



# Malaysia Results Review

16 August 2024

Financial Services | Diversified Financial Services

## ELK-Desa Resources (ELK MK)

**Neutral** (from Sell)

### Poised For Continued Growth; U/G To NEUTRAL

Target Price (Return): MYR1.10 (-9.1%)  
 Price (Market Cap): MYR1.21 (USD124m)  
 ESG score: 3.1 (out of 4)  
 Avg Daily Turnover (MYR/USD) 0.13m/0.03m

- **Upgrade to NEUTRAL from Sell, new MYR1.10 TP from MYR1.05, c.5% FY25F (Mar) yield.** ELK-Desa Resources' 1QFY25 results missed on the back of higher-than-expected credit costs, which we think was partly influenced by seasonal factors. With its strong receivables growth momentum, and potential benefits from the civil service wage revision and stronger MYR, things could be heading in the right direction for the group. However, we think that at 1.1x P/BV vs c.9% ROE, the current valuation looks rather pricey for entry.
- **Results review.** ELK's 1QFY25 net profit of MYR8.1m (-4% YoY, -16% QoQ) came up short against expectations, forming 20% of our and consensus' full-year estimates. The key deviation from our numbers mainly came from higher-than-expected impairment allowances (+40% YoY, +33% QoQ). YoY, PIOP was a strong +15% YoY, after a decent 17% growth in revenue (stronger contributions from both operating segments) and positive JAWs from good cost controls (opex +13% YoY). However, PIOP growth was a more muted 2% on a QoQ basis, as revenue growth was negative off a high base. All in, 1QFY25 ROE stood at 6.8% (1QFY24: 7.3%, 4QFY24: 8.1%).
- **Receivables growth momentum is still strong.** Management aims to keep hire purchase receivables growth at 10-15% YoY in FY25. We think this is possible given the group's track record and appetite, while the impending revision to civil servants' salaries could also provide a boost to growth, though civil servants currently form a small portion of the group's receivables book. Net gearing remains at a low 0.5x, and management is willing to gear up further to the lower end of its peers' 1.6-3.2x range to support growth.
- **Higher credit costs.** 1QFY25 credit costs of 5.7% was above management's expectations – we think this could be partly seasonal, and to a certain extent, a consequence of the strong receivables growth during the quarter. Nevertheless, management aims to keep credit costs at 3.75-4% in FY25. On a more positive note, the net impaired loans ratio continued on its downtrend, landing at 0.52% in 1QFY25 (4QFY24: 0.56%, 1QFY24: 2.25%).
- **Furniture segment – growing eastwards.** The furniture segment recorded revenue of MYR15.2m, up 22% YoY (-8% QoQ off a record-high base). We gather that the group has been gaining traction in East Malaysia – in line with its strategic focus. It also notes that inventory costs are on the rise, but the recent strengthening of the MYR should allow it to maintain gross margins at 35-36% (c.30% of inventory is purchased in USD terms).
- **FY25/26/27F forecasts lowered by 5%/4%/1%** as we factor in higher credit cost assumptions. However, we raise our TP to MYR1.10 from MYR1.05 after rolling forward our valuation year to CY25 and updating our cost of equity for the latest house macros. Our TP includes a 2% ESG premium.

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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(3.2)	(4.7)	(5.5)	(1.6)	(4.7)
Relative	(14.1)	(3.7)	(6.1)	(7.1)	(15.2)
52-wk Price low/high (MYR)	1.18 – 1.35				

ELK-Desa Resources (ELK MK)



Source: Bloomberg

#### Overall ESG Score: 3.1 (out of 4)

##### E: GOOD

ELK-Desa financing has low exposure to high-environmental-risk sectors, as it mainly finances the purchases of used vehicles. It reported a YoY decline in its GHG emissions in FY24, and is continually investing in solar power generators for use in its Kuala Lumpur headquarters to reduce reliance on purchased electricity. The group will also look to enhance its emissions data collection to ensure more accurate data is presented in its annual reports.

##### S: GOOD

Each used vehicle financed is subject to mandatory inspection prior to approval, to ensure safety of customers. Most of the hire purchase division's customers come from B40/lower-M40 backgrounds. The division is also well diversified, comprising of 74% females and a balanced ethnicity split (HP division only). The company has comprehensive plans in place to ensure workplace safety, health and wellbeing are safeguarded at all times.

