

**RESULTS UPDATE**

FBMKLCI: 1,629.18  
Friday, May 24, 2024  
Sector: Finance

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# Elk-Desa Resources Bhd

*Lower YoY Net Profit but Within Expectations*

**TP: RM1.35** (+1.5%)

Last Traded: RM1.33

**SELL (ESG: ★★★)**

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## Review

- Elk-Desa reported a 23.2% decline in FY24 net profit to RM36.7mn. The weaker YoY results are due to an increase in the impairment allowance, which rose to RM26.7mn vs RM7.5mn a year ago. Despite that, Elk-Desa's results came within our expectations, with the PBT accounting for 100% of our full-year forecast.
- A second single-tier interim dividend of 3.0 sen per share was declared. In addition to the first interim single-tier interim dividend of 2.0 sen per share, the total dividend for the financial year would be 5.0 sen per share (FY23: 6.50 sen), representing a dividend payout ratio of around 60%.
- QoQ, the group's net profit continued to show improving trends, with net profit rising by 1.0%, anchored by stronger revenue growth of 9.0%. However, the better sequential topline performance was muted by higher impairment allowance (+16.0% QoQ), expenses (+1.1% QoQ) and a 13.6% increase in finance costs.
- YoY, the FY24 revenue grew by 8.1% due to better contributions from the hire purchase segment (+12% YoY), which helped to cushion the flattish performance in the furniture segment. The furniture segment's gross profit margin also narrowed further from 38% to 32% in 4QFY24, attributed to an increase in the purchase cost of imported goods due to the weak MYR, write down of inventory cost 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 12% YoY to RM641.8mn as of 31 March 2024. Despite that, the HP segment's 12M PBT fell by 13% YoY to RM58.2mn from RM66.6mn a year ago, attributed to an increase in the impairment allowance.
- In FY24, the credit loss charge increased to 1.11% from 1.09%. Management attributes the higher impairment allowance to higher losses incurred from selling repossessed vehicles. However, given the increase in the level of repossession activities throughout the FY, the net impaired loans ratio improved to 0.56% from 0.58% as of 31 December 2023.
- Overall operating expenses expanded YoY due to higher selling, distribution and staff costs from both the HP and furniture segments. The cost-to-income ratio stood little changed at around 30% (FY23: 31%).
- Within expectations, the group's bank borrowings increased by 51% YoY, 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 0.62x vs 0.42x last year.

## Impact

- Incorporating FY24 results, we tweak the FY25/26 net profit forecasts to RM41.1/42.2mn from RM38.7/41.1mn previously. We project stronger

## Share Information

Bloomberg Code	ELK MK
Stock Code	5228
Listing	Main Market
Share Cap (mn)	454.8
Market Cap (RMmn)	604.9
52-wk Hi/Lo (RM)	1.35/1.18
12-mth Avg Daily Vol ('000 shrs)	68.3
Estimated Free Float (%)	36.30167
Beta	0.32

## Major Shareholders (%)

Eng Lee Kredit - 32.2%  
Amity Corp - 5.0%

## Forecast Revision

	FY25	FY26
Forecast Revision (%)	6.3	2.7
Net profit (RMm)	41.1	42.2
Consensus	41.9	44.6
TA's / Consensus (%)	98.3	94.7
Previous Rating	Hold (Downgraded)	
Consensus Target Price (RM)	1.35	

## Scorecard (%)

vs TA	98	Within
vs Consensus	97	Within

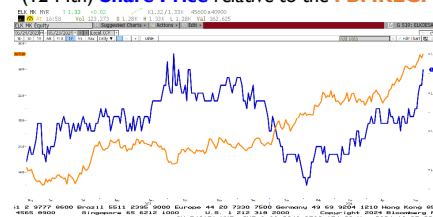
## Financial Indicators

	FY25	FY26
Net Debt / Equity (%)	61.6	69.6
ROA (%)	4.8	4.5
NTA/Share (RM)	1.1	1.1
Price/NTA (x)	1.2	0.0

## Share Performance (%)

Price Change	ELK	FBM KLCI
1 m th	4.7	4.5
3 m th	9.0	5.4
6 m th	0.8	11.9
12 m th	8.1	14.8

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

FY27 net profit growth of 5% to RM44.5mn.

### Outlook

- Overall demand for used-car hire purchase financing remained robust. The YoY increase in impairment allowances aligns with our expectations that credit charge trends will return to normal. Nevertheless, 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. Management intends to further reduce the impaired loan ratio by proactively engaging with the customers and ramping up recovery efforts.
- 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 maintain Elk-Desa's TP at RM1.35/share. Our valuation is based on a 25% discount to Malaysia's average NBF1 (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. However, given that the risk-reward potential has narrowed due to the recent increase in the share price, we downgrade Elk-Desa to SELL from hold.

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

FYE Mar (RMmn)	2023	2024	2025F	2026F	2027F
Revenue	155.24	167.78	175.89	188.85	205.09
Gross profit	121.33	132.04	138.11	147.51	159.18
EBITDA	77.56	66.30	73.15	77.14	81.61
EBITDA margin (%)	49.96	39.52	41.59	40.85	39.79
EBIT	74.89	63.79	70.71	74.60	79.24
PBT	63.31	49.04	54.10	55.53	58.56
PAT	47.74	36.66	41.12	42.20	44.51
Core profit	47.74	36.66	41.12	42.20	44.51
Core EPS (sen)	10.50	8.06	9.04	9.28	9.79
PER (x)	12.67	16.50	14.71	14.33	13.59
Gross dividend (sen)	6.50	5.00	5.00	5.00	5.00
Dividend yield (%)	4.89	3.76	3.76	3.76	3.76
ROE (%)	10.39	7.68	8.36	8.30	8.26

**Table 2: 4QFY24 Results Analysis (RMmn)**

FYE 31 Mar (RM mn)	4QFY23	3QFY24	4QFY24	QoQ	YoY	FY23	FY24	YoY
Revenue	40.3	42.8	46.6	9.0	15.7	155.2	167.8	8.1
Other income	0.3	0.4	0.6	52.7	90.1	1.8	2.0	8.8
Cost of inventories sold	(8.7)	(8.9)	(11.3)	27.3	29.9	(33.9)	(35.7)	5.4
Depreciation of PPE & ROU assets	(0.6)	(0.6)	(0.6)	(1.8)	(4.1)	(2.7)	(2.5)	(6.1)
Impairment allowance	(7.1)	(6.4)	(7.4)	16.0	4.8	(7.5)	(26.7)	>100
Other expenses	(11.7)	(11.2)	(11.3)	1.1	(3.3)	(40.7)	(43.5)	6.8
Finance costs	(2.6)	(3.1)	(3.5)	13.6	37.5	(8.9)	(12.3)	37.4
Share of results of associates	0.0	0.0	0.0	n.m	n.m	0.0	0.0	n.m.
Profit before taxation	10.0	13.0	13.1	0.8	31.6	63.3	49.0	(22.5)
Taxation	(2.5)	(3.4)	(3.4)	0.0	37.8	(15.6)	(12.4)	(20.5)
Net profit	7.5	9.6	9.7	1.0	29.6	47.7	36.7	(23.2)

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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 Friday, May 24, 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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