18 July 2022

Financial Services | Diversified Financial Services

ELK-Desa Resources (ELK MK)

Neutral

Experienced Hire Purchase Financier

Target Price (Return):	MYR1.30 (+2%)
Price (Market Cap):	MYR1.27 (USD86.5m)
ESG score:	3.00 (out of 4)
Avg Daily Turnover (MYR/USD)	0.11m/0.03m

- **Initiate coverage with a NEUTRAL and GGM-derived MYR1.30 TP, 2% upside.** While ELK-Desa Resources's worst days are likely behind it, growth prospects appear muted as management strives to balance expansion and asset quality protection. We expect the company to book an earnings CAGR of 12% between FY22-25F (Mar), premised on modest hire purchase (HP) portfolio growth and receding impairment charges. We like the stock as a defensive dividend play, but believe its low P/BV multiple is justified given its historically low ROAE.
- **Not quite out of the woods.** Guidance from management points towards a slow recovery back towards pre-pandemic levels of HP receivables, as management strives to balance portfolio expansion with asset quality preservation. Major downside risks to asset quality including persistent inflationary concerns still linger, which could hinder the HP segment's performance. However, the growing popularity of digital used car dealers such as Carsome could act as a strong catalyst for future receivables growth.
- **Cost pressures to affect furniture segment.** ELK's furniture segment, which trades home furniture, grew substantially during the pandemic period as the country embraced a work-from-home (WFH) culture. While management expects strong demand for home furniture to be sustained, pressures on raw material cost and increasing operating expenses could negatively affect the segment's performance.
- **Consistent dividends a small bonus.** ELK has consistently paid out 61-68% of its net earnings as dividends, in line with its policy of not less than 60%. Barring any changes to its dividend policy, we believe the stock could be a decent defensive option given its strong track record. Our forecasts indicate a FY23F yield of c.5% based on the current share price.
- **ESG efforts.** Existing ESG plans are focused on improving internal processes. These include efforts such as digitisation, installation of solar panels for office use, and ensuring healthy diversity at the Board and Executive levels. As its peers are already engaged in external sustainability efforts, and/or have more robust ESG roadmaps, we award ELK the country median ESG score of 3.0 (Aeon Credit Service (ACSM MK, BUY, TP: MYR16.60): 3.2, RCE Capital (RCE MK, BUY, TP: MYR1.90): 3.1).
- **Fairly valued.** The stock is currently trading at 0.84x FY23F P/BV, which is a significant discount to its non-bank lender peers' 1.6x. However, we believe its low valuation is justified, given its historically low ROAE of 5-8% vs the mid-to-high double digit average of its peers. Our TP is based on a GGM-derived 0.85x FY23F P/BV, with a 0% ESG premium/discount ascribed, as per our in-house proprietary methodology.
- **Key risks** include weaker-than-expected HP receivables growth, sustained high impairment charges, and adverse changes in regulations.

Forecasts and Valuation	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Reported net profit (MYRm)	35	26	28	33	37
Net profit growth (%)	0.9	(27.0)	10.0	16.7	10.3
Recurring net profit (MYRm)	35	26	28	33	37
Recurring EPS (MYR)	0.12	0.09	0.10	0.11	0.12
BVPS (MYR)	1.49	1.50	1.54	1.59	1.64
DPS (MYR)	0.07	0.05	0.06	0.07	0.07
Recurring P/E (x)	10.67	14.66	13.33	11.42	10.35
P/B (x)	0.85	0.84	0.83	0.80	0.78
Dividend Yield (%)	5.7	4.1	4.6	5.3	5.9
Return on average equity (%)	8.2	5.8	6.3	7.1	7.6

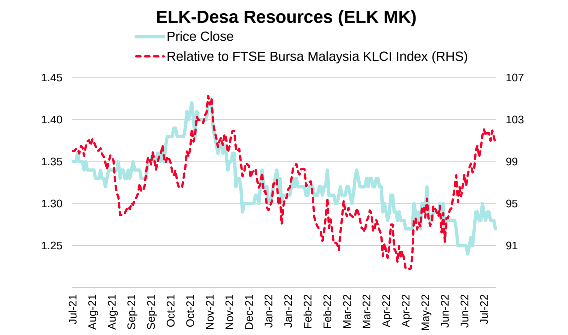
Source: Company data, RHB

Analyst

Fiona Leong
+603 9280 8886
fiona.leong@rhbgroup.com

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(3.8)	1.6	(1.6)	(3.1)	(7.3)
Relative	5.7	4.4	9.1	5.7	(0.6)
52-wk Price low/high (MYR)					1.24 – 1.42



Source: Bloomberg

Overall ESG Score: 3.00 (out of 4)

E: GOOD
ELK financing has low exposure to high-risk sectors, as it mainly finances the purchases of used vehicles. The company is also in the process of installing solar panels in its offices as a means to generate its own energy. Digitisation efforts are also underway to reduce reliance on paper and print.

S: GOOD
Most of the hire purchase division's customers come from B40/lower-M40 backgrounds. The division is also well diversified, comprising of 71% females. The ethnicity split is also balanced. The company has comprehensive plans in place to ensure workplace safety, health and wellbeing are safeguarded at all times.

G: EXCELLENT
The company has in place policies and a framework to ensure ethical business, integrity and transparency are practiced, as well as a whistleblowing programme. Board member responsibilities are revised and published annually. The board meet around 5 times a year.

This report can be viewed on
www.bursamarketplace.com

Financial Exhibits

Asia
Malaysia
Financial Services
ELK-Desa Resources
ELK MK / 5228
Neutral

Valuation basis

GGM-derived intrinsic value with zero ESG overlay. Key GGM assumptions are:
- i. Cost of equity of 7.8%;
- ii. Sustainable ROE of 7.0%;
- iii. 2.5% long-term growth.

Key drivers

Key drivers include:
- i. Hire purchase receivables growth;
- ii. Low impairment allowances on hire purchase receivables (HPR);
- iii. Profits from furniture business.

Key risks

The downside risks include:
- i. Weaker-than-expected HPR growth;
- ii. Higher-than-expected credit costs; and
- iii. Weaker-than-expected furniture business performance.

Company Profile

ELK-Desa Resources is a financial services company that provides hire purchase financing with a focus on financing for used motor vehicles. As an extension, the company also cross-sells general insurance products from leading insurance brands to its hire purchase customers. On top of its financing operations, the company also operates a furniture trading business. ELK-Desa Resources currently employs approximately 250 individuals, with most of its business operations centered in Klang Valley.

Shareholders (%)

Eng Lee Kredit SB	32.8
Amity Corporation SB	5.1
Teo Siew Lai	3.5

Financial summary (MYR)	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
EPS	0.12	0.09	0.10	0.11	0.12
Recurring EPS	0.12	0.09	0.10	0.11	0.12
DPS	0.07	0.05	0.06	0.07	0.07
BVPS	1.49	1.50	1.54	1.59	1.64

Valuation metrics	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Recurring P/E (x)	10.67	14.66	13.33	11.42	10.35
P/B (x)	0.9	0.8	0.8	0.8	0.8
Dividend Yield (%)	5.7	4.1	4.6	5.3	5.9

Income statement (MYRm)	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Interest income	88	85	83	90	99
Interest expense	(13)	(10)	(8)	(10)	(13)
Net interest income	**75**	**76**	**75**	**80**	**86**
Non interest income	60	46	59	65	68
Total operating income	**134**	**122**	**134**	**145**	**154**
Overheads	(70)	(64)	(72)	(79)	(84)
Pre-provision operating profit	**65**	**57**	**62**	**66**	**70**
Loan impairment allowances	(19)	(22)	(22)	(20)	(19)
Other impairment allowances	(0)	(0)	(0)	(0)	(0)
Pre-tax profit	**46**	**35**	**39**	**46**	**51**
Taxation	(11)	(9)	(11)	(13)	(14)
Reported net profit	**35**	**26**	**28**	**33**	**37**
Recurring net profit	**35**	**26**	**28**	**33**	**37**

Profitability ratios	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Return on average assets (%)	5.0	4.1	4.7	5.1	5.1
Return on average equity (%)	8.2	5.8	6.3	7.1	7.6
Return on IEAs (%)	14.4	15.3	14.7	14.7	14.8
Cost of funds (%)	5.2	6.1	6.3	6.4	6.6
Net interest spread (%)	9.2	9.2	8.4	8.2	8.2
Net interest margin (%)	12.3	13.6	13.2	13.0	12.8
Non-interest income / total income (%)	44.4	37.8	44.0	44.8	44.3
Cost to income ratio (%)	51.8	52.9	53.9	54.4	54.5
Credit cost (bps)	315	418	425	352	315

Balance sheet (MYRm)	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Total gross loans	555	503	539	584	634
Other interest earning assets	15	43	50	57	66
Total gross IEAs	571	547	588	642	700
Total provisions	(33)	(35)	(40)	(43)	(46)
Net loans to customers	523	468	498	542	589
Total net IEAs	538	511	548	599	655
Total non-IEAs	125	71	73	84	92
Total assets	663	582	621	683	746
Other interest-bearing liabilities	196	117	140	181	222
Total IBLs	196	117	140	181	222
Total non-IBLs	25	17	24	30	37
Total liabilities	221	135	163	211	259
Share capital	344	345	345	345	345
Shareholders' equity	442	448	458	472	487

Asset quality and capital	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Reported NPLs / gross cust loans (%)	4.9	4.0	4.0	3.9	3.8
Total provisions / reported NPLs (%)	120.1	175.0	187.5	188.5	189.5

Source: Company data, RHB

Valuation & Recommendation

We initiate coverage on ELK-Desa Resources (ELK) with a NEUTRAL call and TP of MYR1.30, which implies a 2% upside. Our TP was derived using a GGM valuation, with a P/BV comparison with peers as a corroborative method.

