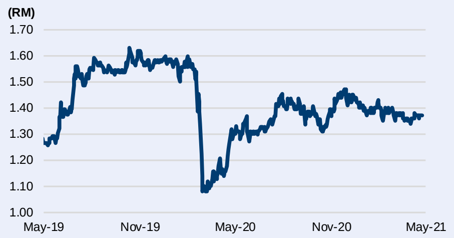
"We expect positive growth in FY22's receivables on the back of increased demand for used cars"

Share price performance



	1M	3M	12M
Absolute (%)	2.2	-2.1	0.0
Rel KLCI (%)	4.3	-1.5	-8.9

	BUY	HOLD	SELL
Consensus	-	1	-

Source: Bloomberg

Stock Data

Sector	Financial services
Issued shares (m)	297.2
Mkt cap (RMm)/(US$m)	407.4/98.3
Avg daily vol - 6mth (m)	0.1
52-wk range (RM)	1.31-1.50
Est free float	34.7%
Stock Beta	0.75
Net cash/(debt)	(108.9)
ROE (FY22E)	6.5%
Derivatives	Nil
Shariah Compliant	No

Key Shareholders

Teo Hock Chai	37.5%
Amity Corporation	5.2%

Source: Affin Hwang, Bloomberg

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ELK-Desa Resources (ELK MK)

HOLD (maintain)
Up/Downside: +10.2%

Price Target: RM1.51
Previous Target (Rating): RM1.50 (HOLD)

Credit recovery drives a robust 4th quarter

- **ELK-Desa's 4QFY21 net profit came in at RM14.2m (+115.7% yoy; +56% qoq) while the FY21 net profit was a pleasant surprise at RM35.3m (+1.1% yoy) and beat our expectations by 25%**
- **Credit recovery in 4QFY21 was the key driver, and this lowered FY21's net credit cost level to 315bps vs. 422bps in FY20. This was also much lower than our FY21 forecast of 500bps**
- **Maintain HOLD, with marginal adjustment in our 12-month PT to RM1.51 (based on a 12x P/E target on CY22E EPS) as we roll forward our valuation horizon. For FY22, management is aiming to achieve a marginal receivables portfolio expansion subsequent to a 14.4% yoy decline in FY21's net receivables**

4QFY21 was a surprise. FY21 results outperformed our expectations

ELK's 4QFY21 PAT came in as a surprise at RM14.2m (+115.7% yoy and +56% qoq), while FY21's PAT rose by 1.1% yoy to RM35.3m despite significant headwinds faced during the year. In 4QFY21, we saw marginal growth in revenue (+3.3% yoy and +4.2% qoq), largely driven by a turnaround in the furniture segment (in 2HFY21), while credit recoveries underpinned the bottomline, resulting in a PAT growth of 115.7% yoy and 56% qoq. For FY21, revenue inevitably declined 2.9% yoy, as the hire-purchase segment was impacted by weaker collections and management's deliberate move to stay conservative on portfolio expansion (FY21's receivables declined 14.4% yoy). The lower NCC of 315bps vs. 422bps in FY20 was also partially driven by lower losses incurred for repossession, sustained repayments by ELK's hire-purchase customers and persistent credit collection initiatives.

Assumptions for FY22E-23E largely unchanged; introducing FY24E

We are maintaining our assumptions for FY22E-23E with receivables growth rates at 5.8% and 8.8% yoy, respectively, while introducing our FY24E forecast of 9% yoy. Our NCC assumptions are 500bps/426bps/435bps for FY22-24E.

Maintain HOLD, with Price Target raised to RM1.51

We reiterate our **HOLD** rating on ELK, based on our revised 12-month PT of **RM1.51** (based on a 5-year mean P/E of 12x on CY22E EPS of 12.6 sen; previously 13x on CY21E EPS). In the near term, we do not foresee a robust expansion in ELK's receivables book, as management remains prudent in its approach though the demand for used cars remains robust due to its affordability vis-à-vis new cars. Meanwhile, we note that ELK's loan loss cover continued to provide adequate buffer at ~200%. Downside/upside risks: rise/decline in default rates; slower/more robust receivables growth.

