7
<b>Total current assets</b>	<b>454.5</b>	<b>432.6</b>	<b>406.5</b>	<b>342.6</b>
<b>Total assets</b>	<b>459.8</b>	<b>438.0</b>	<b>411.8</b>	<b>348.7</b>
<b>Equity</b>				
Share capital	90.0	90.0	90.0	90.0
Reserves	176.9	155.0	134.1	114.6
<b>Total Equity</b>	<b>266.9</b>	<b>245.0</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>459.9</b>	<b>438.0</b>	<b>187.7</b>	<b>144.2</b>
<b>Total equity &amp; liabilities</b>	<b>449.1</b>	<b>433.0</b>	<b>411.8</b>	<b>348.7</b>

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