

ECS ICT Bhd

RESULTS UPDATE

NEUTRAL

Current Price : RM 1.00
Target Price : RM 1.14

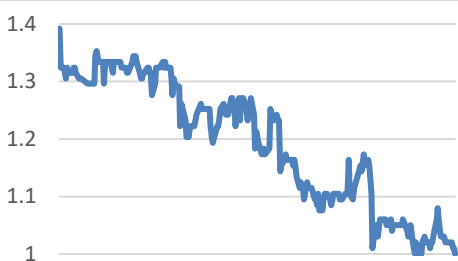
Key Statistics

Bloomberg Ticker	ECS MK
Bursa Ticker / Stock Code	ECS/5162
Shares Issued (m)	180
Market Capitalisation (RM'm)	180.0
52 Week Hi/Lo Price (RM)	1.45/0.975
Avg Trading Volume (3-mth)	219,744
Est Free Float (m)	45.2
YTD Returns (%)	-18.03
Beta	0.87

Major Shareholders (%)

ECS HOLDINGS LTD	42.76
SENGIN SDN BHD	12.05

1-Year Share Price Performance



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Hesitant Spending Hits Growth Prospects

We reiterate our call on ECS ICT with a NEUTRAL call with a lower fair value of RM1.14 derived from 8x PER pegged to a forecasted FY18 EPS of 14.3sen. We trimmed our earnings forecast to better reflect on the tough market sentiments. Sales during the month of May were poor due to GE14, ahead GST being zero-rated. Sales has improved since and the management is actively expanding its product lines to weather challenging market conditions.

Earnings Review

For the quarter under review, ECS recorded a revenue of RM358.2mil compared to the corresponding quarter last year's turnover of RM443.5mil, a decrease of 19.2%. ICT distribution segment's top line was affected by cautious consumer spending due to the prevailing uncertainty ahead of the 14th General Election. Furthermore, the transition period before the Goods and Services Tax (GST) was zero-rated led to a lull in market sentiments. However, Enterprise Systems segment recorded higher revenue from both the private and public business segments as corporates remain focused on datacenter solutions, storage, cybersecurity and data analytics. ICT Services segment grew in line with the Enterprise systems segment.

The group's cumulative 6M revenue was below our expectations as it came in at 40% of our earnings forecast. Accordingly, we tweaked our forecast to better reflect the tougher market conditions and the continued softness of consumer spending.

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	1,587.3	1,601.0
Gross profit	98.6	92.6	87.5	79.4	80.1
Profit Before Tax	43.6	40.4	35.6	33.1	34.6
Profit After Tax	32.5	30.1	26.3	24.8	25.8
EPS (sen)	18.0	16.7	14.6	13.8	14.3
PER (x)	5.6	6.0	6.8	7.2	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 (%)	10.9%	5.9%	5.0%	5.9%	5.9%
ROE (%)	13.7%	11.8%	9.6%	8.7%	8.5%
ROA (%)	7.6%	6.0%	5.6%	5.2%	5.3%
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)	Q2FY18	Q2FY17	YoY Change (%)	Q1FY18	QoQ Change (%)
ICT Distribution	253.6	348.2	(27.2)	280.8	(9.7)
Enterprise Systems	94.3	86.7	8.8	102.0	(7.6)
ICT services	10.3	8.6	19.8	9.0	15.0
Total	358.2	443.5	(19.2)	391.8	(8.6)

Source: Inter-Pacific, Company

Table 3: Quarterly Financial Highlights

FYE Dec (RM'mil)	Q2FY18	Q2FY17	YoY Chg (%)	Q1FY18	QoQ Chg (%)	6MFY18	6MFY17	YoY Change (%)
Revenue	358.2	443.5	(19.2)	391.8	(8.6)	750.0	900.3	(16.7)
GP	18.2	20.0	(9.3)	20.0	(9.1)	38.1	40.0	(4.6)
PBT	5.7	6.7	(14.9)	5.8	(2.4)	11.6	13.3	(12.8)
Taxation	(1.4)	(1.7)	15.4	(1.5)	2.2	(2.9)	(3.4)	15.2
PAT	4.3	5.0	(14.7)	4.4	(2.4)	8.7	9.8	(12.0)
GP Margin (%)	5.1	4.5	12.3	5.1	(0.5)	5.1	4.4	14.5
PBT Margin (%)	1.6	1.5	5.4	1.5	6.8	1.5	1.5	4.7
PAT Margin (%)	1.2	1.1	5.6	1.1	6.7	1.2	1.1	5.7

Source: Inter-Pacific, Company

Table 4: Gross Profit Margin by Segments

GPM	6MFY18	6MFY17	YoYChange (%)
ICT Distribution	3.6%	3.6%	0.0%
Enterprise Systems	8.1%	7.2%	12.5%
ICT services	16.0%	15.8%	1.3%
Total	5.1%	4.4%	15.9%

Source: Inter-Pacific, Company

Moving forward, the management is looking to focus on eSports channel and activities. The demand for Lifestyle & eSports products are in demand. Furthermore, the Youth and Sports Minister has recently announced that he plans to make Malaysia an eSports Hub in the near future. ECS is expanding its distribution channel by having official brand stores on LazMall and Shopee to provide consumers with high quality products, services and customer experience.

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(ii) As of August 10, 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		

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