

MONEY TALK

ECS ICT (ECS MK)

2Q18: Below Expectations; Ceasing Coverage

2Q18 RESULTS

Year to 31 Dec (RMm)	2Q18	qoq % chg	yoy % chg	1H18	yoy % chg
Turnover	358.2	(8.6)	(19.2)	750.0	(16.7)
ICT Distribution	253.6	(9.7)	(27.2)	534.4	(26.0)
Enterprise Systems	94.3	(7.6)	8.8	196.3	21.7
ICT Services	10.3	15.2	20.0	19.3	15.3
Gross Profit	18.2	(8.9)	(9.3)	38.1	(4.6)
Operating Profit	4.9	(9.0)	(19.3)	10.4	(15.1)
Finance Costs	0.0	n.m.	n.m.	0.0	n.m.
Pre-tax Profit	5.7	(2.4)	(14.9)	11.6	(12.8)
ICT Distribution	1.8	(28.2)	(52.3)	4.2	(46.1)
Enterprise Systems	3.3	21.3	58.4	6.0	61.2
ICT Services	0.2	(8.1)	32.8	0.4	50.8
Others	0.5	(1.2)	(39.7)	1.0	(33.3)
Tax	(1.4)	(2.2)	(15.4)	(2.9)	(15.2)
Core Net Profit	4.3	(2.4)	(14.7)	8.7	(12.0)
Margins (%)		+/- ppt	+/- ppt		
Gross	5.1	(0.0)	0.6	5.1	0.6
PBT	1.6	0.1	0.1	1.5	0.1
Net Profit	1.2	0.1	0.1	1.2	0.1

Source: ECS, UOB Kay Hian

- Below expectations.** ECS ICT (ECS) posted revenue of RM358m (-19.2% yoy, -8.6% qoq) and core net profit of RM4.3m (-14.7% yoy, -2.4% qoq) in 2Q18, bringing 1H18 core net profit to RM8.7m, representing only 30% of our full-year forecast. The lower sales and earnings were largely due to the slower market sentiments ahead of 14th General Election, although we believe sales pick-up in June due to the confirmation of tax holiday that will run from 1 Jun to 31 Aug.
- ICT distribution: Sluggish sales and margin erosion.** Sales from information and communication technology (ICT) distribution fell 27% yoy in 2Q18. The decline was due to lower sales of notebook and mobility products (tablets and smartphones). Consequently, PBT margin dropped 0.37ppt yoy to and 0.18 ppt qoq 0.7% in 2Q18. 2Q18 is the second consecutive quarter that ECS has recorded PBT margin below 1%, and 2Q18 PBT margin is also the worst since at least 1Q13.
- Enterprise: Impressive sales growth.** Sales of enterprise products rose 8.8% yoy on higher sales of servers, storage and networking. PBT rose 58.4% yoy on better product mix.
- The impact on consumer sentiment due to the reintroduction of the Sales and Services Tax (SST) on 1 Sep remains uncertain, particularly for ICT products. 2H18 outlook is challenging, especially since we suspect margin depression could persist moving forwards. Moreover, we do not expect the public sector's ICT spending to increase.**
- Cease coverage.** We cease coverage on ECS with our HOLD call maintained but lower target price to RM1.18 (previous: RM1.38), following our earnings revision (-12%/-14%/-9% for 2018/19/20F) and pegged to unchanged 8.0x 2019F PE. We expect its outlook to continue to be gloomy, and there is also a lack of catalysts to revive its sales growth. Downside is limited, supported by decent prospective yield of 4.9-5.1%. Entry price: RM0.95.

KEY FINANCIALS

Year to 31 Dec (RMm)	2016	2017	2018F	2019F	2020F
Net Turnover	1,823	1,855	1,742	1,779	1,914
EBITDA	41	34	32	33	39
Operating Profit	39	33	31	32	38
Net Profit (Reported/Actual)	30	26	25	27	31
Net Profit (Adjusted)	30	26	25	27	31
EPS (sen)	16.7	14.6	14.1	14.8	17.2
PE (x)	6.0	6.9	7.2	6.8	6.2
P/B (x)	0.7	0.7	0.6	0.6	0.6
EV/EBITDA (x)	1.8	3.8	2.2	1.7	1.3
Dividend Yield (%)	5.9	5.0	4.9	5.1	5.8
Net Margin (%)	1.7	1.4	1.5	1.5	1.6
Net Debt/(Cash) to Equity (%)	(43.0)	(18.5)	(39.0)	(41.3)	(41.2)
Interest Cover (x)	49.9	n.m.	n.m.	n.m.	n.m.
ROE (%)	11.8	9.6	8.8	8.7	9.5
Consensus Net Profit	-	-	29.3	30.9	34.0
UOBKH/Consensus (x)	-	-	0.85	0.87	0.91

Source: ECS, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM1.01
Target Price	RM1.18
Upside	+16.8%

