

ECS ICT Bhd

2Q13 Results

NEUTRAL

Current Price **RM 1.19**

Target Price **RM 1.16**

Consensus Price **RM 1.23**

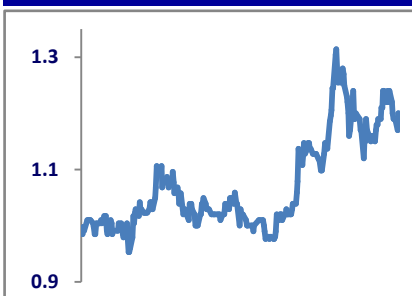
Key Statistics

Bloomberg Ticker	ECS MK
Masa Ticker / Stock Code	ECS / 5162
Shares Issued (m)	180.0
Market Capitalisation (RM'm)	214.2
52 Week Hi/Lo Price (RM)	1.36/0.99
3 Mths Avg Vol (Shares)	108,697
Est Free Float (m)	52.4
YTD Returns (%)	14.4
Beta	0.8

Major Shareholders (%)

ECS Holdings Ltd	41.0
Sengin Sdn Bhd	12.0

1-Year Share Price Performance



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Flat 1H

Highlights:

- ◆ **Valuation:** We remain our **NEUTRAL** call with unchanged target price of RM1.16 pegged to FY13F's EPS of 17.9sen. However, we like ECS ICT Bhd (ECS), for its strong cash position of 42.6sen/share and are sanguine about prospects for 2H FY13.
- ◆ **Drag from weak consumer spending:** 2Q13 revenue came in below, at RM300.5m which is -2.8% YoY lower than 2Q12 revenue of RM309.3m. The drop was due to weaker ICT Distribution sales which went down from RM212.9m in 2Q12 to RM189.6m in 2Q13. Enterprise Systems sales however were up, from RM91.9m in 2Q12 to RM108.1m in 2Q13 but were unable to cover the shortfall from ICT Distribution sales.
- ◆ **Seasonal effect:** 1H13 revenue of RM620.8m was slightly up by +1.0% YoY from RM614.6m in 1H12. However, there was a drop of gross profit margins, from 6.5% in 1H12 to 6.0% in 1H13 due to a drop in Enterprise Systems margins. We note that this is not due to a slowdown or margins being pushed down but rather that in 1Q12, ECS had an exceptionally big Enterprise System project which boosted their cumulative 1H12 gross profit. 1H13 revenue accounted for 45.9% and 46.6% of ours and consensus' FY13F forecast and its net profit made out 36.9% and 37.9% of ours and consensus' FY13F figures. We keep our forecast as most Enterprise Systems projects come in stronger during 2H.

FYE Dec	2010A	2011A	2012F	2013F	2014F
Revenue (m)	1,271.5	1,250.7	1,276.1	1,353.3	1,435.4
Pretax Profit (m)	39.4	40.9	40.3	43.6	47.6
Net Profit (m)	28.9	30.1	29.9	32.2	35.2
EPS (sen)	16.1	16.7	16.6	17.9	19.6
Pretax margin (%)	3.1	3.3	3.2	3.2	3.3
Net Profit margin (%)	2.3	2.4	2.3	2.4	2.5
PER (x)	7.4	7.1	7.2	6.6	6.1
DPS (Sen)	5.3	5.3	5.5	5.7	6.0
Dividend Yield (%)	4.5	4.5	4.6	4.8	5.0
ROE (%)	19.6	17.5	15.9	15.4	15.0
ROA (%)	10.8	9.3	9.0	9.3	9.4
Net Gearing Ratio (%)	10.6	Net Cash	Net Cash	Net Cash	Net Cash
BV/Share (RM)	0.8	1.0	1.0	1.2	1.3
Price/Book Ratio (x)	1.5	1.2	1.1	1.0	0.9
NTA/share (RM)	0.8	1.0	1.0	1.2	1.3

FY Dec (RM' m)	1Q13	1Q12	YoY chg	1Q13	QoQ chg	FY12	FY13	YoY chg
Revenue	300.5	309.3	(2.8)	320.3	(6.2)	620.8	614.6	1.0
Gross Profit	17.8	17.9	(0.7)	19.6	(9.1)	37.4	39.7	(5.8)
Gross Margin (%)	5.9	5.8	2.2	6.1	(3.1)	6.0	6.5	(6.8)
Pre-tax profit	7.5	7.5	0.2	8.8	(14.4)	16.3	18.8	(13.1)
Pre-tax margin	2.5	2.4	3.1	2.7	(8.8)	2.6	3.1	(14.0)
Tax expenses	(2.0)	(1.9)	6.9	(2.4)	(15.9)	(4.5)	(5.1)	(12.4)
Net Profit (ex MI)	5.5	5.6	(2.1)	6.4	(13.8)	11.9	13.7	(13.4)
Net Profit margin (%)	1.8	1.8	0.8	2.0	(8.1)	1.9	2.2	(14.3)
EPS(Sen)	3.1	3.1	(2.1)	3.5	(13.8)	6.6	7.6	(13.4)

- ◆ **The smartphone allure:** ECS continues to see good traction for their smartphone distribution venture; roughly ~10% of their 1H Distribution revenue was from its mobility products which includes tablets and smartphones. Currently, ECS distributes the entire range of smartphones offered by Huawei and Lenovo. Smartphone distribution offers better margins than traditional ICT products.
- ◆ **ECS' cash cow:** ECS currently has RM76.6m net cash in its balance sheet and we feel it is more than capable of announcing an additional 'windfall dividend' but management did not commit to doing so. Additionally, management highlighted that it has discussed possible growth strategies via mergers & acquisitions but there are no immediate plans or targets for the time being.

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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