TA SECURITIES
A MEMBER OF THE TA GROUP

INITIATE COVERAGE

Thursday, May 19, 2022
Sector: Finance

Elk-Desa Resources Bhd

TP: RM1.50 (+13.6%)

Ride on Recovery

Last Traded: RM1.32

BUY (ESG: ★★★)

Li Hsia Wong | Tel: +603-2167-9610 | liwong@ta.com.my | www.taonline.com.my

We initiate coverage on Elk-Desa Resources Berhad with a Buy recommendation. We tag a 30% discount to Malaysia's average non-banking financial institution (NBFI) P/B ratio of 1.4x, due to Elk-Desa's smaller market cap and less superior ROE, to FY23e BV, thus arriving at a fair value of RM1.50/share. This represents a potential total return of 18.3%, including a 4.7% estimated dividend yield.

Investment Merits

1. Recovery prospect from more robust hire purchase (HP) receivables and normalisation in impairment charges
2. High yielding HP book;
3. Steady demand for furniture envisaged; and
4. Attractive Dividend Yield.

Earnings Forecast

Elk-Desa is expected to have a softer FY22, owing to the pandemic's several phases of Movement Control Order. However, we expect accelerating hire purchase receivables growth of 8-12% in FY23/24, as demand rises due to a more favourable external environment. Meanwhile, we expect a greater impairment charge of 3.8% in FY22, which is in line with management's projection of 3-4 %. Nonetheless, we estimate impairment charges will steadily improve, reaching 3.0% and 2.5% in FY23 and FY24, respectively. Demand for furniture products is expected to stay strong, expanding at a steady 6% each year. Elk-Desa's net profit is expected to fall by 26% YoY to RM26.0mn in FY22, before rebounding by 14% and 10% to RM29.5mn and RM32.5mn in FY23 and FY24, respectively.

Valuation

We tag a 30% discount to Malaysia's average NBFI (such as AEON Credit and RCE Capital) P/B ratio of 1.4x, due to Elk-Desa's smaller market cap and less superior ROE, to FY23e BV, thus arriving at a fair value of RM1.50/share. We initiate coverage on Elk-Desa with a Buy recommendation premised on i) strong earnings recovery in FY23 on the back of more robust HP receivables and normalisation in impairment charges, ii) high yielding HP book, iii) steady demand for furniture envisaged, and iv) attractive dividend yields of around 4.5-5.0%.

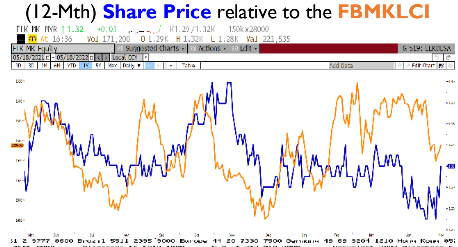
Share Information	
Bloomberg Code	ELK MK
Stock Code	5228
Listing	Main Market
Share Cap (mn)	303.2
Market Cap (RMmn)	400.2
52-wk Hi/Lo (RM)	1.47/1.20
12-mth Avg Daily Vol ('000 shrs)	84.4
Estimated Free Float (%)	37.2
Beta	0.4
Major Shareholders (%)	
	Eng Lee Kredit - 32.2%
	Amity Corp - 5.1%

Forecast Revision	FY22	FY23
Forecast Revision (%)	0.0	0.0
Net profit (RMm)	26.0	29.5
Consensus	n.a.	n.a.
TA's / Consensus (%)	n.a.	n.a.
Previous Rating	na	

Financial Indicators	FY22	FY23
CFPS (sen)	17.0	5.9
Price / CFPS (x)	7.6	21.8
ROA (%)	4.2	4.4
NTA/Share (RM)	1.5	1.5
Price/NTA (x)	0.9	0.8

Share Performance (%)		
Price Change	ELK	FBM KLCI
1 mth	3.9	(1.7)
3 mth	0.8	(3.0)
6 mth	(4.3)	2.0
12 mth	(2.4)	(2.3)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

FYE Mar (RMmn)		2020	2021	2022F	2023F	2024F
Revenue		148.0	143.8	120.2	132.8	149.0
Gross profit		119.8	110.0	91.8	100.6	111.8
EBITDA		64.7	64.5	47.1	56.0	66.1
EBITDA margin	(%)	43.7	44.8	39.2	42.1	44.4
EBIT		62.4	61.8	44.6	53.3	63.2
PBT		47.5	46.0	34.2	38.8	42.8
PAT		34.9	35.3	26.0	29.5	32.5
Core profit		34.9	35.3	26.0	29.5	32.5
Core EPS	(sen)	11.5	11.6	8.6	9.7	10.7
PER	(x)	11.5	11.3	15.4	13.6	12.3
Gross dividend	(sen)	7.3	7.3	6.0	6.3	6.8
Dividend yield	(%)	0.6	0.6	4.5	4.7	5.1

Business Overview

ELK-Desa Resources Berhad (Elk-Desa) is primarily involved in two activities: 1) hire purchase financing for used motor vehicles as well as selling general insurance policies as an insurance agent, and 2) trading and wholesale of home furniture. The two businesses are run by wholly owned subsidiaries ELK-Desa Capital Sdn Bhd and ELK-Desa Furniture Sdn Bhd. ELK-Desa was listed in the Finance Sector on the Main Market of Bursa Malaysia Securities Berhad, on December 18, 2012.

