



## RESULTS REPORT

02 Nov 2011

<b>ECS ICT Berhad</b>		<b>Market Price:</b>	RM1.31
		<b>Market Capitalisation:</b>	RM157.2m
		<b>Board:</b>	Main Market
<b>Recommendation:</b>	BUY	<b>Sector:</b>	Technology
<b>Target price:</b>	RM1.57	<b>Stock Code/Name:</b>	5162 / ECS

Analyst: Edmund Tham

### KEY FINANCIALS

Key Stock Statistics	2012F
Earnings/Share (sen)	26.2
P/E Ratio (x)	5.0
Net Dividend/Share (sen)	8.0
NTA/Share (RM)	1.56
Book Value/Share (RM)	1.57
Issued Capital (mil shares)	120.0
52-weeks share price (RM)	1.15 – 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

Ratios Analysis	2009^	2010	2011E	2012F
Book Value/Sh.(RM)	0.69	1.23	1.39	1.57
Earnings/Sh.(sen)	20.1	24.1	23.7	26.2
Net Dividend/Sh. (sen)	0.0	8.0	8.0	8.0
Div. Payout Ratio (%)	0.0	33.2	33.7	30.5
P/E Ratio (x)	6.5	5.4	5.5	5.0
P/Book Value (x)	1.9	1.1	0.9	0.8
Net Dividend Yield (%)	0.0	6.1	6.1	6.1
ROE (%)	28.9	19.6	17.1	16.7
Net Gearing (or Cash)(x)	0.33	(0.12)	(0.26)	(0.40)

\*Based on 120 million shares

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

P&L Analysis (RM mil)	2009^	2010	2011E	2012F
<b>Year end: Dec 31</b>				
Revenue	1345.6	1271.5	1240.2	1285.6
Operating Profit	36.1	41.1	38.4	41.8
Depreciation	(1.9)	(3.2)	(3.5)	(3.7)
Interest Expenses	(2.6)	(1.9)	(0.4)	0.0
Pre-tax Profit (PBT)	33.5	39.4	38.6	42.5
Effective Tax Rate (%)	25.4	26.3	26.2	25.9
Net Profit (NPAT)	24.1	28.9	28.5	31.4
Operating Margin (%)	2.7	3.2	3.1	3.3
Pre-tax Margin (%)	2.5	3.1	3.1	3.3
NPAT Margin (%)	1.8	2.3	2.3	2.4

\*RM0.50 par value

^listed in 2010, so 2009 figures are proforma

### PERFORMANCE – 3Q/FY11

3Q/ 30 Sep	3Q11	3Q10	yoy %	2Q11	qoq %
Rev (RMm)	317.9	311.1	(3.6)	312.1	1.8
EBIT (RMm)	7.7	10.8	(20.9)	7.8	(1.9)
NPAT (RMm)	7.1	7.8	(0.5)	5.6	25.8
EPS (sen)	5.9	6.5	(0.5)	4.7	25.8

9M/ 30 Sep	9M/FY11	9M/FY10	yoy %
Rev (RMm)	908.9	956.0	(4.9)
EBIT (RMm)	24.5	28.7	(14.8)
NPAT (RMm)	19.7	20.6	(4.4)
EPS (sen)	16.4	17.2	(4.4)

\*EPS based on 120 million shares

ECS ICT's 3Q/FY11 results (for quarter ended 30<sup>th</sup> September 2011) were largely within our earlier expectations.

#### “3Q Results within expectations”

During 3Q/FY11, the group recorded revenue of RM317.9 million, a slight decrease of 3.6% y-o-y. The group's net profit after tax (NPAT) of RM7.1 million was a notch lower, by 0.5% y-o-y. Profits were marginally lower compared with the corresponding 3Q/FY10 mainly due to the slightly lower profit contribution from its Enterprise Systems business segment.

For 9M/FY11, the group recorded revenue of RM908.9 million, a decrease of 4.9% compared with 9M/FY10. This was a result of lower revenue from its ICT Distribution (particularly notebooks) business segment. Consequently, 9M/FY11 NPAT of RM19.7 million was lower by 4.4% compared to 9M/FY10.

