

Results Note

RM1.34 @ 19 August 2021

"Though downside risks on asset quality are well-buffered, ELK is still playing it safe"

Share price performance



| | 1M | 3M | 12M |
|--------------|------|------|------|
| Absolute (%) | -0.7 | -1.5 | -7.6 |
| Rel KLCI (%) | -0.4 | 2.8 | -3.9 |

| | BUY | HOLD | SELL |
|-----------|-----|------|------|
| Consensus | - | 1 | - |

Stock Data

| | |
|--------------------------|--------------------|
| Sector | Financial services |
| Issued shares (m) | 297.2 |
| Mkt cap (RMm)/(US\$m) | 398.7/94 |
| Avg daily vol - 6mth (m) | 0.1 |
| 52-wk range (RM) | 1.32-1.48 |
| Est free float | 34.7% |
| Stock Beta | 0.74 |
| Net cash/(debt) | (53.9) |
| ROE (FY22E) | 6.5% |
| Derivatives | Nil |
| Shariah Compliant | No |
| FTSE4Good Constituent | No |
| FBM EMAS (Top 200) | N/A |
| ESG Rank | |
| ESG Risk Rating | 29.1 |

Key Shareholders

| | |
|-------------------|-------|
| Teo Hock Chai | 37.5% |
| Amity Corporation | 5.1% |

Source: Bloomberg, Affin Hwang, Bursa Malaysia, ESG Risk Rating Powered by Sustainalytics

Tan Ei Leen

T (603) 2146 7543

E eileen.tan@affinhwang.com

ELK-Desa Resources (ELK MK)

Cease coverage

Up/Downside: -

Price Target: -

Previous Target (Rating): RM1.54 (HOLD)

FMCO impact weakened 1QFY22 results

- ELK-Desa's 1QFY22 net profit came in at RM5m (+300% yoy; -65% qoq) and was deemed below our expectations, accounting for 13.2% of our FY22E net profit forecast
- Outstanding hire-purchase receivables continued to decline as ELK stayed cautious while the impact of the FMCO and high COVID-19 cases had severely dampened demand for used-car financing. We saw net credit cost spiking up in 1QFY22 compared to some recoveries seen in 4QFY21
- We are ceasing coverage on ELK due to its lack of liquidity and as we reprioritize our resources

1QFY22 results came in below our expectations

ELK's 1QFY22 PAT came in at RM5m, higher by +300% yoy but was 65% lower qoq, largely attributable to changes in impaired loan provisions. In 1QFY22, provisions of RM8.3m were down by 41.2% yoy though rose by 31% qoq as a result of a higher level of pre-emptive buffer set aside in 1QFY21, while in 4QFY21, there was also a significant amount of recoveries from its collection due. In terms of receivables net credit cost (NCC), 1QFY22 came in at an annualized 645bps vs. 900bps in 1QFY21 and 91bps in 4QFY21. As a result of the reinstatement of the lockdown, under a stricter FMCO and with higher number of COVID-19 cases, we saw outstanding receivables weaker, at lower by 10% yoy and 2.7% qoq.

Assumptions based on our last report

In our last report dated 5 June 2021, we had FY22E-24E assumptions of 5.5-6.0% for ELK's receivables growth and NCC of 350-375bps. In ELK's FY21 annual report, management disclosed that its gross NPL ratio had spiked up from 1.4% (FY20) to 4.9%, which we believe was underpinned by a huge backlog of accounts which have been credit-impaired while ELK could not repossess these cars due to the restriction on repossession activities imposed by the government.

Cease coverage due to liquidity issue and reprioritizing of resources

We cease coverage on ELK due to a lack of liquidity and interest, while simultaneously reprioritizing our resources. Our last rating on ELK was **HOLD** with a PT of **RM1.54** (premised on a 5-year mean P/E of 12x on CY22E EPS of 12.8 sen). 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 may see a comeback once the states of Selangor and Kuala Lumpur enter the recovery phase.

Earnings & Valuation Summary

| FYE 31 Mar | 2020 | 2021 | 2022E | 2023E | 2024E |
|----------------------------|-------|-------|-------|-------|-------|
| Revenue (RMm) | 148.0 | 143.8 | 148.5 | 153.3 | 160.4 |
| Net operating income (RMm) | 60.0 | 56.4 | 59.9 | 61.8 | 66.0 |
| Pretax profit (RMm) | 47.5 | 46.0 | 49.9 | 51.3 | 54.6 |
| Net profit (RMm) | 34.9 | 35.3 | 37.9 | 39.0 | 41.5 |
| EPS (sen) | 11.8 | 11.9 | 12.8 | 12.9 | 13.7 |
| FD EPS (sen) | 11.8 | 11.9 | 12.6 | 12.9 | 13.7 |
| FD EPS growth (%) | 7.7 | 0.9 | 6.1 | 2.2 | 6.4 |
| FD PER (x) | 11.4 | 11.3 | 10.6 | 10.4 | 9.8 |
| ROE (%) | 8.3 | 8.1 | 8.4 | 8.3 | 8.4 |
| P/BV (x) | 0.94 | 0.90 | 0.87 | 0.83 | 0.80 |
| Net DPS (sen) | 7.25 | 7.25 | 7.8 | 8.0 | 8.5 |
| Dividend Yield (%) | 5.4 | 5.4 | 5.8 | 6.0 | 6.3 |

Chg in EPS (%)

Affin/Consensus (x)

