



09 August 2012

## ECS ICT

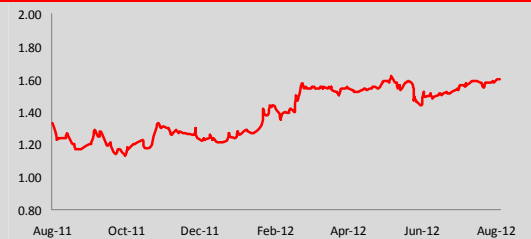
### No surprises

- Period** ■ 1H12
- Actual vs. Expectations** ■ 1H12 net profit of RM13.7m accounted for 40.8% of ours and the street's full year estimate. We consider this to be within expectations as we expect a stronger 2H due mainly to more products launching and seasonality factor.
- Dividends** ■ No dividend was announced during the quarter.
- Key Result Highlights** ■ 1H12 net profit rose 9% to RM13.7m, due mainly to improved sales coupled with higher interest income of RM0.72m (from RM0.13m previously). 1H12 revenue rose 4% to RM614.6m, thanks to higher performance from all its three business segments, namely ICT distribution (+5%), Enterprise systems (+1%) and IT services (+19%).
- The higher sales in its ICT distribution segment were mainly driven by encouraging sales from tablet PC and more retailers stocking up for PC Fairs during March. Enterprise systems and IT services on the other hand were mainly boosted by higher sales of networking products, enterprise software and completion of a few project transactions.
  - QoQ, despite 2Q12 revenue inched up marginally by 1%, net profit plunged 31% mainly attributed to lower sales from its higher margin Enterprise Systems segment (-12%, to RM91.9m) as a result of seasonality factor. As such, its PBT margin and net profit margin deteriorated by 1.3% and 0.8% respectively.
- Outlook** ■ Remains bright, underpinned by robust IT spending and encouraging market trends.
- The lower consumer demand for Notebook PCs has mitigated by the increasing popularity of Tablet PCs and Ultrabook PCs. Recently, the group has started to distribute the Eclipse 4G smartphone to its IT channel retailers. We believe this will provide additional revenue stream to the group in future.
- Change to Forecasts** ■ No changes in our FY12-13E net profit of RM33.5m - RM35.6m, respectively.
- Rating** ■ **MAINTAIN OUTPERFORM**
- Valuation** ■ Maintaining our ECS TP at RM1.70, based on an unchanged targeted FY12 PER of 6.1x (+2SD).
- Risks** ■ Lack of or delay in new ICT products.
- Slower growth in Malaysia's internet penetration rate.

## OUTPERFORM ↔

Price: **RM1.60**Target Price: **RM1.70** ↔

### Share Price Performance



KLCI	1,635.92
YTD KLCI chg	6.9%
YTD stock price chg	28.0%

### Stock Information

Bloomberg Ticker	ECS MK Equity
Market Cap (RM m)	192.0
Issued shares	120.0
52-week range (H)	1.63
52-week range (L)	1.13
3-mth avg daily vol:	65,248
Free Float	38%
Beta	0.9

### Major Shareholders

ECS HOLDINGS LTD	41.0%
SENGIN SDN BHD	12.1%
OASIS HOPE SDN BHD	8.6%

### Summary Earnings Table

FYE Dec (RM'm)	2011A	2012E	2013E
Turnover	1250.7	1355.1	1450.5
EBIT	40.8	45.5	48.4
PBT	40.9	45.5	48.4
<b>Net Profit (NP)</b>	<b>30.1</b>	<b>33.5</b>	<b>35.6</b>
Consensus (NP)		33.5	-
Earnings Revision		-	-
EPS (sen)	25.1	27.9	29.7
EPS growth (%)	-2%	11%	6%
GDPS (sen)	9.6	10.7	11.4
PER (X)	6.4	5.7	5.4
Gearing (x)	N.cash	N.cash	N.cash
Dividend Yield (%)	6.0%	6.7%	7.1%