Our TP is based on a 0.85x FY23F P/BV. We believe ELK will continue to trade at a discount to its peers (1.6x P/BV based on current prices) due to three main reasons:

i. **Slower-than-expected recovery.** Growth prospects for its core HP business appear to be murky as management strives to balance HP portfolio expansion and asset quality. While management is targeting to reach MYR600m net receivables by FY24F, we believe major risks to asset quality still linger. We forecast net HP receivables to grow at an 8% CAGR between FY22-25F (compared to FY17-FY20 CAGR of 22%), with credit costs to remain at slightly elevated levels;

ii. **Historically lower ROAE vs peers.** Between FY15-FY21, ROAE hovered between 7-10%, but it dropped to 5.8% in FY22 in the wake of the COVID-19 crisis. These numbers are significantly lower than that of its non-bank lending peers (eg ACSM and RCE), which consistently maintain mid-to-high double digit figures;

iii. **Competition in the used car financing space.** ELK faces competition from both incumbent banks as well as non-bank creditors that provide financing at more competitive interest rates. On top of this, the introduction of digital banks into the financial system could add to the growing pool of options for HP customers to choose from.

GGM valuation

We prefer a GGM valuation due to the following reasons:

i. Ease of comparison with peers, which are all valued based on GGM;

ii. Consistent historical dividend payout;

Our GGM produces an intrinsic value of MYR1.29. Based on our in-house ESG scoring methodology, we ascribe a 0% ESG premium/discount to arrive at a (rounded) TP of MYR1.30. Currently trading at a 0.84x FY23F P/BV, which is at its 5-year historical average, we believe the recovery prospects and potential earnings growth have already been priced in by the market.

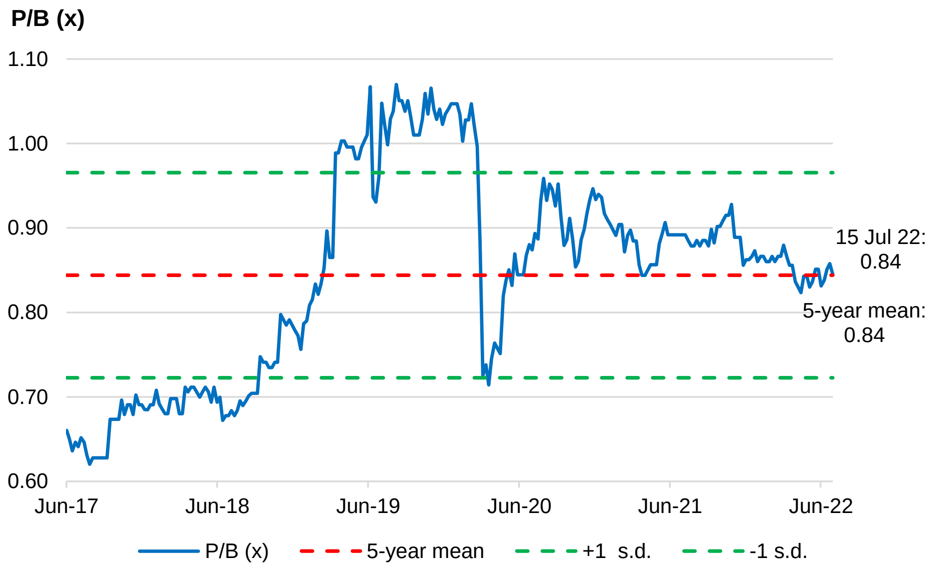
Our model incorporates the following parameters:

Figure 1: GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	7.0
Risk free rate (%)	4.0	COE (%)	7.8
Equity premium (%)	3.8	Long-term growth (g)	2.5
Beta (x)	1.0	Implied P/BV (x)	0.85
Cost of equity - CAPM (%)	7.8	BVPS - FY23F	MYR1.51
		Target price	MYR1.29
ESG premium/(discount) (%)	0	**TP (rounded)**	**MYR1.30**

Source: Company data, RHB

Figure 2: ELK's historical P/BV trend



Source: Bloomberg

Peer benchmarking

Our GGM-derived base case for ELK is based on a fair value of 0.85x FY23F P/BV. We believe benchmarking against the same multiples of its non-bank lender peers further justifies our discounted valuation. We believe ELK deserves to trade at a discount to its peers due to its historically lower ROAE.

Figure 3: Peer comparison – P/BV vs ROAE

	Target Price	Implied P/BV (x)			ROAE (%)		
Base year	**(MYR)**	**FY23F**	**FY24F**	**FY25F**	**FY23F**	**FY24F**	**FY25F**
ELK-Desa*	1.30	0.85	0.82	0.79	6.3	7.1	7.6
AEON Credit Service (Malaysia)^	15.58	1.79	1.59	1.44	18.0	17.2	17.1
RCE Capital^	1.89	1.52	1.48	1.43	15.3	15.1	15.9
Weighted average (ex. ELK-Desa)		**1.73**	**1.56**	**1.44**	**17.3**	**16.7**	**16.8**

*Note: * based on RHB TP, BVPS and ROAE*
Note 2: ^ based on Bloomberg consensus TP, BVPS and ROAE
Source: Bloomberg, RHB

In P/E terms, our TP also implies that ELK is slightly overvalued vs its peers, which adds further justification to our NEUTRAL call.

For comparison purposes, we have excluded the fourth publicly listed non-bank lender, Pappajack (PPJACK MK, NR) from our calculations due to a lack of analyst coverage.

Figure 4: Peer comparison – P/E

	Target Price	Implied P/E (x)		
Base year	**(MYR)**	**FY23F**	**FY24F**	**FY25F**
ELK-Desa*	1.30	13.6	11.7	10.6
AEON Credit Service (Malaysia)^	15.58	10.6	9.8	8.7
RCE Capital^	1.89	10.2	9.8	9.5
Weighted average (ex. ELK-Desa)		**10.5**	**9.8**	**8.9**

*Note: * based on RHB TP and EPS*
Note 2: ^ based on Bloomberg consensus TP and EPS
Source: Bloomberg, RHB

Investment Thesis

Key catalysts

Slow-but-steady recovery. ELK's FY22 results were heavily affected by the numerous lockdowns imposed throughout the year. HP revenue fell 8.6% YoY, likely due to collection difficulties despite the repayment extensions that the company provided. Additionally, revenue from the furniture segment also decreased 13.6% YoY as sales were interrupted during the lockdown periods. This led to a 27% lower overall net profit during the year.

The company also increased its allowance for impairments by 19.8% YoY to account for the difficulty in collecting payments, leading to an improved LLC ratio of 175% in FY22 (FY21: 120%). Overall, asset quality deteriorated slightly in FY22, with the NPL ratio increasing to 4% from 3.6% in FY21.

We are cautiously optimistic of a recovery scenario for the company. Ultimately, management attributes its underperformance during the year to a more conservative strategy of tighter disbursements to mitigate asset quality risk. As the economy returns to normalcy, we expect disbursement levels to slowly return to pre-pandemic levels, and impairments to gradually taper off after FY23F.

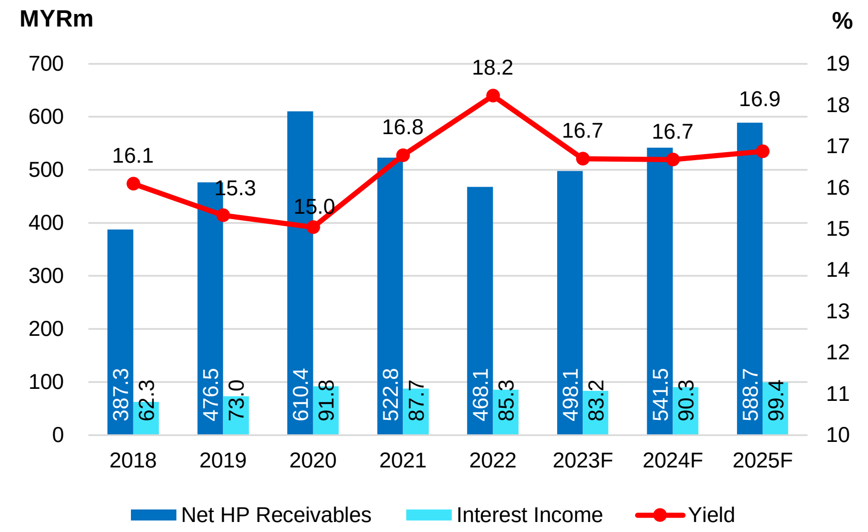
Emergence of digital used car dealers. The breakout of the COVID-19 pandemic helped usher in an era of digitalisation, and the used car sector was a major beneficiary of this. New digital used car dealers in the Malaysia market, namely Carsome and myTukar, are helping to push demand for used cars by simplifying the customer journey. As a result, used car total industry volume (TIV) grew from c.398,000 in 2020 to c.428,000 in 2021, and the number is expected to grow to up to 480,000 in 2022.

