

MONEY TALK

ECS ICT (ECS MK)

1Q18: Sluggish Sales From ICT Distribution Segment

1Q18 RESULTS

Year to 31 Dec (RMm)	1Q18	yoy % chg	qoq % chg
Turnover	391.8	(14.2)	(21.2)
ICT Distribution	280.8	(24.9)	(22.7)
Enterprise Systems	102.0	36.8	(19.5)
ICT Services	9.0	10.3	(20.2)
Gross Profit	20.0	0.1	(24.4)
Operating Profit	5.4	(10.8)	(61.2)
Finance Costs	0.0	n.m.	n.m.
Pre-tax Profit	5.8	(10.7)	(61.5)
ICT Distribution	2.5	(40.6)	(74.2)
Enterprise Systems	2.7	64.8	(40.0)
ICT Services	0.2	72.2	(33.6)
Others	0.5	(25.5)	(42.9)
Tax	(1.5)	(15.1)	(59.5)
Core Net Profit	4.4	(9.1)	(62.1)
Margins (%)		+/- ppt	+/- ppt
Gross	5.1	0.7	(0.2)
PBT	1.5	0.1	(1.6)
Net Profit	1.1	0.1	(1.2)

Source: ECS, UOB Kay Hian

- Largely in line.** ECS ICT (ECS) posted revenue of RM392m (-14.2% yoy, -21.2% qoq) and core net profit of RM4.4m (-9.1% yoy, -62.1% qoq) in 1Q18, accounting for 15% of our 2018 forecast. Results would have been better by RM0.37m if not for foreign exchange loss. We deem the results largely in line as first quarter is seasonally the lowest quarter and typically accounts for mid-to-high teens percentage of full-year net profit.
- ICT distribution: Sluggish sales, and margin affected.** Revenue from the information and communication technology (ICT) distribution fell 25% yoy to RM281m in 1Q18, the lowest since 4Q14. The decline was due to lower sales of notebook and mobility products (tablets and smartphones). Consequently, PBT margin dropped 0.23ppt yoy to 0.88% in 1Q18.
- Enterprise: Encouraging sales growth.** For the enterprise segment, sales grew 37% yoy on higher sales of servers and software. PBT rose 65% yoy on better product mix.
- We maintain our forecast as we think that the weak sales in 1Q18 could be due to consumers' and corporates' more cautious spending ahead of the general election which was held 9 May. While 2Q18 could be another soft quarter, sentiment in 2H18 should improve as government is poised to abolish GST by 1st June.
- Maintain HOLD** with unchanged target price of RM1.38, pegged to 8.0x 2019F PE. Prospective dividend yield is decent at 4.7% in 2018. Entry price: RM1.15.

KEY FINANCIALS

Year to 31 Dec (RMm)	2016	2017	2018F	2019F	2020F
Net Turnover	1,823	1,855	1,971	2,039	2,110
EBITDA	41	34	37	40	44
Operating Profit	39	33	36	38	43
Net Profit (Reported/Actual)	30	26	29	31	34
Net Profit (Adjusted)	30	26	29	31	34
EPS (sen)	16.7	14.6	16.0	17.3	19.0
PE (x)	7.2	8.2	7.5	6.9	6.3
P/B (x)	0.8	0.8	0.7	0.7	0.7
EV/EBITDA (x)	2.6	4.8	3.3	2.7	2.1
Dividend Yield (%)	5.0	4.2	4.7	5.0	5.7
Net Margin (%)	1.7	1.4	1.5	1.5	1.6
Net Debt/(Cash) to Equity (%)	(43.0)	(18.5)	(32.2)	(34.6)	(37.0)
Interest Cover (x)	49.9	n.a.	n.a.	n.a.	n.a.
ROE (%)	11.8	9.6	9.9	10.0	10.3
Consensus Net Profit	-	-	-	-	-
UOBKH/Consensus (x)	-	-	-	-	-

Source: ECS, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM1.20
Target Price	RM1.38
Upside	+15.0%

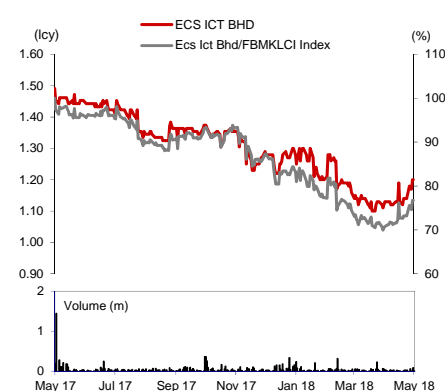
COMPANY DESCRIPTION

ECS ICT is a leading distributor of ICT products.

STOCK DATA

GICS sector	Information Technology
Bloomberg ticker	ECS MK
Shares issued (m)	180.0
Market cap (RMm)	216.0
Market cap (US\$m)	55.4
3-mth avg turnover (US\$m)	0.01

PRICE CHART



Source: Bloomberg

ANALYST

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FINANCIAL STATEMENTS

PROFIT & LOSS

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Net Turnover	1,855	1,971	2,039	2,110
EBITDA	34	37	40	44
Depreciation & Amortisation	(1)	(1)	(1)	(1)
EBIT	33	36	38	43
Other Income	1	1	1	1
Associate Contributors	1	0	0	0
Net Interest Income/(Expense)	2	2	3	4
Pre-tax Profit	36	38	41	46
Tax	(9)	(9)	(10)	(11)
Minorities	0	0	0	1
Net Profit	26	29	31	34
Net Profit (Adjusted)	26	29	31	34