Exhibit 1: Organisation Structure

Source: Company

Reputable hire purchase financier

The group's primary business activity and revenue generator is the hire purchase financing business, accounting for 65% and 91% of the group's FY21 revenue and PBT respectively. ELK-Desa is a well-established non-bank lender that has carved out a reputation as a trustworthy hire purchase financier in the used car market. ELK-Desa has successfully differentiated itself from the more incumbent financial institutions by targeting specific buyers seeking small value financing, a market segment that remains underserved by financial institutions.

As of March 31, 2021, the group's hire purchase financing division has approximately 41,000 borrowers. ELK-Desa primarily conducts its hire purchase financing business through a large dealer network of over 1,000 locations. The group believes that its competitive strength is the ability to process financing requests quickly and efficiently, thus helping to add value to the dealers' businesses. Management note that it is critical to disburse financing in a timely manner so that dealers can sell their used car inventories at a faster rate.

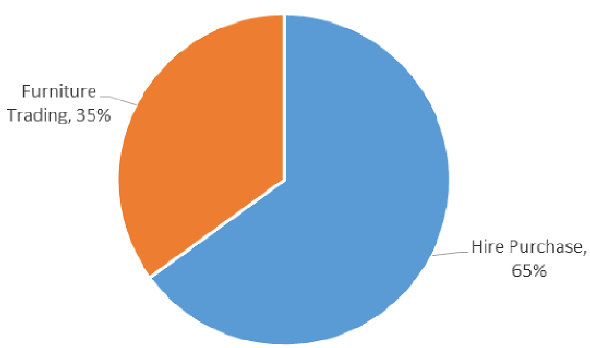
In addition, Elk-Desa cross-sells motor-related general insurance products to its hire purchase customers, leveraging its hire purchase financing presence. These products are primarily from leading insurance companies, Tokio Marine Insurans (Malaysia) Berhad and Berjaya Sompo Insurance Berhad.

Furniture trading business

ELK-Desa is also involved in the furniture trade. The furniture trading segment, which began operations in mid-2015, is currently focused on the wholesale of home furniture in the domestic market. Management expects demand for furniture products to remain resilient in the group's furniture trading business, as the "new normal" would see an increasing number of people working and studying from home. As a result, consumers are spending more to equip their homes for work and study.

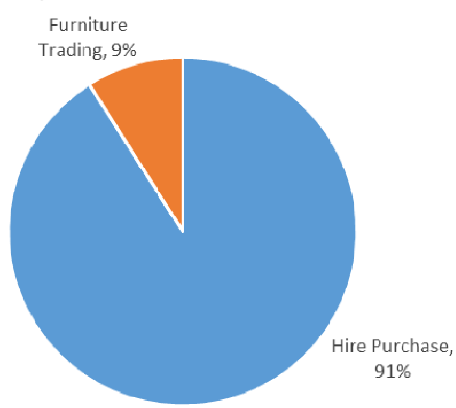
Despite the increased demand for affordable quality furniture products, management noted that some of the challenges in this segment include the availability of raw material supply that has been hampered locally and globally by logistical issues caused by the pandemic. Travel restrictions and foreign labour policies have also resulted in labour shortages. Nevertheless, ELK-Desa intends to focus on resolving these supply chain issues by collaborating closely with its suppliers. As a domestic furniture wholesaler, ELK-Desa is also committed to developing strong relationships with furniture retailers throughout Malaysia in order to bolster its brand presence and grow.

Exhibit 2: Business Segment Revenue Breakdown



Source: Company, TA Securities

Exhibit 3: Business Segment PBT Breakdown



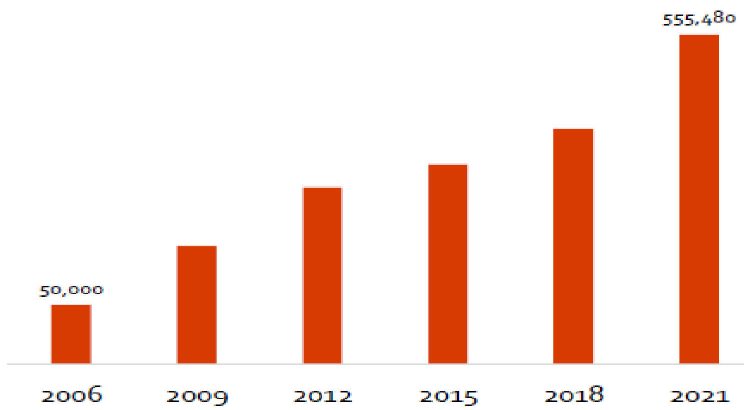
Source: Company, TA Securities

Investment Merits

i) Reputable hire purchase financier in the used car market

ELK-Desa is well-established and has a solid reputation as a trustworthy hire purchase financier in the used car market. As of March 31, 2021, the group's hire purchase financing division has approximately 41,000 borrowers. The company registered solid CAGR net hire purchase receivables of around 14% from 2015 – 2021.

