

Elk-Desa Resources Bhd

Lockdown weighed on both segments

Summary

- ELK-Desa Resources Bhd's (ELK) core net profit plummeted 56.9% YoY to RM4.6m attributed to lower contribution from both hire purchase and furniture segments amid Movement Control Order (MCO) declared by the Government from June 2021 onwards. Revenue for the quarter declined 37.5% YoY to RM23.4m. An interim dividend of 2.0 sen per share, payable on 16th December 2021 was declared.
- YTD, ELK's core net profit fell 26.8% YoY to RM9.6m, due to lower hire purchase portfolio, but was partly cushioned by lower impairment allowance, staff costs and finance cost. QoQ, ELK's core net profit dropped 5.8% to RM4.6m was due to the MCO3.0 being imposed but was partly offset by the continued effort to improve operational efficiencies and optimise operating cost.
- The results came in below expectations and it missed our full year consensus of RM43.2m. Key deviations were mainly due to the disruptions from the full lockdown that affected ELK's customers' ability to fulfil loan obligation as well as logistics for the furniture business. The hire purchase segment saw smaller hire purchase portfolio and no hire purchase disbursement during the quarter, coupled with higher impairment allowance that increased 95.0% YoY to RM5.4m. Meanwhile, lower furniture sales led to loss before tax for the furniture segment.
- ELK maintained a cautious stance by paring down its debt through repayment of block discounting facilities and term loans and fully redeem of MTN. As at 2Q22, the group's gearing remained at a manageable level at 0.34 times.
- ELK's hire purchase receivables declined 12.9% YoY to RM469.9m. Meanwhile, impairment allowance and credit loss charge (i.e. impairment allowance over average net hire purchase receivables) increased by 95.0% to RM5.4m and from 0.47% to 1.01% respectively, mainly due to the increase in non-performing accounts.
- Nevertheless, we believe the operating landscape should improve in the mid to long term on the back of high adult vaccination rate hitting over 95%, economic stimulus packages and recovery initiatives announced in Budget 2022 as well as reopening of business activities. Note that Malaysia's new vehicle sales jumped 43.4% to 63,489 units in October which is higher than the monthly average sales in 2019, indicating brighter prospect for the underserved used car market which bodes well for ELK.

Quarterly performance FYE Dec (RM m)	2QFY21	1QFY22	2QFY22	QoQ (%)	YoY (%)	6MFY21	6MFY22	YoY (%)
Revenue	37.4	31.4	23.4	(25.5)	(37.5)	67.8	54.7	(19.3)
EBITDA	16.9	10.1	9.9	(2.0)	(41.7)	23.8	19.9	(16.4)
PBT	13.4	6.9	6.2	(9.5)	(53.5)	16.4	13.1	(20.0)
PAT	10.8	4.9	4.6	(5.8)	(56.9)	13.1	9.6	(26.8)
Core PATMI	10.8	4.9	4.6	(5.8)	(56.9)	13.1	9.6	(26.8)
Reported PATMI	10.8	5.0	4.8	(4.3)	(56.0)	13.1	9.7	(25.8)
Core EPS (sen)	3.6	1.7	1.6	(5.8)	(56.9)	4.4	3.2	(26.8)
EBITDA margin (%)	45.3	32.1	42.3			35.2	36.4	
PBT margin (%)	35.8	21.9	26.7			24.2	23.9	
Core PATMI margin (%)	28.9	15.7	19.9			19.3	17.5	

Results Note

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BUY

Share price	RM1.37
Target price	RM1.51
Previous TP	RM1.52
Capital upside	10.2%
Dividend return	5.3%
Total return	15.5%

Company profile

Principally involved in the hire purchase (HP) financing for used car motor vehicles and furniture trading.

Stock information

Bursa Code	5228
Bloomberg ticker	ELK MK
Listing market	MAIN
Share issued (m)	300.0
Market Cap (m)	411.0
52W High/Low	1.48/1.32
Est. Free float	34.7%
Beta (x)	0.6
3-mth avg vol ('000)	80.6
Shariah compliant	No

Major shareholders

	%
ENG Lee Kredit Sdn Bhd	32.8
Amity Corp Sdn Bhd	5.1
Teo Siew Lai	3.5

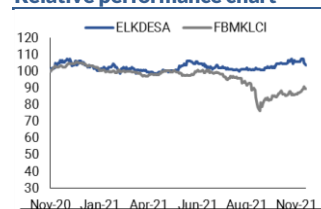
Share price vs. KLCI (%)

	1M	3M	12M
Hist. return			
Absolute	-0.7	2.2	-1.4
Relative	4.6	1.6	2.4

Earnings summary

	FY21	FY22f	FY23f
FYE (Mar)			
PATMI (m)	35.3	31.6	35.8
EPS (sen)	11.9	10.6	12.0
P/E (x)	11.5	12.9	11.4