##### G: EXCELLENT

The company has in place policies and a framework to ensure ethical business, integrity, and transparency are practiced, as well as a whistleblowing programme. Board member responsibilities are revised and published annually. The board meets around 5 times a year.

Forecasts and Valuation	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Reported net profit (MYRm)	48	37	39	45	48
Net profit growth (%)	85.4	(23.2)	7.2	12.9	8.1
Recurring net profit (MYRm)	48	37	39	44	48
Recurring EPS (MYR)	0.10	0.08	0.09	0.10	0.11
BVPS (MYR)	1.04	1.06	1.11	1.15	1.19
DPS (MYR)	0.05	0.05	0.05	0.06	0.07
Recurring P/E (x)	11.53	15.01	14.01	12.41	11.47
P/B (x)	1.17	1.14	1.09	1.05	1.02
Dividend Yield (%)	4.1	4.1	4.4	5.0	5.4
Return on average equity (%)	10.4	7.7	8.0	8.7	9.0

Source: Company data, RHB

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## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>					
Malaysia	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F	
Financial Services	EPS	0.11	0.08	0.09	0.10	0.11
<b>ELK-Desa Resources</b>	Recurring EPS	0.10	0.08	0.09	0.10	0.11
ELK MK	DPS	0.05	0.05	0.05	0.06	0.07
Neutral	BVPS	1.04	1.06	1.11	1.15	1.19
<b>Valuation basis</b>						
GGM-derived intrinsic value with zero ESG overlay. Key GGM assumptions are:						
i. Cost of equity of 8.8%;						
ii. Sustainable ROE of 8.5%; and						
iii. 3.5% long-term growth.						
<b>Key drivers</b>						
Key drivers include:						
i. Hire purchase receivables growth;						
ii. Low impairment allowances on HPR; and						
iii. Profits from furniture business.						
<b>Key risks</b>						
The upside risks include:						
i. Stronger-than-expected HPR growth;						
ii. Lower-than-expected credit costs; and						
iii. Softer-than-expected furniture business performance.						
<b>Company Profile</b>						
ELK-Desa Resources is a financial services company that provides hire purchase financing with a focus on financing for used motor vehicles. As an extension, the company also cross-sells general insurance products from leading insurance brands to its hire purchase customers. On top of its financing operations, the company also operates a furniture trading business. ELK-Desa Resources currently employs approximately 250 individuals, with most of its business operations centered in Klang Valley.						
<b>Shareholders (%)</b>						
Eng Lee Kredit Sdn Bhd	32.8					
Amity Corporation Sdn Bhd	5.1					
Teo Siew Lai	3.5					
<b>Valuation metrics</b>						
	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F	
	Recurring P/E (x)	11.53	15.01	14.01	12.41	11.47
	P/B (x)	1.2	1.1	1.1	1.1	1.0
	Dividend Yield (%)	4.1	4.1	4.4	5.0	5.4
<b>Income statement (MYRm)</b>						
	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F	
	Interest income	89	113	112	130	139
	Interest expense	(9)	(12)	(13)	(22)	(25)
	<b>Net interest income</b>	<b>80</b>	<b>101</b>	<b>99</b>	<b>108</b>	<b>114</b>
	Non interest income	68	57	74	78	83
	<b>Total operating income</b>	<b>148</b>	<b>158</b>	<b>173</b>	<b>186</b>	<b>197</b>
	Overheads	(77)	(82)	(88)	(94)	(100)
	<b>Pre-provision operating profit</b>	<b>71</b>	<b>76</b>	<b>85</b>	<b>92</b>	<b>97</b>
	Loan impairment allowances	(7)	(26)	(32)	(33)	(32)
	Other impairment allowances	(1)	(0)	(0)	(1)	(1)
	<b>Pre-tax profit</b>	<b>63</b>	<b>49</b>	<b>53</b>	<b>59</b>	<b>64</b>
	Taxation	(16)	(12)	(13)	(15)	(16)
	<b>Reported net profit</b>	<b>48</b>	<b>37</b>	<b>39</b>	<b>45</b>	<b>48</b>
	<b>Recurring net profit</b>	<b>48</b>	<b>37</b>	<b>39</b>	<b>44</b>	<b>48</b>
<b>Profitability ratios</b>						
	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F	
	Return on average assets (%)	7.5	4.9	4.6	4.7	4.8
	Return on average equity (%)	10.4	7.7	8.0	8.7	9.0
	Return on IEAs (%)	14.9	16.2	14.1	15.2	15.2
	Cost of funds (%)	5.5	4.8	4.0	5.7	5.7
	Net interest spread (%)	9.4	11.4	10.1	9.5	9.5
	Net interest margin (%)	13.5	14.5	12.5	12.6	12.5
	Non-interest income / total income (%)	45.8	35.9	42.9	42.1	42.1
	Cost to income ratio (%)	52.1	51.9	50.9	50.4	50.9
	Credit cost (bps)	123	400	440	420	390
<b>Balance sheet (MYRm)</b>						
	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F	
	Total gross loans	624	696	750	799	852
	Other interest earning assets	11	64	74	85	97
	Total gross IEAs	635	760	823	884	949
	Total provisions	(48)	(54)	(59)	(64)	(68)
	Net loans to customers	575	642	691	735	784
	Total net IEAs	586	706	765	820	881
	Total non-IEAs	107	101	139	154	166
	Total assets	693	807	904	974	1,047
	Other interest-bearing liabilities	199	301	363	413	465
	Total IBLs	199	301	363	413	465
	Total non-IBLs	22	22	37	39	41
	Total liabilities	221	324	400	452	506
	Share capital	351	351	351	351	351
	Shareholders' equity	472	483	504	522	541
<b>Asset quality and capital</b>						
	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F	
	Reported NPLs / gross cust loans (%)	7.4	5.0	5.0	5.0	5.0
	Total provisions / reported NPLs (%)	104.9	155.0	157.0	160.0	160.0