Exhibit 4: Net Hire Purchase Receivables (RM '000)



Source: Company

ii) Successfully differentiated itself from incumbent FIs and NBFIs

Despite the intense competition from the banks and non-bank financial institutions (NBFI) in Malaysia, ELK-Desa has successfully differentiated itself from many of these incumbent financial institutions. In FY21, the outstanding net hire purchase receivables per hirer amount to approximately RM13,500. Based on these figures, the group's credit exposure per hirer is relatively low. As a result, the group is not directly competing with larger financial institutions. Furthermore, the group targets specific borrowers seeking small value financing, a market segment that financial institutions continue to underserve. Management noted that around 80% of its borrowers fall into the B40 and M40 categories.

iii) Wide network of motor vehicle dealer

ELK-Desa is supported more than 1,000 used car dealers as its referral channel. The group believes that its competitive strength is the ability to process financing requests quickly and efficiently, thus helping to add value to the dealers' businesses. Management note that it is critical to disburse financing in a timely manner so that dealers can sell their used car inventories at a faster rate.

iv) High yielding receivables

Elk-Desa typically finances: 1) vehicles within 6-15 years, 2) small-to-medium sized models of <2,400cc, and 3) borrowers in the higher risk segment (such as the lower income group or those with potentially no credit history). Given the vehicle age and borrower's profile, the company is able to manage its risk by charging the borrowers a higher margin. According to management, the average HP interest rate is 9.8%, translating to an effective interest rate of around 17%. In comparison, the current HP interest rate for new cars in the market is between 3.0% and 4.5%.

v) Robust dividend policy

Elk-Desa has been consistently delivering dividend yield averaging approximately 5.6% per year along with a dividend payout ratio that averages around 66% per year. The Board is committed to uphold its dividend policy of 60%.

Industry Outlook

The lockdown due to the Covid-19 pandemic had a significant impact on the used car industry. Similarly, the hire purchase financing industry, which is influenced by the economy, will be affected by consumer confidence and spending habits. However, as macroeconomic prospects improve, demand for automotive vehicles should rise. The Malaysian Automotive Association (MAA) is projecting a TIV target of 600,000 units in 2022, representing a 17.9% increase YoY. This would imply an influx of used car supply entering the market.

Meanwhile, the Malaysian Federation of Motor and Credit Companies Association (FMCCAM) believes that demand for used car sales will also improve as the Covid-19 pandemic has discouraged people from using public transportation. Furthermore, with the rising cost of living, used cars are a more affordable option. Similarly, ELK-Desa anticipates that demand for used-car financing will continue to outpace supply as this niche market remains underserved. According to FMCCAM, used car sales average around 400k per year.

Going forward, the FMCCAM has identified several initiatives to boost consumer confidence and drive growth in the local used car sector. This includes the creation of an online platform with 4,400 dealer members. The online platform will be a tool for the outsourcing, inspection, and valuation of used cars, with the goal of increasing transparency and professionalism in the industry. Furthermore, the association is working on providing warranties lasting up to 12 years, specifically for the used car's engine and transmission. FMCCAM believes that these initiatives will help build customer confidence in purchasing used cars, especially given that customer confidence levels in Malaysia are much lower than in countries such as the United States, Japan, and Europe. The association noted that the turnover rate of used cars in many countries overseas are higher compared with new cars. In Malaysia however, the turnover rate for used cars is 1.5% lower than new cars, owing to weak confidence levels, value depreciation of these cars and strict hire purchase financing.

ELK-Desa's furniture division accounts for approximately 35% of the group's revenue and 9% of its PBT respectively. Despite the pandemic and various phases of the lockdown, total furniture revenue increased by 16% YoY to RM50.4mn, owing to pent-up consumer demand for high-quality home furnishings. However, the gross profit margin decreased slightly from 35% to 33%. This was due to cost pressures caused by supply chain disruptions and rising material costs during the FY. Despite this, the furniture division continued to grow positively in its sixth year of operation, earning a profit before tax of approximately RM4.2mn in FY21. Management stated that as the "work-from-home" culture becomes more common, demand for furniture products will continue to rise as people improve their ability to work and study from home.

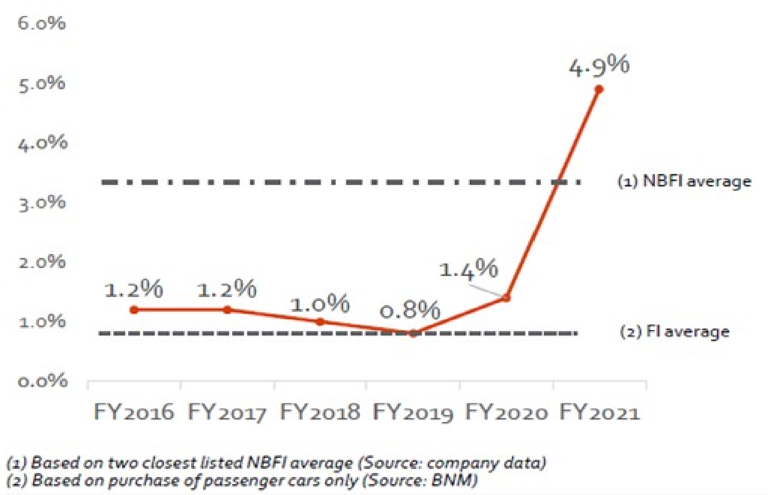
Key Risks Relating to Business and Industry

i) Asset quality risk

Because of the pandemic's disruptions, Elk-Desa's non-performing loan (NPL) ratio for FY21 increased to 4.9% from 1.4% in FY20. The impaired loans ratio for the banking sector was around 0.5% in December 2021. Like financial institutions, Elk-Desa faces credit risks based on the ability of the hirers to make timely payments. Management noted that the steep increase in NPLs was also due to the Covid-19 Act, which prevented the company from taking possession of the motor vehicles and thus from writing off the bad loans when the hirer defaulted. This act has been extended to October 2022.

