

ECS ICT BERHAD

Remain Steady

By the Kenanga Research Team | research@kenanga.com.my

INVESTMENT MERIT

- A commendable 9M15 performance.** ECS's 9M15 net profit of RM22.1m (13.1% YoY) came in within expectation and accounted for 69.8% of our full-year estimate. Note that, 4Q generally being the strongest quarter had accounted for c.30%-35% of full-year earnings for the past two financial years. 3Q15 turnover climbed 18.6% YoY to RM465m, mainly boosted by the higher sales volume growth in its PC and mobility products (i.e. smartphones and tables) but partially offset by the lower sales in the enterprise systems and ICT service divisions. PBT, however, dipped 28.7% YoY to RM6.5m with softer margin of 1.4% (vs. 2.3% in 3Q14), no thanks to the weakening in MYR and a lesser favourable product mix. On a 9M15 basis, turnover improved to RM1.4b (23% YoY) with PBT enhanced to RM29.8m (+14.4% YoY) despite recording lower performance in 3Q15.
- A special reward to shareholders.** ECS has declared a single-tier dividend of 3.0 sen and a special dividend of 5.0 sen (ex-date: 25-Nov) in conjunction with the group's 30th anniversary. This translates to a strong 65% dividend payout ratio vs. the usual 32%-37% range that recorded in the past four financial years. While the special dividend is expected to be one-off, the group's dividend payout policy of 30% on net profit is expected to provide a decent dividend to shareholders in view of its healthy earnings ahead.
- Adopting more stringent forex hedging policy to protect margin.** ECS learnt a valuable lesson in 3Q15 when the MYR experienced a high volatility and depreciated 16.5% (against the USD). To minimise impact from the higher forex volatility and protect its margin moving forward, ECS has adopted a more stringent hedging policy for its orders, which is now based on the daily foreign exchange rates instead of the weekly rates used previously.
- Mobility segment continued to shine.** The group's mobility distribution segment has performed exceptionally well since the introduction in late CY13. The segment has contributed c.20% to the group's total turnover in 9M15 (vs. c.10% a year ago) with a GP margin that is higher than its traditional ICT distribution division of 4%-5%. The strong performance was mainly driven by stronger demand of the mid-to-lower end smartphones ringer carried by ECS (i.e. Lenovo, Huawei, ASUS, BenQ and etc.). Based on the latest Malaysia IDC's report, ASUS and Lenovo smartphone sales ranked no.2 and no.3, respectively, thanks to their affordable pricing strategy.
- Adding new wave of products.** To further expand its ICT distribution portfolio, ECS is targeting to add wearable products in 4Q15 followed by IoT devices in the 1H16. These new waves of products, which generally command higher margin than the smartphone segment, are expected to provide another boost to its earnings over the next 2-3 years in view of the current technology and demand trend.
- Other growth strategies** include growing its Enterprise System segment via working closely with System Integrators and vendors to seek out new private and public sector projects. On top of that, we understand that management is on continued lookout for potential M&A opportunities to further expand its ICT services.
- Maintained Trading Buy call with higher TP of RM1.94 (from RM1.76).** Post-result review, we have fine-tuned our FY15/FY16 NPs by -0.1%/+1.6%. Our TP, however, is raised to RM1.94 after we rolled over our valuation base year to FY16E with an unchanged targeted PER of 10.0x, which is in line with the FBM Small Cap Fwd PER of 10.4x. Coupled with a dividend payout of 30%, which translates into a DPS of 5.8 sen or 3.6% yield, the stock could potentially reward shareholders with a decent total upside of c.25%.

	Rating	Fair Value
Last Price		RM1.65
Kenanga	Trading Buy	RM1.94
Consensus	N/A	N/A

Stock Information

Shariah Compliant	Yes
Stock Name	ECS ICT BHD
CAT Code	5092
Industry	Distribution/Wholesale
Industry Sub-sector	Distribution/Wholesale
YTD stock price chg	39.8%
Market Cap (RM m)	297.0
Issued shares (m)	180.0
52-week range (Hi)	1.83
52-week range (Low)	1.02
3-mth avg daily vol:	127,984
Free Float	38%
Beta	1.0
Altman's Z-score	6.9

