

ECS ICT Bhd

Results Update 4Q12

BUY

Current Price RM 1.16

Target Price RM 1.49

Consensus Price RM 1.23

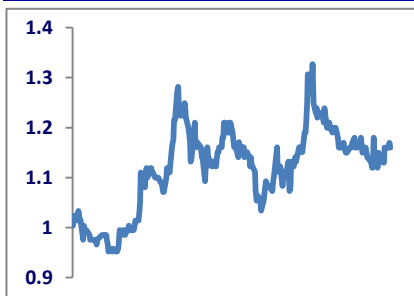
Key Statistics

Bloomberg Ticker	ECS MK
Masa Ticker / Stock Code	ECS / 5162
Shares Issued (m)	180.0
Market Capitalisation (RM'm)	208.8
52 Week Hi/Lo Price (RM)	1.40/0.99
3 Mths Avg Vol (Shares)	66,893
Est Free Float (m)	49.4
YTD Returns (%)	0.0
Beta	0.8

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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Recuperating after a Hiccup

Highlights:

- ◆ **Valuation:** We keep our **BUY** with an unchanged target price of RM1.49 pegged to a PER of 7.5x. We keep our FY14F and FY15F numbers as we see recovering numbers for the final quarter in FY13.
- ◆ **Better 4Q :** 4Q13 revenue of RM361.3m (+8.3% YoY) saw recovering numbers from its ICT Distribution (+22.3% YoY) but muted Enterprise Systems sales (-12.1% YoY) capped the upside. Net profit also saw improvement, with an increase of +1.2% YoY from RM9.6m in 4Q12 to RM9.8m in 4Q13. Net profit margins however saw a dip of -0.2ppt to 2.7% due to an unfavourable product mix in its ICT Distribution.
- ◆ **Not filling the brim:** FY13 sales saw an improvement of +3.9% YoY to RM1.3b (from RM1.2b in FY12), in-line with our forecast, accounting for 98.0% of our estimates. FY13 net profit however, fell short of our expectations: at RM26.9m (-10.0% YoY from RM29.9m in FY12) earnings ended -6.7% short of our full year estimates. We observe that despite the higher gross profit margins (GPM) for its Enterprise System in 4Q13 (11.6% vs. 10.4% in 4Q12), the full year's GPM was affected by ECS' 3Q13 performance earlier (GPM : 8.6%), which pulled down the overall Enterprise System GPM to 9.5% (FY12 : 10.0%). We have earlier reported that this was due to USD/MYR rates for several public sector contracts locked-in at unfavourable levels.

FYE Dec	2011A	2012A	2013M	2014F	2015F
Revenue (m)	1,250.7	1,276.1	1,326.3	1,440.6	1,520.2
Pretax Profit (m)	40.9	40.3	36.6	48.4	51.8
Net Profit (m)	30.1	29.9	26.9	35.8	38.3
EPS (sen)	16.7	16.6	14.9	19.9	21.3
Pretax margin (%)	3.3	3.2	2.8	3.4	3.4
Net Profit margin (%)	2.4	2.3	2.0	2.5	2.5
PER (x)	6.9	7.0	7.8	5.8	5.4
DPS (Sen)	5.3	5.5	5.5	6.0	6.5
Dividend Yield (%)	4.6	4.7	4.7	5.2	5.6
ROE (%)	17.5	15.9	13.1	15.6	15.0
ROA (%)	9.3	9.0	7.7	9.6	9.8
Net Gearing Ratio (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
BV/Share (RM)	1.0	1.0	1.1	1.3	1.4
Price/Book Ratio (x)	1.2	1.1	1.0	0.9	0.8
NTA/share (RM)	1.0	1.0	1.1	1.3	1.4

- ◆ **Dividend short:** ECS' maintained its FY12 dividend trend, recommending a final dividend of 2.5sen/share, implying FY13 total payout of 5.5sen, short of our expectations of 5.7sen. Nevertheless, it still boasts a decent yield of 4.7%. Net cash position of RM83.7m (46.5sen/share) remains strong as always. We understand from management that it will keep dividends at this level although cashflows allows ECS to pay out more in dividends, this year it has increased the dividend payout ratio to ~36.9% compared to ~33.1% in FY12 (ECS' Dividend Payout Ratio : 30%).
- ◆ **Going into FY14:** We concur with management that FY14 should be a brighter year for ECS with possible stronger ICT Distribution from its mobility segment (Tablets and Handphones) as well as higher Enterprise System sales from system upgrades by banks and telcos. Management highlighted that it would also consider potential investment into ICT Services companies to boost this segment's contribution.

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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