Furthermore, we believe the increase in NPLs was caused by the majority of Elk-Desa hirers being borrowers in the B40 and M40 segments. In light of the uncertainties, and in order to mitigate credit risks, the group has had to strengthen its credit management policy while closely monitoring repayments throughout the year. The group has also remained steadfast in reducing its exposure to credit risk by not relying heavily on any single large hirer. Financing is also capped at <RM35,000 per borrower.

Exhibit 5: Elk-Desa's NPL trend



Source: Company

ii) Possible regulatory changes

The industry is governed by the Hire Purchase Act of 1967, and any unfavourable amendments to the Act, such as the Covid-19 Act, would have an impact on the group. Strategic risks are managed by paying close attention to all relevant trends and developments that may have an impact on the group's hire purchase financing business and putting in place the ability to quickly react or adapt to changing situations.

iii) Liquidity and funding risks

These are risks to the group if it is unable to maintain sufficient liquidity in its cash and cash equivalents to meet its financial commitments when they become due. Funding risk is associated with the group's inability to secure new sources of funding for business expansion and the replacement of higher-cost borrowings. Internal funds generated from earned revenue continue to be the primary source of funding for the group's operations. Elk-Desa has been able to access cost-effective, short and long-term working capital requirements thanks to the long and cordial business relationships established with local financial institutions. Furthermore, the group can gain access to capital markets to raise funds for business expansion at a lower cost than traditional bank borrowings.

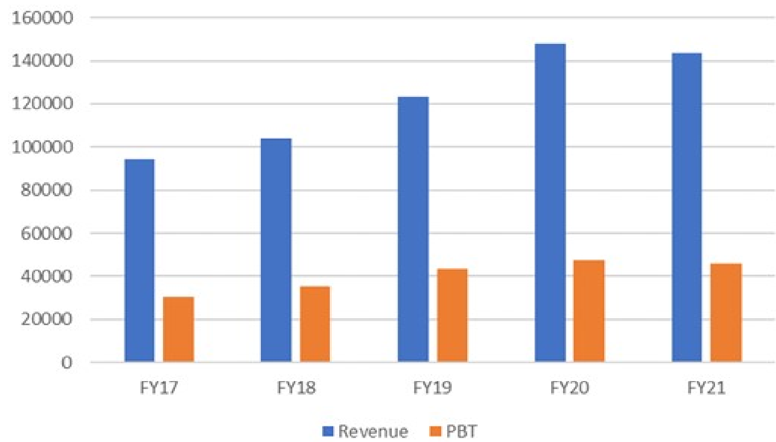
iv) Interest rate risk

This risk relates to revenue loss caused by interest rate fluctuations on borrowed working capital. The group's ongoing efforts to find competitive financing packages and retire higher-cost borrowings will mitigate the impact of adverse borrowing interest rate movements on Elk-Desa's financial performance. This risk is also managed by maintaining a mix of fixed and floating rate borrowings. However, the group may be impacted by rising interest rates because they are typically unable to pass this cost increase on to their borrowers.

Financial Highlights

Profit and Loss Statement

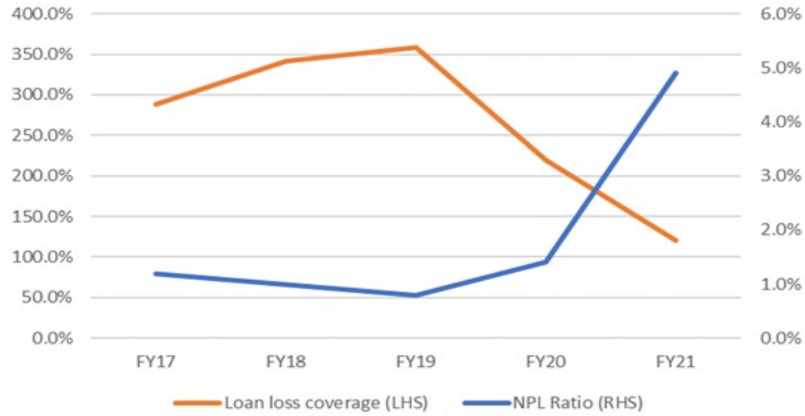
Exhibit 6: Financial Performance - FYE March (RM '000)



Source: Company, TA Securities

In FY21, the group's business and operations were disrupted by the pandemic, which led to the lockdown during the financial year. Revenue declined by only 3% to RM143.8mn from RM148.0mn in FY20. PBT also fell by around 3% to RM46.0mn mainly due to lower contribution from the hire purchase financing business. Nevertheless, net profit broadened marginally to RM35.3mn due to the lower effective tax rate due to recognition of deferred tax assets arising from impairment allowance on hire purchase receivables. By segment, approximately 94% of the revenue was derived from hire purchase interest income in FY21, which recorded a 4% YoY decline to RM87.7mn. Meanwhile, the non-hire purchase interest income decreased by 57% to RM5.6mn from RM12.9mn a year ago attributed to lower new hire purchase disbursements in FY21.