CASH FLOW

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Operating	(34)	51	26	28
Pre-tax Profit	36	38	41	46
Tax	(9)	(9)	(10)	(11)
Depreciation & Amortisation	1	1	1	1
Associates				
Working Capital Changes	(62)	25	(6)	(7)
Other Operating Cashflows	1	(4)	0	(2)
Investing	(13)	(2)	(2)	(2)
Capex (Growth)	(1)	(2)	(2)	(2)
Investments	(12)	0	0	0
Others	0	0	0	0
Financing	(8)	(10)	(11)	(12)
Dividend Payments	(10)	(10)	(11)	(12)
Issue of Shares	0	0	0	0
Proceeds from Borrowings	0	0	0	0
Loan Repayment	0	0	0	0
Others/Interest Paid	2	0	0	0
Net Cash Inflow (Outflow)	(56)	39	14	14
Beginning Cash & Cash Equivalent	110	55	94	108
Changes Due to Forex Impact	0	0	0	1
Ending Cash & Cash Equivalent	55	94	108	123

Source: ECS UOB Kay Hian

BALANCE SHEET

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Fixed Assets	3	3	3	3
Other LT Assets	14	14	14	14
Cash/ST Investment	51	94	108	123
Other Current Assets	405	415	429	444
Total Assets	472	526	554	584
ST Debt	0	0	0	0
Other Current Liabilities	200	235	243	251
LT Debt	0	0	0	0
Other LT Liabilities	0	0	0	0
Shareholders' Equity	272	291	311	332
Minority Interest	0	0	0	1
Total Liabilities & Equity	472	526	554	584

KEY METRICS

Year to 31 Dec (%)	2017	2018F	2019F	2020F
Profitability				
EBITDA Margin	1.8	1.9	1.9	2.1
Pre-tax Margin	1.9	1.9	2.0	2.2
Net Margin	1.4	1.5	1.5	1.6
ROA	5.6	5.5	5.6	5.9
ROE	9.6	9.9	10.0	10.3
Growth				
Turnover	1.7	6.3	3.4	3.5
EBITDA	(15.8)	8.0	7.2	11.1
Pre-tax Profit	(11.7)	6.6	7.7	13.1
Net Profit	(12.9)	10.0	7.7	9.9
Net Profit (Adjusted)	(12.9)	10.0	7.7	9.9
EPS	(12.9)	10.0	7.7	9.9
Leverage				
Debt to Total Capital	0.0	0.0	0.0	0.0
Debt to Equity	0.0	0.0	0.0	0.0
Net (Debt)/Cash to Equity	(0.2)	(0.3)	(0.3)	(0.4)
Interest Cover (x)	n.a.	n.a.	n.a.	n.a.

Bloomberg Consensus

Recommendation	Buy	Sell	Hold	Valuation Ratios	12/16	12/17	12/18E	12/19E	
17/5/2018	50%	0%	50%	P/E	8.4	8.4	7.1	6.0	
Target Price			1.38	EV/EBIT	3.8	5.5	-	-	
Upside			15.0%	EV/EBITDA	3.7	5.3	4.5	4.1	
				P/S	0.1	0.1	0.1	0.1	
				P/B	1.0	0.8	-	-	
				Div Yield (%)	4.3	2.0	5.8	-	
Income Statement	12/16	12/17	12/18E	12/19E	Profitability Ratios (%)				
Revenue	1,823	1,855	1,971	2,039	Gross Margin	5.1	4.7	5.0	-
Gross Income	93	87	99	-	EBITDA Margin	2.1	1.7	1.9	2.0
Operating Income	37	31	36	38	Operating Margin	2.0	1.7	1.8	1.9
Pre-tax Income	40	36	38	41	Profit Margin	1.7	1.4	1.5	1.5
Net Income Adjusted	30	26	29	31	Return on Assets	6.5	5.4	5.5	5.6
EPS Adjusted	0.17	0.15	0.17	0.20	Return on Equity	12.2	9.9	9.9	10.0
Dividends Per Share	0.06	0.03	0.07	-					
Payout Ratio (%)	36	17	41	-					
EBITDA	39	32	37	40					

Peer Comparison

Company	Ticker	Share Price 17 May 18 (RM)	Market Cap (RM)	PE FY17 (x)	PE FY18F (x)	P/B FY17 (x)	P/B FY18F (x)	Yield FY18F (%)
DKSH Holdings Malaysia	DKSH MK	4.07	642	12.3	10.4	1.1	n.a.	n.a.
Yee Lee Corporation	YEE MK	2.23	427	10.8	9.8	0.7	n.a.	2.0
Average				11.6	10.1	0.9	n.a.	2.0
ECS ICT	ECS MK	1.20	216	8.2	7.1	0.8	n.a.	5.8

Source: Bloomberg

Technical View



Source: Bursa Station Professional

ECS ICT (ECS MK)

Technical BUY with +20.0% potential return

Last price : RM1.20

Target price : RM1.39, RM1.44

Support : RM1.10

Stop-loss : RM1.09

BUY with a target price of RM1.44 and stop-loss at below RM1.09. Based on the daily chart, ECS has penetrated the breakout level of RM1.21 on yesterday's movement. The uptick in the RSI suggests buying momentum is set to continue in the near term. This is supported by the MACD which is currently on bullish crossover method. An uptick in the +DI and the ADX lines means the stronger momentum is likely to push share price higher again. We expect the stock to continue trending upwards toward our targets at RM1.39 and RM1.44 in the near to medium term.

Expected Timeframe: 2 weeks to 3 months

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