

"The quarters ahead are expected to recover in tandem with potentially lower provisions"

Share price performance



	1M	3M	12M
Absolute (%)	7.5	7.5	-12.7
Rel KLCI (%)	9.5	-4.8	-11.8

	BUY	HOLD	SELL
Consensus	-	1	-

Source: Bloomberg

Stock Data

Sector	Financials
Issued shares (m)	297.2
Mkt cap (RMm)/(US\$m)	4,27.9/102.1
Avg daily vol - 6mth (m)	0.2
52-wk range (RM)	1.09-1.77
Est free float	35.6%
Stock Beta	0.77
Net cash / (debt) (RMm)	(208)
ROE (FY21E)	7.4%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Teo Hock Chai	37.5%
Amity Corporation	5.2%

Source: Affin, Bloomberg



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ELK-Desa Resources (ELK MK)

HOLD (maintain)

Up/Downside: -2.7%

Price Target: RM1.40

Previous Target (Rating): RM1.43 (HOLD)

1Q bogged down by high provisions

- ELK-Desa's 1QFY21 net profit of RM2.3m (-75% yoy; -65% qoq) was below our expectation, accounting for 7.1% of our estimate (RM32.2m, prior to revisions). Main culprit was higher provisions for receivables impairment, due to the MCO.
- Based on management's guidance, the significantly higher net credit cost of 246bps in 1QFY21 (vs. 94bps in 1QFY20) may not likely repeat in the subsequent quarters, as collections resumed after the MCO was lifted.
- We revised down FY21E net earnings by 21% as we raise our net credit cost assumption from 400bps to 633bps. Maintain HOLD, with a lower PT of RM1.40 from RM1.43.

1QFY21 net profit down 75.2% yoy; steep provisions is likely one-off

ELK-Desa saw 1QFY21 net profit at RM2.3m, down 75% yoy and 65% qoq, largely due to steep provisions (RM13.9m, +209% yoy) for its hire-purchase (HP) receivables. To recap, implementation of the MCO had affected the collections from hirers and hence, net credit cost in 1QFY21 has risen to 246bps vs. 94bps in 1QFY20. We understood that management has taken a precautionary move in 1QFY21 to set aside additional provisions for accounts which are not in under-performing status, and it was also pre-emptive in nature. That said, the subsequent quarters are likely to see net profit recovery. Meanwhile, its furniture division contributed only a mediocre amount of pre-tax profit, i.e. accounting for 8.5% of group PBT with sluggish revenue (-37.7% yoy) due to the MCO.

ELK-Desa's management to stay cautious throughout FY21

Contrary to the banks' relief measures (loan moratorium) to borrowers, ELK opted not to as management believes that by not doing so, it would be able to identify the good customers against those who could not cope with the repayments. Such a move in our view, will address the problems of these customers. We believe that though ELK's gross NPL ratio could have potentially spiked from 1.4% at end-FY20 to 1.6% as at 1QFY21, the high loan loss cover of 360% would help to mitigate the risk higher provisions in case NPLs spike further. The situation now looks under-control under the RMCO phase, with collections improving though management remains cautious on expanding its HP receivables book too aggressively.

Maintain HOLD, with a revised Price Target of RM1.40

We reiterate our **HOLD** rating on ELK, and adjust our 12-month Target Price from RM1.43 to **RM1.40** (based on a 5-year mean P/E average of 13x on CY21E EPS). We revise down FY21E's net earnings by 21% (raising net credit cost to 633bps from 400bps) though maintain FY22E-23E forecasts (NCC at 530-580bps). We expect Downside/upside risk – rise/decline in default rates.

Earnings & Valuation Summary

FYE 31 March	2019	2020	2021E	2022E	2023E
Revenue (RMm)	123.4	148.0	137.7	140.8	154.3
Net operating income (RMm)	47.5	60.0	44.3	53.5	57.2
Pretax profit (RMm)	43.8	47.5	33.4	42.5	46.3
Net profit (RMm)	32.9	34.9	25.4	32.3	35.2
EPS (sen)	11.2	11.8	8.7	11.0	11.6
FD EPS (sen)	10.9	11.8	8.5	10.7	11.6
FD EPS growth (%)	15.8	7.7	(28.1)	27.0	8.2
FD PER (x)	13.2	12.2	17.0	13.4	12.4
ROE (%)	8.1	8.3	5.9	7.3	7.6
P/BV (x)	1.04	1.02	0.97	0.94	0.91
Net DPS (sen)	7.0	7.25	5.2	6.6	7.0
Dividend Yield (%)	4.9	5.0	3.6	4.6	4.8

Chg in EPS (%)

-21.1

Affin/Consensus (x)

NA

NA

NA

Source: Company, Affin Hwang estimates



Fig 1: Results Comparison

FYE Mar (RMm)	1QFY20	4QFY20	1QFY21	QoQ % chg	YoY % chg	Comments
Revenue	35.2	37.5	30.4	(18.9)	(13.6)	Revenue declined 19% qoq and 13.6% yoy.
- Hire purchase	24.1	27.3	23.5	(14.0)	(2.5)	Lower collections from borrowers as a result of the impact of the MCO and CMCO from April to early June.
- Furniture	11.1	10.2	6.9	(32.1)	(37.7)	Furniture sales were affected by the MCO.
Operating expense	(21.8)	(25.5)	(24.6)	(3.4)	13.1	The bulk of increase in 1QFY21 was from the hire-purchase impairment allowances (RM13.9m; +209% yoy), as net credit cost increased from 94bps in 1QFY20 to 246bps in 1QFY21 (annualized ~960bps). This includes pre-emptive provisions for non-NPL accounts as well.
Other income	0.4	0.7	0.5	(20.8)	37.8	
EBIT	13.8	12.7	6.3	(50.3)	(54.3)	
EBIT margin (%)	39.2	33.8	20.8	(13.1)	(18.5)	
Net finance cost	(1.5)	(3.5)	(3.3)	(6.4)	116.6	Higher increase in finance cost due to additional leverage in the group to fund receivables growth.
Pre-tax Profit	12.3	9.2	3.0	(67.2)	(75.5)	About 91.5% of pre-tax profit from hire-purchase segment.
Taxation	(3.0)	(2.6)	(0.7)	(72.6)	(76.4)	
Tax rate (%)	24.5	28.3	23.6	(4.70)	(0.9)	
Net profit	9.3	6.6	2.3	(65.0)	(75.2)	Results below our expectation. 1QFY21 net profit accounted for 7% of our FY21E forecast of RM32.2m (prior to revisions).
Core net profit	9.3	6.6	2.3	(65.0)	(75.2)	
EPS (sen)	3.13	2.21	0.77	(65.0)	(75.3)	
Core EPS (sen)	3.13	2.21	0.77	(65.0)	(75.3)	
DPS (sen)	-	3.75	-	n.m.	-	
Net yield (%)	-	2.7	-	n.m.	-	

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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