

20 August 2013

ECS ICT Bhd

A Better 2H To Lift Full-Year Earnings

INVESTMENT MERIT

- 1H13 results review.** ECS's 1H13 revenue improved slightly by +1.0% YoY to RM620.8m, thanks to its Enterprise Systems segment (+10.4% YoY) but partially offset by the ICT Distribution segment (-15.9% YoY). Nonetheless, the group's 1H13 GP margin softened to 6.0% (1H12: 6.5%) as a result of the thinner Enterprise Systems ("ES") segment margin (8.9% vs. 10.6% in 1H12) due to the absence of a one-off high margin ES project that was completed in 1H12. The lower gross profit margin coupled with higher administrative expenses resulted in lower net profit of RM11.9m (-13.4%) in 1H13. Although the group's 1H13 net profit merely accounted for 39.3% and 38.0% of our and street's full-year estimates respectively, we are maintaining our full-year net profit forecast of RM30.2m in view of the seasonal stronger ES segment contribution during the second half.
- Better outlook in 2H13.** Management is foreseeing a better outlook in 2H13 driven by returning consumer demand in the ICT sector and improving public sector initiatives. Hence, ECS is looking to venture deeper into mobility solutions by increasing the number of brands and models to its existing smartphone portfolio. As of 2Q13, the group's mobility solutions business (tablets and smartphones) has expanded to c.10% of the group's 1H13 ICT Distribution segment revenue of RM397.5m. Margin-wise, we understand that the group's smartphone segment is recorded higher GP margin of c.7% as opposed to the 5% GP margin in the traditional ICT segment.
- Potential M&As in the pipe-line?** Management is of the view that the country's ICT sector outlook depends heavily on the cloud/smart phone segment. Thus, the group does not discount that it could be looking to expand further into these two segments should any M&A opportunities arise in the future. Funding is not an issue in our view with a strong balance-sheet possessing net cash of RM76.6m with zero borrowings as of end-2Q13.
- Fair value remains at RM1.22.** We are keeping our ECS fair value unchanged at RM1.22 based on a targeted FY14 PER of 6.7x, at a steep 61% discount to the FBM Small Cap targeted FY14 PER of 11.0x due to its relatively small-market capitalisation as well as shares liquidity concerns. Dividend-wise, we expect ECS to distribute 5.4 sen of NDPS in FY13, implying 4.6% dividend yield and 32.1% dividend payout, which is in line with the group's 20.7%-33.2% of dividend payout since listing on Apr-10.

SWOT ANALYSIS

- Strength:** Market leader for ICT distribution in Malaysia
- Weaknesses:** Low market cap.
- Opportunities:** Exploring cloud computing segment.
- Threats:** Weak consumer demand for its ICT products.

TECHNICALS

- Resistance:** RM1.20 (R1), RM1.27 (R2)
- Support:** RM1.16 (S1), RM1.13 (S2)
- Comments:** The stock has completed "Golden Cross" (20-D > 50-D SMA) a few days ago. While the buying volume has slowly pick up, trader may start accumulate after the share price break above RM1.20 (20-day SMA) resistance level.



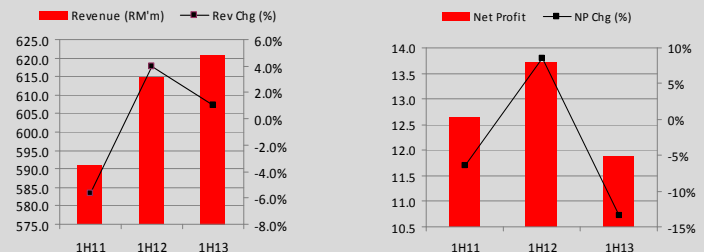
Source: Bloomberg

Rating

Fair Value

Last Price	-	RM1.180
Kenanga	Not Rated	RM1.220
Consensus	Neutral	RM1.230

FINANCIALS



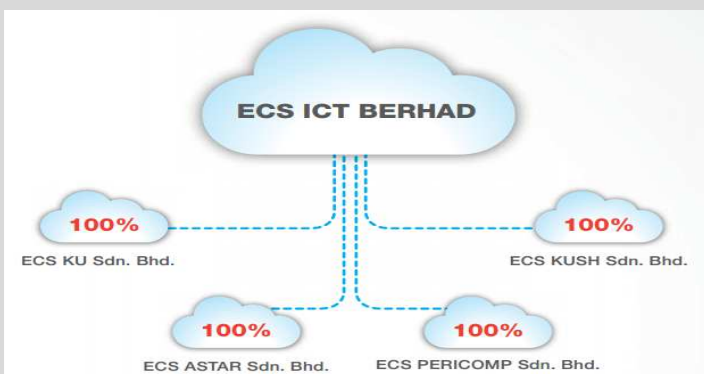
FYE Dec	1H13	1H12	YoY	2Q13	1Q13	QoQ
Revenue	620.8	614.6	1%	300.5	320.3	-6%
PBT	16.3	18.8	-13%	7.5	8.8	-14%
Net Profit	11.9	13.7	-13%	5.5	6.4	-14%
EPS (sen)	6.6	7.6	-13%	3.1	3.5	-11%
DPS (sen)	0.0	0.0	N.M.	0.0	0.0	N.M.

