

**RESULTS UPDATE**

FBMKLCI: 1,440.11  
Thursday, August 24, 2023  
Sector: Finance

THIS REPORT IS STRICTLY FOR INTERNAL CIRCULATION ONLY\*

# Elk-Desa Resources Bhd

Lower YoY Net Profit

**TP: RM1.23** (-1.6%)

Last Traded: RM1.25

**SELL (ESG: ★★★)**

Li Hsia Wong

Tel: +603-2167-9610

liwong@ta.com.my

www.taonline.com.my

## Review

- Elk-Desa reported softer YoY results with IQFY24 net profit falling by 52% YoY to RM8.5mn, underpinned by an impairment allowance of RM7.1mn YTD. Despite that, Elk-Desa's results came within our expectations, with net profit accounting for 21% of our full-year forecast.
- QoQ, the group's net profit improved by 13.4% due to a decline in the cost of inventories sold and other expenses. However, this sequential improvement was muted by a 2.8% decline in revenue and a 1.3% increase in finance costs.
- YoY, the 3M revenue grew by 0.6% due to better contributions from the hire purchase segments (+8.9% YoY), which helped to cushion the decline reported in the furniture segment (-14.1% YoY). Although the sale of furniture declined, the segment's gross profit margin increased from 36% in IQFY23 to 37% in IQFY24 due to lower freight charges.
- YoY revenue from the hire purchase segment remained buoyant due to an increase in the hire purchase portfolio. According to management, the hire purchase receivables widened by some 14% YoY to RM574.7mn as of 30 June 2023.
- Overall operating expenses expanded YoY due to higher operating and staff costs. This translates to a cost-to-income ratio of around 29%. The segment's 3M PBT, however, fell by almost half to RM12.7mn vs RM23.6mn in IQFY23, attributed to an impairment allowance vs a reversal of RM5.3mn recorded a year ago.
- As such, the credit loss charge increased to 1.18% compared to a reversal of the credit loss charge of 1.01% last year. To recap, management noted that the reversal was underpinned by a recovery in activities and an improvement in the repayment trend, thus leading to a significant reduction in the non-performing accounts. With that, the net impaired loans ratio deteriorated to 2.25% as of 30 June 2023 from 1.92% as of 31 March 2023.
- Within expectations, the group's bank borrowings increased by 59%, attributed to the higher drawdown of block discounting facilities to support the increase in hire purchase receivables. With that, Elk-Desa's gearing levels has also risen to 0.52x vs 0.33x a year ago.

## Impact

- No change to our earnings estimates.

## Outlook

- Although we anticipate that the overall demand for used-car hire purchase financing will remain robust, the strong growth experienced in FY23 has moderated. Nevertheless, ELK-Desa is committed to gradually increasing its hire purchase receivables portfolio to pre-pandemic levels.

## Share Information

Bloomberg Code	ELK MK
Stock Code	5228
Listing	Main Market
Share Cap (mn)	454.8
Market Cap (RMmn)	577.6
52-wk Hi/Lo (RM)	1.28/0.873
12-mth Avg Daily Vol ('000 shrs)	127.8
Estimated Free Float (%)	37.0
Beta	0.38

## Major Shareholders (%)

Eng Lee Kredit - 32.2%  
Amity Corp - 4.9%

## Forecast Revision

	FY24	FY25
Forecast Revision (%)	-	-
Net profit (RMmn)	41.2	43.0
Consensus	42.6	45.5
TA's / Consensus (%)	89.4	89.4
Previous Rating	Hold (Downgraded)	
Consensus Target Price (RM)	1.22	

## Scorecard (%)

vs TA	21	Within
vs Consensus	20	Within

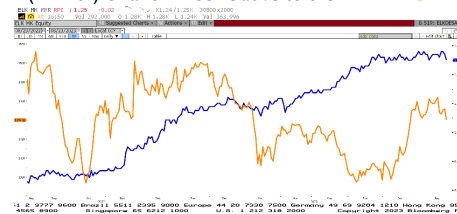
## Financial Indicators

	FY24	FY25
Net Debt / Equity (%)	40.7	45.6
CFPS (sen)	(5.2)	(1.5)
Price / CFPS (x)	(24.6)	(85.1)
ROA (%)	5.4	5.3
NTA/Share (RM)	1.1	1.1
Price/NTA (x)	1.2	1.1

## Share Performance (%)

	ELK	FBM KLCI
Price Change		
1 m th	(3.1)	1.9
3 m th	2.8	2.0
6 m th	13.7	(1.2)
12 m th	45.9	(2.9)

## (12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

- The YoY increase in impairment allowances aligns with our expectations that credit charge trends are returning to normal. Management remains vigilant regarding potential downside risks, including the rising cost of living and constrained disposable incomes, particularly within the M40 and B40 segments, which could impact borrowers' ability to meet their obligations.
- In the furniture segment, ELK-Desa is intent on sustaining organic growth through the domestic wholesale market. Currently, the company distributes its furniture products to over 800 furniture retailers across Malaysia, emphasising Sabah and Sarawak. Additionally, the group is actively seeking higher-quality yet affordable furniture options to address potential constraints on consumers' disposable incomes.

