

**RESULTS REPORT**

08 May 2013

|                        |        |                               |             |
|------------------------|--------|-------------------------------|-------------|
| <b>ECS ICT Berhad</b>  |        | <b>Market Price:</b>          | RM1.15      |
|                        |        | <b>Market Capitalisation:</b> | RM207.0m    |
|                        |        | <b>Board:</b>                 | Main Market |
| <b>Recommendation:</b> | HOLD   | <b>Sector:</b>                | Technology  |
| <b>Target price:</b>   | RM1.24 | <b>Stock Code/Name:</b>       | 5162 / ECS  |

Analyst: Edmund Tham

**KEY FINANCIALS**

| Key Stock Statistics        | 2013E       |
|-----------------------------|-------------|
| Earnings/Share (sen)        | 18.2        |
| P/E Ratio (x)               | 6.3         |
| Net Dividend/Share (sen)    | 5.5         |
| NTA/Share (RM)              | 1.19        |
| Book Value/Share (RM)       | 1.19        |
| Issued Capital (mil shares) | 180.0       |
| 52-weeks share price (RM)   | 0.95 – 1.19 |
| 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          | 2010   | 2011   | 2012   | 2013E  |
|--------------------------|--------|--------|--------|--------|
| Book Value/Sh.(RM)       | 0.82   | 0.96   | 1.04   | 1.19   |
| Earnings/Sh.(sen)        | 16.1   | 16.7   | 16.6   | 18.2   |
| Net Dividend/Sh. (sen)   | 5.3    | 5.3    | 5.5    | 5.5    |
| Div. Payout Ratio (%)    | 33.2   | 31.8   | 33.2   | 30.3   |
| P/E Ratio (x)            | 7.2    | 6.9    | 6.9    | 6.3    |
| P/Book Value (x)         | 1.4    | 1.2    | 1.1    | 1.0    |
| Net Dividend Yield (%)   | 4.6    | 4.6    | 4.8    | 4.8    |
| ROE (%)                  | 19.6   | 17.5   | 15.9   | 15.2   |
| Net Gearing (or Cash)(x) | (0.12) | (0.39) | (0.39) | (0.38) |

\*Per Share figures adjusted for the 1-for-2 Bonus Issue

| P&L Analysis (RM mil)   | 2010   | 2011   | 2012   | 2013E  |
|-------------------------|--------|--------|--------|--------|
| <b>Year end: Dec 31</b> |        |        |        |        |
| Revenue                 | 1271.5 | 1250.7 | 1276.1 | 1319.5 |
| Operating Profit        | 41.1   | 40.8   | 39.0   | 42.1   |
| Depreciation            | (3.2)  | (1.6)  | (1.9)  | (0.8)  |
| Interest Expenses       | (1.9)  | (0.4)  | (0.0)  | (0.0)  |
| Pre-tax Profit (PBT)    | 39.4   | 40.9   | 40.3   | 43.5   |
| Effective Tax Rate (%)  | 26.3   | 26.4   | 25.8   | 24.8   |
| Net Profit (NPAT)       | 28.9   | 30.1   | 29.9   | 32.7   |
| Operating Margin (%)    | 3.2    | 3.3    | 3.1    | 3.2    |
| Pre-tax Margin (%)      | 3.1    | 3.3    | 3.2    | 3.3    |
| NPAT Margin (%)         | 2.3    | 2.4    | 2.3    | 2.5    |

\*RM0.50 par value; 2013 figures are our estimates

^listed in 2010

**PERFORMANCE – 1Q/FY13**

| 1Q/ 31 Mar | 1Q13  | 1Q12  | yov %  | 4Q12  | qoq%   |
|------------|-------|-------|--------|-------|--------|
| Rev (RMm)  | 320.3 | 305.4 | 4.9    | 333.5 | (4.0)  |
| EBIT (RMm) | 8.4   | 10.7  | (20.7) | 12.0  | (29.4) |
| NPAT (RMm) | 6.4   | 8.1   | (21.2) | 9.6   | (33.6) |
| EPS (sen)  | 3.5   | 4.5   | (21.2) | 5.3   | (33.6) |

\*EPS based on 180 million shares

\*NPAT=net profit after tax

ECS ICT's 1Q/FY13 results (for quarter ended 31<sup>st</sup> March 2013) were generally within our earlier expectations.

**“Q1 results – within expectations”**

During 1Q/FY13, the group recorded revenue of RM320.35 million and NPAT of RM6.4 million. Revenue was higher by 4.9% y-o-y while NPAT was lower by 21.2% y-o-y. The higher revenue was due to tablet and notebook PC sales. However, profits from Enterprise Systems were lower, which affected overall margins. The group's 4Q/FY12 profits from Enterprise Systems were exceptionally high due to a higher margin product mix then.