For now, the bulk of Carsome's and myTukar's revenue comes from business-to-business (B2B)/consumer-to-business (C2B) transactions, which do not involve consumers as the end user. However, the widespread use of such digital players could play a part in stimulating demand for used motor vehicles as consumers gain more and more trust towards digital channels. By extension, this will raise demand for used motor vehicle financing.

This opens up potential partnership opportunities for ELK, which could offer its products through these new digital dealers to reach a wider range of consumers. Management has guided that potential collaboration with such dealers is an area that it is keen to explore moving forward – the company's products are already available at Carsome's physical showroom in Kuala Lumpur.

Decent yield from receivables. To offset its risks from lending to the "high-risk" B40/lower-M40 segment, ELK charges high interest rates on its HP loans. Most of the company's loans come with a fixed interest rate of 9.8%, which, according to management, yields an effective interest rate of 17-18%. We believe that as collections pick up, the average yield will normalise to the higher end of the historical 14-17% range.

Figure 5: Average yield of HP receivables

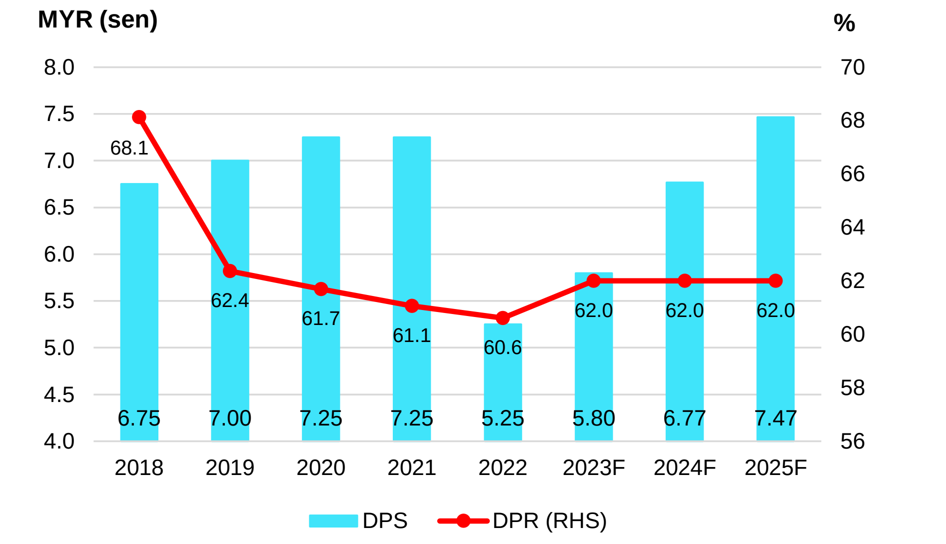


Source: Company data, RHB

Resistance to rising interest rates. ELK's funding mainly comes from block discounting facilities and medium term notes. Management has guided that most of its borrowings are made on a fixed rate basis, and thus would not be materially affected by the rising interest rate environment. At the same time, funding, particularly block discounting facilities, are easily accessible, as the company still has existing unutilised facilities that were built-up over the pandemic period. Average funding cost hovers between 5-7%, which is at the higher end of its peers' 3-8% average.

Reliable dividend stock. ELK prides itself on being a reliable dividend stock, with a dividend payout policy of not less than 60% of net earnings. Since FY18, dividend payout has ranged between 61-68%, and despite a relatively underwhelming year, its FY22 payout ratio (DPR) stood at 60.6% after the announcement of a 3.25 sen final dividend. We forecast a DPR of 62% for FY23F-25F, which adds up to a forward dividend yield of c.5% based on FY23F dividends.

Figure 6: Dividend payment trend



Source: Company data, RHB

Steady demand for home furniture. Based on the latest Department of Statistics Malaysia (DOSM) household consumption report in 2019, consumers spent an increased 4.4% of their income on home furniture, vs 4.2% in 2016, and furniture expenditure was ranked the eighth most essential to consumers. A growing population, coupled with steady urbanisation could point towards sustained demand for home furniture products moving forward.

During the COVID-19 pandemic, ELK's revenue and earnings surprised on the upside as the culture of WFH became the norm. Demand for home furniture is still expected to remain strong, even as most organisations are beginning to embrace hybrid working arrangements. On the other hand, a diversification of its products to include office furniture would also bode well for the company, given the expected need for offices to replace and upgrade certain office furniture. Management has not completely discounted this idea, though it reiterated its focus on the home furniture segment, claiming there is still much room for improvement in that area.

Despite this, we are wary of cost pressures affecting the profitability of furniture companies. Rising commodity prices along with difficulties in obtaining new foreign labour have compressed margins for ELK, and are unlikely to go away any time soon. A cost pass-through to customers seems the most likely scenario in the near term.

Sensitivity analysis

As ELK is a HP financing company, its bottomline performance is strongly correlated to its ability to obtain HP receivables. According to management, the company's receivables yield an effective interest rate of around 17%.

At the same time, the company's net earnings are also affected by impairment charges on its receivables. In FY22, net earnings fell 27% YoY due to a 19.8% rise in impairment allowance charges.

Based on our financial model, ELK's net profit is most sensitive to changes in net receivables and credit costs. The table below demonstrates how changes in these two variables could affect the company's FY23F net profit.

Figure 7: ELK's FY23F profit sensitivity to changes in net receivables and credit cost

		Credit Cost (bps)						
		350	375	400	425	450	475	500
Net HP receivables (MYRm)	450.0	28.6	27.6	26.7	25.8	24.8	23.9	22.9
	470.0	29.6	28.7	27.8	26.8	25.9	25.0	24.0
	490.0	30.7	29.8	28.8	27.9	27.0	26.0	25.1
	498.1	31.2	30.2	29.3	28.4	27.4	26.5	25.5
	510.0	31.8	30.9	29.9	29.0	28.1	27.1	26.2
	530.0	32.9	31.9	31.0	30.1	29.1	28.2	27.3
	550.0	34.0	33.0	32.1	31.1	30.2	29.3	28.3

Source: Company data, RHB

Our credit cost forecast of 425 bps is in line with management's guidance of 400-450 bps for FY23F. We believe risks to asset quality still linger, including prolonged collection issues from the COVID-19 pandemic, as well as persistent inflationary pressure. Our key assumption is for the pandemic-related collection difficulties to recede in 3QFY23F, which would allow credit costs to taper off, albeit, slowly, beginning FY24F (Figure 13).

We also assigned a 6% YoY growth rate from FY22's net receivables of MYR468.1m to arrive at a net receivables figure of MYR498.1m in FY23F. We observe a more cautious stance with regards to management's long term target of reaching pre-pandemic levels of net receivables (over MYR600m) by FY24F. This is due to several external risks similar to those mentioned above that could put pressure on asset quality, and hence, prevent management from achieving its desired growth targets.

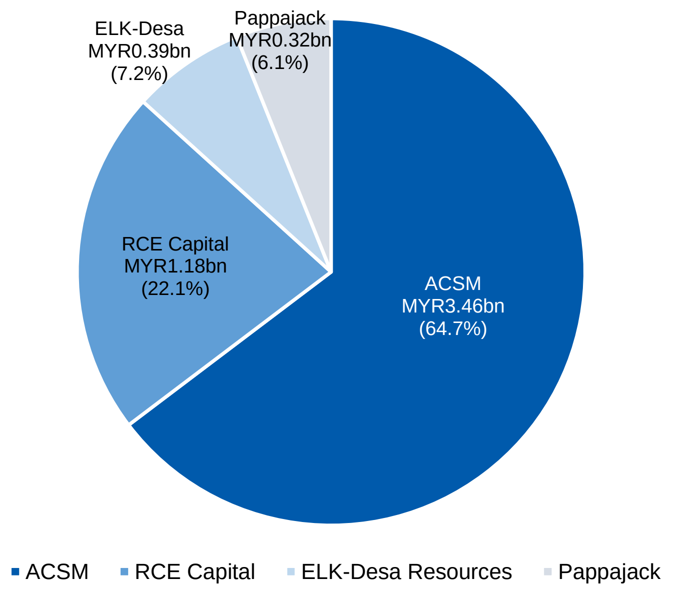
Industry and peer analysis

Non-bank lending market. ELK is classified as a non-bank lender, and can be compared alongside other publicly listed companies such as ACSM, RCE and PPJACK. Non-bank lenders typically attend to customers that receive less treatment from incumbent banks, ie the unbanked and under-banked segments of consumers.

