

**RESULTS REPORT**

10 May 2012

ECS ICT Berhad		Market Price:	RM1.58
		Market Capitalisation:	RM189.6m
		Board:	Main Market
Recommendation:	HOLD	Sector:	Technology
Target price:	RM1.68	Stock Code/Name:	5162 / ECS

Analyst: Edmund Tham

KEY FINANCIALS

Key Stock Statistics	2012E
Earnings/Share (sen)	27.9
P/E Ratio (x)	5.7
Net Dividend/Share (sen)	8.0
NTA/Share (RM)	1.63
Book Value/Share (RM)	1.64
Issued Capital (mil shares)	120.0
52-weeks share price (RM)	1.13 – 1.63
Major Shareholders:	%
-ECS Holdings Ltd	41.0
-Sengin S/B	12.2
-Oasis Hope S/B	8.6
-Dasar Technologies S/B	5.5

Ratios Analysis	2009 [^]	2010	2011	2012E
Book Value/Sh.(RM)	0.69	1.23	1.44	1.64
Earnings/Sh.(sen)	20.1	24.1	25.1	27.9
Net Dividend/Sh. (sen)	0.0	8.0	8.0	8.0
Div. Payout Ratio (%)	0.0	33.2	31.8	28.6
P/E Ratio (x)	7.9	6.6	6.3	5.7
P/Book Value (x)	2.3	1.3	1.1	1.0
Net Dividend Yield (%)	0.0	5.1	5.1	5.1
ROE (%)	28.9	19.6	17.5	17.1
Net Gearing (or Cash)(x)	0.33	(0.12)	(0.39)	(0.37)

*Based on 120 million shares

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

P&L Analysis (RM mil)	2009 [^]	2010	2011	2012E
Year end: Dec 31				
Revenue	1345.6	1271.5	1250.7	1338.4
Operating Profit	36.1	41.1	40.8	44.3
Depreciation	(1.9)	(3.2)	(1.6)	(1.6)
Interest Expenses	(2.6)	(1.9)	(0.4)	(0.1)
Pre-tax Profit (PBT)	33.5	39.4	40.9	45.3
Effective Tax Rate (%)	25.4	26.3	26.4	26.0
Net Profit (NPAT)	24.1	28.9	30.1	33.5
Operating Margin (%)	2.7	3.2	3.3	3.3
Pre-tax Margin (%)	2.5	3.1	3.3	3.4
NPAT Margin (%)	1.8	2.3	2.4	2.5

*RM0.50 par value

[^]listed in 2010, so 2009 figures are proforma**PERFORMANCE – 1Q/FY12**

1Q/ 31 Mar	1Q12	1Q11	yoy %	4Q11	qoq%
Rev (RMm)	305.4	278.9	9.5	341.8	(10.6)
EBIT (RMm)	10.7	9.0	18.0	13.7	(22.4)
NPAT (RMm)	8.1	7.0	15.3	10.5	(22.6)
EPS (sen)	6.8	5.9	15.3	8.7	(22.6)

*EPS based on 120 million shares

ECS ICT's 1Q/FY12 results (for quarter ended 31st March 2012) were within our earlier expectations.

“Q1 Results within expectations”

In 1Q/FY12, the group recorded revenue of RM305.4 million, which was higher by 9.5% y-o-y. Higher revenue was recorded from all its main business segments (ICT Distribution +5.3%, Enterprise Systems +17.6% and the smaller IT Services segment +39.9%). Group NPAT (net profit after tax) during that quarter was RM8.1 million, an increase of 15.3% y-o-y.

“Positive performance by all segments”

In Q1, the group's ICT Distribution segment was boosted by retailers stocking up to prepare for the PC Fairs in April 2012. However, the segment's margins were affected by the product mix. Revenues for the group's Enterprise Systems segment reflected the higher sales of networking products and enterprise software. The group's IT Services segment recorded strong revenue as some project transactions were completed during Q1.