Source: Company data, RHB

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## Results At A Glance

Figure 1: ELK-Desa – Summary of 1QFY25 results

FYE Mar (MYRm)	1Q FY24	4Q FY24	1Q FY25	QoQ (%)	YoY (%)	Comments
<b>Revenue</b>	<b>39.2</b>	<b>46.6</b>	<b>45.9</b>	<b>(1.6)</b>	<b>17.1</b>	
<i>HP division</i>	26.7	30.1	30.7	2.1	14.9	YoY growth in tandem with rise in HPR (+16% YoY).
<i>Furniture division</i>	12.4	16.6	15.2	(8.4)	21.9	Higher revenue contributions from East Malaysia, one of the group's key strategic areas.
Cost of sales	(7.8)	(11.3)	(9.7)	(14.2)	24.0	
<b>Gross profit</b>	<b>31.3</b>	<b>35.3</b>	<b>36.2</b>	<b>2.4</b>	<b>15.4</b>	
Gross margin (%)	80.0	75.7	78.8			Furniture segment's gross profit margin stood at 36% (1QFY24: 37%).
Other income	0.5	0.6	1.0	53.0	98.9	
Overhead expenses	(11.1)	(11.9)	(12.5)	5.2	13.1	YoY rise mainly due to higher staff costs along with higher selling and distribution costs for the furniture segment (from East Malaysia expansion).
<b>EBIT</b>	<b>20.8</b>	<b>24.1</b>	<b>24.6</b>	<b>2.4</b>	<b>18.6</b>	
EBIT margin (%)	53.0	51.6	53.7			
Finance costs	(2.6)	(3.5)	(3.8)	7.7	46.2	YoY finance costs up in tandem with increased drawdown of block financing (+65% YoY).
<b>PIOP</b>	<b>18.2</b>	<b>20.5</b>	<b>20.8</b>	<b>1.5</b>	<b>14.7</b>	
Impairment allowances	(7.1)	(7.4)	(9.8)	32.5	39.5	Partly seasonal, as 1Q repayments tend to be impacted by the festivities.
Annualised credit costs (bps)	472	436	572			
<b>PBT</b>	<b>11.1</b>	<b>13.1</b>	<b>11.0</b>	<b>(16.1)</b>	<b>(1.1)</b>	
<i>HP division</i>	10.1	12.1	10.0	(17.4)	(1.2)	
<i>Furniture division</i>	1.0	1.0	1.0	0.0	0.0	
Tax expenses	(2.6)	(3.4)	(2.9)	(15.9)	9.3	
ETR (%)	23.5	25.9	25.9			
<b>Net earnings</b>	<b>8.5</b>	<b>9.7</b>	<b>8.1</b>	<b>(16.2)</b>	<b>(4.3)</b>	20%/20% of our/consensus estimates.
Net margin (%)	21.7	20.8	17.7			
<b>Other key data and ratios</b>						
Net HP receivables (MYRm)	574.5	641.7	668.3	4.1	16.3	Management aims for 10-15% YoY growth in FY25.
Net debt / equity (x)	0.4	0.5	0.5			
ROAE (%) – annualised	7.3	8.1	6.8			
ROAA (%) – annualised	4.8	5.0	4.1			
CIR (%) – hire purchase	28.9	28.4	29.3			