In Malaysia, non-bank lenders carve special niches in their financing activities to give themselves a competitive edge against the more established incumbent banks, as well as to compensate for the generally lower level of trust vs that of incumbent banks. For example, ACSM focuses on credit cards and personal financing, while RCE partners with various co-operatives and foundations to provide *shariah*-compliant financing to its members. PPJACK, on the other hand, is generally involved in the pawnbroking business. The nature of the non-bank lending industry allows for unique distinction between the different lenders, and provides ample room for innovation within each lender's area of specialisation.

Market share. The four non-bank lenders form a market that is capitalised at approximately MYR5.3bn, compared to the banking sector's approximate market capitalisation of over MYR300bn. Of the four publicly-listed non-bank lenders, ACSM commands the greatest market share at 64.7%, followed by RCE with 22.1%. ELK and PPJACK constitute 7.2% and 6.1% of the market.

Figure 8: Public listed non-bank lenders' market share in Malaysia



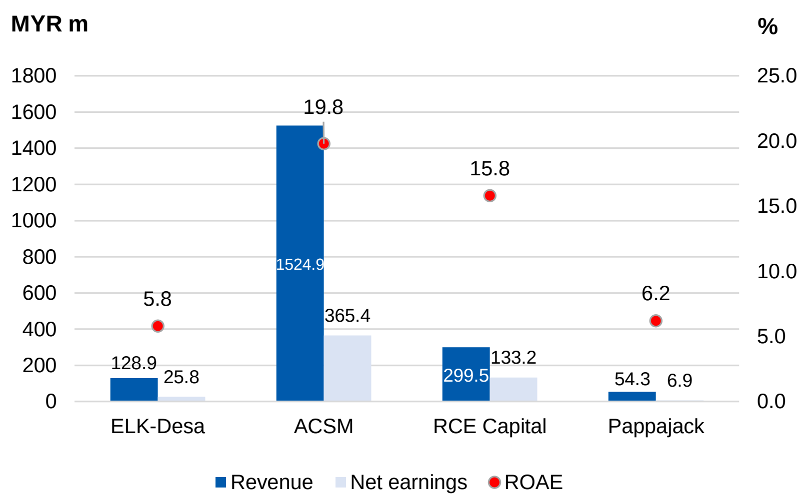
Source: Company data, RHB

Latest results review. ACSM is the dominant player among non-bank lenders when it comes to financial performance. In FY22 (Feb), ACSM generated a net interest income (NII) of MYR1524.9m, almost 10x the NII/revenue generated by its peers. This is mainly attributable to its much larger customer base, as well as its more general products.

Across the industry, impact from impairments varied as pandemic-related impact affected different companies to mixed degrees. ACSM and ELK reported increased credit costs and impairment allowances, while RCE, whose salary deduction-based business model is considered fairly pandemic-resistant, maintained its impairment at manageable levels. No impairment data was available for PPJACK.

For the periods under review, RCE emerged as the company with the highest net earnings margin of 44.5%, while ACSM obtained the greatest ROAE of 19.8%. ACSM and RCE both recorded double-digit ROAE levels, while ELK and PPJACK trailed behind with mid-single digits. As Malaysia embraces a state of endemicity, we expect earnings and profitability to recover for both of these companies, with improving ROAE levels between FY22-FY25F.

Figure 9: Latest full-year results of public listed non-bank lenders



Note: Pappajack was listed on 1 Apr 2022 after the release of its FY21 (Dec) results
Source: Company data, RHB

A more detailed comparison of the four companies can be found below, along with a selection of international companies in the non-bank lending/alternative financing business.

Figure 10: Peer comparison table

Company	Country	Mkt Cap (USDm)	Price 15/7/2022 (LCY)	P/E (x) Current	P/E (x) 1 Yr Fwd	P/E (x) 2 Yr Fwd	P/BV (x) Current	ROE (%) Last FY	ROE (%) 1 Yr Fwd	EPS Growth (%) 1 Yr Fwd	EPS Growth (%) 2 Yr Fwd
Malaysia											
ELK-Desa Resources	MY	87	1.27	14.9	13.6	11.6	0.9	5.8	6.3	10.0	16.7
AEON Credit Service (M)	MY	776	13.54	9.7	9.2	8.5	1.6	19.8	17.7	5.5	19.0
RCE Capital	MY	265	1.61	8.5	8.6	8.3	1.4	15.8	15.3	2.5	3.2
Pappajack	MY	73	0.49	7.4	n/a	n/a	2.8	6.2	n/a	n/a	n/a
Weighted average (ex. ELK-Desa)				**9.3**			**1.6**	**18.0**			
International											
Srisawad Corp	TH	1,751	46.75	14.6	13.2	11.3	2.5	17.9	18.6	3.1	16.7
Muangthai Capital	TH	2,444	42.25	18.1	15.7	12.7	3.4	20.5	20.9	15.8	23.7
BFI Finance Indonesia	ID	1,220	1,145.00	13.3	13.1	10.6	2.2	17.7	16.7	15.2	23.0
Adira Dinamika Multi Finance	ID	532	7,975.00	6.1	n/a	n/a	0.9	15.6	n/a	n/a	n/a
Mahindra & Mahindra Financial Srvs	IN	3,077	198.80	21.5	13.3	10.9	1.5	7.0	10.6	62.4	22.2
Poonawalla FinCorp	IN	2,381	248.55	47.5	33.5	26.4	3.1	9.1	8.7	39.2	27.8
Velocity Financial Inc	US	336	10.39	12.5	8.4	7.1	1.0	7.7	14.1	31.4	22.4
Amigo Loans	GB	26	4.60	0.1	0.1	n/a	n/a	n/a	-73.8	-185.4	n/a

Source: Bloomberg, RHB

Outlook

Industry outlook. Non-bank lenders should benefit from the full reopening of the economy, as demand for credit, using system loan applications as a proxy, are already somewhat returning to pre-pandemic levels. Notwithstanding any announcements on new moratoriums or relief schemes, this recovery should also lead to less impairments and credit losses as consumer incomes – and by extension, repayments – pick up, leading to better margins overall.

On the other hand, concerns over inflation and the rising interest rate environment will likely dampen discretionary consumer spending. This in turn will adversely affect demand for credit, which could manifest in lower-than-expected topline growth. These effects will be exaggerated even further should certain advanced economies enter into a recession, as some are speculating.

With that said, we believe the non-bank lenders will continue to record positive figures in the coming quarters as a recovery scenario takes shape, albeit, slightly dampened by rising interest rates. Owing to potential competition from digital banks, we are also likely to see the lenders strive to increase their digital capabilities before the integration of digital banks into our financial system, which should take place in 12-24 months.

Company outlook. As management has guided for a more prudent strategy that balances HP portfolio expansion with asset quality preservation, we believe growth for ELK will be a slightly muted in FY23F. While management is aiming for MYR600m in net receivables by FY24F, we believe certain risks to asset quality still linger, which could discourage management from partaking in aggressive disbursements. Overall, we are forecasting a more modest net HP receivables CAGR of 8% between FY22-FY25F (6% YoY growth in FY23F), as compared to the pre-pandemic FY17-FY20 CAGR of 22%.

However, we expect ELK's bottomline to grow at a faster CAGR of 12%, driven by higher interest income in tandem with HP receivables growth, and aided by gradually lower impairment charges. At the same time, we believe the company's cost of funds are well shielded from rising interest rates, as most of its borrowings are on a fixed rate basis. Based on this, we derive a book value FY22-25F CAGR of 3%, driven by growth in retained earnings.

Moving forward, key risks for ELK will be weaker-than-expected demand for second hand vehicles, persistent inflation, and further lockdowns impairing customers' ability to repay their loans, and potential competition from other banks and credit institutions. On the other hand, a return to pre-pandemic disbursement levels, improving asset quality, and increased demand for second-hand cars, could act as strong re-rating catalysts.

Financial Overview & Forecasts

Momentum halted. 4Q22 results disappointed despite the reopening of the economy and a strong preceding quarter. Its PBT of MYR7.5m was down 47% QoQ (YoY: -57%), on hefty impairments from its HP customers. Revenue was also down by 5.9% QoQ (YoY: -7.2%), which led to a drop in net earnings by 60.4% QoQ (YoY: -70.6%). As management has guided that prolonged collection difficulties from the pandemic still persist, we believe impairments are likely to remain at elevated levels throughout FY23F.