**“Lower margins from Enterprise Systems”**

Compared to the preceding 4Q/FY12, the group's revenue and NPAT were lower by 4.0% and 33.6%, respectively. As stated above, the lower NPAT figure was due to the lower profit margins from Enterprise Systems.

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## OUTLOOK/CORP. UPDATES

### “ICT sector growing”

IDC expects ICT spending in Malaysia to grow by a CAGR of 8% between 2011 and 2016, driven by growth in tablet PCs, enterprise networking, service provider equipment and Smartphone demand. As ECS ICT is the market leader in the local ICT distribution business sector, we expect the group to perform positively during 2013. IDC expects domestic ICT spending in 2013 to be up 7% from the ICT spending in 2012.

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, aided by the federal government's programmes such as the **Economic Transformation Plan** (ETP) and Government Transformation Plan (GTP).

Malaysia's official government figures show a forecasted 2013 GDP growth of 5.0%-6.0%. Bank Negara Malaysia (BNM) has still maintained its accommodative overnight policy rate (OPR) at 3.0%. Nevertheless, the weak external environment (particularly in the US and Europe) has resulted in less than stellar export numbers. The cautious consumer and business sentiment has probably slowed the growth rate of ICT spending in Malaysia during 2012.

### “Growth catalysts – Cloud Computing & Mobility Products”

ECS ICT is looking at Cloud Computing and Mobility Products (tablets and smartphones) to be growth catalysts in 2013. The group had secured a number of new distributorships in 1Q/FY13 – involving Lenovo Smartphones, Samsung mobility devices (for the enterprise market), Microsoft Surface RT tablet PCs (the Surface Pro variant will be launched in June 2013), IBM's enterprise cloud computing

solutions. Cloud computing is said to be already quite popular in markets such as Japan, Hong Kong and Singapore.

Earlier on, the group had started to offer Huawei's Ascend P1 smartphone. The group had also signed a deal with CA Technologies to distribute its data management services in Malaysia. Meanwhile, the group is well-positioned in the **Ultrabook** market with its stable of notable Ultrabook brands for distribution, such as Asus, HP, Dell and Lenovo.

ECS ICT is recording steady growth in its sales of **Tablet PCs** (brands such as Apple, Samsung, Asus and Lenovo). According to GfK's market survey, Malaysia is the largest market for Tablet PCs in Southeast Asia, with USD374 million worth of sales in 2011. GfK says that Tablet PC sales in 2012 went up by an incredible 114% (more than double up). IDC expects Tablet PC sales to grow further by 17.7% to USD664 million.

We are well aware that the **Smartphone** market is enjoying brisk sales. According to Nielsen's market research in May 2012, nearly 60% of Malaysian mobile phone users were likely to upgrade their phones before the end of 2012 and that 80% of these were likely to purchase a Smartphone. IDC projects that Smartphone spending in Malaysia will reach USD2.1 billion in 2013 (up by 30.3%). The Smartphone penetration rate in Malaysia is said to be around 27%, meaning that there is still much room for growth in market size. Furthermore, the Malaysian federal government is providing a RM200 rebate for youngsters to buy Smartphones.

## VALUATION/CONCLUSION

### “Final Dividend payable soon”

Earlier on, the group's Board of Directors (BOD) had declared a single tier interim dividend of 6% or 3 sen per share of 50 sen each for its FY12 ending 31<sup>st</sup> December 2012. This

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dividend was duly paid out in December 2012. The group's shares will trade ex its FY12 final dividend (2.5 sen single tier) on 29<sup>th</sup> May 2013. This dividend would be payable on 14<sup>th</sup> June 2013. For 2013, we expect the group's dividend payout to be at least 30% of its net earnings.

With its recent price surge, ECS (+10.6% YTD) has **outperformed the KLCI** (+5.0% YTD) in 2013. During the past year, global equity markets have been impacted by events such as the "sovereign debt" situation in Europe, the "debt ceiling" and "fiscal cliff" issues 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. Nevertheless, the **completed 1-for-2 bonus issue** would have improved the stock's liquidity somewhat.

#### "Maintain Hold Call"

Based on our cautious forecast of ECS' FY13 EPS and estimated P/E of 6.8 times, we set a **FY13-end Target Price (TP) of RM1.24**. This TP represents a Hold Call and is 7.8% higher than the market price on the date of this report. Our TP for ECS reflects a P/BV of 1.04 times over its FY13F BV/share.

Our TP and Hold Call takes into account the stock's **price movement** during the year and also our **cautious view on the overall macroeconomic environment**. We might upgrade our Call on the group once it sustains a **stronger earnings growth** performance.

ECS ICT is **well placed to maintain its market leadership position** – given its growing portfolio 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 very negligible borrowings.

Typical for any ICT business, ECS' future earnings performance could be affected by – possible fluctuations in economic conditions, business and consumer sentiment. Possible 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 low market acceptance level of various ICT products.

#### ECS: Share Price



Source: NextView

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