

3Q FYE MAR 2018 RESULTS REPORT

23 February 2018

Name of PLC: ELK-Desa Resources Bhd		PLC Website: www.elk-desa.com.my	
Business Summary: Involved in hire purchase financing for used motor vehicles, insurance agency business and furniture business			
Substantial Shareholders: Teoh Hock Chai @ Tew Hock Chai and deemed interest		37.3%	
Amity Corporation Sdn Bhd		5.4%	
Market / Sector:	Main / Finance	Stock Code:	5228
		Bloomberg Ticker:	ELK:MK
Market Capitalisation:	RM328.4m	Recommendation:	HOLD
Target Price:	RM1.17	Expected Capital Gain:	1.7%
Current Price:	RM1.15	Expected Div Yield:	5.0%
		Expected Total Return:	6.7%
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Key Stock Statistics	2016	2017	2018F	2019F
Fully Diluted EPS (sen)	10.76	9.99	7.98	8.48
P/E (x)	11.16	12.01	15.03	14.16
Net Dividend/Share (sen)	6.75	6.75	6.00	6.00
NTA/Share (RM)	1.84	1.45	1.17	1.26
Book Value/Share (RM)	1.84	1.45	1.17	1.26
Issued Capital (mil shares)	174.65	230.30	306.14	306.14
52-weeks Share Price Range (RM)			1.13 - 1.26	
Estimated free float				60%
Average volume (shares)			142,000	

Per Share Data	2016	2017	2018F	2019F
Year-end 31 Mar				
Book Value (RM)	1.84	1.45	1.17	1.26
Operating Cash Flow (sen)	5.73	(20.64)	4.76	6.24
EPS (sen)	10.76	9.99	7.98	8.48
Net Dividend/Share (sen)	6.75	6.75	6.00	6.00
Payout Ratio (%)	72.60	67.60	75.14	70.79
P/E (x)	11.16	12.01	15.03	14.16
P/Cash Flow (x)	20.95	(5.81)	25.22	19.23
P/Book Value (x)	0.65	0.83	1.02	0.96
Dividend Yield (%)	5.63	5.63	5.00	5.00
ROE (%)	6.47	7.02	7.06	6.98
Net Gearing (%)	n.c.	n.c.	n.c.	n.c.

n.c. - net cash

P&L Analysis (RM mil)	2016	2017	2018F	2019F
Revenue	64.17	94.49	97.78	102.63
EBITDA	25.97	30.80	32.49	34.49
Depreciation	(0.45)	(0.58)	(0.58)	(0.60)
Net Interest Income	(0.20)	0.34	0.25	0.25
Pre-tax Profit	25.32	30.57	32.16	34.14
Net Profit	18.79	23.00	24.44	25.95
EBITDA Margin (%)	40.47	32.60	33.23	33.60
Pre-tax Margin (%)	39.47	32.35	32.89	33.26
Net-Margin (%)	29.28	24.34	25.00	25.28

1. 3QFY18 Results Highlight

	3QFY18	3QFY17	Chg
	RMm	RMm	%
Revenue	25.90	25.12	3
Other Income	0.72	0.40	80
Impairment Allowance	4.56	5.25	-13
Other Expenses	7.12	6.84	4
Pre-tax Profit	9.54	7.61	25
Net Profit	7.00	5.67	23
Pre-tax Margin (%)	36.8	30.3	21
Net Margin (%)	27.0	22.6	19

- The Company's 3QFY18 revenue increased marginally by 3% year-on-year ("yoy") to RM25.9m, however its net profit for the quarter jumped by 23% yoy to RM7m. HP division had a solid performance in the quarter.
- For HP segment, revenue grew 10% yoy to RM18.45m in this quarter, while PBT surged by 29% yoy to RM9.56m on the back of a significant lower impairment allowance in the 3rd quarter.
- Boggled down by lower export sales and higher expenses, the furniture segment's revenue saw a 11% drop yoy and registered a small loss before tax of ~RM15k for this quarter compared to PBT of ~RM200k in the same period last year.
- For quarter-on-quarter ("qoq") performance, the Company's revenue grew slightly by 4% from the last quarter's revenue of RM24.96m, however net profit rose by 17% qoq from RM5.96m registered in the preceding quarter powered by a strong improvement in the HP division in the quarter.

2. 9MFY18 Results Highlight

	9MFY18	9MFY17	Chg
	RMm	RMm	%
Revenue	76.43	69.64	10
Other Income	1.34	1.69	-21
Impairment Allowance	16.25	14.71	10
Other Expenses	20.50	19.02	8
Pre-tax Profit	24.53	22.36	10
Net Profit	18.01	16.58	9
Pre-tax Margin (%)	32.1	32.1	-
Net Margin (%)	23.6	23.8	-1

- For 9MFY18, revenue and net profit rose to RM76.43m (+10% yoy) and RM18.01m (+9% yoy) respectively supported by higher loan growth and stable profit margins.
- 9-month results were largely in-line, making up 78.2% of our full-year forecast for revenue and 73.7% of our full-year forecast for net profit.

3. Earnings Outlook

After a poor Q1 in FY18, the Company has showed strong qoq earnings growth in Q2 and Q3, mainly attributed to continued reduction in impairment allowance, thus improving profit margins. We expect the positive momentum to carry forward to the last quarter in FY18.

Though the current favourable economic environment bodes well for the overall local motor vehicle industry going forward, there are potential risks (local political risk or rising interest rate & inflation) to our earnings forecast in FY19 which may cause a sharp deterioration in the consumer sentiment and higher impairment allowance. Nevertheless, at this juncture, we are maintaining our earnings forecast for FY19.

4. Valuation and Recommendation

We continue to recommend a HOLD for the stock with an unchanged price target of RM1.17 based on a current year P/BV of 1x. P/E valuations are largely in line with the broad market. We are confident the Company will maintain its organic growth in a steady manner and sustain healthy profit margins in the long run given its leading market share in the niche hire purchase segment and prudent management. The forecast dividend yield of about 5% will continue to underpin the share price at current levels.

Share Price Chart



Disclosures/Disclaimer

Investment ratings:

Buy (generally >10% upside over the next 12 months)

Hold (generally negative 10% downside to positive 10% upside over the next 12 months)

Sell (generally >10% downside over the next 12 months)

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