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## Result Highlight

	2Q	1Q	QoQ	2Q	YoY	1H	1H	YoY
FYE, Dec (RM'm)	FY12	FY12	Chg	FY11	Chg	FY12	FY11	Chg
Turnover	309.3	305.4	1.3%	312.1	-0.9%	614.6	591.1	4.0%
GP	17.9	21.8	-17.7%	18.2	-1.5%	39.7	36.7	8.1%
EBIT	7.2	10.9	-34.3%	8.1	-11.9%	18.1	17.4	3.9%
PBT	7.5	11.3	-33.4%	8.0	-6.2%	18.8	17.3	8.9%
Taxation	1.9	3.2	-40.4%	2.4	-20.9%	5.1	4.6	9.6%
<b>Net Profit (NP)</b>	<b>5.6</b>	<b>8.1</b>	<b>-30.7%</b>	<b>5.6</b>	<b>0.2%</b>	<b>13.7</b>	<b>12.6</b>	<b>8.6%</b>
EPS (sen)	4.7	6.8	-30.9%	4.7	0.0%	11.4	10.5	8.6%
GP margin	5.80%	7.14%		5.83%		6.46%	6.22%	
EBIT margin	2.32%	3.57%		2.61%		2.94%	2.95%	
PBT margin	2.43%	3.70%		2.57%		3.06%	2.92%	
NP margin	1.82%	2.65%		1.80%		2.23%	2.14%	
Effective tax rate	25.34%	28.32%		30.06%		27.08%	26.89%	

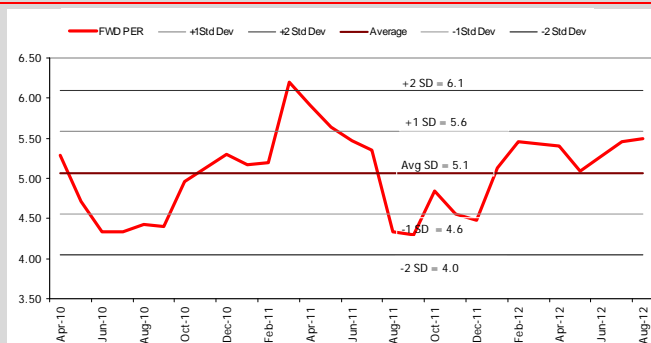
Source: Company, Kenanga Research

## Segmental Breakdown

	2Q	1Q	QoQ	2Q	YoY	1H	1H	YoY
FYE, Dec (RM'm)	FY12	FY12	Chg	FY11	Chg	FY12	FY11	Chg
<b>Segment Revenue</b>								
- ICT distribution	212.9	197.7	7.7%	201.55	5.6%	410.5	389.3	5.4%
- Enterprise Systems	91.9	104.4	-12.0%	106.33	-13.6%	196.2	195.1	0.6%
- ICT services	4.6	3.4	34.0%	4.27	6.7%	7.9	6.7	18.6%
<b>Total</b>	<b>309.3</b>	<b>305.5</b>	<b>1.2%</b>	<b>312.2</b>	<b>-0.9%</b>	<b>614.6</b>	<b>591.1</b>	<b>4.0%</b>
<b>Segment PBT</b>								
- ICT distribution	3.9	4.0	-2.3%	4.22	-7.4%	7.908	9.176	-13.8%
- Enterprise Systems	2.9	6.8	-57.3%	3.132	-7.3%	9.703	6.788	42.9%
- ICT services	0.4	0.2	80.5%	0.141	156.0%	0.561	0.22	155.0%
<b>Total</b>	<b>7.2</b>	<b>11.0</b>	<b>-34.8%</b>	<b>7.5</b>	<b>-4.3%</b>	<b>18.2</b>	<b>16.2</b>	<b>12.3%</b>

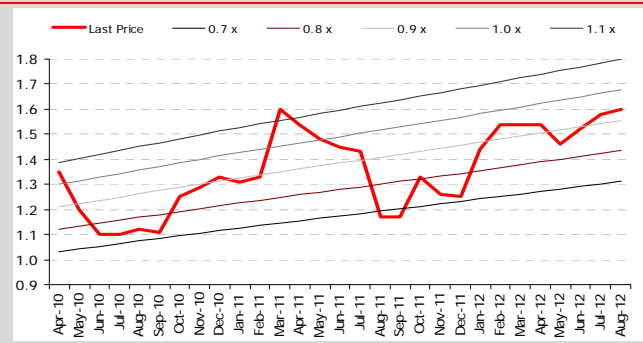
Source: Company, Kenanga Research

## Forward PER Standard Deviation



Source: Bloomberg, Kenanga Research

## Forward PBV



**Stock Ratings are defined as follows:**

**Stock Recommendations**

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM: A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**Sector Recommendations\*\*\***

- OVERWEIGHT : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

***\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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Published and printed by:

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