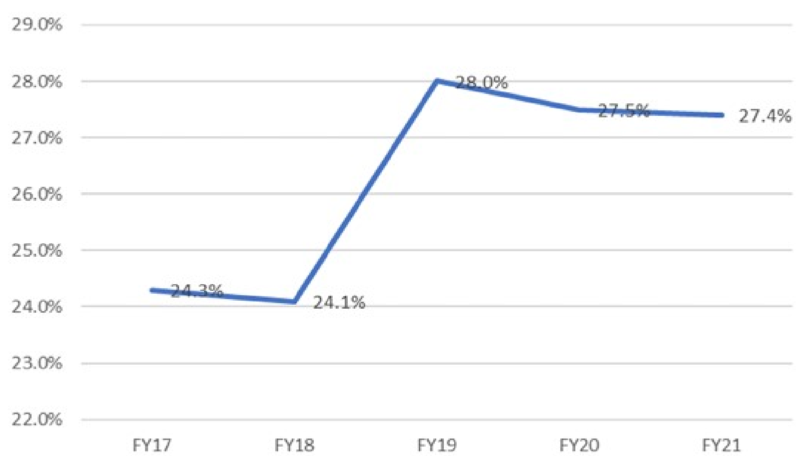
Exhibit 7: Asset Quality Trends - FYE March (%)



Source: Company, TA Securities

In terms of asset quality, impairment allowance decreased by 21% to RM18.7mn while the credit loss charge also decreased from 4.2% to 3.2%. The lower impairment allowance and credit loss charge were mainly due to lower losses incurred for repossession and positive repayment efforts from the hire purchase customers in spite of the global pandemic. Management noted of efforts in increasing its engagement with its borrowers. Borrowers who are eligible will be offered assistance, on a case-by-case basis. Elk-Desa will classify these borrowers whom are offered assistance, as non-performing when their outstanding months arrears are more than 3 months. In this regard, the group's NPL ratio increased to 4.9% as at FY21 compared to 1.4% in the previous year. Management is striving to gradually bring it down to the pre-Covid levels and is rigorously reviewing its impairment policy, especially during the current pandemic crisis, to ensure that sufficient impairment provisions are made for future credit losses. As a result of the higher NPL, loan loss coverage decreased from 220% to 121% as at 31 March 2021.

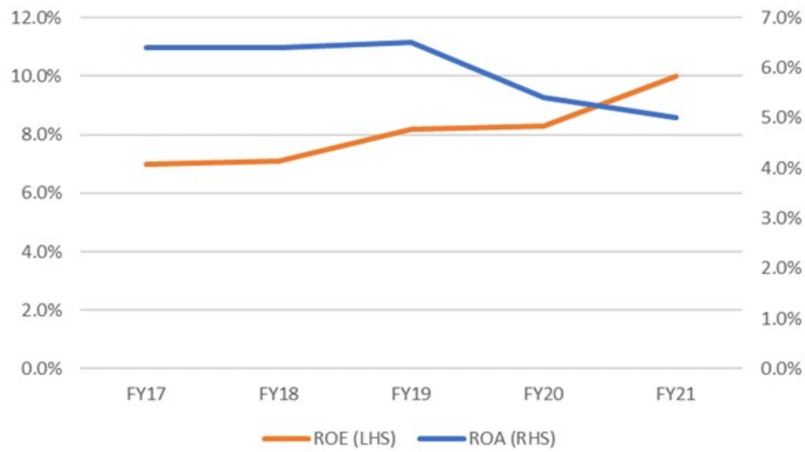
Exhibit 8: Cost to income ratio (HP segment) - FYE March (%)



Source: Company, TA Securities

Elsewhere, other expenses decreased by 15% to RM21.8mn mainly due to lower staff costs along with ongoing efforts to manage operating costs prudently and effectively. As such, the cost to income ratio for the hire purchase financing division remains at a low 27.4%. Management noted that there were no layoffs or salary reductions during the year. The number of employees remained unchanged YoY.

Exhibit 9: ROE vs. ROA - FYE March (%)



Source: Company, TA Securities

Return on equity (ROE) decreased by some 20 bps YoY to 8.1% as a result of the disruptions to the group's operations due to the pandemic. Meanwhile, the Return on assets (ROA) also decreased by 40 bps YoY to 5.0% mainly due to a lower yield on the Hire Purchase Receivables as a result of a significant reduction in new hire purchase disbursements for the financial year.

