Securities

BURSA MidS

AFFIN HWANG CAPITAL

Outthink. Outperform.

A flat year; money-lending licence approved

ELK-Desa's 1HFY18 core net profit of RM11m (+0.9% yoy) was within our expectations. Receivables continued to grow at an annualized rate of 9.6% yoy, of which we believe will continue to catch up in 2HFY18. The HP division remains the key earnings driver. ELK had also recently obtained a money-lending licence, which in our view would help the group diversify its income. An interim dividend of 3.25 sen was proposed. Reiterate HOLD, with Price Target at RM1.18.

1HFY18 results within our expectations, net profit flat yoy

ELK-Desa saw a relatively flat 1HFY18 net profit (+0.9% yoy). However, 1HFY18 EPS was down 14.3% yoy (due to dilutive effect of the recent RM54m rights issue). The hire purchase (HP) division contributed 99.5% of group pre-tax profit of RM15m for 1HFY18 as the furniture division continued to face high operating expenses. The HP division which is largely underpinned by interest income, saw a 1HFY18 revenue growth of 12.8% yoy while the furniture division's revenue was up 15% yoy. HP receivables growth in 1HFY18 expanded by an annualized growth rate of 9.6% vis-à-vis our forecast of a 13.8% yoy growth for FY18E. Overall, 1HFY18 accounted for 45% of our FY18E core net profit of RM24.3m and we continue to anticipate a better 2HFY18 driven by continued expansion in the HP portfolio receivables.

Approval obtained for money-lending licence

ELK-Desa Capital Sdn Bhd (EDC), a wholly-owned subsidiary of ELK, had received a letter from the Ministry of Urban Wellbeing, Housing and Local Government on 13 November 2017 confirming that EDC had fulfilled the conditions for a money lending licence (under the Moneylenders Act 1951 [Act 400]). We deem this new development as a positive catalyst in the near term for ELK as otherwise, we do not foresee a significant expansion in ELK's HP business and the lacklustre profits from the furniture business.

Reiterate HOLD rating, Price Target unchanged at RM1.18

We maintain our **HOLD** rating and **12-month Price Target** of **RM1.18**, which is pegged to a 13x P/E multiple on our CY18E EPS. Our P/E multiple of 13x is derived based on 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. Upside risk – strict credit approvals to control NPLs.

Earnings & Valuation Summary

FYE 31 Mar (RMm)	2016A	2017A	2018E	2019E	2020E
Revenue	64.2	94.5	109.8	120.5	129.9
Net operating income	25.5	30.2	32.8	37.8	43.1
Pretax profit	25.3	30.6	32.0	36.6	40.6
Net profit	18.8	23.0	24.3	27.8	30.8
EPS (sen)	12.9	10.7	8.9	9.7	10.8
EPS growth (%)	(14.6)	(17.0)	(16.7)	9.1	10.9
FD EPS (sen)	7.9	9.2	8.2	9.2	10.1
PER (x)	17.5	14.3	13.5	12.4	11.2
FD PER (x)	19.4	15.8	14.6	13.1	11.8
ROE (%)	6.5	7.0	6.6	6.8	7.3
BV / share	2.20	1.55	1.48	1.45	1.48
P/BV	0.55	0.77	0.81	0.83	0.81
DPS (sen)	6.8	6.8	6.1	6.8	7.5
Dividend Yield (%)	5.6	5.6	5.1	5.7	6.3
Affin/Consensus (x)			N/a	N/a	N/a

Source: Company, Bloomberg, Affin Hwang forecasts

Results Note

ELK-Desa

ELK MK
Sector: Finance

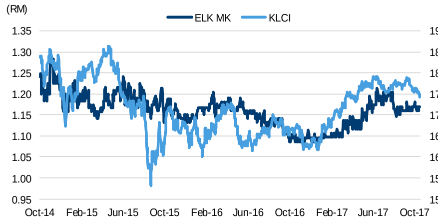
RM1.20 @ 16 November 2017

HOLD (maintain)

Downside: 1.7%

Price Target: RM1.18

Previous Target: RM1.18



Price Performance

	1M	3M	12M
Absolute	+0.6%	+11.4%	+28.5%
Rel to KLCI	+1.1%	+10.0%	+19.6%

Stock Data

Issued shares (m)	285.5
Mkt cap	342.6/82.1
Avg daily vol - 6mth	0.1
52-wk range (RM)	1.12-1.26
Est free float	38.2
BV per share (RM)	1.45
P/BV (x)	0.83
Net cash/(debt)	(35.31)
ROE (2018E)	6.6
Derivatives (ICULS)	20.8m
Shariah Compliant	No

Key Shareholders

Teoh Hock Chai	36.6%
Dr. Yeong Yue Chai	5.5%

Source: Affin, Bloomberg

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Fig 1: Results Comparison

FYE 31 Mar (RMm)	2QFY18	QoQ % chg	YoY % chg	1HFY18	YoY % chg	Comments
Revenue	**25.0**	*(2.4)*	*10.8*	**50.5**	*13.5*	
- Hire Purchase	17.7	*0.2*	*11.0*	35.3	*12.8*	Interest income from the hire-purchase unit remains the key topline driver, +11% yoy in 2QFY18 and 12.8% yoy for 1HFY18. Net receivables growth was 20% yoy while annualized growth at 9.6%.
- Furniture	7.3	*(8.0)*	*10.3*	15.2	*15.1*	
Operating expenses	(16.7)	*(8.8)*	*7.1*	(35.1)	*15.0*	Most of the increase in 1HFY18 overheads were due to higher impaired loan allowances (+23.6% yoy), marketing expenses and higher operational cost at the furniture division.
Other Income	0.2	*>100*	*43.5*	0.3	*22.8*	
EBIT	**8.5**	*15.7*	*19.8*	**15.8**	*10.5*	
Finance Cost	(0.4)	*(9.5)*	*>100*	(0.8)	*>100*	Interest expense increased in tandem with higher amount of borrowings (reflected in double the growth of block discounting payables) to suport the HP business.
Pre-Tax Profit	8.1	*17.3*	*11.3*	15.0	*1.6*	99.5% of contribution to PBT from the HP business.
Taxation	(2.1)	*15.1*	*14.6*	(4.0)	*3.6*	
Profit After Tax	**6.0**	*18.0*	*10.2*	**11.0**	*0.9*	Flat growth yoy.
Core Net Profit	**6.0**	*18.0*	*10.2*	**11.0**	*0.9*	1HFY18 core earnings represented 45% of our FY18E net profit of RM24.3m. In-line with expectation as we expect further improvement in 2H.
Core EPS	**2.43**	*10.8*	*(1.1)*	**4.62**	*(14.3)*	Decline in the core EPS growth was due to the dilution effect of the recent RM54m rights issue.
Single-tier DPS (sen)	**3.25**	*n.m.*	-	**3.25**	-	An interim DPS of 3.25 sen was proposed (2QFY17: 3.25 sen)
Net Yield (%)	2.7	*n.m.*	-	2.7	-	

Source: Affin Hwang, Company data

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	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.

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

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