

08 May 2013

ECS ICT

1Q13 slightly below expectations

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|--------------------------------|--|
| Period | ▪ 1Q13 |
| Actual vs. Expectations | ▪ The 1Q13 net profit of RM6.4m was slightly below expectations and accounted for 21.2% and 20.4% of ours and the street full-year estimates respectively. Note that the group's 1Q normally accounted for c.23% of the group's net profit. |
| Dividends | ▪ No dividend was announced during the quarter. |
| Key Result Highlights | <ul style="list-style-type: none"> ▪ YoY, the 1Q13 revenue of RM320.3m increased by 4.9% thanks to the higher performances of all its three business segments, namely ICT distribution (+5.2%), Enterprise systems (+4.0%) and IT services (+15.2%). The higher sales in the ICT distribution segment were mainly driven by better consumer spending on ICT products such as tablet and notebook. The Enterprise systems segment and IT service, on the other hand, were mainly boosted by the higher sales of networking products and enterprise software. Despite the top line growth, the group's gross profit margin, however, fell to 6.1% from 7.1% previously as a result of a poor product mix at the Enterprise systems segment. Hence, the group's net profit was reduced by 21.2% to RM6.4m. ▪ QoQ, the revenue declined by 4% due mainly to the lower sales at its Enterprise Systems segment (-23.9% to RM108.6m) as a result of seasonality factors. In tandem with the poorer turnover coupled with a lower PBT margin in its Enterprise systems segment (3.5% vs. 5.8%) and a higher effective tax rate (27.52% vs. 25.22%), the group's net profit was down by 33.6%. |
| Outlook | ▪ Remain intact underpinned by: 1) stronger sales from the enterprise network systems, driven by emerging mobility solution provided by cloud computing in the SME space as business environments are changing with the increasing proliferation of consumer devices such as smartphones and tablets; and 2) the likelihood of more products/brands that are expected to be distributed in CY13. In 1Q13, the group has secured some new distributorships such as Lenovo smartphone, Microsoft Surface RT Tablet PC, IBM's enterprise cloud computing solutions and Samsung mobility devices for the enterprise market. |
| Change to Forecasts | ▪ No changes to our FY13E-FY14E estimates. |
| Rating | Maintain MARKET PERFORM |
| Valuation | ▪ Post-results, we have raised our ECS target price to RM1.22 (from RM1.02 previously) after rolling over our valuation base year to FY14 with a targeted PER level of 6.7x, representing +1.5SD-level of its PER Band since IPO. The higher target PER (vs. 6.1 previously) is driven mainly by influx of liquidity as well as the higher expected EPS growth in FY14 (of 8.9% vs. FY13's 1.0%). Besides, this valuation is still undemanding vis-à-vis the FBM Small Cap average Fwd. PER of 8.6x. |
| Risks | ▪ Weaker consumer and enterprise spending on ICT products in Malaysia. |

MARKET PERFORM ↔

Price: RM1.17
Target Price: RM1.22 ↑

Share Price Performance



KLCI	1,776.73
YTD KLCI chg	5.2%
YTD stock price chg	12.5%

Stock Information

Bloomberg Ticker	ECS MK Equity
Market Cap (RM m)	210.6
Issued shares	180.0
52-week range (H)	1.19
52-week range (L)	0.95
3-mth avg daily vol:	88,387
Free Float	38%
Beta	0.9

Major Shareholders

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

Summary Earnings Table

FYE Dec (RM'm)	2012A	2013E	2014E
Turnover	1276.1	1373.1	1441.8
EBIT	39.0	41.1	44.7
PBT	40.3	41.1	44.7
Net Profit (NP)	29.9	30.2	32.9
Consensus (NP)		31.3	31.9
Earnings Revision		-	-
EPS (sen)	16.6	16.8	18.3
EPS growth (%)	-0.9	1.0	8.9
NDPS (sen)	5.5	5.4	5.8
BVPS (RM)	1.0	1.2	1.3
PER (X)	7.1	7.0	6.4
Gearing (%)	N.Cash	N.Cash	N.Cash
Dividend Yield (%)	4.7	4.6	5.0

