

Result Report

9 May 2013

SJ Securities Sdn. Bhd.



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ECS ICT BERHAD (ECS)

More Offering of New ICT Products to Come

Neutral
Fair Value
RM 1.22 (+5%)

Stock Data

Price (RM)	1.16
Stock Code	5162
Bloomberg Ticker	ECS MK
Listing	Main
Market Cap (RM mn)	208.8
Outstanding Shares (mn)	180.0
Free Float (%)	29.14
Par value (RM)	0.50
52-wk high (RM)	1.19
52-wk low (RM)	0.95

Financial Data

12 month trailing PE (x)	7.47
BV per share (RM)	1.02
P/BV (x)	1.14
ROE (%)	17.77
Beta	0.89
Dividend yield (%)	2.16

Major Shareholders

ECS Holding Limited	41.02%
Sengin Sdn Bhd	12.05%
Oasis Hope Sdn Bhd	8.58%
Dasar Technologies Sdn Bhd	5.50%

Share Price Performance %

	KLCI	ECS
1-month	4.86	2.65
3-month	9.15	13.73
6-month	8.00	4.50
12-month	11.83	10.13
YTD	4.94	11.54

Investment Highlights

1QFY13. ECS's revenue has shown an improvement of 4.9% Y-o-Y. Revenue has increased to RM320.3 million from RM305.4 million in the corresponding quarter last year. This was mainly due to higher revenue from all segments. However, the Group has generated lower profit before tax of RM8.8 million in 1QFY2013, a 22.0% Y-o-Y decrease from previous year due to the lower profit from enterprise system segment.

New global well-known ICT products. As we know, ECS is a leading distributor for ICT products in Malaysia and has partnership with some world leading ICT corporations that consist of many global leading brands of ICT products. Malaysians are now able to get more global well-known ICT products, thanks to the distribution agreement with Lenovo Technology Sdn Bhd, the local subsidiary of the world's second-largest personal computer maker and Samsung Malaysia Electronics (SME) Sdn Bhd. ECS is currently distributing Lenovo and Samsung ICT products such as notebooks, desktop PCs, tablets PCs, smartphones and phablets. The distribution of new ICT products is expected to boost the Group's revenue over the next quarter.

Further expansion in tablet and ultrabook PC. ECS is now a major distributor for tablet PCs in local market. The Group currently has various models from Apple, Samsung, Lenovo and Asus. Moreover, the Group is appointed by Microsoft to distribute Surface RT and Surface Pro which will be launched in June 2013.

Enlarge enterprise systems portfolio. In its recent developments, ECS has entered into a partnership agreement with IBM to deliver the SmartCloud cloud computing solutions for enterprises market. We see a big potential in cloud computing solutions in local market because IBM's research shows that cloud yields from 25% to 30% or more in savings for enterprises. In addition, the Group has also inked a deal with CA Technologies to distribute the latter's data management solutions in local market. This information technology management solutions helps clients manage and secure complex IT environments to support agile business services.

Malaysia's ICT outlook. Based on PIKOM's forecast, Malaysia's ICT spending is expected to grow by 10% to 12% this year and the next 5 years, while IDC expects Malaysia's ICT spending to hit the USD10.6 billion mark in 2013. As ECS is a leading ICT distributor in Malaysia, we expect ECS to perform positively this year.

Our reports are available for download on SJenie website as stated below.

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Risk Factors. The Group's future performance depends largely on its continued appointment and authorization as an approved distributor by its major ICT principals. Most of these distributorship agreements are normally for a fixed period. Hence, there is a risk that the distributorship agreements may not be renewed.

Recommendation. We project ECS's net profit to grow in FY13 and FY14, mainly driven by its new global well-known ICT products and bright ICT outlook locally. We continue to like ECS and maintaining a NEUTRAL recommendation with a REVISED target price of RM1.22 (RM1.04 previously) based on an estimated FY14F EPS of 18.27 sen and targeted PER of 6.7x.

