

10 May 2012

ECS ICT

Smooth sailing

- Period** ▪ 1Q12
- Actual vs. Expectations** ▪ 1Q12 net profit of RM8.1m was in line with expectations and accounted for 24.2% and 23.7% of ours and the street's full year estimate respectively.
- Dividends** ▪ No dividend was announced during the quarter.
- Key Result Highlights** ▪ YoY, the 1Q12 revenue of RM305.0m increased by 9.5%, thanks to higher performance from all its three business segments, namely ICT distribution (+5%), Enterprise systems (+18%) and IT services (+40%). The higher sales in its ICT distribution segment were mainly driven by 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. Despite high single digit revenue growth, the group's net profit was much higher by 15%, thanks to better gross profit margin in its Enterprise Systems and IT services segments.
- QoQ, revenue dipped by 11% mainly attributed to the lower sales from its Enterprise Systems segment (-23%, to RM104.4m) as a result of seasonality factors. In tandem with its poorer turnover coupled with the lower PBT margin in its ICT distribution segment (2.0% vs 3.2%) and a higher taxation rate (28.2% vs 25.5%), the group's net profit was down by 23%.
- Outlook** ▪ Remains bright, underpinned by robust IT spending and encouraging market trends. According to the latest IDC forecast, Malaysia's ICT spending is estimated to reach USD8.2b (+10.1% YoY) driven by rising sales in the smart devices and ultrabooks.
- 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: RM1.58
Target Price: RM1.70 ↔

Share Price Performance



KLCI	1,584.90
YTD KLCI chg	3.5%
YTD stock price chg	26.4%

Stock Information

Bloomberg Ticker	ECS MK Equity
Market Cap (RM m)	189.6
Issued shares	120.0
52-week range (H)	1.61
52-week range (L)	1.13
3-mth avg daily vol:	125,141
Free Float	38%
Beta	0.9

Major Shareholders

ECS HOLDINGS LTD	41.0%
SENGIN SDN BHD	12.1%
OASIS HOPE S/B	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
Net Profit (NP)	30.1	33.5	35.6
Consensus (NP)		34.2	N.A.
Earnings Revision		-	-
EPS (sen)	25.1	27.9	29.7
EPS growth (%)	-2.3%	11.1%	6.4%
GDPS (sen)	8.0	10.7	11.4
NTA/Share (RM)	1.43	1.62	1.83
PER (X)	5.6	5.6	5.2
Gearing (%)	Net cash	Net cash	Net cash
Dividend Yield (%)	6.1	6.8	7.2

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Result Highlight

	1Q	4Q	Q-o-Q	1Q	Y-o-Y	3M	3M	Y-o-Y
Y/E : Dec (RM m)	FY12	FY11	Chg	FY11	Chg	FY12	FY11	Chg
Turnover	305.4	341.8	-11%	278.9	9%	305.4	278.9	9%
GP	21.8	26.7	-18%	18.5	18%	21.8	18.5	18%
EBIT	10.9	13.8	-21%	9.3	18%	10.9	9.3	18%
PBT	11.3	14.0	-20%	9.3	22%	11.3	9.3	22%
Taxation	3.2	3.6	-11%	2.2	43%	3.2	2.2	43%
Net Profit (NP)	8.1	10.5	-23%	7.0	15%	8.1	7.0	15%
EPS (sen)	6.8	8.7	-22%	5.9	15%	6.8	5.9	15%
GP margin	7.1%	7.8%		6.6%		7.1%	6.6%	
EBIT margin	3.6%	4.0%		3.3%		3.6%	3.3%	
PBT margin	3.7%	4.1%		3.3%		3.7%	3.3%	
NP margin	2.7%	3.1%		2.5%		2.7%	2.5%	
Effective tax rate	28.2%	25.5%		24.1%		28.2%	24.1%	

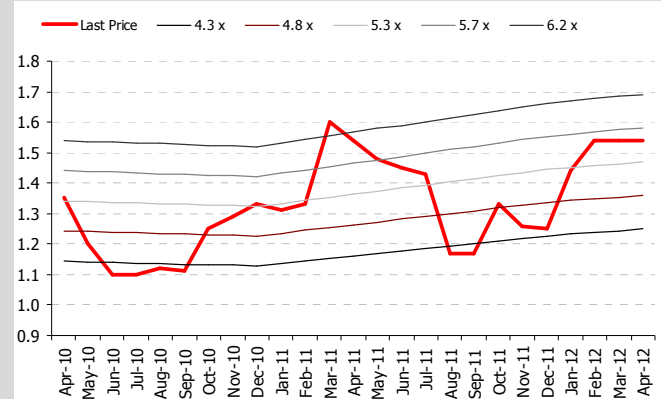
Source: Company, Kenanga Research

Segmental Breakdown

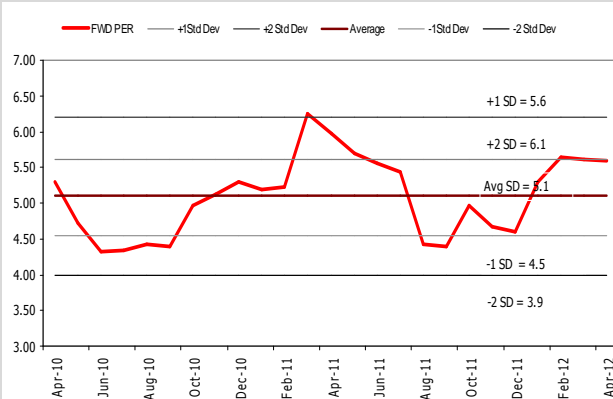
	1Q	4Q	Q-o-Q	1Q	Y-o-Y	3M	3M	Y-o-Y
Y/E : Dec (RM m)	FY12	FY11	Chg	FY11	Chg	FY12	FY11	Chg
Segment Revenue								
- ICT distribution	197.7	201.9	-2%	187.8	5%	197.7	187.8	5%
- Enterprise Systems	104.4	136.2	-23%	88.7	18%	104.4	88.7	18%
- ICT services	3.4	3.7	-10%	2.4	40%	3.4	2.4	40%
Total	305.4	341.8	-11%	278.9	9%	305.4	278.9	9%
Segment PBT								
- ICT distribution	4.0	6.4	-38%	5.0	-20%	4.0	5.0	-20%
- Enterprise Systems	6.8	7.6	-11%	3.7	86%	6.8	3.7	86%
- ICT services	0.2	0.1	92%	0.1	116%	0.2	0.1	116%
Total	11.0	14.1	-22%	8.7	26%	11.0	8.7	26%

Source: Company, Kenanga Research

Forward PER



Forward PBV



Source: Bloomberg, Kenanga Research

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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