Earnings & Valuation Summary

FYE 31 Mar	2020	2021	2022E	2023E	2024E
Revenue (RMm)	148.0	143.8	151.9	164.7	170.6
Net operating income (RMm)	60.0	57.8	58.3	65.1	66.7
Pretax profit (RMm)	47.5	46.0	45.3	51.1	53.6
Net profit (RMm)	34.9	35.3	34.4	38.9	40.7
EPS (sen)	11.8	11.9	11.7	12.8	13.4
FD EPS (sen)	11.8	11.9	11.4	12.8	13.4
FD EPS growth (%)	7.7	0.9	(3.8)	12.1	4.8
FD PER (x)	11.6	11.5	12.0	10.7	10.2
ROE (%)	8.3	8.1	7.6	8.2	8.1
P/BV (x)	0.96	0.91	0.87	0.84	0.82
Net DPS (sen)	7.25	7.25	7.0	7.7	8.1
Dividend Yield (%)	5.3	5.3	5.1	5.6	5.9
Chg in EPS (%)			-	-	new
Affin/Consensus (x)			NA	NA	NA

Source: Company, Affin Hwang estimates

Fig 1: Results Comparison

FYE Mar (RMm)	4QFY20	3QFY21	4QFY21	QoQ % chg	YoY % chg	FY20	FY21	YoY % chg	Comments
Revenue	**37.5**	**37.2**	**38.8**	*4.2*	*3.3*	**148.0**	**143.8**	*(2.9)*	
- Hire purchase	27.3	23.1	23.5	*1.7*	*(13.9)*	104.7	93.3	*(10.9)*	FY21 hire purchase income declined 10.9% yoy as receivables outstanding was 14.4% lower yoy. Receivables yield saw a marginal decline from 18.4% in FY20 to 17.3%.
- Furniture	10.2	14.1	15.3	*8.1*	*49.4*	43.3	50.4	*16.5*	Furniture sales improved due to higher domestic sales through dealerships.
Operating expense	(25.5)	(22.3)	(21.8)	*(2.5)*	*(14.5)*	(90.7)	(88.4)	*(2.5)*	Full-year FY21 NCC declined to 315bps vs. 422bps in FY20 due to a reversal in 4QFY21's provisions, which saw an annualized NCC of 91bps vs. 570bps in 4QFY20.
Other income	0.7	0.2	3.2	*>100*	*>100*	2.7	2.4	*(8.4)*	
EBIT	**12.7**	**15.1**	**20.1**	*33.4*	*58.6*	**60.0**	**57.8**	*(3.6)*	
EBIT margin (%)	*33.8*	*40.6*	*51.9*	*11.4*	*18.1*	*40.5*	*40.2*	*(0.3)*	FY21 EBIT margin improved significantly in 4QFY21 due to a reversal in impairment allowance.
Net finance cost	(3.5)	(2.7)	(2.6)	*(4.1)*	*(26.6)*	(11.1)	(11.5)	*3.7*	
Pre-tax Profit	**9.2**	**12.4**	**17.5**	***41.5***	***91.4***	**47.5**	**46.0**	***(3.2)***	About 91% of the FY21 pre-tax profit came from the hire-purchase segment.
Taxation	(2.6)	(3.3)	(3.4)	*2.0*	*30.0*	(12.6)	(10.7)	*(15.1)*	
Tax rate (%)	*28.3*	*26.7*	*19.2*	*7.4*	*(2.1)*	*26.6*	*23.3*	*(3.3)*	
Net profit	**6.6**	**9.1**	**14.2**	*55.9*	*115.7*	**34.9**	**35.3**	*1.1*	Results beat our expectations by 25%.
Core net profit	**6.6**	**9.1**	**14.2**	*55.9*	*115.7*	**34.9**	**35.3**	*1.1*	
EPS (sen)	**2.21**	**3.06**	**4.77**	*55.9*	*115.6*	**11.76**	**11.87**	*0.9*	
Core EPS (sen)	**2.21**	**3.06**	**4.77**	*55.9*	*115.6*	**11.76**	**11.87**	*0.9*	
DPS (sen)	**3.75**	-	**4.75**	*n.m.*	*26.7*	**7.25**	**7.25**	-	
Net yield (%)	2.7	-	3.5	*n.m.*	*0.7*	5.3	5.3	-	

Source: Affin Hwang, Company

Important Disclosures and Disclaimer

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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