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Result Highlight

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE, Dec (RM'm)	FY13	FY12	Chg	FY12	Chg	FY13	FY12	Chg
Turnover	320.3	333.5	-4.0%	305.4	4.9%	320.3	305.4	4.9%
GP	19.6	24.1	-18.6%	21.8	-10.1%	19.6	21.8	-10.1%
EBIT	8.4	12.6	-32.7%	10.9	-22.5%	8.4	10.9	-22.5%
PBT	8.8	12.9	-31.5%	11.3	-22.1%	8.8	11.3	-22.1%
Taxation	2.4	3.2	-25.3%	3.2	-24.3%	2.4	3.2	-24.3%
Net Profit (NP)	6.4	9.6	-33.6%	8.1	-21.2%	6.4	8.1	-21.2%
EPS (sen)	4.5	5.3	-15.1%	6.8	-33.8%	4.5	6.8	-33.8%
GP margin	6.12%	7.22%		7.14%		6.12%	7.14%	
EBIT margin	2.64%	3.76%		3.57%		2.64%	3.57%	
PBT margin	2.75%	3.85%		3.70%		2.75%	3.70%	
NP margin	1.99%	2.88%		2.65%		1.99%	2.65%	
Effective tax rate	27.52%	25.22%		28.32%		27.52%	28.32%	

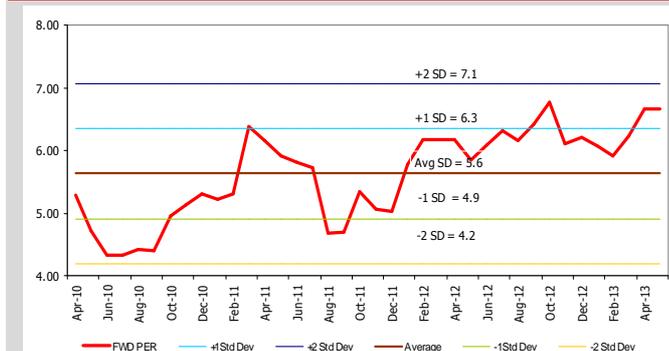
Source: Company, Kenanga Research

Segmental Breakdown

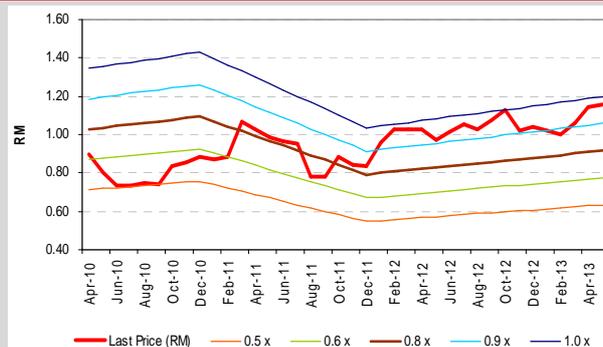
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE, Dec (RM'm)	FY13	FY12	Chg	FY12	Chg	FY13	FY12	Chg
Segment Revenue								
- ICT distribution	207.9	188.7	10.2%	197.7	5.2%	207.9	197.7	5.2%
- Enterprise Systems	108.6	142.7	-23.9%	104.4	4.0%	108.6	104.4	4.0%
- ICT services	3.9	2.1	85.3%	3.4	15.2%	3.9	3.4	15.2%
Total	320.3	333.5	-4.0%	305.5	4.9%	320.3	305.5	4.9%
Segment PBT								
- ICT distribution	4.3	4.1	4.1%	4.0	6.3%	4.3	4.0	6.3%
- Enterprise Systems	3.8	8.3	-53.8%	6.8	-43.9%	3.8	6.8	-43.9%
- ICT services	0.2	0.2	-9.5%	0.2	9.0%	0.2	0.2	9.0%
Total	8.3	12.6	-34.2%	11.0	-24.7%	8.3	11.0	-24.7%

Source: Company, Kenanga Research

Forward PER Standard Deviation



Forward PBV



Source: Bloomberg, Kenanga Research

Stock Ratings are defined as follows:

Stock Recommendations

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM: A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

- OVERWEIGHT : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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