Relative performance chart



Valuation & Recommendation

- Given the reported earnings came below our expectations, we slashed our FY22f and FY23f forecasted earnings by 15.5% and 17.1% to RM31.6m and RM35.8m respectively, in view of the increase in non-performing accounts.
- Nevertheless, we retained our **BUY** recommendation on ELK, with a lower target price of RM1.51 (from RM1.52). Our target price is derived by ascribing a P/B of 0.95x to FY23f book value per share of RM1.58. Meanwhile, ELK remains committed to delivering its dividend policy of distributing not less than 60.0% of its net profit after tax.
- Downside risks to our recommendation include uncertainties in the macro economic factors amid post-Covid recovery such as unemployment rate and inflation, which may eventually hamper ELK's customers' ability to fulfil loan obligation. Meanwhile, logistics remain an issue for the furniture segment.

Financial Highlights

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f	FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f
Revenue	123.4	148.0	143.8	126.7	145.6	Cash	31.4	91.6	86.6	129.3	116.8
EBITDA	47.7	60.0	59.7	53.9	61.8	Receivables	488.0	624.3	540.1	516.4	593.9
EBIT	46.8	57.7	57.0	50.0	57.3	Inventories	11.1	12.4	9.1	9.0	10.4
Net finance income/ (cost)	(2.9)	(10.2)	(10.9)	(8.4)	(10.1)	PPE	10.7	10.6	11.1	11.1	11.0
Associates & JV	-	-	-	-	-	Others	6.5	11.6	16.1	13.6	12.6
Profit before tax	43.8	47.5	46.0	41.6	47.1	Assets	547.6	750.6	663.0	679.5	744.7
Tax	(10.9)	(12.6)	(10.7)	(10.0)	(11.3)	Debts	114.9	299.8	195.8	202.0	251.4
Net profit	32.9	34.9	35.3	31.6	35.8	Payables	13.9	11.2	8.1	7.0	8.0
Minority interest	-	-	-	-	-	Others	7.8	14.5	17.3	16.0	16.4
Core earnings	32.9	34.9	35.3	31.6	35.8	Liabilities	136.6	325.5	221.2	225.0	275.9
Exceptional items	0.0	0.0	0.0	-	-	Shareholder's equity	343.2	344.3	344.4	344.4	344.4
Reported earnings	32.9	34.9	35.3	31.6	35.8	Minority interest	-	-	-	-	-
						Equity	410.9	425.1	441.8	454.5	468.8
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f	FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f
Profit before taxation	43.8	47.5	46.0	41.6	47.1	Core EPS (sen)	11.1	11.7	11.9	10.6	12.0
Depreciation & amortisation	0.9	2.3	2.7	3.8	4.5	P/E (x)	12.4	11.7	11.5	12.9	11.4
Changes in working capital	(110.7)	(163.7)	64.3	21.7	(78.1)	DPS (sen)	6.98	7.24	7.25	6.38	7.22
Share of JV profits	-	-	-	-	-	Dividend yield	5.1%	5.3%	5.3%	4.7%	5.3%
Taxation	(10.9)	(12.6)	(10.7)	(10.0)	(11.3)	BVPS (RM)	1.38	1.43	1.48	1.53	1.58
Others	4.3	8.4	8.9	1.5	0.4	P/B (x)	1.0	1.0	0.9	0.9	0.9
Operating cash flow	(54.0)	(92.8)	132.2	58.7	(37.3)	EBITDA margin	38.6%	40.5%	41.5%	42.5%	42.5%
Net capex	(4.3)	(0.9)	(1.8)	(1.2)	(1.2)	EBIT margin	37.9%	39.0%	39.6%	39.5%	39.3%
Others	1.3	(64.4)	13.8	-	-	PBT margin	35.5%	32.1%	32.0%	32.8%	32.4%
Investing cash flow	(3.0)	(65.5)	8.3	(3.2)	(3.2)	PAT margin	26.7%	23.6%	24.6%	25.0%	24.6%
Changes in borrowings	62.0	184.8	(103.9)	6.2	49.4	Core PAT margin	26.7%	23.6%	24.6%	25.0%	24.6%
Issuance of shares	35.7	1.2	0.1	-	-	ROE	8.2%	8.3%	8.1%	7.1%	7.8%
Dividends paid	(20.8)	(21.5)	(21.6)	(19.0)	(21.5)	ROA	6.5%	5.4%	5.0%	4.7%	5.0%
Others	(38.8)	(13.0)	(12.2)	-	-	Net gearing	20.3%	49.0%	24.7%	16.0%	28.7%
Financing cash flow	38.2	151.4	(137.6)	(12.8)	27.9						
Net cash flow	(18.9)	(6.9)	2.8	42.7	(12.6)						
Forex	-	0.0	(0.0)	-	-						
Others	-	67.1	(7.8)	-	-						
Beginning cash	50.3	31.4	91.6	86.6	129.3						
Ending cash	31.4	91.6	86.6	129.3	116.8						