Source: Company data, RHB

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Figure 2: Revisions in full-year earnings forecasts

FYE Mar	Net profit (MYR m)			PBT (MYR m) – HP division			PBT (MYR m) – Furniture division		
	Previous	Revised	% Chg	Previous	Revised	% Chg	Previous	Revised	% Chg
2025F	41.7	39.3	-5.2	52.1	49.2	-5.5	3.2	3.2	0.0
2026F	46.1	44.4	-3.8	57.8	55.4	-4.0	3.7	3.7	0.0
2027F	48.3	48.0	-0.6	60.1	59.6	-0.7	4.3	4.3	0.0

Source: Company data, RHB

Figure 3: Revisions in key assumptions

FYE Mar	Net HP receivables (MYR m)			Credit costs (bps) – HP division			Revenue (MYR m) – Furniture		
	Previous	Revised	% Chg	Previous	Revised	bps Chg	Previous	Revised	% Chg
2025F	690.9	690.9	0.0	400	440	40	58.4	58.4	0.0
2026F	735.2	735.2	0.0	390	420	30	62.5	62.5	0.0
2027F	783.5	783.5	0.0	385	390	5	66.8	66.8	0.0

Source: Company data, RHB

## Valuation and TP

Our TP of MYR1.10 (from MYR1.05) is based on a GGM-derived fair value P/BV of 0.94x (from 0.92x) on CY25F BVPS. Key model changes include: i) A lower CAPM-derived cost of equity assumption of 8.8% (from 9.3%) in line with our updated house assumptions, ii) a lower ROE assumption of 8.5% (from 8.8%) in line with forecast changes; and iii) a higher BVPS assumption of MYR1.14 (from MYR1.10) after rolling forward our valuation year to CY25 from CY24.

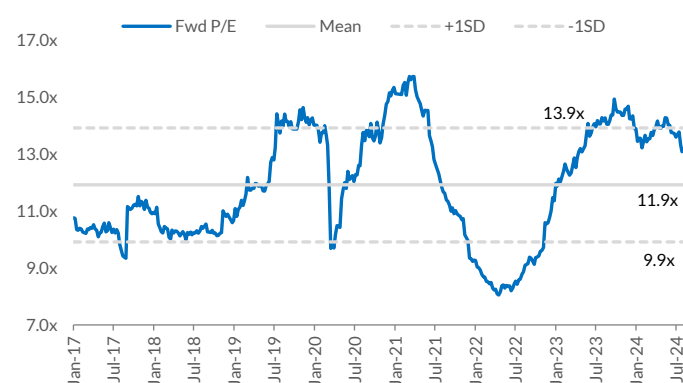
We upgrade the stock to a NEUTRAL from Sell – after a 5% decline in the share price over the last 12 months, valuations now look more palatable, though still pricey in our view. This, we think, is balanced out by ELK's strong receivables growth momentum, which could receive a slight boost from the impending revision of civil servants' remuneration packages. The recent strengthening of the MYR could also provide some relief for the furniture segment's margins in an environment of increasing cost of inventories.

