

Elk-Desa Resources Bhd

Improved collection trend amid economic recoveries

Summary

- ELK-Desa Resources Bhd's (ELKDESA) 1Q23 core net profit jumped 256.7% YoY to RM17.6m. The results came in above expectation, amounting to 58.5% of our full year forecast at RM30.1m and 63.1% of consensus of RM27.9m. Key deviation was mainly due to a higher-than-expected contribution from both hire purchase and furniture segments.
- YoY, the improvement in the hire purchase segment primarily resulted from a reversal of impairment allowance in current quarter and an increase in hire purchase portfolio, while the furniture segment saw higher furniture sales as compared to the previous corresponding quarter due to MCO disruptions. QoQ, core net profit surged 216.8%, mainly arising from a higher profit contribution from the hire purchase segment.
- The reversal of impairment allowance stood at RM5.4m vs. an impairment allowance of RM8.2m in 1Q22 due to a significant decrease in non-performing account, as collection trend was exceptionally good during economic recoveries. Besides, the special withdrawal facility of up to RM10,000 from Employees Provident Fund (EPF) in April 2022 helped the hirers' repayment.
- That said, we do not foresee a major reversal of impairment allowance on hire purchase in the upcoming quarter. The hire purchase segment's growth should rely on a higher hire purchase receivables as ELKDESA aims to gradually bring its hire purchase receivables portfolio towards pre-pandemic levels. Its hire purchase receivables increased 7.3% QoQ to RM502.2m.
- Other drivers for the hire purchase segment include a growth of online used cars trading platforms which may lead to a slower price reduction rate for used cars, as well as the introduction of a higher minimum wage rate of RM1,500. For the furniture segment, the improving business and consumer sentiments are expected to drive demand for quality and value for money furniture products.
- Liabilities wise, ELKDESA reduced its bank borrowings by 10.5% YoY to RM151.4m via repayment of block discounting facilities and term loans. Gearing stood at 0.33x as compared to 0.52x in 1Q22.

Results Note – 1QFY23

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BUY

Share price	RM1.35
Target price	RM1.46
Previous TP	RM1.47
Capital upside	8.1%
Dividend return	5.8%
Total return	14.0%

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)	303.2
Market Cap (m)	409.3
52W High/Low	1.45/1.20
Est. Free float	37.6%
Beta (x)	0.4
3-mth avg vol ('000)	94.2
Shariah compliant	No

Major shareholders

	%
ENG Lee Kredit Sdn Bhd	32.2
Amity Corp Sdn Bhd	5.1
Teo Siew Lai	3.5

Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	4.7	5.5	0.7
Relative	2.0	8.6	1.7

Earnings summary

FYE (Mar)	FY22	FY23f	FY24f
PATMI (m)	25.7	38.9	39.9
EPS (sen)	8.5	12.9	13.2
P/E (x)	15.9	10.5	10.2

Relative performance chart



Quarterly performance								
FYE Dec (RM m)	1QFY22	4QFY22	1QFY23	QoQ (%)	YoY (%)	3MFY22	3MFY23	YoY (%)
Revenue	31.4	36.0	39.0	8.3	24.2	31.4	39.0	24.2
EBITDA	10.0	9.8	25.6	160.7	155.6	10.0	25.6	155.6
PBT	6.9	7.6	23.4	209.7	239.9	6.9	23.4	239.9
PAT	4.9	5.6	17.6	216.8	256.7	4.9	17.6	256.7
Core PATMI	4.9	5.6	17.6	216.8	256.7	4.9	17.6	256.7
Reported PATMI	5.0	5.5	17.6	217.8	254.2	5.0	17.6	254.2
Core EPS (sen)	1.7	1.9	5.9	216.8	256.7	1.7	5.9	256.7
EBITDA margin (%)	32.0	27.3	65.8			32.0	65.8	
PBT margin (%)	21.9	21.0	60.0			21.9	60.0	
Core PATMI margin (%)	15.7	15.4	45.2			15.7	45.2	

Valuation & Recommendation

- As the earnings came in above our expectations, we upgrade our earnings forecast by 29.2% to RM38.9m and 22.0% to RM39.9m for FY23f and FY24f respectively. The earnings forecast will take into account the recovering demand for used car hire purchase financing amid normalising economy, higher hire purchase portfolio, as well as the improving demand for quality furniture moving forward.
- We retained our **BUY** recommendation on ELKDESA, with a revised target price at RM1.46. The target price is derived by ascribing a P/B of 0.95x to FY23f book value per share of RM1.54, after taking into account the issuance of shares upon conversion of ICULS. Meanwhile, ELK remains committed to the distribution of not less than 60.0% of its net profit after tax.
- Downside risks to our recommendation include the expiry of loan moratoriums given by banks that may impact borrowers' disposable incomes and their repayment ability. Besides, supply chain constraints for the furniture segment caused by logistics disruptions could be another risk.

