

**1Q FYE MAR 2018 RESULTS REPORT**

**21 August 2017**

|  |                |   |        |
|--|----------------|---|--------|
| <b>Name of PLC:</b> ELK-Desa Resources Bhd   |                | <b>PLC Website:</b> www.elk-desa.com.my |        |
| <b>Business Summary:</b> Involved in hire purchase financing for used motor vehicles, insurance agency business and furniture business |                |   |        |
| <b>Substantial Shareholders:</b> Teoh Hock Chai @ Tew Hock Chai and deemed interest  |                | 30.18%                                  |        |
| Amity Corporation Sdn Bhd  |                | 6.58%                                   |        |
| <b>Market / Sector:</b>  | Main / Finance | <b>Stock Code:</b>                      | 5228   |
|  |                | <b>Bloomberg Ticker:</b>                | ELK:MK |
| <b>Market Capitalisation:</b>  | RM 269.7 m     | <b>Recommendation:</b>                  | HOLD   |
| <b>Target Price:</b>   | RM 1.17        | <b>Expected Capital Gain:</b>           | -      |
| <b>Current Price:</b>  | RM 1.16        | <b>Expected Div Yield:</b>              | 5%     |
|  |                | <b>Expected Total Return:</b>           | -      |
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| <b>Key Stock Statistics</b>     | <b>2016</b> | <b>2017</b> | <b>2018F</b> | <b>2019F</b> |
|---------------------------------|-------------|-------------|--------------|--------------|
| Fully Diluted EPS (sen)         | 10.76       | 9.99        | 7.98         | 8.48         |
| P/E (x)                         | 11.16       | 12.01       | 15.03        | 14.16        |
| Net Dividend/Share (sen)        | 6.75        | 6.75        | 6.00         | 6.00         |
| NTA/Share (RM)                  | 1.84        | 1.45        | 1.17         | 1.26         |
| Book Value/Share (RM)           | 1.84        | 1.45        | 1.17         | 1.26         |
| Issued Capital (mil shares)     | 174.65      | 230.30      | 306.14       | 306.14       |
| 52-weeks Share Price Range (RM) | 1.12 - 1.26 |             |              |              |
| Estimated free float            |             |             |              | 60%          |
| Average volume (shares)         | 188,000     |             |              |              |

| <b>Per Share Data</b>     | <b>2016</b> | <b>2017</b> | <b>2018F</b> | <b>2019F</b> |
|---------------------------|-------------|-------------|--------------|--------------|
| Year-end 31 Mar           |             |             |              |              |
| Book Value (RM)           | 1.84        | 1.45        | 1.17         | 1.26         |
| Operating Cash Flow (sen) | 5.73        | (20.64)     | 4.76         | 6.24         |
| EPS (sen)                 | 10.76       | 9.99        | 7.98         | 8.48         |
| Net Dividend/Share (sen)  | 6.75        | 6.75        | 6.00         | 6.00         |
| Payout Ratio (%)          | 72.60       | 67.60       | 75.14        | 70.79        |
| P/E (x)                   | 11.16       | 12.01       | 15.03        | 14.16        |
| P/Cash Flow (x)           | 20.95       | (5.81)      | 25.22        | 19.23        |
| P/Book Value (x)          | 0.65        | 0.83        | 1.02         | 0.96         |
| Dividend Yield (%)        | 5.63        | 5.63        | 5.00         | 5.00         |
| ROE (%)                   | 6.47        | 7.02        | 7.06         | 6.98         |
| Net Gearing (%)           | n.c.        | n.c.        | n.c.         | n.c.         |

*n.c. - net cash*

| <b>P&amp;L Analysis (RM mil)</b> | <b>2016</b> | <b>2017</b> | <b>2018F</b> | <b>2019F</b> |
|----------------------------------|-------------|-------------|--------------|--------------|
| Revenue                          | 64.17       | 94.49       | 97.78        | 102.63       |
| EBITDA                           | 25.97       | 30.80       | 32.49        | 34.49        |
| Depreciation                     | (0.45)      | (0.58)      | (0.58)       | (0.60)       |
| Net Interest Income              | (0.20)      | 0.34        | 0.25         | 0.25         |
| Pre-tax Profit                   | 25.32       | 30.57       | 32.16        | 34.14        |
| Net Profit                       | 18.79       | 23.00       | 24.44        | 25.95        |
| EBITDA Margin (%)                | 40.47       | 32.60       | 33.23        | 33.60        |
| Pre-tax Margin (%)               | 39.47       | 32.35       | 32.89        | 33.26        |
| Net-Margin (%)                   | 29.28       | 24.34       | 25.00        | 25.28        |

**1. 1Q FY18 Results Highlight**

|                      | <b>1Q FY18</b> | <b>1Q FY17</b> | <b>Chg</b> |
|----------------------|----------------|----------------|------------|
|                      | <b>RMm</b>     | <b>RMm</b>     | <b>%</b>   |
| Revenue              | 25.57          | 21.99          | 16         |
| Other Income         | 0.22           | 0.71           | (69)       |
| Impairment Allowance | 6.61           | 4.42           | 50         |
| Other Expenses       | 6.52           | 6.08           | 7          |
| Pre-tax Profit       | 6.90           | 7.48           | (8)        |
| Net Profit           | 5.05           | 5.50           | (8)        |
| Pre-tax Margin (%)   | 27.0           | 34.0           | (21)       |
| Net Margin (%)       | 19.7           | 25.0           | (21)       |

