

RESULTS REPORT

05 May 2011

ECS ICT Berhad		Market Price:	RM1.54
		Market Capitalisation:	RM184.8m
		Board:	Main Market
Recommendation:	BUY	Sector:	Technology
Target price:	RM1.86	Stock Code/Name:	5162 / ECS

Analyst: Edmund Tham

KEY FINANCIALS

Key Stock Statistics	2011E
Earnings/Share (sen)	31.1
P/E Ratio (x)	5.0
Net Dividend/Share (sen)	9.0
NTA/Share (RM)	1.44
Book Value/Share (RM)	1.45
Issued Capital (mil shares)	120.0
52-weeks share price (RM)	1.05 – 1.70
Major Shareholders:	%
-ECS Holdings Ltd	41.0
-Sengin S/B	12.1
-Teo Soo Pin S/B	11.8
-Dasar Technologies S/B	5.5

Per Share Data	2008^	2009^	2010	2011E
Book Value/Sh.(RM)	n.a.	0.69	1.23	1.45
Earnings/Sh.(sen)	16.5	20.1	24.1	31.1
Net Dividend/Sh. (sen)	n.a.	0.0	8.0	9.0
Payout Ratio (%)	n.a.	0.0	33.2	29.0
P/E Ratio (x)	9.3	7.7	6.4	5.0
P/Book Value (x)	n.a.	2.2	1.3	1.1
Net Dividend Yield (%)	n.a.	0.0	5.2	5.8
ROE (%)	n.a.	28.9	19.6	21.4
Net Gearing or Cash (x)	n.a.	0.33	(0.12)	(0.30)

**Based on 120 million shares*

^listed in 2010, so 2008-2009 figures (where available) are proforma

P&L Analysis (RM mil)	2008^	2009^	2010	2011E
Year end: Dec 31				
Revenue	1159.5	1345.6	1271.5	1321.5
Operating Profit	31.0	36.1	41.1	49.8
Depreciation	(1.0)	(1.9)	(3.2)	(4.0)
Interest Expenses	(3.9)	(2.6)	(1.9)	(0.6)
Pre-tax Profit	27.1	33.5	39.4	49.4
Effective Tax Rate (%)	27.0	25.4	26.3	24.5
Net Profit	19.8	24.1	28.9	37.3
Operating Margin (%)	2.7	2.7	3.2	3.8
Pre-tax Margin (%)	2.3	2.5	3.1	3.7
Net Margin (%)	1.7	1.8	2.3	2.8

**RM0.50 par value*

^listed in 2010, so 2008-2009 figures are proforma

PERFORMANCE – 1Q/FY11

1Q/ 31 Mar	1Q11	1Q10	yoy %	4Q10	qoq%
Rev (RMm)	278.9	315.1	(11.5)	315.5	(11.6)
EBIT (RMm)	9.0	8.2	9.9	11.6	(21.9)
NPAT (RMm)	7.0	5.7	23.3	8.3	(15.8)
EPS (sen)	5.9	4.7	23.3	7.0	(15.8)

**EPS based on 120 million shares*

ECS ICT's annualized 1Q/FY11 results were generally below our earlier expectations. However, this was partly due to seasonal factors, reflecting lesser retail business days due to the Chinese New Year festive break and also the shorter month of February.

“Q1 seasonally slow”

During 1Q/FY11, ECS ICT recorded revenue of RM278.9 million, a decrease of 11.5% y-o-y compared with RM315.1 million in the corresponding 1Q/FY10. This was due to the lower revenue from its ICT distribution business segment (particularly for consumer notebooks).

“Strong contribution from Enterprise Systems segment”

Nevertheless, group 1Q/FY11 profit before tax (PBT) was higher at RM9.3 million, an increase of 20.3% from the corresponding 1Q/FY10. This PBT increase was mainly attributable to the better contribution from its Enterprise Systems business segment and also lower operating and interest expenses. This also contributed to a better net profit margin of 3.3% in 1Q/FY11 (from 2.4% in 1Q/FY10).

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OUTLOOK/CORP. UPDATES

According to International Data Corporation's (IDC) projections, the information and communications technology (ICT) industry in Malaysia is expected to grow at a rate of 9% for 2011. With this, as ECS ICT is a market leader in the local ICT distribution segment, we expect the group to perform encouragingly during 2011. Furthermore, the group had recently secured new ICT leading brands for distribution.

“Steady growth expected”

The latest available Malaysian economic data were reasonably positive. Malaysia had reported a very respectable 4Q/2010 GDP growth of +4.8% (+7.2% for full year 2010 GDP), stable 4Q/2010 unemployment rate of 3.2% and manageable CPI of +3.0% (March 2011). Meanwhile, Bank Negara Malaysia (BNM) had just increased its overnight policy rate (OPR) of 2.75% to 3.0% and the increased the statutory reserve requirement (SRR) by 1% to 3%.

“MSC Third Phase”

MSC Malaysia is the national ICT initiative to position the country as one of the world's ICT hubs by attracting local and international companies from various ICT disciplines under the care of the government-owned Multimedia Development Corp (MDeC). According to MDeC, under MSC's Phase Three (2011-2020), ICT revenues are expected to increase by 37% to RM142 billion and exports by 75% to RM58 billion.