Figure 11: 4Q/FY22 results review

FYE Mar (MYR m)	4QFY21	3QFY22	4QFY22	QoQ (%)	YoY (%)	FY21	FY22	YoY (%)
Revenue	**39**	**38**	**36**	***(5.9)***	***(7.2)***	**144**	**129**	***(10.3)***
Cost of sales	(11)	(10)	(10)	*(2.8)*	*(5.0)*	(34)	(29)	*(13.1)*
Gross profit	**28**	**28**	**26**	***(7.0)***	***(8.0)***	**110**	**100**	*(9.5)*
Gross margin (%)	*72.8%*	*73.0%*	*72.1%*			*76.5%*	*77.2%*	
Other income	1	0	1	*77.5*	*(23.4)*	4	2	*(34.8)*
Overhead expenses	(10)	(10)	(11)	*6.6*	*8.9*	(36)	(35)	*(2.4)*
EBIT	**19**	**18**	**16**	***(12.6)***	***(17.7)***	**78**	**67**	*(14.0)*
EBIT margin (%)	*49.6%*	*47.4%*	*44.0%*			*54.1%*	*51.9%*	
Finance costs	(3)	(2)	(2)	*(10.9)*	*(42.6)*	(13)	(10)	*(26.5)*
PIOP	**16**	**16**	**14**	***(12.8)***	***(13.3)***	**65**	**57**	*(11.5)*
Impairment allowances	1	(2)	(7)	*214.2*	*(655.3)*	(19)	(22)	*19.8*
Credit cost (bps) - annualised	*(96)*	*160*	*508*			*315*	*417*	
PBT	**18**	**14**	**8**	***(46.7)***	***(57.1)***	**46**	**35**	*(24.2)*
Tax expenses	(3)	(4)	(3)	*(6.6)*	*(0.1)*	(11)	(9)	*(15.0)*
ETR (%)	*19.2%*	*25.5%*	*44.7%*			*23.3%*	*26.1%*	
Net earnings	**14**	**11**	**4**	***(60.4)***	***(70.6)***	**35**	**26**	*(27.0)*
Net margin (%)	*36.5%*	*27.5%*	*11.6%*			*24.5%*	*20.0%*	
Diluted net earnings	**14**	**11**	**4**	***(60.2)***	***(70.5)***	**35**	**26**	*(27.2)*
Other key data and ratios								
Net HP receivables (MYR m)	523	469	468					
Net debt / equity (x)	0.25	0.15	0.14					
ROAE (%) - annualised	13.1	9.6	3.8					
ROAA (%) - annualised	8.5	7.1	2.9					
CIR (%) - hire-purchase	30.5	31.0	35.2					

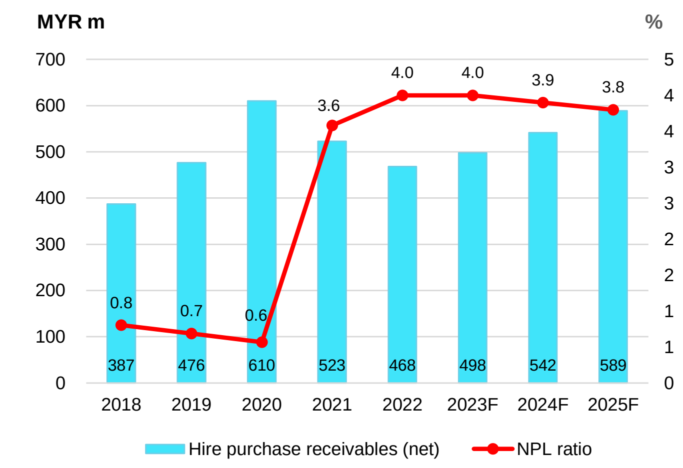
Source: Company data, RHB

HP segment brought down by lumpy impairments. While 4Q22 HP revenue only shed 4.0% QoQ, PBT dropped 44.9% during the same period. In particular, there was an allowance of MYR6.5m made for HP impairments, which indicate a 216.2% QoQ jump. PBT margin stood at 33.0% in 4Q22, vs the pre-pandemic range of over 40%.

The lower HP revenue may be attributable to a smaller receivables base. Net HP receivables have shrunk by 10.4% since end-FY21, owing to management lowering disbursements and instead putting more focus on preserving asset quality. Post-endemicity, management has been more bullish with its growth targets, and is aiming for a net receivables base of MYR600m by FY24F. Our forecasts incorporate a more cautious view, as we believe key risks to asset quality, namely persistent inflation, still linger.

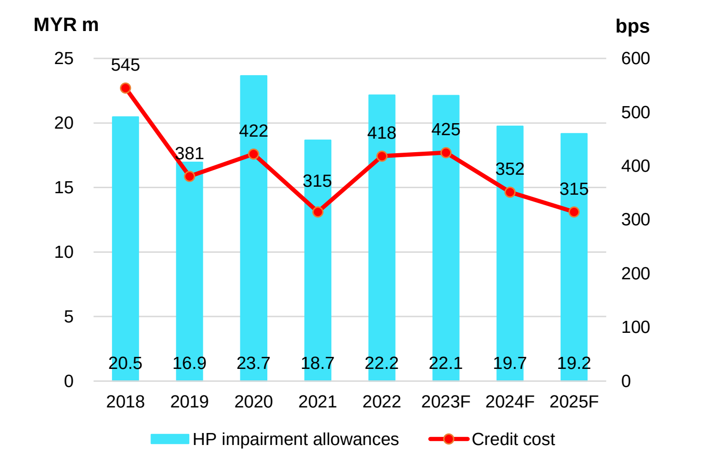
Management has guided that prolonged collection difficulties from the COVID-19 pandemic have contributed to the late payments by customers, and resulted in deteriorating asset quality for the company. This was expected, given that most of the company's customers are from the B40/lower-M40 segments, which were the most heavily affected during the pandemic. As we factor in receding pandemic-related difficulties and increasing inflation, we forecast credit costs to remain above the 400bps level in FY23F, but will begin to taper off from FY24F on receding impairment charges, on top of a larger receivables base.

Figure 12: Net HP receivables trend



Source: Company data, RHB

Figure 13: Impairment allowances and credit cost



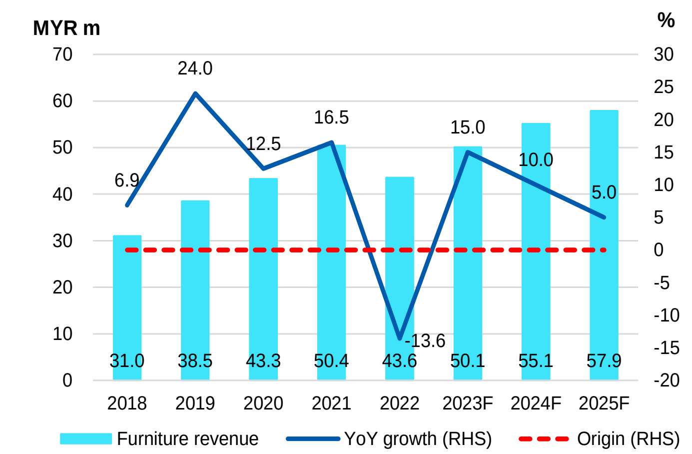
Source: Company data, RHB

Furniture segment on rocky road. While FY21 saw multiple COVID-19 related lockdowns, ELK's furniture business continued to perform encouragingly. FY21 revenue and PBT for the furniture segment grew 16.5% and 176% YoY, owing to the increased demand for home furniture as well as lower impairments on receivables. This helped offset some of the decrease in PBT from the HP segment, as furniture PBT accounted for a higher 9.2% of total PBT vs FY20's 3.2%.

However, the furniture segment experienced a slight setback in FY22, as lockdown measures during the first half of the year saw two consecutive 44% QoQ drop in revenue during 1QFY22 and 2QFY22. The furniture segment managed to rebound in 2HFY22, which brought FY22 revenue to MYR43.6m (-13.6% YoY). While its FY22 PBT of MYR2.2m was down 48.7% YoY on lower margins, it now forms a much larger portion of total PBT at 6.2%, as compared to pre-pandemic levels.

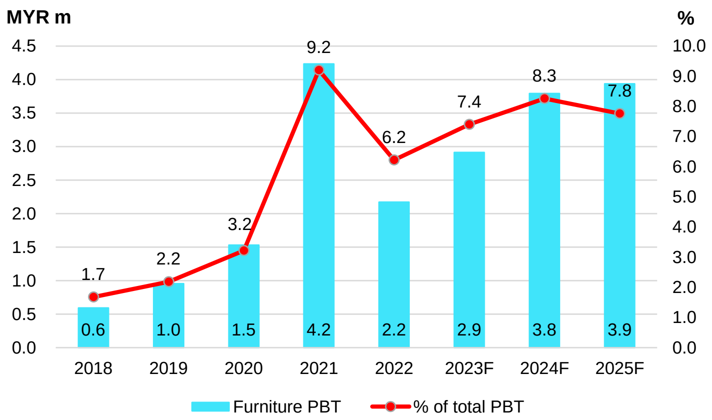
Assuming full-year uninterrupted operations, we forecast revenue from the furniture segment to grow at a steady CAGR of 9.9%, and highlight higher raw material costs and labour shortages as potential risks for the segment moving forward.