Figure 4: ELK-Desa – GGM valuation summary

<b>Cost of equity (COE) computation:</b>		Sustainable ROE (%)	8.5
Risk free rate (%)	4.0	COE (%)	8.8
Equity premium (%)	4.8	Long-term growth (g)	3.5
Beta (x)	1.0	Implied P/BV (x)	0.94
Cost of equity - CAPM (%)	8.8	BVPS – CY25F	MYR1.14
		Intrinsic value	MYR1.07
ESG premium/(discount) (%)	2.0	ESG premium/(discount)	MYR0.02
		<b>TP (rounded)</b>	<b>MYR1.10</b>

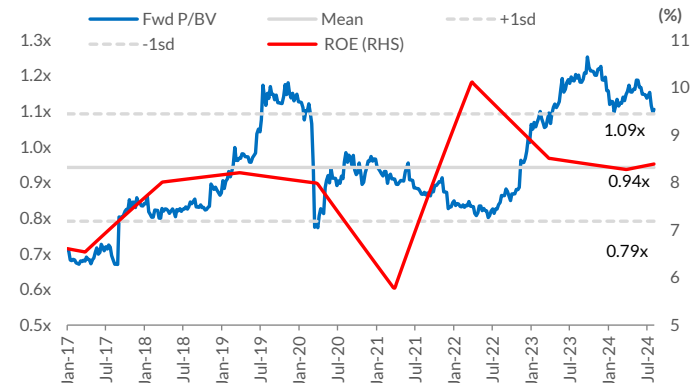
Source: Company data, RHB

Figure 5: ELK-Desa's 12-month forward P/E



Source: Bloomberg, RHB

Figure 6: ELK-Desa's 12-month forward P/BV and ROE



Source: Bloomberg, RHB

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## Emissions And ESG

### Trend analysis

ELK has begun developing processes to estimate its Scope 1 and Scope 3 emissions, with a particular focus on emissions from business travel and employee commuting.

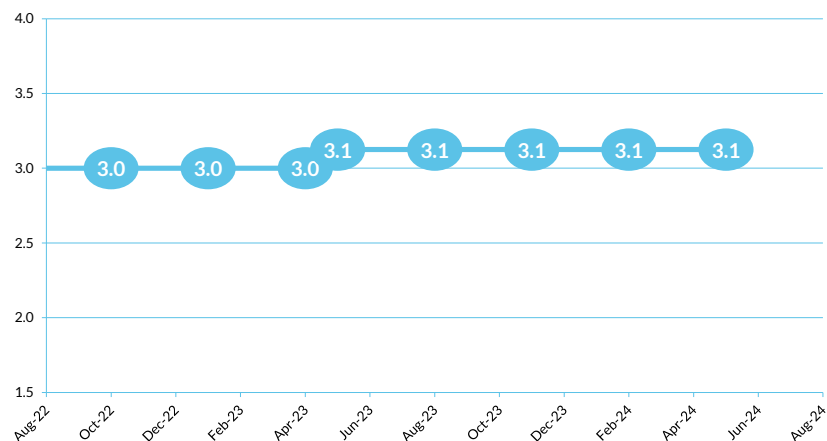
Emissions (tCO <sub>2</sub> e)	Mar-22	Mar-23	Mar-24
Scope 1	-	-	-
Scope 2	241	352	325
Scope 3	-	-	-
Total emissions	241	352	325

Source: Company data, RHB

## Latest ESG-Related Developments

- **ESG research:** ELK's FY23 annual report included an independent research report on ESG in the Malaysian used car industry, which suggests that the industry is still ESG compatible despite being a laggard in adoption.
- **Less reliance on purchased electricity:** ELK is undertaking efforts to install solar-powered generators for use in its Kuala Lumpur headquarters, which will reduce its reliance on purchased electricity and directly lower scope 2 emissions.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-05-24	Sell	1.05	1.30
2023-11-16	Sell	1.05	1.31
2023-08-06	Neutral	1.20	1.28
2023-05-23	Neutral	1.20	1.21
2023-04-07	Neutral	1.15	1.12
2023-02-16	Buy	2.00	1.13
2022-11-16	Buy	1.80	0.99
2022-08-21	Neutral	1.60	0.90
2022-07-17	Neutral	1.30	0.85

Source: RHB, Bloomberg

## RHB Guide to Investment Ratings

<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
<b>Sell:</b>	Share price may fall by more than 10% over the next 12 months
<b>Not Rated:</b>	Stock is not within regular research coverage

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