

Outthink. Outperform.

## A robust start to the year

ELK-Desa's 1QFY19 net profit of RM8.1m (+60% yoy; EPS +28% yoy) was broadly within our expectations, driven by stronger profit contribution from its hire-purchase financing (which contributed 98.5% of pre-tax profit). Meanwhile the furniture segment saw bottomline profits improving marginally arising from a shift in business strategy to focus on domestic markets and forming new partnerships with local dealers. We believe that ELK will continue to see another robust quarter in 2QFY19 (before normalizing in 2HFY19) arising from more upbeat new car sales (following the GST-free period), which had resulted in higher disposal of cars into the 2<sup>nd</sup>-hand market. Maintain BUY as we remain upbeat on ELK's vertical expansion plan in the hire-purchase financing unit.

### 1QFY19 results were robust, net profit +60% yoy; EPS +28% yoy

ELK-Desa a 1QFY19 net profit of RM8.1m grew by +60% yoy while EPS rose by 28% yoy. We believe that the results are broadly in-line with our FY2019E forecast, as the anticipated robust net profit growth in 1HFY19 may eventually taper-off in 2HFY19, following upbeat new car sales during the GST-free period, of which had resulted in higher disposal of cars into the 2<sup>nd</sup> car market (ELK's core focus). 98.5% of 1QFY19 pre-tax profit was driven by the HP division, while contribution from the furniture division remains minimal despite a higher topline revenue.

### Hire purchase receivables grew by 18% yoy

The HP receivables saw an expansion of 18% yoy in 1QFY19, partially driven by management's conscious move to expand financing of 2<sup>nd</sup> hand cars from below RM20,000 to below RM35,000. The furniture division had started to see a turnaround in profits since 4QFY18 driven by shift in business strategy to refocus on the domestic market to expand the wholesale distribution and increase partnership with dealers.

### Maintain BUY, Price Target raised to RM1.37

Maintain **BUY** based on a **CY19 Price Target** of **RM1.37**, which is pegged to a 13x P/E multiple on our CY19E EPS. Our P/E multiple of 13x is derived from the 1-year historical average P/E multiple of ELK (of which, is not comparable to other peers due to ELK's illiquidity in the market). Downside risk – high cost-of-living may cause higher defaults.

### Earnings & Valuation Summary

FYE 31 Mar (RMm)	2017A	2018A	2019E	2020E	2021E
Revenue	94.5	104.1	120.5	129.9	138.5
Net operating income	30.2	37.0	37.8	43.1	48.4
Pretax profit	30.6	35.3	36.7	40.7	45.7
Net profit	23.0	25.9	27.9	30.9	34.7
EPS (sen)	10.7	9.9	9.8	10.8	12.1
EPS growth (%)	(17.0)	(7.2)	(1.3)	10.9	12.2
FD EPS (sen)	9.2	8.7	9.3	10.3	11.6
PER (x)	13.5	12.0	12.2	11.0	9.8
FD PER (x)	15.7	13.7	12.7	11.5	10.3
ROE (%)	7.0	7.1	7.0	7.6	8.2
BV / share	1.55	1.52	1.42	1.45	1.49
P/BV	0.77	0.79	0.84	0.82	0.80
DPS (sen)	6.8	6.3	6.8	7.6	8.5
Dividend Yield (%)	5.7	5.3	5.7	6.4	7.1
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			NA	NA	NA

Source: Company, Bloomberg, Affin Hwang forecasts

## Results Note

# ELK-Desa

ELK MK  
Sector: Finance

RM1.19 @ 16 Aug 2018

**BUY (maintain)**

Upside: 15.1%

**Price Target: RM1.37**

Previous Target: RM1.37



## Price Performance

	1M	3M	12M
Absolute	0.0%	-1.7%	-3.3%
Rel to KLCI	5.1%	3.1%	-3.6%

## Stock Data

Issued shares (m)	286.6
Mkt cap	332.4/83.5
Avg daily vol - 6mth	0.1
52-wk range (RM)	1.14-1.26
Est free float	38.1%
BV per share (RM)	1.36
P/BV (x)	0.85
Net cash/(debt)	(0.4)
ROE (2019E)	7.0
Derivatives (ICULS)	14.9m
Shariah Compliant	No

## Key Shareholders

Eng Lee Kredit	31.9%
Amity Corporation SD	5.2%

Source: Affin, Bloomberg

Tan Ei Leen  
(603) 2146 7543  
eileen.tan@affinhwang.com

Lester Siew  
(603) 2146 7502  
lester.siew@affinhwang.com

Out think. Out perform.