Figure 14: Furniture revenue trend



Source: Company data, RHB

Figure 15: Furniture PBT trend



Source: Company data, RHB

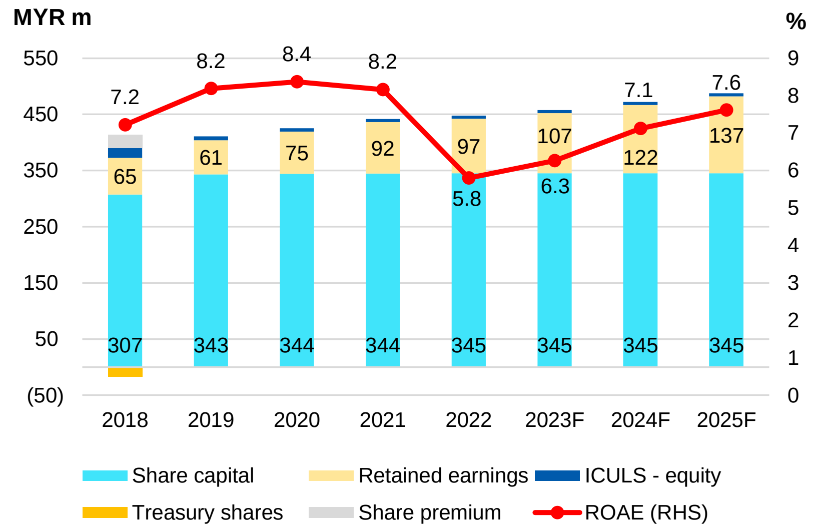
Balance sheet analysis. Historically, ELK has always managed to maintain Interest Earning Assets (IEAs) at above 2.5x Interest Bearing Liabilities (IBL). Throughout FY22, the company trimmed down on its borrowings, and managed to pay off the full amount of its current and non-current medium term loans. We view these efforts positively, as it will benefit the bottomline on lower finance costs.

On the flip side, its cash balances have shrunk massively to service the aforementioned borrowings, recording an 83.3% decrease in FY22. While this may cause concern over potential dividend payments, management has guided that it intends to maintain its dividend payout ratio at above 60% of net profit, which has been the case since FY17. The company's lending business should also be secure, as funding via block discounting facilities is fairly accessible. As at end-FY22, the company had a net debt to equity ratio of 0.14x, compared to ACSM's 3.36x and RCE's 2.07x.

Equity and ROAE. ELK's equity comprises mainly of its paid-up capital, which forms 77.1% of FY22 total equity of MYR447.5m. Retained earnings (21.7%) and the equity component of ICULS (1.2%) form the remainder of its equity. Assuming no cash call or capital raising exercise with zero ICULS conversion, we forecast its book value to grow by a CAGR of 2.9% between FY22-FY25F, driven by growth in retained earnings (FY22-FY25F CAGR of 12.1%).

ROAE stood at 5.8% as at end-FY22. While this is still on the lower end of the Malaysian non-bank lending industry, we are cautiously optimistic of a pick-up as ELK recovers from its pandemic difficulties. We anticipate ROAE growth will resume in FY23F, but still remain below the 8% level until at least FY25F.

Figure 16: Components of equity and ROAE



Source: Company data, RHB

Key Risks

Hefty impairments. Impairment allowances grew 19.8% YoY in FY22, the bulk of which came from HP impairments, which grew 18.7% YoY. This caused PBT for the HP division to decrease 21.7% YoY, and overall net earnings to fall 27.0%. The NPL ratio increased 0.4% YoY to 4.0%, while credit costs shot up by over 100 bps to 417 bps (FY21: 315 bps). Although this is mainly from prolonged collection difficulties due to the pandemic, we maintain that impairments sustained at elevated levels will be detrimental to the company's financial performance in the future.

Softening demand for used cars. Used car sales have been stagnant for the past 20 years, and only grew by modest rates between 2015-2020. Although digital players such as Carsome and MyTukar are helping to spur demand for used cars, transactions on such digital channels mainly B2B/C2B in nature, whereas ELK's financing is targeted towards consumers. Stagnant TIV growth in the used car industry will make it difficult for ELK to obtain new HP customers.

Lockdowns and inflation. Lockdowns associated with the COVID-19 pandemic adversely affected customers' abilities to repay their HP loans, which led to hefty impairments for the division. Persistent inflation will also have the same effect on the company through a drop in its customers' disposable incomes, especially as most of its customers are from B40/lower-M40 backgrounds. In FY21-22, management's strategy to protect asset quality was to tighten HP disbursements, which in turn led to lower interest income. The unlikely reintroduction of lockdown measures to combat new mutations of the virus, as well as rising inflation, could pose big risks to ELK's HP division.

Competition from traditional and new players. Incumbent banks have already begun partnering with digital used car dealers to offer their financing products, which provides access to a wider reach of consumers. At the same time, new digital banks could enter into the HP financing space as well, given the similar target customer base and small-ticket loans. Incumbent banks with their established brand name and trust, and digital banks with greater digital capabilities and potentially lower interest rates, could prove to be stiff competition.

Cost pressures in the furniture division. As a furniture trader and wholesaler, the company is subject to rising commodity prices, difficulties in obtaining foreign labour, and an increase in the minimum wage in Malaysia. These cost increases led to margin compression in FY22, and are likely to stay put for a while longer. While the furniture division is not considered a core business of the company, the issue of rising costs could negatively impact its financials if it is not properly addressed.

Company Overview

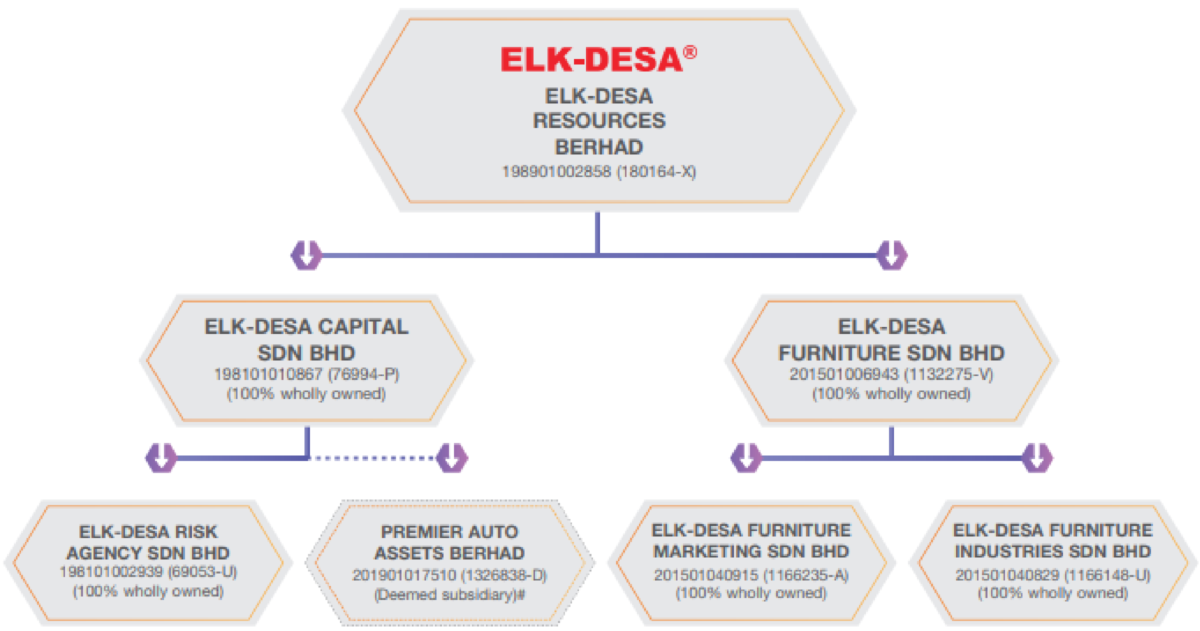
Historical background

ELK-Desa Resources was established on 24 Mar 1989 as a private company by the name of Tekad Murni SB. On 13 Oct 2004, it changed its name to ELK-Desa Resources SB, and was listed on the Main Market of Bursa Malaysia Securities as a public limited company on 18 Dec 2012. The principal activity of ELK is investment holdings, with two wholly-owned subsidiaries, ELK-Desa Capital SB (ELK-Desa Capital) and ELK-Desa Furniture SB (ELK-Desa Furniture).

ELK-Desa Capital operates the HP financing segment. The company aims to capture the rapid urbanisation in Malaysia, and by extension, the automotive sector growth, by providing HP financing services. Specifically, it focuses on providing financing for the under-penetrated used motor vehicles space. As an extension of its lending business, ELK-Desa Capital also offers general insurance products through its wholly-owned subsidiary ELK-Desa Risk Agency SB.

ELK-Desa Furniture was incorporated on 18 Feb 2015 and participates in furniture trading and wholesaling. The company operates two furniture showrooms in Klang, Selangor. In FY21 (Mar), the furniture segment contributed to 9.2% of ELK's PBT, as well as 35.1% of group revenue.