Results comparison						
		<u>1Q FY12</u>	<u>4Q FY12</u>	<u>1Q FY13</u>	<u>Q-o-Q</u>	<u>Y-o-Y</u>
FYE 31st Dec					%	%
Revenue	RM mn	305.4	333.5	320.3	(4.0)	4.9
Cost of Sales	RM mn	(283.6)	(309.5)	(300.7)	(2.8)	6.0
Gross profit	RM mn	21.8	24.1	19.6	(18.6)	(10.1)
Operating expenses	RM mn	(11.1)	(12.1)	(11.0)	(8.9)	(0.8)
Other income (Expenses)	RM mn	0.3	0.6	(0.1)	(118.1)	(138.6)
Profit from operations	RM mn	10.9	12.6	8.4	(32.7)	(22.7)
Finance income	RM mn	0.4	0.3	0.4	19.0	(0.3)
Finance cost	RM mn	(0.0)	(0.0)	(0.0)	(66.7)	(66.7)
Profit before Tax	RM mn	11.3	12.9	8.8	(31.5)	(22.0)
Taxation	RM mn	(3.2)	(3.2)	(2.4)	(25.3)	(24.0)
Net profit (att to shareholders)	RM mn	8.1	9.6	6.4	(33.6)	(21.2)
EPS	sen	4.5	5.3	3.5	(34.0)	(22.2)
Margins %						
Gross margin	%	7.1	7.2	6.1	(15.3)	(14.3)
PBT margin	%	3.7	3.9	2.7	(28.7)	(25.6)
Net margin	%	2.7	2.9	2.0	(30.9)	(24.9)

Cumulative results comparison				
		<u>1Q FY12</u>	<u>1Q FY13</u>	<u>Y-o-Y</u>
FYE 31st Dec				%
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PBT margin	%	3.7	2.7	(25.6)
Net margin	%	2.7	2.0	(24.9)



Financial Highlights							
FYE 31st Dec		2009	2010	2011	2012	2013F	2014F
Revenue	RM mn	1,345.6	1,271.5	1,250.7	1,276.1	1,306.6	1,332.8
Cost of Sales	RM mn	(1,276.7)	(1,194.4)	(1,169.4)	(1,191.1)	(1,215.1)	(1,232.8)
Gross profit	RM mn	68.9	77.1	81.3	85.0	91.5	100.0
Other operating income	RM mn	2.3	0.8	0.9	0.4	0.1	0.1
Distribution expenses	RM mn	(25.1)	(28.0)	(25.4)	(28.0)	(35.0)	(38.9)
Administrative expenses	RM mn	(9.3)	(8.8)	(16.1)	(18.6)	(16.0)	(17.8)
Other operating expenses	RM mn	(0.8)	-	-	-	(0.5)	(0.6)
Operating profit	RM mn	36.1	41.1	40.8	39.0	40.1	42.9
Finance cost	RM mn	(2.7)	(1.9)	(0.4)	(0.0)	(0.0)	(0.0)
Interest income	RM mn	0.0	0.1	0.6	1.3	1.6	1.8
Profit before Tax	RM mn	33.5	39.4	40.9	40.3	41.7	44.7
Taxation	RM mn	(8.5)	(10.3)	(10.8)	(10.4)	(10.6)	(11.8)
Net Profit	RM mn	25.0	29.0	30.1	29.9	31.1	32.9
Minority interest	RM mn	(0.9)	(0.1)	-	-	-	-
Profit att to shareholders	RM mn	24.1	28.9	30.1	29.9	31.1	32.9
Basic EPS*	sen	13.40	16.07	16.75	16.59	17.27	18.27
Growth							
Revenue	%		(6)	(2)	2	2	2
Gross profit	%		12	5	5	8	9
Pre-tax profit	%		17	4	(2)	4	7
Net profit	%		16	4	(1)	4	6
PATMI	%		20	4	(1)	4	6
Margin							
Gross Profit	%	5	6	7	7	7	8
Pre-tax profit	%	2	3	3	3	3	3
Net profit	%	2	2	2	2	2	2
PATMI	%	2	2	2	2	2	2

Source: Annual Report, Analyst estimates

*Based on 180 million shares outstanding



Weekly Technical Outlook

Share Price Performance



Source: Bloomberg

Technical Interpretation

After the share's price deviated from the uptrend channel, as mentioned previously, it had formed Elliott Wave a-b-c pattern which was a correction. Subsequently, the pattern has been ended by the long white candle, indicating the end of correction and thus, the share's price may resume its uptrend. Furthermore, the share's price is currently testing the resistance line. Upon its success of hitting a new record high, the share's price is expected to return to the uptrend channel. Failure to return to the uptrend channel is expected to stay sideways. However, the share's price will go lower if it penetrates the support line (RM1.08). The second support line is expected at RM0.99.



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Stock rating definitions

Overweight – The stock is expected to perform positively. Expected return including both capital appreciation and dividends is expected to exceed 15% over 12 months.

Neutral – The stock is expected to stay side lined. Expected return including both capital appreciation and dividends is expected to range between negative 5% to positive 15% over 12 months.

Underweight – The stock is expected to perform negatively. Expected return including both capital appreciation and dividends is expected to be negative 5% or lower over 12 months.

Not Rated – The stock is not under research coverage and the reports serves for purely informational purposes only.

Trading Idea – The stock is expected to be volatile while providing for near term positive trading opportunities. This is under the high risk category with near term catalysts.
