

## ECS ICT Bhd

### Company Update

#### BUY

**Current Price RM 1.35**

**Target Price RM 1.49**

**Consensus Price RM 1.22**

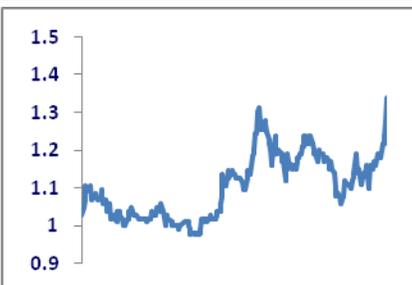
#### Key Statistics

Bloomberg Ticker	ECS MK
Masa Ticker / Stock Code	ECS / 5162
Shares Issued (m)	180.0
Market Capitalisation (RM'm)	241.2
52 Week Hi/Lo Price (RM)	1.38/0.99
3 Mths Avg Vol (Shares)	58,408
Est Free Float (m)	49.4
YTD Returns (%)	28.8
Beta	0.7

#### Major Shareholders (%)

ECS Holdings Ltd	41.0
Sengin Sdn Bhd	12.0
Oasis Hope Sdn Bhd	8.6

#### 1-Year Share Price Performance



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## Enduring Interest post Budget 2014

#### Highlights:

- ◆ **Valuation:** We upgrade our call to **BUY** as we shift our valuation forward to FY14F pegged to an EPS of 19.9sen/share and PER of 7.5x with a target price of RM1.49 (previously RM1.16) We like ECS for : i) its strong cash position (42.6sen/share); ii) its being positioned to reap benefits from 2014 budget announcements; and iii) its more than decent dividend payouts our forecast at 5.7sen, 6.0sen and 6.5sen for FY13F, FY14F and FY15F respectively, promising a yield of ~4.0%~4.8% .
- ◆ **Positive outlook:** Despite the lackluster ICT distribution sales in the 1H13 and expected flattish enterprise system, the recent announcement of the 2014 budget will have positive impact on ECS. We spoke to management and were made to understand that the High-Speed Broadband 2 (HSBB2) project will help boost the demand for servers and network equipment which in turn will help spur ECS' sales of these equipments.
- ◆ **Circumlocutory:** Management also highlighted that with the push by the government to increase internet speed and coverage; there should be higher demand for IT-related products (e.g. laptops, tablets, ultrabooks and PCs) and smartphones. We concur with ECS' views and believe that higher connection speed and connectivity coverage will help stimulate growth in its ICT distribution business.

FYE Dec	2011A	2012A	2013F	2014F	2015F
Revenue (m)	1,250.7	1,276.1	1,353.3	1,440.6	1,520.2
Pretax Profit (m)	40.9	40.3	43.6	48.4	51.8
Net Profit (m)	30.1	29.9	32.2	35.8	38.3
EPS (sen)	16.7	16.6	17.9	19.9	21.3
Pretax margin (%)	3.3	3.2	3.2	3.4	3.4
Net Profit margin (%)	2.4	2.3	2.4	2.5	2.5
PER (x)	8.1	8.1	7.5	6.8	6.3
DPS (Sen)	5.3	5.5	5.7	6.0	6.5
Dividend Yield (%)	4.0	4.1	4.2	4.4	4.8
ROE (%)	17.5	15.9	15.4	15.3	14.7
ROA (%)	9.3	9.0	9.3	9.6	9.8
Net Gearing Ratio (%)	Net Cash				
BV/Share (RM)	1.0	1.0	1.2	1.3	1.5
Price/Book Ratio (x)	1.4	1.3	1.2	1.0	0.9
NTA/share (RM)	1.0	1.0	1.2	1.3	1.4

- ◆ **Sales to accelerate with GST:** The Accelerated Capital Allowance (ACA) which came into effect in 2009 has been extended until year of assessment 2016 for the cost of purchasing ICT equipment and software. The extension coupled with the looming implementation of GST on 1<sup>st</sup> April 2015 would incentivize companies to ratchet up corporate spending on planned systems upgrading ahead of schedule in order to avoid additional cost. Likewise, consumers can be expected to also bring forward spending on ICT products to 2014 before the GST implementation.
- ◆ **Upgrading figures:** We left our FY13F figures unchanged but tweaked FY14F figures slightly upwards; +<1% in respect of revenue and +0.3sen in respect of EPS while leaving our dividend expectations unchanged. We reiterate our investment thesis: ECS has a solid cash balance of RM76.6m and is more than capable of surprising with a special dividend as a bonus to shareholders even though management has not committed to making such a dividend payment.

## Ratings System

Ratings:	Description:
BUY	Total return is expected to exceed 15% in the next 12 months
NEUTRAL	Total return is expected to be between above -15% to 15% in the next 12 months
SELL	Total return is expected to be below -15% in the next 12 months

## Abbreviation

Abbreviation	Definition	Abbreviation	Definition
PER	Price Earnings Ratio	CAGR	Compounded Annual Growth Rate
PEG	PER to Growth	CAPEX	Capital Expenditure
EPS	Earnings per Share	DPS	Dividend per Share
FYE	Financial Year End	ROA	Return on Asset
FY	Financial Year	ROE	Return on Equity
CY	Calendar Year	PBT	Profit Before Tax
MoM	Month-on-Month	PAT	Profit After Tax
QoQ	Quarter-on-Quarter	EV	Enterprise Value
YoY	Year-on-Year	EBIT	Earnings Before Interest And Tax
YTD	Year-to-Date	EBITDA	EBIT Depreciation & Amortisation
p.a.	Per Annum	WACC	Weighted Average Cost of Capital
DCF	Discounted Cash Flow	NTA	Net Tangible Asset
FCF	Free Cash Flow	BV	Book Value
NAV	Net Asset Value		

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