

## Elk-Desa Resources Bhd

### Improved operating landscape

#### Summary

- ELK-Desa Resources Bhd's (ELK) 3Q22 core net profit rose 14.0% YoY to RM10.3m. Key drivers include (i) higher revenue contribution from the furniture segment, (ii) lower impairment allowance, and (iii) lower finance cost. QoQ, ELK reported a 122.6% jump in core net profit, mainly due to higher profit contributed from both hire purchase and furniture segments.
- 9M22 results, however, fell 10.1% YoY to RM22.2m, mainly due to the lower contribution from the furniture segment caused by the implementation of MCO from June to September 2021, as no delivery of goods could be made during the period. Although the results only accounted to 63.0% of our full year forecast of RM31.6m, we deemed the net profit largely in line as we believe 4Q22 will gain more traction with the reopening of business activities.
- The hire purchase segment saw its revenue decreased by 3.0% YoY due to a smaller hire purchase portfolio. However, the bottom line was cushioned by lower impairment cost resulted from the decrease in non-performing accounts, as well as lower finance cost on lower borrowings. The furniture segment, conversely, saw top line growth YoY, mainly lifted by higher domestic sales.
- ELK's gearing fell further to 0.30 from 0.49 in a year ago as the group continued to pare down its debt via repayment of block discounting facilities and term loans. Meanwhile, ELK's cautious stance to preserve asset quality was reflected in the lower hire purchase receivables recorded at RM469.3m, representing a 10.0% decrease from the previous corresponding quarter.
- We believe the operating outlook is gradually turning brighter for the hire purchase segment, as the impairment allowance in 9M22 decreased 22.0% to RM15.6m as compared to 9M21, leading to a drop in credit loss charge to 2.9% from 3.4%. This was due to the hirers' continuous repayment trend during the period.
- Malaysia's averaged new vehicles sales from September to December 2021 grew 172.2% to 65,184 from the previous quarter, indicating a recovery in demand for used car market. For the furniture segment, we believe demand for quality furniture products should remain resilient as people embracing the new normal hybrid working lifestyle.

Quarterly performance								
FYE Dec (RM m)	3QFY21	2QFY22	3QFY22	QoQ (%)	YoY (%)	9MFY21	9MFY22	YoY (%)
Revenue	37.2	23.4	38.2	63.5	2.7	105.0	92.9	(11.5)
EBITDA	15.5	9.2	15.8	72.6	2.4	39.1	35.0	(10.5)
PBT	12.4	6.2	14.0	124.1	12.6	28.8	27.1	(6.0)
PAT	9.1	4.6	10.3	122.6	14.0	22.2	19.9	(10.1)
Core PATMI	9.1	4.6	10.3	122.6	14.0	22.2	19.9	(10.1)
Reported PATMI	9.1	4.8	10.5	121.4	15.8	22.2	20.2	(8.8)
Core EPS (sen)	3.1	1.6	3.5	122.6	14.0	7.5	6.7	(10.1)
EBITDA margin (%)	41.6	39.3	41.5			37.2	37.7	
PBT margin (%)	33.3	26.7	36.5			27.4	29.1	
Core PATMI margin (%)	24.4	19.9	27.1			21.1	21.4	

#### Results Note

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#### BUY

Share price	RM1.32
Target price	RM1.51
Previous TP	RM1.51
Capital upside	14.4%
Dividend return	5.5%
Total return	19.9%

#### 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)	396.0
52W High/Low	1.47/1.29
Est. Free float	36.1%
Beta (x)	0.6
3-mth avg vol ('000)	58.4
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	0.8	-3.6	-7.0
Relative	-4.0	-8.3	-8.1

#### Earnings summary

FYE (Mar)	FY21	FY22f	FY23f
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

- As the earnings were in line with our expectations, we remained the forecasted earnings for FY22f and FY23f unchanged at RM31.6m and RM35.8m respectively in view of the encouraging overall outlook.
- We retained our **BUY** recommendation on ELK, with an unchanged target price at RM1.51. The 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 the distribution of not less than 60.0% of its net profit after tax.
- Downside risks to our recommendation include credit risk as the hirers' ability to fulfil their loan obligations may potentially be impacted by the recent resurgence of Covid-19 cases as well as the unexpected floods in Kuala Lumpur and Selangor. Besides, raw material supply for the furniture segment could be disrupted by logistic problems, while labour shortage could be another key risk.

## 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						