Balance Sheet

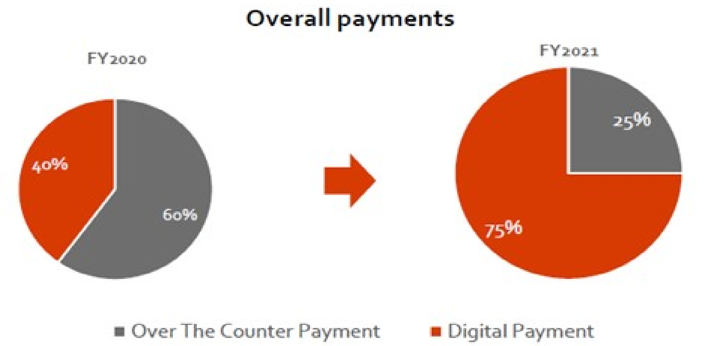
Due to the challenging business environment, hire purchase disbursements were tightened as the group focused on preserving asset quality. Net hire purchase receivables declined by 12% to RM555.5mn as at 31 March 2021. To recap, Elk-Desa had been growing its portfolio quite aggressively as the net hire purchase receivables have grown at a compounded annual growth rate (CAGR) of 14% over the last five years. The group's net cash and bank balances, including short-term funds stood at RM63.7mn as at 31 December 2021. Meanwhile, total bank borrowings decreased by 17% to due to repayment of block discounting facilities and term loans. Elk-Desa's gearing remains at a low level of 0.30x as at 31 December 2021.

Future Plans and Business Strategies

i) Digitalisation

Efforts to improve Elk-Desa's technological capabilities and digitisation will continue to improve operational efficiencies and streamline workload and processes. In FY21, MyELK-Desa launched a mobile application that allows customers to make payments as well as inquire about and seek advice on loan, insurance, and road tax issues online or through the Careline Team. The customer service line now also has Interactive Voice Response, which allows for better communication and more accurate responses to customer inquiries. Furthermore, the group had expanded its payment channels, such as the JomPay and e-Pay networks, to provide more convenient payment methods for customers. This is timely given the strict SOP requirements and various stages of lockdown during this pandemic. Management noted that, over-the-counter (OTC) payments typically accounted for more than 60% of total payments. OTC payments accounted for only about 25% of total payments in FY21 due to its more comprehensive e-payment network. Management anticipates that the business will continue to benefit from the flexibility and mobility provided by digitisation.

Exhibit 10: OTC vs. Online payments



Source: Company

ESG Consideration

Environmental. Elk-Desa is currently installing a solar panel system in one of its Klang offices as a pilot project to generate renewable energy for its own use. The solar panels are expected to generate 61,800 kWh per year and offset 41 metric tonnes of CO_2, which is equivalent to the CO_2 absorbed by 1,236 trees in a year. This would also contribute to a reduction in overall electricity consumption from 418,725 (kWh) in FY21. As a responsible organisation, the group strives to reduce its environmental footprints and emissions by managing natural resources efficiently, including waste. Elk-Desa has been investing in digitising its information and documentation management systems in recent years. The group was able to reduce paper use and waste by gradually implementing information systems and migrating from paper to electronic documentation. The introduction of various customer payment channels, such as JomPay, e-Pay at Shell stations and KK Mart, and the MyELK-Desa mobile app, which allows customers to make payments online, has helped to reduce the use of paper and waste while also ensuring customers have continuous access to services.

Social. Elk-Desa contributes to the local economy by providing low-interest financing for used car buyers who are generally underserved by mainstream financial institutions. Qualified low-to-middle-income and self-employed individuals are eligible. According to management, vehicle ownership, particularly in Greater Kuala Lumpur, can serve as a catalyst for better economic opportunities, which can lead to economic development and increased disposable income. The element of financial inclusion embedded in its hire purchase financing business model would also contribute to corporate responsibility by promoting responsible finance and assisting certain underserved communities in not falling behind as the country progresses. A sustainable lending landscape, according to management, is one that reduces credit risk for the company while also ensuring customers can afford to repay their loans.

Elk-Desa's workforce is well-balanced in terms of gender, ethnicity, and age groups. The average turnover rate is around 4.2%, indicating a relatively healthy work environment. However, upper management (senior manager and above) is more skewed towards men (71%). Furthermore, the Board of Directors currently has only one female member. All employees receive ongoing training and development, ranging from a Balance Score Card programme to provide clarity on how to make a strategy operational to Anti-Bribery Management.

Employees of the Hire Purchase Financing Division received a total of 1,356 training hours. In FY21, this equates to an average of 7.21 training hours per employee.

Elk-Desa, unlike financial institutions, was not required to participate in the various financial assistance programmes during the pandemic. Despite this, the group stepped up to help eligible borrowers make minimum payments for a specific period on a case-by-case basis. The group also took steps to alleviate borrowers' burdens, such as waiving overdue interest during the first year of MCO. This is due to management's belief in the importance of striking a balance between ensuring long-term business performance and assisting borrowers in meeting their financial obligations to the company.

Governance. There is reasonable oversight in place, with the Board having ultimate responsibility for providing leadership and ensuring that the group's strategic plan supports long-term value creation and includes strategies that incorporate EESG considerations underpinning sustainability. The Group Executive Director/ Chief Executive Officer (CEO) would be in charge of reviewing, deliberating, and approving the group's sustainability strategies and initiatives, which would then be approved by the Board. The CEO is also in charge of supervising the implementation of sustainability strategies and initiatives, as well as their performance in the day-to-day management of the group's business, which is delegated to the heads/senior managers of the respective functions or operations. A Sustainability Steering Committee (SSC) has been formed to assist the CEO with everything from strategy development to stakeholder engagement and monitoring sustainability performance. The CEO chairs the Sustainability Steering Committee, which is made up of the heads/senior managers of the Hire Purchase Financing Division's key functions and operations.