Source: Bloomberg, Company

	2011A	2012A	2013F
PER (x)	7.1	7.0	6.5
PBV (x)	1.1	1.0	0.9

Source: Bloomberg, Company

CORPORATE STRUCTURE



Source: Kenanga Research

BUSINESS OVERVIEW

ECS ICT Berhad (Bursa Code: 5162, ECS), which was listed on the Main Market of Bursa Malaysia on 15-Apr 2010 is a leading distribution company for Information & Communications Technology ("ICT") products in Malaysia with major distribution channels of over 2,500 resellers throughout Malaysia. The main business segment for the company include ICT Products Distribution, Enterprise Systems, and ICT Services, with more than 40 leading principals like Hewlett Packard, IBM, Cisco, Microsoft, Apple, Dell, Oracle, and Samsung.

BUSINESS SEGMENTS

- ICT Products Distributor.** Covers all major distribution channels through reseller and end user segments. The company has a distribution channel of over 2,500 resellers throughout Malaysia. This segment accounted for 63% of the group's total revenue in 1H13.
- Enterprise Systems.** Selling Enterprise Systems products such as Servers and Data Centers, Network Systems, and Enterprise Software. This segment contributed 36% of the group's total revenue in 1H13.
- ICT Services.** Provides network and system integration, internet solutions, software support, hardware repairs and maintenance for its customers. This segment accounted about 1% of total revenue of the company in 1H13.



ECS ICT BHD

Industry: Distribution/Wholesale

Industry Sub-Sector: Distribution/Wholesale

Currency: MYR

Exchange: Bursa Malays

Stock ID	Price @ 19-Aug-13	% Chg 1 yr	% Chg 3 mth	% Chg 1 mth	% Chg 5 day	% Chg 1 day	% Chg YTD
ECS MK	1.170	12.50	-7.87	-5.65	-1.68	-0.85	12.50
KLCI	1778.36	7.79	0.52	-1.08	-0.35	-0.55	5.29

ECS ICT Bhd distributes information and communication technology products.

Ownership Statistics

Institutional Ownership	52.8%
Retail Ownership	46.7%
Insider Ownership	0.5%

Ownership Type



Financial Stats		FY11	FY12	FY13E	FY14E
FYE Dec	MYR	(mil)	(mil)	(mil)	(mil)
Revenue		1,250.7	1,276.1	1,373.1	1,441.8
EBITDA		41.0	37.6	41.1	44.7
OP		39.4	35.7	41.1	44.7
Pretax		40.9	40.3	41.1	44.7
Net Profit		30.1	29.9	30.2	32.9
EPS (SEN)		16.7	16.6	16.8	18.3

Balance Sheet

Non-CA	6.6	6.7	5.7	4.5
CA	317.0	324.8	355.4	387.0
Total Assets	323.6	331.5	361.0	390.5
CL	150.9	143.9	153.3	160.8
Non-CL	0.0	0.0	0.0	0.0
Shareholders fund	172.7	187.6	207.7	229.7
Minority interest	-	-	-	-
Total Equity & Liabilities	323.6	331.5	361.0	390.5

Cash Flow

Operating CF	56.3	23.5	22.4	29.0
Investing CF	(3.0)	(2.1)	(1.0)	-
Financing CF	(17.5)	(15.0)	(10.0)	(10.9)
Change in Cash	35.8	6.4	11.4	18.1

Valuation Stats

	FY11	FY12	FY13E	FY14E
FYE Dec				
PER (x)	7.0	7.0	7.0	6.5
P/BV (x)	1.2	1.1	1.0	0.9
EV/EBITDA	3.6	3.7	3.1	2.5
DPS (SEN)	5.3	5.5	5.4	5.8
Dividend Yield (%)	4.6	4.7	4.6	5.0
ROE (%)	18.8	16.6	15.3	15.0
ROA (%)	10.2	9.1	8.7	8.7
EPS Growth (%)	4%	-1%	1%	9%
Revenue Growth (%)	-1.6%	2.0%	7.6%	5.0%
OP Margin (%)	3.2	2.8	3.0	3.1
NP Margin (%)	2.4	2.3	2.2	2.3

Domestic Peers Comparison (CY12)