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Nevertheless, the group's 3Q/FY11 revenue was 1.8% higher q-o-q versus 2Q/FY11. This was due to the rising demand for tablet PCs and also due to an increase in notebook brands under its distribution stable (from HP to also Asus, Dell and Lenovo). Group NPAT was higher by 25.8% compared to the preceding 2Q/FY11. This was due to the higher profit contribution from both its ICT Distribution and Enterprise System business segments.

## 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 and 8% for 2012. As ECS ICT is the market leader in the local ICT distribution business sector, we expect the group to perform positively during 2012.

### “External environment may affect sentiment”

Malaysia had reported a reasonable 2Q/2011 unemployment rate of 3.0% and CPI of 3.4% (September 2011). In early September 2011, Bank Negara Malaysia (BNM) had maintained its accommodative overnight policy rate (OPR) at 3.0%. Meanwhile, Malaysia's GDP growth in 2Q/2011 amounted to 4.0%, amidst more uncertainty in the developed regions (US, Europe and Japan).

### “Selective on its range of ICT brands and products for distribution”

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.

### “New partnership with Mahindra Satyam”

In October 2011, ECS ICT announced its partnership with the global business consulting and IT services company Mahindra Satyam to implement the Oracle E-Business Suite for mid-size companies in Malaysia. Under the partnership, ECS' wholly-owned subsidiary ECS Pericomp S/B would appoint Mahindra Satyam to implement the Oracle E-Business Suite. The Oracle E-Business Suite encompasses the complete spectrum of modules for enterprise operations, including human resources, finance and project management.

### “Thriving 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. Currently, ECS ICT is enjoying brisk sales for Apple iPad-2 and 10-inch Samsung Galaxy Tab. The group is now awaiting the arrival of the new ASUS EEE Pad Transformer-2. Strong revenue from its tablet PC business segment is anticipated to mitigate the impact of the weak revenue growth of its notebook PC segment, to its overall group revenues.

Meanwhile, the group has set up the **ECS Technology Center** at its headquarters in Kota Damansara, Petaling Jaya. The centre provides customers with the technology infrastructure for supporting product demonstrations and proof-of-concept development. The showcase includes the Oracle Solaris, Oracle's Sun Fire's servers, with the latest addition being the Oracle Exadata Database Machine.

## 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 31<sup>st</sup> December 2010) in 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 and FY12, we expect that ECS ICT would maintain this dividend payout policy.

With a relatively close adjusted beta of 1.07 to the KLCI, ECS (-1.5 YTD) has mirrored the KLCI's (-3.2% YTD) performance 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 FY12 EPS and estimated P/E of 6 times, we set a **FY12-end Target Price (TP) of RM1.57**. This TP represents a Buy Call and offers a 20.0% upside from its current market price. Our TP for ECS reflects a P/BV of 1.0 time over its FY12F BV/share. Meanwhile, Bloomberg data shows that the domestic "Computer Services" sector's average P/E and P/BV is 13.1 times and 1.4 times, respectively.

### "Cautious view on outlook"

Although we have maintained the Buy Call on ECS ICT for now, we are nevertheless wary about the **external economic environment** and its effects on **consumer and business sentiment**. Our cautious forecasts reflect our concern on the group's **relatively weak earnings growth**. For FY12, we are hopeful that ECS ICT could obtain stronger contributions from its Enterprise Systems and Tablet PC segments.

ECS ICT is well endowed to maintain its market leadership position – given its range of ICT products, extensive distribution infrastructure, partnerships with numerous 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 reasonably attractive, while it has been in a net cash position since its FY10. We also note that remarkably, the group has now **paid-off all its borrowings**.

### "Debt-free!"

Typical for any ICT business, ECS' future earnings performance could be affected by – possible fluctuations in economic conditions, business and consumer sentiment. Routine risk factors include foreign exchange translation, increased peer competition, issues with account receivables, increased inventory turnover days, slim margins, short product life cycle and market acceptance level of various ICT products. On a positive note, group management revealed that there was no material impact from the widespread floods in central Thailand, which had affected the supply chain situation of HDDs (hard disk drives), among others.

### ECS: Share Price



Source: NextView

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