To address key concerns, there appears to be regular engagement with stakeholder groups such as customers, dealers, business partners, and employees. Surveys were also conducted to obtain their assessment ratings on relevant EESG issues, as well as their perspectives and feedback on other sustainability-related issues. In addition, the group is consistent in its commitments to its shareholders by delivering long-term value. This has been demonstrated by Elk-Desa's commendable track record of positive earnings per share and return on equity to shareholders and investors. This is made possible by the management team's diligent and prudent efforts, which has extensive knowledge and experience in the industry, as well as the group's strong financial position.

Dividend Policy

Elk-Desa has been consistently delivering dividend yield averaging approximately 5.6% per year along with a dividend payout ratio that averages around 66% per year. In FY21, the Board of Directors declared a second single tier interim dividend of 4.75 sen per share. In addition to the first single tier interim dividend of 2.50 sen per share, the total dividend for the financial year ended 31 March 2021 is 7.25 sen per share (FY2020: 7.25 sen). This represents a dividend payout ratio of approximately 61% of the net profit, which is higher than the dividend policy of 60% set by the Board. The Board is committed to uphold its dividend policy.

Earnings Forecast

We foresee a softer FY22 for Elk-Desa, underpinned by various phases of Movement Control Order due to the pandemic. The restriction on movement from June to September 2021 caused business and operational problems, according to management. As a result, sales for 9MFY22 fell 11% YoY to RM92.9mn from RM105.0mn the previous year. The hire purchase segment, which saw sales fall by 9% YoY due to a smaller hire purchase portfolio, accounted for the majority of the decline. Hire purchase receivables declined 10% YoY to RM469.3mn at the end of 2021. We expect accelerated hire purchase receivables growth of 8-12% in FY23/24, as demand rises due to a more favourable external environment. Meanwhile, we expect a greater impairment charge of 3.8%, which is within management's 3-4% range, to reduce the group's earnings in FY22. Nonetheless, we estimate impairment charges will steadily improve, reaching 3.0% and 2.5% in FY23 and FY24, respectively. Meanwhile, demand for furniture products is expected to remain strong, expanding at a constant 6% each year. Elk-Desa's net profit is expected to fall by 26% YoY to RM26.0mn in FY22, before climbing by 14% and 10% to RM29.5mn and RM32.5mn in FY23 and FY24, respectively.

Our projections are premised on assumptions below:

- Recovery in Elk-Desa's hire purchase receivables to decline by 10% in FY22 before improving by 8% and 12% in FY23 and FY24.
- Normalising impairment charges of 3% and 2.5% in FY23 and FY24. We assume the Covid-19 Act will not be extended beyond October 2022.
- Steady furniture sales growth of 6%.

Valuation

For valuation purposes, we compare Elk-Desa to other non-bank financial institutions such as AEON Credit and RCE Capital. We tag a 30% discount to Malaysia's average NBFI P/B ratio of 1.4x, due to Elk-Desa's smaller market cap and less superior ROE, to FY23e BV, thus arriving at a fair value of RM1.50/share.

We initiate coverage on Elk-Desa with a Buy recommendation premised on: i) strong earnings recovery in FY23 on the back of more robust HP receivables and normalisation in impairment charges, ii) high yielding HP book, iii) steady demand for furniture envisaged, and iv) attractive dividend yields of around 4.5-5.0%.

Exhibit 11: Peer Comparison

Company	Price	Market Cap	PER (x)		PBV (x)		EPS Growth (%)		ROE (%)		Dividend yield (%)	
		RM mn	FY22	FY23	FY22	FY23	FY22	FY23	FY22	FY23	FY22	FY23
AEON Credit	15.12	3,860.1	10.6	10.2	1.9	1.8	56.2	3.1	19.2	17.7	2.9%	3.3%
RCE Capital	1.77	1,295.6	9.9	9.6	1.4	1.5	5.1	3.4	15.8	15.1	3.6%	4.2%
Elk- Desa	1.32	400.2	15.4	13.6	0.9	0.9	-26.4	13.7	5.8	6.4	4.5%	4.7%
Simple average			12.0	11.1	1.4	1.4	32.6	3.7	13.6	13.1	3.7%	4.1%

Source: TA Securities

Exhibit 12: Financial Summary

Profit & Loss (RMmn)

FYE Mar 31		2020	2021	2022F	2023F	2024F
Revenue		148.0	143.8	120.2	132.8	149.0
EBITDA		64.7	64.5	47.1	56.0	66.1
Dep. & amortisation		(2.3)	(2.7)	(2.6)	(2.6)	(2.9)
Net finance cost		(12.5)	(13.1)	(10.4)	(14.5)	(20.4)
PBT		47.5	46.0	34.2	38.8	42.8
Taxation		(12.6)	(10.7)	(8.2)	(9.3)	(10.3)
PAT		34.9	35.3	26.0	29.5	32.5
Core profit		34.9	35.3	26.0	29.5	32.5
GDPS	(sen)	7.3	7.3	6.0	6.3	6.8
Div Yield	(%)	0.6	0.6	4.5	4.7	5.1