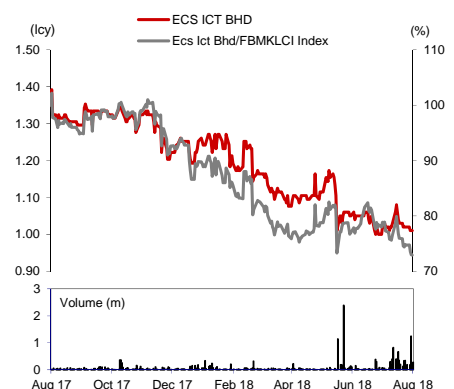
COMPANY DESCRIPTION

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)	181.0
Market cap (US\$m)	44.6
3-mth avg turnover (US\$m)	0.06

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	1,742	1,779	1,914
EBITDA	34	32	33	39
Depreciation & Amortisation	(1)	(1)	(1)	(1)
EBIT	33	31	32	38
Other Income	1	1	1	1
Associate Contributors	1	0	0	0
Net Interest Income/(Expense)	2	2	3	4
Pre-tax Profit	36	33	35	41
Tax	(9)	(8)	(8)	(9)
Minorities	0	0	0	1
Net Profit	26	25	27	31
Net Profit (Adjusted)	26	25	27	31

CASH FLOW

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Operating	(34)	68	25	19
Pre-tax Profit	36	33	35	41
Tax	(9)	(8)	(8)	(9)
Depreciation & Amortisation	1	1	1	1
Associates				
Working Capital Changes	(62)	46	(3)	(12)
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)	(9)	(9)	(11)
Dividend Payments	(10)	(9)	(9)	(11)
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)	58	14	6
Beginning Cash & Cash Equivalent	110	55	113	127
Changes Due to Forex Impact	0	0	0	1
Ending Cash & Cash Equivalent	55	113	127	134

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	113	127	134
Other Current Assets	405	366	374	403
Total Assets	472	496	518	554
ST Debt	0	0	0	0
Other Current Liabilities	200	207	212	228
LT Debt	0	0	0	0
Other LT Liabilities	0	0	0	0
Shareholders' Equity	272	289	306	325
Minority Interest	0	0	0	1
Total Liabilities & Equity	472	496	518	554

KEY METRICS

Year to 31 Dec (%)	2017	2018F	2019F	2020F
Profitability				
EBITDA Margin	1.8	1.8	1.9	2.0
Pre-tax Margin	1.9	1.9	1.9	2.2
Net Margin	1.4	1.5	1.5	1.6
ROA	5.6	5.1	5.1	5.6
ROE	9.6	8.8	8.7	9.5
Growth				
Turnover	1.7	(6.1)	2.1	7.6
EBITDA	(15.8)	(6.6)	4.3	17.3
Pre-tax Profit	(11.7)	(7.4)	4.9	19.4
Net Profit	(12.9)	(3.7)	5.2	16.3
Net Profit (Adjusted)	(12.9)	(3.7)	5.2	16.3
EPS	(12.9)	(3.7)	5.2	16.3
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)	(0.4)	(0.4)	(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	6.3	5.9
Target Price			1.38	EV/EBIT	3.8	5.5	-	-
Upside			15.0%	EV/EBITDA	3.7	5.3	2.7	2.5
				P/S	0.1	0.1	0.1	0.1
Income Statement	12/16	12/17	12/18E	12/19E	P/B	1.0	0.8	-
Revenue	1,823	1,855	1,933	1,979	Div Yield (%)	4.3	2.0	6.4
Gross Income	93	87	97	99				
Operating Income	37	31	36	38	Profitability Ratios (%)			
Pre-tax Income	40	36	39	41	Gross Margin	5.1	4.7	5.0
Net Income Adjusted	30	26	29	31	EBITDA Margin	2.1	1.7	1.9
EPS Adjusted	0.17	0.15	0.16	0.17	Operating Margin	2.0	1.7	1.9
Dividends Per Share	0.06	0.03	0.07	0.06	Profit Margin	1.7	1.4	1.5
Payout Ratio (%)	36	17	41	35	Return on Assets	6.5	5.4	5.9
EBITDA	39	32	37	40	Return on Equity	12.2	9.9	10.0

Peer Comparison

Company	Ticker	Share Price 9 Aug 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	3.90	615	11.8	10.0	1.1	n.a.	n.a.
Yee Lee Corporation	YEE MK	2.25	431	10.9	9.9	0.7	n.a.	1.6
Average				11.3	10.0	0.9	n.a.	1.6
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 SELL on strength with -10.9% potential downside

Last Price : RM1.01

Target Price : RM0.94, RM0.90

Resistance : RM1.08

Stop-loss : RM1.09

SELL on strength with a target price of RM0.90 and stop-loss at RM1.09. Based on the daily chart, ECS has formed a series of lower highs and lower lows that indicates a downtrend pattern. Currently, a selling signal is seen as the stock has been trading above the Ichimoku cloud. This is supported by the Heat Wave indicators - the Tenkan-sen line, Kinjun-sen line and Chikao span line – intercrossing each other, which suggests a bearish signal. The negative readings from the MACD and DMI suggest that the overall bearish bias remains intact.

Expected Timeframe: 2 weeks to 3 months

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