Securities

BURSA MidS

AFFIN HWANG CAPITAL

Outthink. Outperform.

Banking on hire purchase financing

ELK-Desa's 9MFY18 core net profit of RM18m (+8.6% yoy) was within our expectations. Receivables continued to grow at an annualized rate of 14.3% yoy, which in our view will continue to improve into 4QFY18. The hire purchase division remains the key earnings driver with the new money-lending license providing some positive catalysts, while the furniture segment showed some operational strains. We maintain our HOLD call and Price Target of RM1.18.

9MFY18 results within expectations, net profit improved yoy & qoq

ELK-Desa saw an improved 9MFY18 net profit of RM18.0m (+8.6% yoy), in line with our FY2018 forecast. This was mainly driven by higher profit contribution from the hire purchase (HP) division. However, 9MFY18 EPS was down 9.9% yoy due to dilutive effect of the RM54m rights issue and a 21% increase in weighted average number of shares. 3QFY18 earnings recorded an increase in earnings qoq also driven by higher contribution from the HP division offset by deterioration in the furniture division as it dropped into the red in 3QFY18.

Hire purchase financing driving earnings, strains in furniture division

The HP division contributed almost 100% of the 9MFY18 group pre-tax profit of RM24.5m which grew by 9.7% yoy. Underpinning this was an expansion of HP receivables growth by an annualized 14.3% yoy vis-à-vis our forecast of a 13.8% yoy growth for FY18E. The money-lending license which was obtained last quarter provides a positive catalyst as it opens up opportunities for the group to diversify its income. The furniture division, however, continued to face high operating expenses, recording a 90% drop in 9MFY18 profit despite a 4.9% increase in 9MFY18 revenue. This large drop was also contributed by a 218% jump in the furniture division's impairment allowance due to slow payments from dealers.

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

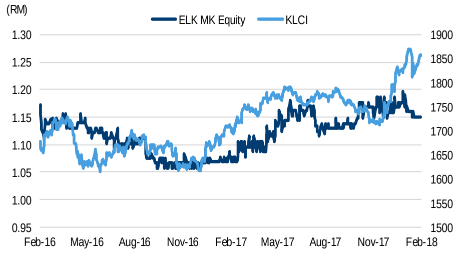
RM1.15 @ 22 February 2018

HOLD (maintain)

Upside: 2.6%

Price Target: RM1.18

Previous Target: RM1.18



Price Performance

	1M	3M	12M
Absolute	-4.2%	-4.2%	0.8%
Rel to KLCI	-5.3%	-11.0%	-7.2%

Stock Data

Issued shares (m)	285.6
Mkt cap	328.4/83.8
Avg daily vol - 6mth	0.1
52-wk range (RM)	1.13-1.26
Est free float	38.2%
BV per share (RM)	1.36
P/BV (x)	0.85
Net cash/(debt)	0.40
ROE (2018E)	6.6
Derivatives (ICULS)	14.89
Shariah Compliant	No

Key Shareholders

Eng Lee Kredit	32.2%
Amity Corporation SD	5.4%

Source: Affin, Bloomberg

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Fig 1: Results Comparison

FYE 31 Mar (RMm)	3QFY18	QoQ % chg	YoY % chg	9MFY18	YoY % chg	Comments
Revenue	**25.9**	*3.7*	*3.1*	**76.4**	*9.8*	
- Hire Purchase	18.4	*4.4*	*10.3*	53.8	*11.9*	Interest income from the hire-purchase unit remains the key topline driver, +10% yoy in 3QFY18 and 11.9% yoy for 9MFY18. Net receivables annualized growth at 14.3% yoy.
- Furniture	7.5	*2.1*	*(11.2)*	22.7	*4.9*	
Operating expenses	(16.5)	*(1.5)*	*(7.0)*	(51.5)	*6.9*	Most of the increase in 9MFY18 overheads were due to higher impaired loan allowances (+10.5% yoy), marketing expenses and higher operational cost at the furniture division.
Other Income	0.6	*>100*	*>100*	0.9	*91.9*	
EBIT	**10.0**	*17.9*	*31.2*	**25.8**	*17.7*	
Finance Cost	(0.4)	*15.5*	*>100*	(1.3)	*n.m.*	Interest expense increased in tandem with higher amount of borrowings (reflected in double the growth of block discounting payables) to support the HP business.
Pre-Tax Profit	9.5	*18.0*	*25.5*	24.5	*9.7*	Virtually 100% of contribution to PBT from hire purchase business.
Taxation	(2.5)	*19.4*	*31.3*	(6.5)	*12.9*	
Profit After Tax	**7.0**	*17.4*	*23.5*	**18.0**	*8.6*	9MFY18 PAT showed an 8.6% increase yoy due to better performance from the hire purchase division.
Core Net Profit	**7.0**	*17.4*	*23.5*	**18.0**	*8.6*	9MFY18 core earnings represented 74% of our FY18E net profit of RM24.3m. In-line with expectation as we expect further improvement going into 4QFY18.
Core EPS	**2.46**	*1.2*	*(1.7)*	**7.10**	*(9.9)*	Decline in the 9MFY18 core EPS growth was due to the dilution effect of the recent RM54m rights issue and conversion of ICULS.
Single-tier DPS (sen)	**-**	*n.m.*	*n.m.*	**3.25**	-	
Net Yield (%)	**-**	*n.m.*	*n.m.*	2.8	-	

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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