Major Shareholders

ECS HOLDINGS LIMITED	41.0%
SENGIN SDN BHD	12.1%
OASIS HOPE SDN BHD	8.6%

Financials

FYE Dec (RM'm)	2014A	2015E	2016E
Revenue	1,591.1	1,749.9	1,936.0
EBIT	37.8	40.2	48.4
Net Profit (NP)	29.4	31.5	34.8
Core EPS (sen)	16.4	17.5	19.4
BV/Share (RM)	1.2	1.1	1.2
PER	10.1	9.4	8.5
Price/BV (x)	1.3	1.5	1.3
Net gearing (x)	N.Cash	N.Cash	N.Cash
NDPS (sen)	5.5	5.2	5.8
Dividend Yield (%)	3.3	3.2	3.5

Quarterly Financial Data

	1Q15	2Q15	3Q15
Revenue	522.9	418.8	465.1
Revenue Growth (QoQ)	15.8%	-19.9%	11.1%
EBIT	12.3	10.3	6.0
OP Margin	2.4%	2.5%	1.3%
Net Profit (NP)	9.4	8.0	4.8
EPS (sen)	5.2	4.4	2.6
EPS Growth (QoQ)	-5%	-15%	-41%

Peers Comparisons	PER (FY16)	Div. Yld (%)	Mkt Cap (RM m)
ECS ICT BHD	8.5	3.5	297.0
FBMSC	10.4	2.5	101.8b



Daily Charting – ECS ICT Berhad



Comment: Yesterday, ECS had staged a technical breakout from its 'Flag' chart pattern and its multi-month downtrend resistance level, while it currently trades above all its key SMA level. The share price could poise to retest its multi-month high level of RM1.83 (R3) based on our 'Flagpole' measurement objective, backed by its positive RSI and Stochastic indicator showing. Nevertheless, we do discount a possible sideways trading in the near-term to neutralise its overbought situation, before resuming its uptrend trajectory.

About the stock:

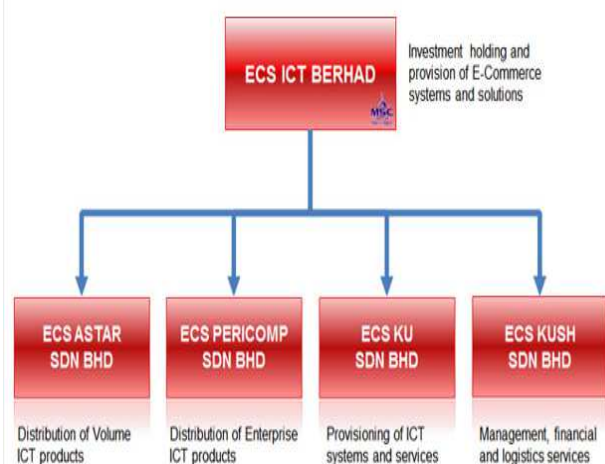
Name : ECS ICT Bhd
Bursa Code : ECS
CAT Code : 5162

Key Support & Resistance level

Resistance : RM1.70 (R1) RM1.75 (R2) RM1.83 (R3)
Support : RM1.64 (S1) RM1.52 (S2) RM1.45 (S3)
Outlook : Bullish

Source: Kenanga Research

CORPORATE STRUCTURE



BUSINESS OVERVIEW

ECS ICT Berhad (Bursa Code: 5162, ECS), which was listed on the Main Market of Bursa Malaysia on 15-Apr 2010 is a leading distribution company for Information & Communications Technology (ICT) products in Malaysia with distribution channels of over 2,500 resellers throughout the country. The main business segment for the company include ICT Products Distribution, Enterprise Systems, and ICT Services, with more than 40 leading principals like Hewlett Packard, IBM, Cisco, Microsoft, Apple, Dell, Oracle, and Samsung.

BUSINESS SEGMENTS

- **ICT Products Distributor.** Covers all major distribution channels through reseller and end user segments. The company has a distribution channel of over 2,500 resellers throughout Malaysia.
- **Enterprise Systems.** Selling Enterprise Systems products such as Servers and Data Centers, Network Systems, and Enterprise Software.
- **ICT Services.** Provides network and system integration, internet solutions, software support, hardware repairs and maintenance for its customers.

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KENANGA INVESTMENT BANK BERHAD (15678-H)

8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: www.kenanga.com.my



Chan Ken Yew
Head of Research