

RESULTS UPDATE

FBMKLCI: 1,545.49
Friday, February 23, 2024
Sector: Finance

THIS REPORT IS STRICTLY FOR INTERNAL CIRCULATION ONLY*

Elk-Desa Resources Bhd

Lower YoY Net Profit

TP: RM1.28 (+5.8%)

Last Traded: RM1.21

HOLD (ESG: ★★★)

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Review

- Elk-Desa reported another set of softer YoY performance, with 9MFY24 net profit falling by 33% YoY to RM27.0mn. The weaker YoY results are due to an increase in the impairment allowance to RM19.3mn YTD, vs RM0.5mn a year ago. Despite that, Elk-Desa's results came within our expectations, with net profit accounting for 72% of our full-year forecast.
- QoQ, the group's net profit improved by 8.7%, anchored by stronger revenue growth of 9.1%. However, the better sequential topline performance was muted by higher impairment allowance (+9.6% QoQ), expenses (+4.9% QoQ) and a 1.9% increase in finance costs.
- YoY, the 9M revenue grew by 5% due to better contributions from the hire purchase segment (+12% YoY), which helped to cushion the decline reported in the furniture segment (-6% YoY). The furniture segment's gross profit margin also narrowed further from 36% to 35% in 3QFY24, attributed to an increase in the purchase cost of imported goods due to the weak MYR and intense competition squeezing margins.
- 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 10% YoY to RM616.1mn as of 31 December 2023.
- Operating expenses expanded YoY due to higher operating and staff costs. This translated to a cost-to-income ratio of around 30%. The HP segment's 9M PBT, however, fell by 31% YoY to RM33.9mn from RM49.4mn in 9MFY23, attributed to an increase in the impairment allowance.
- During the quarter, the credit loss charge increased to 0.97% from 0.64% in 2Q. Management attributes the higher impairment allowance to slower repayment from hirers and higher losses incurred from selling repossessed vehicles. However, given the increase in the level of repossession activities in 3Q, the net impaired loans ratio improved to 0.58% from 0.96% as of 30 September 2023.
- Within expectations, the group's bank borrowings increased by 22%, attributed to the higher drawdown of block discounting facilities to support the increase in hire purchase receivables. With that, Elk-Desa's gearing levels rose to 0.56x vs 0.43x last year.

Impact

- No change to our earnings estimates.

Outlook

- Overall demand for used-car hire purchase financing remained robust as ELK-Desa raises its hire purchase receivables portfolio to pre-pandemic levels. The YoY increase in impairment allowances aligns with our expectations that credit charge trends are returning to normal.

Share Information

Bloomberg Code	ELK MK
Stock Code	5228
Listing	Main Market
Share Cap (mn)	454.8
Market Cap (RMmn)	550.3
52-wk Hi/Lo (RM)	1.35/1.08
12-mth Avg Daily Vol ('000 shrs)	115.0
Estimated Free Float (%)	36.4
Beta	0.31
Major Shareholders (%)	
Eng Lee Kredit	32.2%
Amity Corp	5.0%

Forecast Revision

	FY24	FY25
Forecast Revision (%)	-	-
Net profit (RMmn)	37.3	38.7
Consensus	37.0	39.0
TA's / Consensus (%)	100.7	99.2
Previous Rating	Hold (Maintained)	
Consensus Target Price (RM)	1.21	

Scorecard (%)

vs TA	72	Within
vs Consensus	72	Within

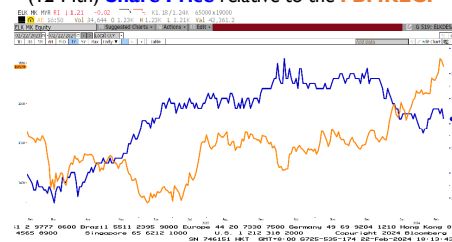
Financial Indicators

	FY24	FY25
Net Debt / Equity (%)	43.7	51.8
CFPS (sen)	(6.3)	(2.7)
Price / CFPS (x)	(19.2)	(45.3)
ROA (%)	4.8	4.7
NTA/Share (RM)	1.1	1.1
Price/NTA (x)	1.1	1.1

Share Performance (%)

Price Change	ELK	FBM KLCI
1 mth	1.7	3.6
3 mth	(6.9)	6.2
6 mth	(1.7)	6.5
12 mth	13.5	5.6

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Nevertheless, management continues to remain 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. Management intends to focus on further reducing the impaired loans ratio.

- In the furniture segment, ELK-Desa is looking to sustain 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

- We lower Elk-Desa's TP to RM1.28/share from RM1.37/share, after tagging a wider 25% discount to Malaysia's average NBFI (such as AEON Credit and RCE Capital) P/B ratio of 1.6x due to Elk-Desa's smaller market cap and less superior ROEs. We maintain a HOLD recommendation on the stock.

Table 1: Earnings Summary (RMmn)

FYE Mar (RMmn)	2022	2023	2024F	2025F	2026F
Revenue	128.89	155.24	170.56	187.05	205.15
Gross profit	99.57	121.33	132.41	145.28	159.41
EBITDA	49.89	77.56	71.74	78.56	86.04
EBITDA margin (%)	38.71	49.96	42.06	42.00	41.94
EBIT	47.19	74.89	68.36	75.12	82.56
PBT	34.89	63.31	49.04	50.88	54.07
PAT	25.77	47.74	37.27	38.67	41.09
Core profit	25.77	47.74	37.27	38.67	41.09
Core EPS (sen)	8.50	10.50	8.19	8.50	9.03
PER (x)	14.35	11.62	14.89	14.35	13.50
Gross dividend (sen)	5.25	6.50	4.00	4.00	4.00
Dividend yield (%)	4.30	5.33	3.28	3.28	3.28
ROE (%)	5.80	10.39	7.78	7.82	8.05

Table 2: 3QFY24 Results Analysis (RMmn)

FYE 31 Mar (RM mn)	3QFY23	2QFY24	3QFY24	QoQ	YoY	YTD FY23	YTD FY24	YoY
Revenue	40.0	39.2	42.8	9.1	7.0	114.9	121.1	5.4
Other income	0.4	0.5	0.4	(9.9)	(1.2)	1.5	1.4	(9.2)
Cost of inventories sold	(9.0)	(7.7)	(8.9)	15.9	(1.1)	(25.2)	(24.4)	(3.1)
Depreciation of PPE & ROU assets	(0.7)	(0.6)	(0.6)	(1.0)	(5.5)	(2.0)	(1.9)	(6.7)
Impairment allowance	(3.7)	(5.8)	(6.4)	9.6	71.8	(0.5)	(19.3)	>100
Other expenses	(9.7)	(10.6)	(11.2)	4.9	15.0	(29.1)	(32.2)	10.8
Finance costs	(2.5)	(3.0)	(3.1)	1.9	22.2	(6.4)	(8.7)	37.4
Profit before taxation	14.8	11.8	13.0	9.9	(11.9)	53.4	35.9	(32.6)
Taxation	(3.6)	(3.0)	(3.4)	13.6	(6.5)	(13.1)	(9.0)	(31.4)
Net profit	11.1	8.8	9.6	8.7	(13.6)	40.2	27.0	(33.0)

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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
Scoring	★★★	★★★	★★★	★★★
Remark	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 Friday, February 23, 2024, 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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