ECS ICT has decided to defer its geographical expansion plans to improve its presence in the smaller towns following the increase in head count at its current branches at Penang, Kuantan, Johore Bharu, Kota Kinabalu and Kuching. Under the group's Enterprise Systems expansion plans, the company is in the process of setting up a Technology Centre at its Head Office, and it should be completed by July 2011.

In April 2011, ECS ICT's BOD announced that it has approved a revision in the utilisation of part of the IPO proceeds amounting to RM4.01 million allocated for business expansion to working capital and an extension of time for the full utilisation of the remaining proceeds.

“Expanding range of ICT brands/products”

ECS ICT's management is selective on the brands and products that the group chooses to distribute. In order to keep its inventory turnover high and to meet the expectations of major ICT principals, ECS ICT prefers to distribute popular products, especially those belonging to major brands. ECS ICT's management plans to continue increasing its product range and also to further develop its higher-margin Enterprise System business segment.

Since Q4 last year, ECS ICT has managed to secure the distribution rights for a range of products from major ICT suppliers, such as Samsung (notebooks and tablets), YTL Communications (YES 4G devices) and Dell (PCs, notebooks, gaming and enterprise solutions).

“Partakes in the Exciting Tablet market”

In March 2011, ECS ICT's wholly-owned subsidiary ECS Astar Sdn Bhd was awarded the distributorship for the **Apple iPad** line of products in Malaysia. This entails ECS bringing in the much anticipated iPad-2 to the Malaysian market. ECS has been a distributor for Apple since 1999. At present, ECS distributes a wide range of Apple products through its ICT channel, including the full range of MacBook notebooks, iMac desktop and iPod.

By getting the rights to distribute both Apple's iPad and Samsung's **Galaxy Tab** in Malaysia, ECS ICT has managed to bring into its distribution channel the “Top 2” best-selling tablet computers in the world. This relatively new computer segment is currently the most exciting and probably the fastest growing computer segment globally.



VALUATION/CONCLUSION

The group's total net dividend payout for FY10 amounted to 8 sen per share, which constitutes 33.2% of the group's NPAT in FY10. At ECS' current market price, this would amount to an attractive FY10 net dividend yield of 5.2%. We note that ECS has a dividend policy of paying out approximately 30% from its annual net profits. Given ECS's positive performance, we expect that its FY11 dividend per share could be even better.

Even with a relatively close adjusted beta of 1.03 to the KLCI, ECS (+15.8 YTD) has managed to outperform the KLCI (+0.2% YTD). In recent months, equity markets have been impacted by events such as the public debt situation in Europe, the Tohoku tsunami/earthquake in Japan and also the political unrest in a number of Middle East/North African nations. As ECS is not an especially large market-cap stock, this may put a dampener on its market visibility and trading volume.

“Maintain Buy Call”

Based on our forecast of ECS's FY11 EPS and estimated P/E of 6 times, we set a **FY11-end Target Price (TP) of RM1.86**. This TP represents a Buy Call and offers a reasonably attractive 21.0% upside from its current market price. Our TP for ECS reflects a P/BV of 1.29 times over its FY11F BV/share. Meanwhile, Bloomberg data shows that the region's “Computer Services” sector P/E and P/BV is 23.1 times and 1.4 times, respectively.

ECS ICT is well poised to grow, taking into account its market leadership position, range of ICT products, distribution infrastructure, partnerships with key ICT principals, strong technical support team and effective financial management systems. We find that ECS's P/E and P/BV valuations are undemanding. Additionally, the group's dividend yield and ROE are also quite attractive, while it is in a net cash position.

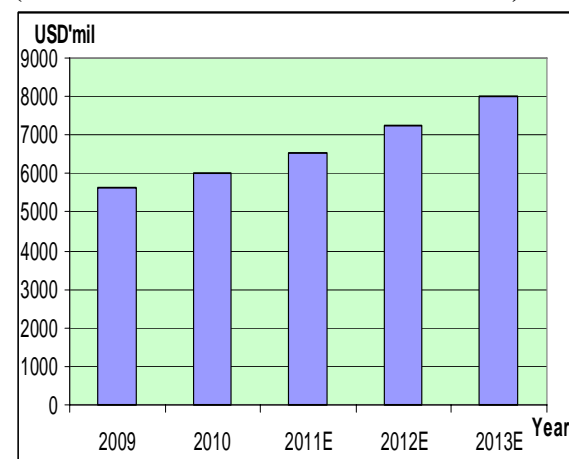
Typical for any ICT business, ECS' future earnings performance could be affected by – possible fluctuations in economic conditions, business and consumer sentiment, and also factors such as foreign exchange translation, increased peer competition, issues with trade receivables, problems with suppliers/customers, increased inventory turnover days, thinning margins and market acceptance of various products.

ECS: Share Price



Source: NextView

ICT spending in Malaysia: (9.1% CAGR to reach USD'8bil in 2013)



Source: International Data Corp (IDC)

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