

1Q FYE MAR 2019 RESULTS REPORT

17 August 2018

Name of PLC: ELK-Desa Resources Bhd (ELKD)		PLC Website: www.elk-desa.com.my	
Business Summary: Involved in hire purchase financing for used motor vehicles, insurance agency business and furniture business			
Top Three Shareholders: Teoh Hock Chai@ Tew Hock Chai		30.5%	
Dr Yeong Cheong Thye@ Yeong Yue Chai		8.7%	
Market / Sector:	Main / Finance	Stock Code:	5228
		Bloomberg Ticker:	ELK MK
Market Capitalisation:	RM 347.3m	Recommendation:	BUY
Target Price:	RM 1.42	Expected Capital Gain:	19.3%
		Expected Div Yield:	5.7%
Current Price:	RM 1.19	Expected Total Return:	25.0%
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Key Stock Statistics	2017	2018	2019F	2020F
EPS (sen)	10.0	8.7	9.6	10.7
P/E (x)	11.9	13.7	12.4	11.2
EPS ex-EI (sen)	10.0	8.7	9.6	10.7
P/E ex-EI (x)	11.9	13.7	12.4	11.2
Net Dividend/Share (sen)	6.8	6.8	6.8	6.8
NTA/Share (RM)	1.45	1.33	1.42	1.53
Book Value/Share (RM)	1.45	1.33	1.42	1.53
Issued Capital (mil shares)	230.3	298.4	298.4	298.4
52-weeks Share Price Range (RM)				1.14-1.25
Estimated free float				38.2%
Average volume (shares)				130,340

Per Share Data	2017	2018	2019F	2020F
Year-end 30 Sept				
Book Value/Share (RM)	1.45	1.33	1.42	1.53
Operating CF/Share (sen)	(20.6)	(8.6)	(3.0)	4.4
EPS (sen)	10.0	8.7	9.6	10.7
Net Dividend/Share (sen)	6.8	6.8	6.8	6.8
P/E (x)	11.9	13.7	12.4	11.2
P/Cash Flow (x)	(5.8)	(13.8)	(40.4)	26.9
P/Book Value (x)	0.82	0.90	0.84	0.78
Dividend Yield (%)	5.7	5.7	5.7	5.7
Payout Ratio (%)	67.6	77.7	70.2	63.4
ROE (%)	7.0	7.1	6.7	6.8
Net Gearing (%)	3.4	0.7	1.1	-3.0

P&L Analysis (RM mil)	2017	2018	2019F	2020F
Revenue	94.5	104.1	110.4	120.0
EBITDA	30.8	38.4	40.4	44.3
Depreciation & amort	(0.6)	(0.6)	(0.6)	(0.6)
Pre-tax Profit	30.6	35.3	37.7	41.8
Net Profit	23.0	25.9	28.6	31.8
EBITDA Margin (%)	32.6	36.9	36.6	37.0
Pre-tax Margin (%)	32.4	33.9	34.2	34.9
Net-Margin (%)	24.3	24.9	25.9	26.5

1. 1QFY19 Results Highlight

	1Q FY19	1Q FY18	Chg
	RMm	RMm	%
Revenue	28.8	25.6	12.7
Impairment Allowance	(3.9)	(6.6)	(40.7)
Finance cost	(0.7)	(0.6)	
Pre-tax Profit	10.7	6.9	55.4
Net Profit	8.1	5.1	59.8
Core Profit without Impairment	11.0	9.9	11.5
Pre-tax Margin (%)	37.2	27.0	
Net Margin (%)	28.0	19.7	
Core Margin (%)	38.2	38.7	

- The Company's 1QFY19 revenue improved 12.7% y-o-y to RM28.8m while net profit jumped by 59.8% y-o-y to RM8.1m. The good set of results is attributable to both Hire Purchase (HP) and furniture division. Stripping off forex gains and impairment allowance, its core margin remains stable at 38.2% as compared to 38.7% while the y-o-y growth of 11.5% in core profit was in tandem with revenue growth.
- For HP segment, revenue grew 13.2% y-o-y to RM20.0m as HP receivables registered notable growth of 18.1% y-o-y from RM349.6m to RM412.8m. PBT surged by 54.3% y-o-y to RM10.6m as impairment allowance reduced by 40.7% y-o-y.
- As for furniture segment, its revenue grew 11.6% y-o-y to RM8.9m due to higher local sales. PBT registered further growth of 186.0% y-o-y due to higher sales and lower impairment allowance, despite GP margin narrowing from 36.4% to 35.5% on the back of higher costs.

	1Q FY19	4Q FY18	Chg
	RMm	RMm	%
Revenue	28.8	27.7	4.1
Impairment Allowance	(3.9)	(4.5)	(12.7)
Finance cost	(0.7)	(0.7)	
Pre-tax Profit	10.7	10.8	(0.7)
Net Profit	8.1	7.9	2.0
Core Profit without Impairment	11.0	11.2	(1.6)
Pre-tax Margin (%)	37.2	39.0	
Net-Margin (%)	28.0	28.6	
Core Margin (%)	38.2	40.4	

- On q-o-q basis, the Company's revenue grew 4.1% driven largely by furniture segment, which grew 5.9% as compared to HP segment of 3.3%. PBT declined marginally by 0.7% q-o-q due to a 58.8% q-o-q decline in furniture's PBT as a result of higher cost. Net profit improved marginally by 2.0% q-o-q on lower effective tax rate of 24.7% as compare to 26.8% in 4QFY18.
- No dividend was proposed during the quarter as expected. However, a single tier final dividend of 3.5sen for FY18 was approved at the last AGM recently (ex-date is 3 September 2018), bringing total dividends to 6.75sen/share for FY18. This translates to an attractive dividend yield of 5.7% at current price.
- The group's 1QFY19 net profit of RM8.1m came in slightly ahead of our expectations, making up 28.1% of our full year estimate of RM28.6m. We take note of this, and will monitor the Group's performance in the coming quarters. If topline momentum is sustained and impairment allowance sustains on this improved trend, we may look to revise our forecast upwards. For now, we are maintaining our earnings forecast.

2. Earnings Outlook

- In near to medium term, we believe the Company will continue to do well, especially given the new coverage area of growth. We believe net receivables will continue to trend higher underpinned by management's direction to expand its HP portfolio. The net gearing of the Company is near to net cash position hence its balance sheet is able to support this expansion. For now, we are projecting annual HP disbursements of RM200m and RM240m for FY19-20E. Correspondingly, we assume net HP receivables of RM460m and RM530m for FY19-20E respectively. We also project a low single digit revenue and net profit growth for furniture segment for the next 2 years. We maintain our earnings estimates of RM28.6m and RM31.8m for FY19-20E.

3. Valuation and Recommendation

- Despite its high PER valuation, we continue to like ELK Desa due to its sustainable HP growth as well as its attractive dividend yield. In addition, its management is highly experienced, the market potential is still vast and largely untapped, and the stock's financial ratios will likely exhibit improvement in the coming years as more leverage is employed in expanding its business. We also believe that management has a long-term growth strategy in place. We maintain our BUY recommendation and TP of RM1.42 based on unchanged 1x P/BV ratio.

Share Price Chart**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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