Fig 1: Results Comparison

FYE 31 Mar (RMm)	1QFY18	4QFY18	1QFY19	QoQ % chg	YoY %chg	Comments
<b>Revenue</b>	<b>25.6</b>	<b>27.7</b>	<b>28.8</b>	4.1	12.7	Interest income from the hire-purchase unit remains the key topline driver, +13.2% yoy in 1QFY19 and +3.3% qoq. Hire purchase receivables grew by 18% yoy in FY18. The furniture division saw improved sales due to a refocus on the domestic market
- Hire Purchase	17.6	19.3	20.0	3.3	13.2	
- Furniture	7.9	8.4	8.9	5.9	11.6	
Operating expenses	(18.3)	(17.0)	(17.7)	4.3	(3.4)	Decline in operating expenses was driven by a 41% decrease in impairment allowance (as credit charge eased from 179bps to 92bps).
Other Income	0.1	0.6	0.3	(46.5)	>100	
<b>EBIT</b>	<b>7.3</b>	<b>11.3</b>	<b>11.1</b>	(1.7)	51.1	
Net Finance Cost	(0.4)	(0.5)	(0.3)	(24.4)	(18.0)	Overall net finance cost declined despite a +63% yoy growth in block discounting payables) to support the HP business.
<b>Pre-Tax Profit</b>	6.9	10.8	10.7	(0.7)	55.4	About 98.5% of contribution to PBT from hire purchase business.
Taxation	(1.8)	(2.9)	(2.7)	(8.3)	43.3	
<b>Profit After Tax</b>	<b>5.1</b>	<b>7.9</b>	<b>8.1</b>	2.0	59.8	
<b>Net Profit</b>	<b>5.1</b>	<b>7.9</b>	<b>8.1</b>	2.0	59.8	1QFY19 net profit accounted for 29% of our full year forecasts. Within Affin's expectations, we expect 2HFY19 profits to normalize as strong volume growth anticipated in 1HFY19 may taper-off.
<b>EPS</b>	<b>2.19</b>	<b>2.77</b>	<b>2.80</b>	1.2	28.0	Slower 1QFY19 EPS growth vs. net profit due to the dilution effect from the conversion of ICULS.
<b>Single-tier DPS (sen)</b>		<b>3.50</b>	-	n.m.	-	No dividends proposed for 1QFY19 (1QFY18: NIL).
Net Yield (%)		2.9	-	n.m.	-	

Source: Affin Hwang, Company data

### Equity Rating Structure and Definitions

<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

*The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.*

<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

This report is intended for information purposes only and has been prepared by Affin Hwang Investment Bank Berhad (14389-U) ("the Company") based on sources believed to be reliable. However, such sources have not been independently verified by the Company, and as such the Company does not give any guarantee, representation or warranty (express or implied) as to the adequacy, accuracy, reliability or completeness of the information and/or opinion provided or rendered in this report. Facts, information, views and/or opinion presented in this report have not been reviewed by, may not reflect information known to, and may present a differing view expressed by other business units within the Company, including investment banking personnel. Reports issued by the Company, are prepared in accordance with the Company's policies for managing conflicts of interest arising as a result of publication and distribution of investment research reports. Under no circumstances shall the Company, its associates and/or any person related to it be liable in any manner whatsoever for any consequences (including but are not limited to any direct, indirect or consequential losses, loss of profit and damages) arising from the use of or reliance on the information and/or opinion provided or rendered in this report. Any opinions or estimates in this report are that of the Company, as of this date and subject to change without prior notice. Under no circumstances shall this report be construed as an offer to sell or a solicitation of an offer to buy any securities. The Company and/or any of its directors and/or employees may have an interest in the securities mentioned therein. The Company may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

Comments and recommendations stated here rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not fit to your financial status, risk and return preferences and hence an independent evaluation is essential. Investors are advised to independently evaluate particular investments and strategies and to seek independent financial, legal and other advice on the information and/or opinion contained in this report before investing or participating in any of the securities or investment strategies or transactions discussed in this report.

Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

The Company's research, or any portion thereof may not be reprinted, sold or redistributed without the consent of the Company.

The Company, is a participant of the Capital Market Development Fund-Bursa Research Scheme, and will receive compensation for the participation.

This report is printed and published by:  
Affin Hwang Investment Bank Berhad (14389-U)  
A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,  
69, Jalan Raja Chulan,  
50200 Kuala Lumpur, Malaysia.

T : + 603 2146 3700  
F : + 603 2146 7630  
research@affinhwang.com

www.affinhwang.com