- The Company's 1QFY18 revenue increased 16% year-on-year (“yoy”) to RM25.57m on the back of higher revenue growth from both the hire purchase and furniture segments. However, net profit for the quarter dropped 8% yoy to RM5.05m mainly due to a 50% jump in impairment allowance.
- For HP segment, revenue grew 15% yoy to RM17.64m this quarter, but PBT was dragged 7% lower to RM6.87m by the increase in impairment allowance. The higher provisioning is attributed to higher delinquent accounts and cost of debt recoveries.
- The furniture segment recorded a 20% yoy improvement in revenue to RM7.94m. PBT over the same period declined 60% yoy, also due to higher provisioning. Contribution to Group revenue and earnings remain insignificant at this stage.
- For quarter-on-quarter (“qoq”) performance, Group revenue increased 3% from the last quarter’s revenue of RM24.85m while net profit showed a 21% decline from RM6.42m registered in the preceding quarter.

## 2. Earnings Outlook

1QFY18's net profit only made up 21% of our full year forecast. We are however maintaining our earnings forecast for now on expectations of continued topline growth in HP segment and lower provisions going forward given that the macroeconomic outlook remains positive.

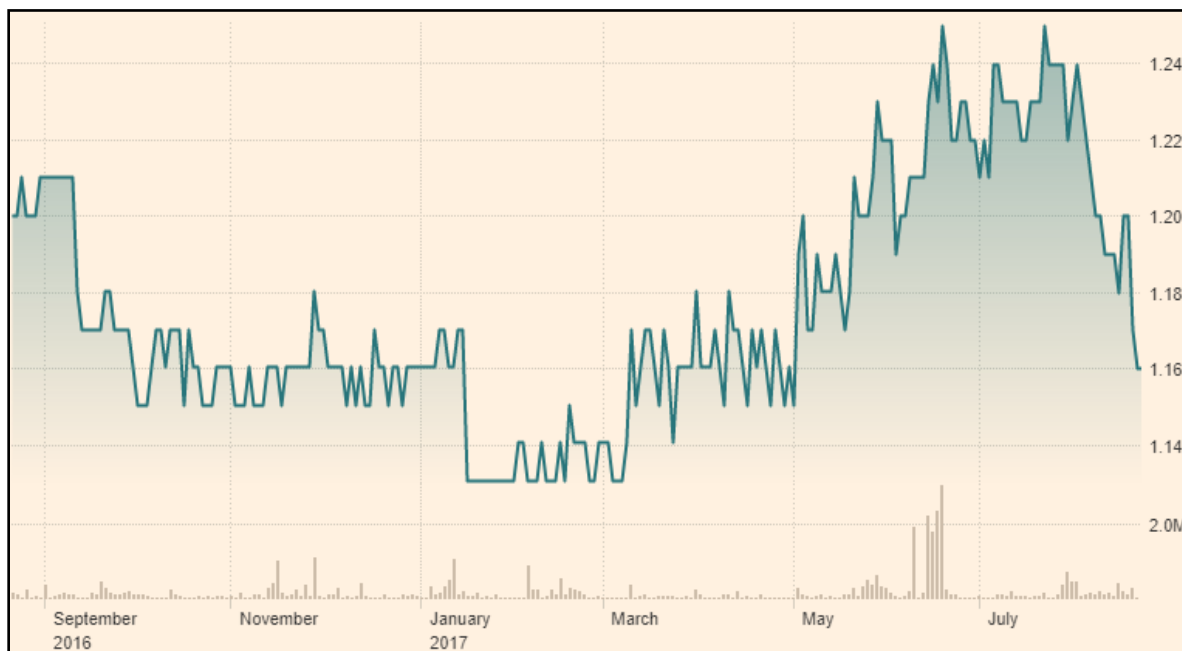
The latest second quarter GDP growth figure of 5.8% indicates that Malaysia's economy is on the uptick again, driven by healthy domestic consumption growth. The improving economic outlook bodes well for the overall local motor vehicle industry going forward. As such, we expect the Company to continue benefitting from the steady demand for its hire purchase facilities.

We believe the Company has significant room for growth given that the business segment that the Company is currently operating in is still relatively small as compared to the overall auto financing industry. However, the earnings growth for the Company to a large extent will depend on the how aggressive management wants to grow its HP portfolio. As it stands, ELK-Desa is still being managed very conservatively, with the growth of its HP book being funded primarily by shareholders' equity.

## 3. Valuation and Recommendation

We are maintaining a HOLD recommendation on the stock with an unchanged price target of RM1.17 based on a current year P/BV of 1x. While P/E valuations are relatively high, we are positive on the Company's longer term prospects. It is the leading player in its niche hire purchase segment, is able to sustain healthy profit margins and is prudent in terms of managing credit risk. The forecast dividend yield of about 5% will continue to underpin the share price at current levels.

### Share Price Chart



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**Disclosures/Disclaimer**

Investment ratings:

Buy (generally >10% upside over the next 12 months)

Hold (generally negative 10% downside to positive 10% upside over the next 12 months)

Sell (generally >10% downside over the next 12 months)

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