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Versus the preceding 4Q/FY11, the group's 1Q/FY12 revenue and NPAT were lower by 10.6% and 22.6%, respectively. We believe this drop was partly due to seasonal factors.

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 10.1%** for 2012, with IT spending forecasted to reach US\$8.2 billion at the end of 2012. As ECS ICT is the market leader in the local ICT distribution business sector, we expect the group to perform positively during 2012.

Furthermore, the rising quantity of mobility devices in the market will increase users' needs for more internet bandwidth. As such, this higher demand for Enterprise Systems products for building broadband infrastructure benefits ECS ICT. The ICT industry is expected to maintain its positive expansion in 2012, aided by the federal government's programmes such as the Economic Transformation Plan (ETP) and Government Transformation Plan (GTP).

“Steady domestic demand”

Malaysia had reported a reasonable inflation figure (CPI) of 2.3% (1Q/2012). Bank Negara Malaysia (BNM) had still maintained its overnight policy rate (OPR) at an accommodative 3.0%. Meanwhile, Malaysia recorded a reasonably positive 4Q/2011 GDP growth of 5.2%, amidst weak economic growth in the developed regions (US, EU and Japan).

“Expansion of business”

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. The group is also moving into the **Cloud Computing** business segment.

VALUATION/CONCLUSION

ECS ICT had declared a single-tier final dividend of 8 sen per share (for its FY11 ended 31st December 2011), to be paid on 15th June 2012 to registered shareholders as at 31st May 2012. The group's FY11 dividend payout ratio was higher than 30% of group NPAT. For FY12, **we expect that ECS ICT would maintain this dividend payout level.**

“Dividend payout >30% of NPAT”

Thus far, ECS (+26.4% YTD) has **outperformed the KLCI** (+3.5% YTD) in 2012. During the past year, global equity markets have been impacted by events such as the “sovereign debt” situation in Europe, the Tohoku natural 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 Hold 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 RM1.68**. This TP represents a Hold Call and offers 6.3% upside from the market price on the date of this report. Our TP for ECS reflects a P/BV of 1.02 times over its FY12F BV/share.

Our TP and Hold Call takes into account the stock's **positive price movement** in recent months and also our **cautious view on the overall macroeconomic environment**. For FY12, we are hopeful that ECS ICT would obtain stronger contributions from the Enterprise System, Ultrabook, Smartphone and Tablet PC segments. This would offset any further weakness in Notebook and Netbook sales.

Results Report

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“Coming soon - Smartphone distribution”

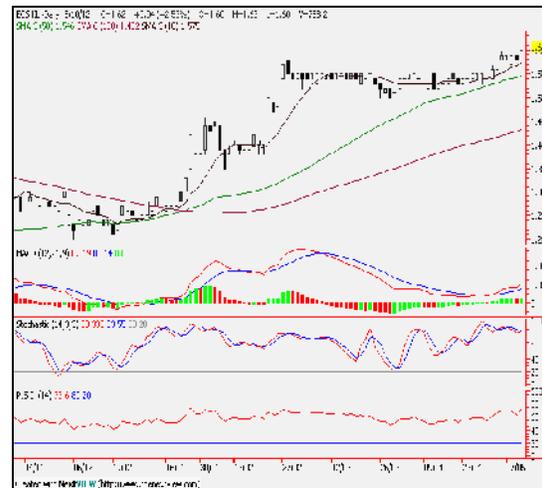
Intriguingly, ECS ICT is now in the **final stages of launching its Smartphone distribution services** for a few brands in Malaysia. We are well aware that the Smartphone market is enjoying strong sales demand, amidst the plethora of brands available for consumers to choose from.

ECS ICT is **well placed to maintain its market leadership position** – given its range of ICT products, extensive distribution infrastructure, partnerships with numerous key ICT principals, high operational efficiency, 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. The group has been in a net cash position since its FY10 and has successfully **paid-off all its borrowings during its FY11**.

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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