Figure 17: ELK's company structure



Source: Company annual report

Management and shareholdings

Teoh Hock Chai @ Tew Hock Chai sits on the Board of Directors as its Executive Chairman. He is also the founder of Eng Lee Kredit SB, which is a substantial shareholder of ELK.

ELK's CEO is Teoh Seng Hui, who has been on the Board since 2006. He holds a degree in Accounting & Law from the UK, and has many years of experience in the industry under his belt. He is assisted by Teoh Seng Hee, who is the Chief Financial Officer. Seng Hui, Seng Hee and Non-Independent, Non-Executive Director Teoh Seng Kar are siblings, and are the children of Teoh Hock Chai.

On shareholdings, Eng Lee Kredit owns the biggest portion of ELK at 32.8%. This is followed by Amity Corporation SB, which owns 5.1%, and Teo Siew Lai, who owns 3.5%. Most of the shareholders are individual owners, as well as a handful of privately-owned companies.

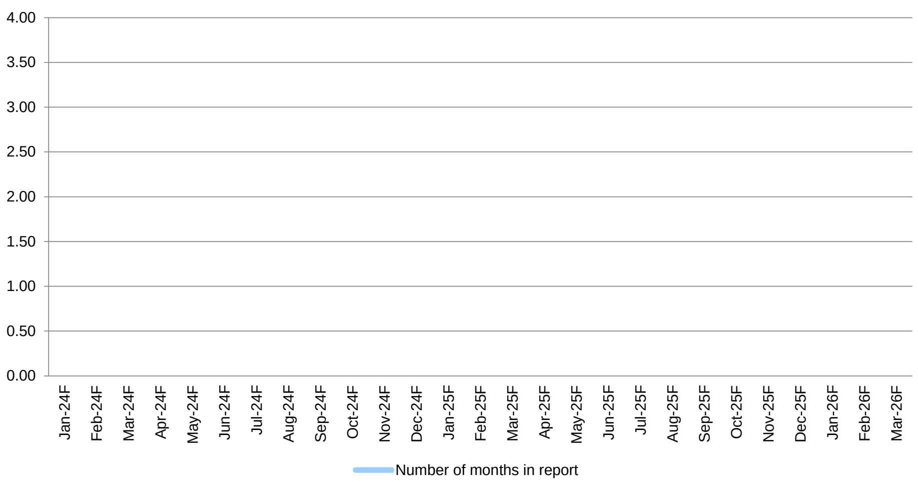
Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-07-17			

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

RHB Guide to Investment Ratings

Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

Investment Research Disclaimers

This report has been prepared by RHB Investment Bank Berhad pursuant to the Research Incentive Program under Bursa Research Incentive Scheme ("Bursa RISE") administered by Bursa Malaysia Berhad. This report has been produced independent of any influence from Bursa Malaysia Berhad or the subject company. Bursa Malaysia Berhad and its group of companies disclaims any and all liability, howsoever arising, out of or in relation to the administration of Bursa Research Incentive Program and/or this report.

RHB has issued this report for information purposes only. This report is intended for circulation amongst RHB and its affiliates' clients generally or such persons as may be deemed eligible by RHB to receive this report and does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. This report is not intended, and should not under any circumstances be construed as, an offer or a solicitation of an offer to buy or sell the securities referred to herein or any related financial instruments.

This report may further consist of, whether in whole or in part, summaries, research, compilations, extracts or analysis that has been prepared by RHB's strategic, joint venture and/or business partners. No representation or warranty (express or implied) is given as to the accuracy or completeness of such information and accordingly investors should make their own informed decisions before relying on the same.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to the applicable laws or regulations. By accepting this report, the recipient hereof (i) represents and warrants that it is lawfully able to receive this document under the laws and regulations of the jurisdiction in which it is located or other applicable laws and (ii) acknowledges and agrees to be bound by the limitations contained herein. Any failure to comply with these limitations may constitute a violation of applicable laws.

All the information contained herein is based upon publicly available information and has been obtained from sources that RHB believes to be reliable and correct at the time of issue of this report. However, such sources have not been independently verified by RHB and/or its affiliates and this report does not purport to contain all information that a prospective investor may require. The opinions expressed herein are RHB's present opinions only and are subject to change without prior notice. RHB is not under any obligation to update or keep current the information and opinions expressed herein or to provide the recipient with access to any additional information. Consequently, RHB does not guarantee, represent or warrant, expressly or impliedly, as to the adequacy, accuracy, reliability, fairness or completeness of the information and opinion contained in this report. Neither RHB (including its officers, directors, associates, connected parties, and/or employees) nor does any of its agents accept any liability for any direct, indirect or consequential losses, loss of profits and/or damages that may arise from the use or reliance of this research report and/or further communications given in relation to this report. Any such responsibility or liability is hereby expressly disclaimed.

Whilst every effort is made to ensure that statement of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable and must not be construed as a representation that the matters referred to therein will occur. Different assumptions by RHB or any other source may yield substantially different results and recommendations contained on one type of research product may differ from recommendations contained in other types of research. The performance of currencies may affect the value of, or income from, the securities or any other financial instruments referenced in this report. Holders of depositary receipts backed by the securities discussed in this report assume currency risk. Past performance is not a guide to future performance. Income from investments may fluctuate. The price or value of the investments to which this report relates, either directly or indirectly, may fall or rise against the interest of investors.

This report may contain comments, estimates, projections, forecasts and expressions of opinion relating to macroeconomic research published by RHB economists of which should not be considered as investment ratings/advice and/or a recommendation by such economists on any securities discussed in this report.

This report does not purport to be comprehensive or to contain all the information that a prospective investor may need in order to make an investment decision. The recipient of this report is making its own independent assessment and decisions regarding any securities or financial instruments referenced herein. Any investment discussed or recommended in this report may be unsuitable for an investor depending on the investor's specific investment objectives and financial position. The material in this report is general information intended for recipients who understand the risks of investing in financial instruments. This report does not take into account whether an investment or course of action and any associated risks are suitable for the recipient. Any recommendations contained in this report must therefore not be relied upon as investment advice based on the recipient's personal circumstances. Investors should make their own independent evaluation of the information contained herein, consider their own investment objective, financial situation and particular needs and seek their own financial, business, legal, tax and other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report.

This report may contain forward-looking statements which are often but not always identified by the use of words such as "believe", "estimate", "intend" and "expect" and statements that an event or result "may", "will" or "might" occur or be achieved and other similar expressions. Such forward-looking statements are based on assumptions made and information currently available to RHB and are subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievement to be materially different from any future results, performance or achievement, expressed or implied by such forward-looking statements. Caution should be taken with respect to such statements and recipients of this report should not place undue reliance on any such forward-looking statements. RHB expressly disclaims any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

The use of any website to access this report electronically is done at the recipient's own risk, and it is the recipient's sole responsibility to take precautions to ensure that it is free from viruses or other items of a destructive nature. This report may also provide the addresses of, or contain hyperlinks to, websites. RHB takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to RHB own website material) are provided solely for the recipient's convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or RHB website shall be at the recipient's own risk.

This report may contain information obtained from third parties. Third party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. Third party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content.

The research analysts responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously. The research analysts that authored this report are precluded by RHB in all circumstances from trading in the securities or other financial instruments referenced in the report, or from having an interest in the company(ies) that they cover.

The contents of this report is strictly confidential and may not be copied, reproduced, published, distributed, transmitted or passed, in whole or in part, to any other person without the prior express written consent of RHB and/or its affiliates. This report has been delivered to RHB and its affiliates' clients for information purposes only and upon the express understanding that such parties will use it only for the purposes set forth above. By electing to view or accepting a copy of this report, the recipients have agreed that they will not print, copy, videotape, record, hyperlink, download, or otherwise attempt to reproduce or re-transmit (in any form including hard copy or electronic distribution format) the contents of this report. RHB and/or its affiliates accepts no liability whatsoever for the actions of third parties in this respect.

The contents of this report are subject to copyright. Please refer to Restrictions on Distribution below for information regarding the distributors of this report. Recipients must not reproduce or disseminate any content or findings of this report without the express permission of RHB and the distributors.

The securities mentioned in this publication may not be eligible for sale in some states or countries or certain categories of investors. The recipient of this report should have regard to the laws of the recipient's place of domicile when contemplating transactions in the securities or other financial instruments referred to herein. The securities discussed in this report may not have been registered in such jurisdiction. Without prejudice to the foregoing, the recipient is to note that additional disclaimers, warnings or qualifications may apply based on geographical location of the person or entity receiving this report.

The term "RHB" shall denote, where appropriate, the relevant entity distributing or disseminating the report in the particular jurisdiction referenced below, or, in every other case, RHB Investment Bank Berhad and its affiliates, subsidiaries and related companies.

RESTRICTIONS ON DISTRIBUTION

Malaysia
This report is issued and distributed in Malaysia by RHB Investment Bank Berhad ("RHBIB"). The views and opinions in this report are our own as of the date hereof and is subject to change. If the Financial Services and Markets Act of the United Kingdom

or the rules of the Financial Conduct Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. RHBIB has no obligation to update its opinion or the information in this report.