### Valuation

- Tagging a 15% discount to Malaysia's average NBFI (such as AEON Credit and RCE Capital) P/B ratio of 1.35x due to Elk-Desa's smaller market cap, we maintain the stock's fair value at RM1.23/share. Given that the risk-reward potential has narrowed, we downgrade our recommendation on the stock from hold to SELL.

**Table 1: Earnings Summary (RMmn)**

FYE Mar (RMmn)	2022	2023	2024F	2025F	2026F
Revenue	128.89	155.24	171.73	184.27	197.74
Gross profit	99.57	121.33	134.11	143.64	153.86
EBITDA	49.89	77.56	83.53	88.14	93.30
EBITDA margin (%)	38.71	49.96	48.64	47.83	47.18
EBIT	47.19	74.89	76.33	81.61	87.26
PBT	34.89	63.31	54.23	56.62	59.92
PAT	25.77	47.74	41.21	43.03	45.54
Core profit	25.77	47.74	41.21	43.03	45.54
Core EPS (sen)	8.50	10.50	9.06	9.46	10.01
PER (x)	14.94	12.10	14.01	13.42	12.68
Gross dividend (sen)	5.25	6.50	6.00	6.25	6.25
Dividend yield (%)	4.13	5.12	4.72	4.92	4.92
ROE (%)	5.80	10.39	8.59	8.66	8.85

**Table 2: IQFY24 Results Analysis (RMmn)**

FYE 31 Mar (RM mn)	1QFY23	4QFY23	1QFY24	QoQ	YoY	YTD FY23	YTD FY24	YoY
Revenue	39.0	40.3	39.2	(2.8)	0.6	39.0	39.2	0.6
Other income	0.5	0.3	0.5	47.4	(9.7)	0.5	0.5	(9.7)
Cost of inventories sold	(9.3)	(8.7)	(7.8)	(10.1)	(15.6)	(9.3)	(7.8)	(15.6)
Depreciation of PPE & ROU assets	(0.7)	(0.6)	(0.6)	2.0	(4.7)	(0.7)	(0.6)	(4.7)
Impairment allowance	5.3	(7.1)	(7.1)	(0.4)	(234.3)	5.3	(7.1)	(234.3)
Other expenses	(9.7)	(11.7)	(10.4)	(10.7)	6.9	(9.7)	(10.4)	6.9
Finance costs	(1.7)	(2.6)	(2.6)	1.3	55.0	(1.7)	(2.6)	55.0
Profit before taxation	23.4	10.0	11.1	11.6	(52.5)	23.4	11.1	(52.5)
Taxation	(5.8)	(2.5)	(2.6)	6.0	(54.9)	(5.8)	(2.6)	(54.9)
Net profit	17.6	7.5	8.5	13.4	(51.7)	17.6	8.5	(51.7)

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### Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.  
**HOLD** : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.  
**SELL** : Total return is lower than the required rate of return.  
**Not Rated:** The company is not under coverage. The report is for information only.

**Total Return** is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

**Required Rate of Return** of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

### ESG Scoring & Guideline

	Environmental	Social	Governance	Average
<b>Scoring</b>	★★★	★★★	★★★	★★★
<b>Remark</b>	The company has made notable efforts in reducing its environmental footprints and emissions by managing natural resources efficiently.	Providing low-interest financing for used car buyers who are generally underserved by mainstream financial institutions. While not obligated to, Elk-Desa took steps to alleviate borrowers' burdens, such as waiving overdue interest during the first year of MCO.	There is reasonable oversight in place. The workforce is well-balanced in terms of gender, ethnicity, and age groups. However, the BOD and upper management level still lacks the diversity in terms of gender. Elk-Desa is committed to upholding its 60% dividend policy.	

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.  
 ★★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions.  
 ★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions.  
 ★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.  
 ★ (<20%) : Minimal or no integration of ESG factors in operations and management.

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As of Thursday, August 24, 2023, the analyst, Li Hsia Wong, who prepared this report, has interest in the following securities covered in this report:  
 (a) nil

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**Kaladher Govindan – Head of Research**

TA SECURITIES HOLDINGS BERHAD (14948-M)

A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048  
 www.ta.com.my