



RESULTS REPORT

04 Aug 2011

ECS ICT Berhad		Market Price:	RM1.38
		Market Capitalisation:	RM165.6m
		Board:	Main Market
Recommendation:	BUY	Sector:	Technology
Target price:	RM1.59	Stock Code/Name:	5162 / ECS

Analyst: Edmund Tham

KEY FINANCIALS

Key Stock Statistics	2011E
Earnings/Share (sen)	26.4
P/E Ratio (x)	5.2
Net Dividend/Share (sen)	8.0
NTA/Share (RM)	1.41
Book Value/Share (RM)	1.41
Issued Capital (mil shares)	120.0
52-weeks share price (RM)	1.08 – 1.70
Major Shareholders:	%
-ECS Holdings Ltd	41.0
-Sengin S/B	12.1
-Oasis Hope S/B	8.6
-Dasar Technologies S/B	5.5

Per Share Data	2008^	2009^	2010	2011E
Book Value/Sh.(RM)	n.a.	0.69	1.23	1.41
Earnings/Sh.(sen)	16.5	20.1	24.1	26.4
Net Dividend/Sh. (sen)	n.a.	0.0	8.0	8.0
Payout Ratio (%)	n.a.	0.0	33.2	30.3
P/E Ratio (x)	8.4	6.9	5.7	5.2
P/Book Value (x)	n.a.	2.0	1.1	1.0
Net Dividend Yield (%)	n.a.	0.0	5.8	5.8
ROE (%)	n.a.	28.9	19.6	18.7
Net Gearing or Cash (x)	n.a.	0.33	(0.12)	(0.11)

*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	1284.7
Operating Profit	31.0	36.1	41.1	43.9
Depreciation	(1.0)	(1.9)	(3.2)	(3.3)
Interest Expenses	(3.9)	(2.6)	(1.9)	(1.1)
Pre-tax Profit	27.1	33.5	39.4	43.0
Effective Tax Rate (%)	27.0	25.4	26.3	26.2
Net Profit	19.8	24.1	28.9	31.7
Operating Margin (%)	2.7	2.7	3.2	3.4
Pre-tax Margin (%)	2.3	2.5	3.1	3.3
Net Margin (%)	1.7	1.8	2.3	2.5

*RM0.50 par value

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

PERFORMANCE – 2Q/FY11

2Q/ 30 Jun	2Q11	2Q10	yov %	1Q11	qoq%
Rev (RMm)	312.1	311.1	0.3	278.9	11.9
EBIT (RMm)	7.8	10.8	(28.0)	9.0	(13.5)
NPAT (RMm)	5.6	7.8	(28.2)	7.0	(20.2)
EPS (sen)	4.7	6.5	(28.2)	5.9	(20.2)

1H/ 30 Jun	6M/FY11	6M/FY10	yov %
Rev (RMm)	591.1	626.2	(5.6)
EBIT (RMm)	16.8	19.1	(11.7)
NPAT (RMm)	12.6	7.8	61.9
EPS (sen)	10.5	6.5	61.9

*EPS based on 120 million shares

ECS ICT's 1H/FY11 results (for 6-month period ended 30th June 2011) were slightly below our earlier expectations.

“Weaker contribution from ICT Distribution segment, but better contribution from Enterprise Systems”

ECS ICT recorded revenue of RM591.1 million in its 1H/FY11, which was slightly lower by 5.6% y-o-y. This was attributed to a weaker contribution by its ICT Distribution segment (particularly for notebook PCs). However, this drop in revenue was partly off-set by a better contribution from its Enterprise Systems segment.

Comparing y-o-y versus 2Q/FY10, group revenue in 2Q/FY11 was higher by 0.3%. However, group net profit after tax (NPAT) in 2Q/FY11 was lower by 28.2% y-o-y. This was attributable to the lower-margin product mix during 2Q/FY11.

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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 positively during 2011. Furthermore, the group had secured a few new ICT leading brands for distribution during the year.

Malaysia had reported stable 1Q/2011 unemployment rate of 3.1% and a CPI of 3.5% (June 2011). In early July 2011, Bank Negara Malaysia (BNM) had maintained its overnight policy rate (OPR) at 3.0% but raised the statutory reserve requirement (SRR) of 3% to 4% to rein-in inflationary pressures.

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), Malaysia's ICT revenues are expected to increase by 37% to RM142 billion and exports by 75% to RM58 billion.

“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 fast 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.

In recent months, ECS ICT had managed to secure the distribution rights for a range of products from major ICT suppliers, such as **Samsung** (notebooks and tablet PCs), **YTL Communications** (YES 4G devices) and **Dell**

(desktop PCs, notebooks, gaming and enterprise solutions).

“Targeting Exciting Tablet PC market”

ECS ICT is aiming to be the market leader in the distribution of tablet PCs in Malaysia, targeting to achieve a market share of around 30-40%. Currently, ECS ICT is the distributor of tablet PCs for **Samsung, Apple, ASUS and Lenovo**. The tablet PC is a relatively new PC segment and is currently the most exciting and fastest growing PC segment globally.

ECS ICT is anticipating a rise in Apple iPad sales once larger shipments arrive during 2H/2011. Meanwhile, the 7-inch Samsung Galaxy Tabs have been selling well since 1Q/2011. Better sales are expected when Samsung launches the new 10-inch Galaxy Tab 2 during August 2011.

Additionally, ECS ICT had reported strong sales for the ASUS EEE Pad Transformer. In June 2011, ECS ICT's 100%-owned ECS Astar Sdn Bhd signed an agreement with Lenovo to distribute laptops, desktops and workstations in Malaysia. ECS is the exclusive distributor for Lenovo IdeaPad tablet PCs in Malaysia. The first IdeaPad shipment is expected to arrive in August 2011. Higher sales are expected upon the launch of the new IdeaPad K1 in the Malaysian market.

VALUATION/CONCLUSION

ECS ICT had paid out a single tier final dividend of 4 sen per share, totaling RM4.8 million (for its FY10 ended 31st December 2010) on 14th June 2011. The group's total net dividend payout for FY10 amounted to 8 sen per share, which constituted more than 30% of group NPAT in FY10. For FY11, we expect that ECS ICT would pay out at least the same level of dividends as in its FY10.

With a relatively close adjusted beta of 0.94 to the KLCI, ECS (+3.8 YTD) has managed to outperform the KLCI (+1.8% YTD) slightly this



year. In recent months, global equity markets have been impacted by events such as the sovereign debt situation in Europe, the Tohoku disaster in Japan, the “debt ceiling” issue in the US and also the “Arab Spring” upheavals in the Middle East/ North Africa. 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 RM1.59**. This TP represents a Buy Call and offers a reasonable 15% upside from its current market price. Our TP for ECS reflects a P/BV of 1.1 times over its FY11F BV/share. Meanwhile, Bloomberg data shows that the “Computer Services” sector’s average P/E and P/BV is 20.3 times and 1.4 times, respectively.

We have been conservative in our estimate for ECS ICT’s FY11 revenue and earnings. Nevertheless, we would revise our forecasts accordingly if ECS ICT obtains a stronger contribution from Enterprise Systems or tablet PCs during its 2H/FY11.

ECS ICT is well poised to grow organically, taking into account its market leadership position, range of ICT products, extensive distribution infrastructure, partnerships with key ICT principals, strong technical support team and effective financial management systems. We find that ECS ICT’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 account receivables, increased inventory turnover days, slim margins and market acceptance of various ICT products.

ECS: Share Price



Source: NextView

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