Financial Highlights

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f	FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f
Revenue	148.0	143.8	128.9	137.6	155.9	Cash	91.6	86.6	55.2	49.8	32.3
EBITDA	60.0	59.9	45.3	61.0	64.5	Receivables	624.3	540.1	484.5	524.1	601.8
EBIT	57.7	57.3	42.6	57.7	60.7	Inventories	12.4	9.1	11.9	12.1	13.0
Net finance income/ (cost)	(10.2)	(10.9)	(7.8)	(6.5)	(8.1)	PPE	10.6	11.1	11.2	11.3	11.4
Associates & JV	-	-	-	-	-	Others	11.6	16.1	19.5	18.7	17.6
Profit before tax	47.5	46.3	34.8	51.1	52.5	Assets	750.6	663.0	582.3	616.0	675.9
Tax	(12.6)	(10.7)	(9.1)	(12.3)	(12.6)	Debts	299.4	195.6	117.3	131.4	174.4
Net profit	34.9	35.6	25.7	38.9	39.9	Payables	11.2	8.1	3.6	6.2	6.7
Minority interest	-	-	-	-	-	Others	14.9	17.5	13.9	14.1	14.7
Core earnings	34.9	35.6	25.7	38.9	39.9	Liabilities	325.5	221.2	134.7	151.7	195.7
Exceptional items	0.0	0.3	(0.1)	-	-	Shareholder's equity	344.3	344.4	344.9	351.5	351.5
Reported earnings	34.9	35.3	25.8	38.9	39.9	Minority interest	-	-	-	-	-
						Equity	425.1	441.8	447.5	464.2	480.2
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f	FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f
Profit before taxation	47.5	46.3	34.8	51.1	52.5	Core EPS (sen)	11.6	11.8	8.5	12.9	13.2
Depreciation & amortisation	2.3	2.7	2.7	3.3	3.8	Diluted Core EPS (sen)	11.5	11.7	8.5	12.8	13.2
Changes in working capital	(163.7)	64.3	24.0	(37.0)	(78.0)	P/E (x)	11.7	11.4	15.9	10.5	10.2
Share of JV profits	-	-	-	-	-	DPS (sen)	7.25	7.25	5.25	7.84	8.06
Taxation	(12.6)	(10.7)	(9.1)	(12.3)	(12.6)	Dividend yield	5.4%	5.4%	3.9%	5.8%	6.0%
Others	8.4	8.6	2.6	(6.7)	(0.9)	BVPS (RM)	1.41	1.46	1.48	1.54	1.59
Operating cash flow	(92.8)	132.2	78.3	(1.5)	(35.3)	P/B (x)	1.0	0.9	0.9	0.9	0.8
Net capex	(0.9)	(1.8)	(1.2)	(1.3)	(1.3)	EBITDA margin	40.5%	41.7%	35.2%	44.3%	41.3%
Others	(64.6)	10.1	59.7	-	-	EBIT margin	39.0%	39.8%	33.1%	41.9%	38.9%
Investing cash flow	(65.5)	8.3	58.5	(1.3)	(1.3)	PBT margin	32.1%	32.2%	27.0%	37.1%	33.7%
Changes in borrowings	185.1	(103.8)	(78.4)	14.2	43.0	PAT margin	23.6%	24.8%	19.9%	28.2%	25.6%
Issuance of shares	1.2	0.1	0.4	6.6	-	Core PAT margin	23.6%	24.8%	19.9%	28.2%	25.6%
Dividends paid	(21.5)	(21.6)	(15.3)	(23.3)	(23.9)	ROE	8.3%	8.2%	5.8%	8.5%	8.5%
Others	(13.3)	(12.4)	(17.2)	-	-	ROA	5.4%	5.0%	4.1%	6.5%	6.2%
Financing cash flow	151.4	(137.6)	(110.4)	(2.6)	19.0	Gearing	70.4%	44.3%	26.2%	28.3%	36.3%
Net cash flow	(6.9)	2.8	26.4	(5.3)	(17.5)	Net gearing	48.9%	24.7%	13.9%	17.6%	29.6%
Forex	0.0	(0.0)	-	-	-						
Others	67.1	(7.8)	(57.9)	-	-						
Beginning cash	31.4	91.6	86.6	55.2	49.8						
Ending cash	91.6	86.6	55.2	49.8	32.3						

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