

ECS ICT Bhd

RESULTS UPDATE

NEUTRAL

Current Price : RM 1.20

Target Price : RM 1.31

Consensus Target Price : RM 1.38

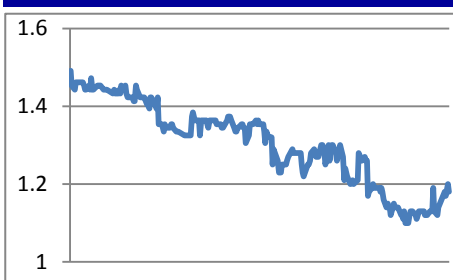
Key Statistics

Bloomberg Ticker	ECS MK
Bursa Ticker / Stock Code	ECS/5162
Shares Issued (m)	180
Market Capitalisation (RM'm)	216
52 Week Hi/Lo Price (RM)	1.55/1.10
Avg Trading Volume (3-mth)	36,321
Est Free Float (m)	47.6
YTD Returns (%)	-3.28
Beta	0.84

Major Shareholders (%)

ECS HOLDINGS LTD	41.48
SENGIN SDN BHD	12.05

1-Year Share Price Performance



Analyst: Wong Ling Ling

Email: wongll@interpac.com.my

Zero-Rated GST to Revive Consumer Spending

We reiterate our call on ECS ICT with a NEUTRAL call with a fair value of RM1.31 derived from 8x PER pegged to a forecasted FY18 EPS of 16.4sen. The slowdown in the consumer spending and the uncertainty before GE14 has affected ECS as well. Nevertheless, we believe that consumer spending will pickup gradually from the second half of the year onwards with GST being zero rated.

Earnings Review

For the current quarter under review, ECS recorded a revenue of RM391.8mil as compared to last year's corresponding quarter turnover of RM456.8mil, a decrease of 14.2% due to a lower volume in the ICT Distribution segment. The segment remains the biggest revenue contributor to the group still. The decline in sales of mobility products and notebooks were the main contributing factor to the drop in the topline. However, the Enterprise Systems and ICT Services segments both secured a higher revenue YoY. For both segments, revenue increased by 36.9% and 9.8% respectively.

ECS recorded a net profit of RM4.4mil this quarter, a 9.1% drop YoY as compared to the previous corresponding quarter. The drop in net profit is smaller than the drop-in revenue as it was cushioned by better margins contributed by the Enterprise Systems and ICT Services segments which generally provide better profit margins than the distribution segment.

Table 1 : Investment Highlights & Earnings Forecasts

FYE Dec (RM'mil)	2015	2016	2017	2018(F)	2019 (F)
Revenue	1,903.3	1,823.4	1,855.0	1,894.6	1,918.3
Gross profit	98.6	92.6	87.5	94.7	95.9
Profit Before Tax	43.6	40.4	35.6	39.4	41.3
Profit After Tax	32.5	30.1	26.3	29.5	30.7
EPS (sen)	18.0	16.7	14.6	16.4	17.1
PER (x)	6.6	7.2	8.2	7.3	7.0
GP Margin (%)	5.2%	5.1%	4.7%	5.0%	5.0%
PBT Margin %	2.3%	2.2%	1.9%	2.1%	2.2%
PAT Margin %	1.7%	1.7%	1.4%	1.6%	1.6%
DPS (sen)	11.0	6.0	5.0	6.0	6.0
Dividend Yield (%)	9.2%	5.0%	4.2%	5.0%	5.0%
ROE (%)	13.7%	11.8%	9.6%	10.1%	9.9%
ROA (%)	7.6%	6.0%	5.6%	6.2%	6.2%
Net Gearing Ratio	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Inter-Pacific

Table 2: Revenue Breakdown by Business Segment

Revenue (RM'mil)	Q1FY18	Q1FY17	YoY Change (%)	Q1FY18	Q4FY17	QoQ Change (%)
ICT Distribution	280.8	374.1	(24.9)	280.8	363.3	(22.7)
Enterprise Systems	102.0	74.6	36.8	102.0	126.7	(19.5)
ICT services	9.0	8.1	22.6	10.0	11.2	(11.1)
Total	391.8	456.8	(14.2)	391.8	501.2	(21.8)

Source: Inter-Pacific, Company

Table 3: Financial Highlights

FYE Dec (RM'mil)	Q1FY18	Q1FY17	YoY Chg (%)	4QFY17	QoQ Chg (%)
Revenue	391.8	456.8	(14.2)	501.1	(21.8)
GP	19.9	19.9	0.3	26.4	(24.3)
PBT	5.9	6.6	(10.7)	15.2	(61.4)
Taxation	(1.47)	(1.73)	(15.1)	(3.6)	(59.5)
PAT	4.38	4.82	(9.1)	11.6	(62.1)
GP Margin	5.1	4.4	16.9	5.3	(3.1)
PBT Margin	1.5	1.4	4.1	3.0	(50.7)
PAT Margin	1.1	1.1	5.9	2.3	(51.5)

Source: Inter-Pacific, Company

Moving forward, the management remains confident that consumer spending will improve in 2H 2018. As GST is scheduled to be zero-rated from 1st June onwards, it should be able to spur the demand for ICT products. As for the Enterprise segment, uncertainty with respect to government spending on upgrading of IT infrastructure has arisen with the voting in of the new political leadership in the country. Management remains cautious of its impact on government spending for the time being. Nonetheless, it is believed that the new government will turn its attention to upgrading of public IT systems once initial institutional reforms have been installed.

Declaration of Independence of Opinions and of Interest in Securities

The analyst(s) responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously. No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report. Inter-Pacific Research Sdn Bhd prohibits the analyst(s) who prepared this research report from receiving any compensation, incentive or bonus based on specific investment banking transactions or for providing a specific recommendation for, or view of, a particular company. Information barriers and other arrangements may be established where necessary to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations and the research personnel involved in the preparation of this report may also participate in the solicitation of the business. In reviewing this research report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request.

(i) As of May 18, 2018 Inter-Pacific Research Sdn Bhd has a proprietary position in the securities (which may include but not limited to shares, warrants, call warrants and/or any other derivatives) in the following company or companies mentioned or recommended in this report: (a) ECS ICT Berhad - nil,

(ii) As of May 18, 2018, the analyst(s) who prepared this report, and the associate(s), has / have an interest in the securities (which may include but not limited to shares, warrants, call warrants and/or any other derivatives) in the following company or companies covered or recommended in this report: (a) Wong Ling Ling - nil.

Signed



Pong Teng Siew
Director
Inter-Pacific Research Sdn Bhd

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		

IMPORTANT: This report has been prepared from sources that are believed to be reliable but we do not hold ourselves responsible for its completeness and accuracy. All opinions and estimates in this report are subject to change without notice. We do not accept any liability that may arise from the use of information in this report. **Inter-Pacific Research SdnBhd** and or its associates may from time to time have interest and/or underwriting commitments in the company being reported. This report is for internal circulation only and the contents or any part thereof **cannot be reproduced** in any manner whatsoever except with the prior written consent of Inter-Pacific Research Sdn Bhd.

Published and Printed by:

Inter-Pacific Research SdnBhd (449005-X)
West Wing, Level 13,
Berjaya Times Square,
No.1, Jalan Imbi,
55100 Kuala Lumpur
General Line : 03-2117 1888 Fax : 03-2142 7678