Thailand
This report is issued and distributed in the Kingdom of Thailand by RHB Securities (Thailand) PCL, a licensed securities company that is authorised by the Ministry of Finance, regulated by the Securities and Exchange Commission of Thailand and is a member of the Stock Exchange of Thailand. The Thai Institute of Directors Association has disclosed the Corporate Governance Report of Thai Listed Companies made pursuant to the policy of the Securities and Exchange Commission of Thailand. RHB Securities (Thailand) PCL does not endorse, confirm nor certify the result of the Corporate Governance Report of Thai Listed Companies.

Indonesia
This report is issued and distributed in Indonesia by PT RHB Sekuritas Indonesia. This research does not constitute an offering document and it should not be construed as an offer of securities in Indonesia. Any securities offered or sold, directly or indirectly, in Indonesia or to any Indonesian citizen or corporation (wherever located) or to any Indonesian resident in a manner which constitutes a public offering under Indonesian laws and regulations must comply with the prevailing Indonesian laws and regulations.

Singapore
This report is issued and distributed in Singapore by RHB Bank Berhad (through its Singapore branch) which is an exempt capital markets services entity and an exempt financial adviser regulated by the Monetary Authority of Singapore. RHB Bank Berhad (through its Singapore branch) may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, RHB Bank Berhad (through its Singapore branch) accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact RHB Bank Berhad (through its Singapore branch) in respect of any matter arising from or in connection with the report.

United States
This report was prepared by RHB is meant for distribution solely and directly to "major" U.S. institutional investors as defined under, and pursuant to, the requirements of Rule 15a-6 under the U.S. Securities and Exchange Act of 1934, as amended (the "Exchange Act") via a registered U.S. broker-dealer as appointed by RHB from time to time. Accordingly, any access to this report via Bursa Marketplace or any other Electronic Services Provider is not intended for any party other than "major" US institutional investors (via a registered U.S broker-dealer), nor shall be deemed as solicitation by RHB in any manner. RHB is not registered as a broker-dealer in the United States and currently has not appointed a U.S. broker-dealer. Additionally, RHB does not offer brokerage services to U.S. persons. Any order for the purchase or sale of all securities discussed herein must be placed with and through a registered U.S. broker-dealer as appointed by RHB from time to time as required by the Exchange Act Rule 15a-6. For avoidance of doubt, RHB reiterates that it has not appointed any U.S. broker-dealer during the issuance of this report. This report is confidential and not intended for distribution to, or use by, persons other than the recipient and its employees, agents and advisors, as applicable. Additionally, where research is distributed via Electronic Service Provider, the analysts whose names appear in this report are not registered or qualified as research analysts in the United States and are not associated persons of any registered U.S. broker-dealer as appointed by RHB from time to time and therefore may not be subject to any applicable restrictions under Financial Industry Regulatory Authority ("FINRA") rules on communications with a subject company, public appearances and personal trading. Investing in any non-U.S. securities or related financial instruments discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in the United States. The financial instruments discussed in this report may not be suitable for all investors. Transactions in foreign markets may be subject to regulations that differ from or offer less protection than those in the United States.

DISCLOSURE OF CONFLICTS OF INTEREST

RHB Investment Bank Berhad, its subsidiaries (including its regional offices) and associated companies, ("RHBIB Group") form a diversified financial group, undertaking various investment banking activities which include, amongst others, underwriting, securities trading, market making and corporate finance advisory.

As a result of the same, in the ordinary course of its business, any member of the RHBIB Group, may, from time to time, have business relationships with, hold any positions in the securities and/or capital market products (including but not limited to shares, warrants, and/or derivatives), trade or otherwise effect transactions for its own account or the account of its customers or perform and/or solicit investment, advisory or other services from any of the subject company(ies) covered in this research report.

While the RHBIB Group will ensure that there are sufficient information barriers and internal controls in place where necessary, to prevent/manage any conflicts of interest to ensure the independence of this report, investors should also be aware that such conflict of interest may exist in view of the investment banking activities undertaken by the RHBIB Group as mentioned above and should exercise their own judgement before making any investment decisions.

In Singapore, investment research activities are conducted under RHB Bank Berhad (through its Singapore branch), and the disclaimers above similarly apply.

Malaysia
Save as disclosed in the following link RHB Research conflict disclosures – Jul 2022 and to the best of our knowledge, RHBIB hereby declares that:
1. RHBIB does not have a financial interest in the securities or other capital market products of the subject company(ies) covered in this report.
2. RHBIB is not a market maker in the securities or capital market products of the subject company(ies) covered in this report.
3. None of RHBIB's staff or associated person serve as a director or board member* of the subject company(ies) covered in this report
   **For the avoidance of doubt, the confirmation is only limited to the staff of research department*
4. RHBIB did not receive compensation for investment banking or corporate finance services from the subject company in the past 12 months.
5. RHBIB did not receive compensation or benefit (including gift and special cost arrangement e.g. company/issuer-sponsored and paid trip) in relation to the production of this report.

Thailand
Save as disclosed in the following link RHB Research conflict disclosures – Jul 2022 and to the best of our knowledge, RHB Securities (Thailand) PCL hereby declares that:
1. RHB Securities (Thailand) PCL does not have a financial interest in the securities or other capital market products of the subject company(ies) covered in this report.
2. RHB Securities (Thailand) PCL is not a market maker in the securities or capital market products of the subject company(ies) covered in this report.
3. None of RHB Securities (Thailand) PCL's staff or associated person serve as a director or board member* of the subject company(ies) covered in this report
1. *For the avoidance of doubt, the confirmation is only limited to the staff of research department
4. RHB Securities (Thailand) PCL did not receive compensation for investment banking or corporate finance services from the subject company in the past 12 months.
5. RHB Securities (Thailand) PCL did not receive compensation or benefit (including gift and special cost arrangement e.g. company/issuer-sponsored and paid trip) in relation to the production of this report.

Indonesia
Save as disclosed in the following link RHB Research conflict disclosures – Jul 2022 and to the best of our knowledge, PT RHB Sekuritas Indonesia hereby declares that:
1. PT RHB Sekuritas Indonesia and its investment analysts, does not have any interest in the securities of the subject company(ies) covered in this report.
   For the avoidance of doubt, interest in securities include the following:
   a) Holding directly or indirectly, individually or jointly own/hold securities or entitled for dividends, interest or proceeds from the sale or exercise of the subject company's securities covered in this report*;
   b) Being bound by an agreement to purchase securities or has the right to transfer the securities or has the right to pre subscribe the securities*.
   c) Being bound or required to buy the remaining securities that are not subscribed/placed out pursuant to an Initial Public Offering*.
   d) Managing or jointly with other parties managing such parties as referred to in (a), (b) or (c) above.
2. PT RHB Sekuritas Indonesia is not a market maker in the securities or capital market products of the subject company(ies) covered in this report.
3. None of PT RHB Sekuritas Indonesia's staff** or associated person serve as a director or board member* of the subject company(ies) covered in this report.
4. PT RHB Sekuritas Indonesia did not receive compensation for investment banking or corporate finance services from the subject company in the past 12 months.
5. PT RHB Sekuritas Indonesia** did not receive compensation or benefit (including gift and special cost arrangement e.g. company/issuer-sponsored and paid trip) in relation to the production of this report:

Notes:
**The overall disclosure is limited to information pertaining to PT RHB Sekuritas Indonesia only.*
***The disclosure is limited to Research staff of PT RHB Sekuritas Indonesia only.*

Singapore
Save as disclosed in the following link RHB Research conflict disclosures – Jul 2022 and to the best of our knowledge, the Singapore Research department of RHB Bank Berhad (through its Singapore branch) hereby declares that:
1. RHB Bank Berhad, its subsidiaries and/or associated companies do not make a market in any issuer covered by the Singapore research analysts in this report.
2. RHB Bank Berhad, its subsidiaries and/or its associated companies and its analysts do not have a financial interest (including a shareholding of 1% or more) in the issuer covered by the Singapore research analysts in this report.
3. RHB Bank Berhad's Singapore research staff or connected persons do not serve on the board or trustee positions of the issuer covered by the Singapore research analysts in this report.
4. RHB Bank Berhad, its subsidiaries and/or its associated companies do not have and have not within the last 12 months had any corporate finance advisory relationship with the issuer covered by the Singapore research analysts in this report or any other relationship that may create a potential conflict of interest.
5. RHB Bank Berhad's Singapore research analysts, or person associated or connected to it do not have any interest in the acquisition or disposal of, the securities, specified securities based derivatives contracts or units in a collective investment scheme covered by the Singapore research analysts in this report.

6. RHB Bank Berhad's Singapore research analysts do not receive any compensation or benefit in connection with the production of this research report or recommendation on the issuer covered by the Singapore research analysts.

Analyst Certification
The analyst(s) who prepared this report, and their associates hereby, certify that:
(1) they do not have any financial interest in the securities or other capital market products of the subject companies mentioned in this report, except for:

Analyst	Company
-	-

(2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470