-
NA NA NA

Source: Company, Affin Hwang estimates

Fig 1: Results Comparison

| FYE Mar (RMm) | 1QFY21 | 4QFY21 | 1QFY22 | QoQ % chg | YoY % chg | Comments |
|------------------------|-------------|-------------|-------------|---------------|---------------|--|
| Revenue | 30.4 | 38.8 | 31.4 | (19.0) | 3.2 | |
| - Hire purchase | 23.5 | 23.5 | 22.9 | (2.6) | (2.5) | 1QFY22 hire purchase income declined 2.5% yoy and 2.6% qoq as HP receivables outstanding were 10% lower yoy and 2.7% lower qoq. |
| - Furniture | 6.9 | 15.3 | 8.5 | (44.3) | 22.5 | Furniture sales dipped qoq due to the impact of the FMCO, though improved yoy. |
| Operating expense | (24.9) | (21.8) | (22.2) | 1.7 | (11.1) | The group incurred higher cost of goods sold (for the furniture unit); impaired loan allowances were 41% lower yoy though significantly higher qoq; and other expenses were 31% higher yoy |
| Other income | 0.5 | 3.2 | 0.2 | (92.9) | (57.6) | |
| EBIT | 6.0 | 20.1 | 9.4 | (53.1) | 57.1 | |
| <i>EBIT margin (%)</i> | <i>19.8</i> | <i>51.9</i> | <i>30.1</i> | <i>(21.8)</i> | <i>10.3</i> | 1QFY22 EBIT margin declined sharply qoq due to the higher impaired loan allowances (due to a recovery in 4QFY21). |
| Net finance cost | (3.3) | (2.6) | (2.5) | (2.4) | (23.4) | |
| Pre-tax Profit | 2.7 | 17.5 | 6.9 | (60.6) | 155.2 | Pre-tax profit from the hire purchase segment at RM7.1m while furniture was loss-making at RM0.2m |
| Taxation | (1.5) | (3.4) | (1.9) | (42.3) | 32.5 | |
| <i>Tax rate (%)</i> | <i>54.2</i> | <i>19.2</i> | <i>28.1</i> | <i>8.9</i> | <i>(26.0)</i> | |
| Net profit | 1.2 | 14.2 | 5.0 | (64.9) | 300.2 | Results were below our expectations. Accounted for 13.2% of our FY22E net profit forecast |
| Core net profit | 1.2 | 14.2 | 5.0 | (64.9) | 300.2 | |
| EPS (sen) | 0.42 | 4.77 | 1.67 | (64.9) | 299.9 | |
| Core EPS (sen) | 0.42 | 4.77 | 1.67 | (64.9) | 299.9 | |
| DPS (sen) | - | 4.75 | - | <i>n.m.</i> | <i>n.m.</i> | |
| Net yield (%) | - | 3.5 | - | <i>n.m.</i> | <i>n.m.</i> | |

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 |

This report is intended for information purposes only and has been prepared by Affin Hwang Investment Bank Berhad (14389-U) ("the Company") based on sources believed to be reliable and is not to be taken in substitution for the exercise of your judgment. You should obtain independent financial, legal, tax or such other professional advice, when making your independent appraisal, assessment, review and evaluation of the company/entity covered in this report, and the extent of the risk involved in doing so, before investing or participating in any of the securities or investment strategies or transactions discussed in this report. However, such sources have not been independently verified by the Company, and as such the Company does not give any guarantee, representation or warranty (expressed or implied) as to the adequacy, accuracy, reliability or completeness of the information and/or opinion provided or rendered in this report. Facts, information, estimates, views and/or opinion presented in this report have not been reviewed by, may not reflect information known to, and may present a differing view expressed by other business units within the Company, including investment banking personnel and the same are subject to change without notice. Reports issued by the Company, are prepared in accordance with the Company's policies for managing conflicts of interest. Under no circumstances shall the Company, be liable in any manner whatsoever for any consequences (including but are not limited to any direct, indirect or consequential losses, loss of profit and damages) arising from the use of or reliance on the information and/or opinion provided or rendered in this report. Under no circumstances shall this report be construed as an offer to sell or a solicitation of an offer to buy any securities. The Company its directors, its employees and their respective associates may have positions or financial interest in the securities mentioned therein. The Company, its directors, its employees and their respective associates may further act as market maker, may have assumed an underwriting commitment, deal with such securities, may also perform or seek to perform investment banking services, advisory and other services relating to the subject company/entity, and may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report. The Company, its directors, its employees and their respective associates, may provide, or have provided in the past 12 months investment banking, corporate finance or other services and may receive, or may have received compensation for the services provided from the subject company/entity covered in this report. No part of the research analyst's compensation or benefit was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. Employees of the Company may serve as a board member of the subject company/entity covered in this report.

Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

Copyright © 2021 Sustainalytics. All rights reserved.

This report contains information developed by Sustainalytics. Such information and data are proprietary of Sustainalytics and/or its third-party suppliers (Third-Party Data) and are provided for informational purposes only. They do not constitute an endorsement of any product or project, nor an investment advice and are not warranted to be complete, timely, accurate or suitable for a particular purpose. Their use is subject to conditions available at <https://www.sustainalytics.com/legal-disclaimers>.

This report, or any portion thereof may not be reprinted, sold or redistributed without the written consent of the Company.

This report is printed and published by:
 Affin Hwang Investment Bank Berhad (14389-U)
 A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
 69, Jalan Raja Chulan,
 50200 Kuala Lumpur, Malaysia.

T : + 603 2142 3700
 F : + 603 2146 7630
research@affinhwang.com

www.affinhwang.com