	PER	P/BV	P/NTA	P/CF	Div Yield	Mkt Cap
MESINIAGA BHD	17.29	0.71	0.71	N.A.	9.63	131.1
SIMPLE AVG	17.29	0.71	0.71	N.A.	9.63	
ECS ICT BHD	7.00	1.10	1.09	9.08	4.66	210.6
FTSE Bursa Malaysia KLCI	16.68	2.31			6.02	

Market Cap (mil)	210.6	Return on Capital (%)**	15.0
Total Debt (mil)**	0.0	Return on Assets (%)**	8.3
Total Assets (mil)**	312.9	Return on Common Eqy (%)**	15.0
Total Capital (mil)**	194.0	Sales Growth **	-2.8
Tot Debt/Tot Ast (%)**	0.0	Diluted EPS Cont Ops**	N/A
Tot Debt/Tot Cap (%)**	0.0	Current Qtr EPS Est	N/A
Tot Debt/Com Eqy (%)**	0.0	Current Yr EPS Est	0.17
Tot Debt/EBITDA (x)**	0.00	Beta (x)	0.82
Book Value (x)**	1.08	Relative Index	FTSE Bursa Malaysia KLCI
Number of Shares Outstanding (mil)	180.0	Index Weighting	N/A
Avg 6M Daily Vol Traded (mil)	0.1	Alt. Relative Index	FTSE BURSA MALAYSIA EMAS
Avg 6M Daily Value Traded (mil)	0.1	Alt. Index Weighting	N/A
Net Gearing (x)	-	2nd Alt. Relative Index	FTSE Bursa Mal Small Cap
Free Float (%)	27.5	2nd Alt. Index Weighting	N/A
Share Price 52 Week High	1.36	Consensus Target Price	N/A
Share Price 52 Week Low	0.99	Target Price (H)	N/A
Altman's Z-Score	6.6	Target Price (L)	N/A
Interest Coverage Ratio	4473.3	Consensus Recommendation	HOLD
Top 3 Major Shareholders:	%	Expected Earnings Report Date	11/7/2013
ECS HOLDINGS LIMITED	41.0	Last Gross DPS (sen)	2.5
SENGIN SDN BHD	12.1	Last Net DPS (sen)	2.5
OASIS HOPE SDN BHD	8.6	Last Dividend EX Date	5/29/2013

**Trailing numbers as of the most recent quarter end: 2013 Q1

Quarterly Financial Data

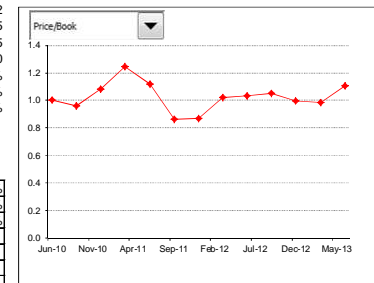
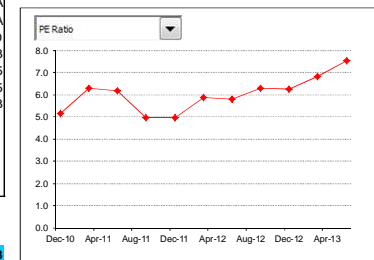
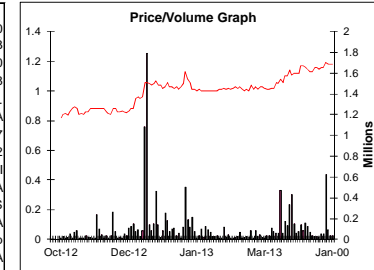
	2Q12	3Q12	4Q12	1Q13	2Q13
Revenue	309.3	327.9	333.5	320.3	300.5
OP	6.6	7.7	11.9	8.0	7.2
Pretax	7.5	8.6	12.9	8.8	7.5
Net Profit	5.6	6.5	9.6	6.4	5.5
EPS (sen)	3.13	3.60	5.30	3.50	3.10
EPS Growth (QoQ)	-30.9%	14.9%	47.2%	-34.0%	-11.4%
Revenue Growth (QoQ)	2.1%	2.3%	1.7%	-4.0%	-6.2%
OP Margin	2.1%	2.3%	3.6%	2.5%	2.4%

Revenue Breakdown

	2010	2011	2012	
ICT distribution	855.3	67%	797.5	64%
Enterprise systems	404.8	32%	439.4	35%
ICT services	11.4	1%	13.8	1%
Total	1,271.5	100%	1,250.7	100%

Geographic Breakdown - Revenue

	2010	2011	2012	
Malaysia	1,271.5	100%	1,250.7	100%
Total	1,271.5		1,250.7	



Source: Bloomberg, Kenanga Research

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Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: www.kenangaresearch.com



Chan Ken Yew
Head of Research