Cash Flow (RMm)

FYE Mar 31	2020	2021	2022F	2023F	2024F
PBT	**47.5**	**46.0**	**34.2**	**38.8**	**42.8**
Non cash expenses	38.2	34.6	13.0	17.1	23.3
Non Operating expenses	(13.1)	(13.4)	(18.6)	(23.8)	(30.7)
Changes in WC	(165.5)	64.9	(9.4)	(3.6)	(4.3)
Operational cash flow	**(92.9)**	**132.2**	**19.1**	**28.6**	**31.2**
Capex	(0.9)	(1.8)	(2.0)	(3.0)	(4.0)
Others	(64.6)	10.1	0.0	0.0	0.0
Investment cash flow	**(65.5)**	**8.3**	**(2.0)**	**(3.0)**	**(4.0)**
Debt raised/(repaid)	172.2	(119.0)	50.0	10.0	10.0
Dividend	(20.8)	(18.6)	(15.6)	(17.7)	(19.5)
Others	0.0	0.0	0.0	0.0	0.0
Financial cash flow	**151.4**	**(137.6)**	**34.4**	**(7.7)**	**(9.5)**
Forex effect	0.0	0.0	0.0	0.0	0.0
Net cash flow	**(6.9)**	**2.8**	**51.6**	**17.9**	**17.6**
Beginning cash	**31.4**	**24.5**	**27.3**	**78.9**	**96.8**
Ending cash	**24.5**	**27.3**	**78.9**	**96.8**	**114.4**
Adjustments	**53.1**	**43.8**	**0.0**	**0.0**	**0.0**
Cash	77.6	71.2	78.9	96.8	114.4

Balance Sheet (RMmn)

FYE Mar 31	2020	2021	2022F	2023F	2024F
Fixed assets	10.6	11.1	10.5	10.9	11.9
HP Receivable	466.2	385.8	351.3	379.4	424.9
Others	7.6	13.3	13.3	13.3	13.3
NCA	**484.3**	**410.2**	**375.0**	**403.5**	**450.1**
Cash	77.6	71.2	78.9	96.8	114.4
Others	188.6	181.7	163.5	176.6	196.1
CA	**266.2**	**252.8**	**242.4**	**273.4**	**310.6**
Total assets	**750.6**	**663.0**	**617.4**	**676.9**	**760.7**
ST borrowings	117.8	88.8	138.8	148.8	158.8
Other liabilities	24.6	22.1	22.0	22.8	23.9
CL	**142.4**	**110.9**	**160.8**	**171.6**	**182.6**
Shareholders' funds	**425.2**	**441.8**	**453.5**	**465.3**	**478.3**
LT borrowings	181.6	106.9	0.0	36.8	96.6
Other LT liabilities	1.4	3.4	3.2	3.2	3.2
NCL	**183.0**	**110.3**	**3.2**	**40.0**	**99.8**
Total capital	**750.6**	**663.0**	**617.4**	**676.9**	**760.7**

Ratios

FYE Mar 31	2020	2021	2022F	2023F	2024F
EBITDA Margins (%)	43.7	44.8	39.2	42.1	44.4
Core EPS (sen)	11.5	11.6	8.6	9.7	10.7
EPS Growth (%)	6.0	1.1	-26.4	13.7	10.2
PER (x)	11.5	11.3	15.4	13.6	12.3
GDPS (sen)	7.3	7.3	6.0	6.3	6.8
Div Yield (%)	0.6	0.6	4.5	4.7	5.1
Net gearing (x)	0.5	(0.0)	0.1	0.2	0.3
ROE (%)	8.2	8.1	5.8	6.4	6.9
ROA (%)	4.6	5.3	4.2	4.4	4.3
NTA (RM)	1.4	1.5	1.5	1.5	1.6
P/NTA(x)	0.9	0.9	0.9	0.9	0.8

Source: TA Securities

(THIS PAGE IS INTENTIONALLY LEFT BLANK)

Stock Recommendation Guideline

BUY : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	★★★	★★★	★★★	★★★
Remark	The company has made notable efforts in reducing its environmental footprints and emissions by managing natural resources efficiently.	Providing low-interest financing for used car buyers who are generally underserved by mainstream financial institutions. While not obligated to, Elk-Desa took steps to alleviate borrowers' burdens, such as waiving overdue interest during the first year of MCO.	There is reasonable oversight in place. The workforce is well-balanced in terms of gender, ethnicity, and age groups. However, the BOD and upper management level still lacks the diversity in terms of gender. Elk-Desa is committed to upholding its 60% dividend policy.	

★★★★★ **(≥80%)** : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.
★★★★ **(60-79%)** : Above adequate integration of ESG factors into most aspects of operations, management and future directions.
★★★ **(40-59%)** : Adequate integration of ESG factors into operations, management and future directions.
★★ **(20-39%)** : Have some integration of ESG factors in operations and management but are insufficient.
★ **(<20%)** : Minimal or no integration of ESG factors in operations and management.

As of Thursday, May 19, 2022, the analyst, Li Hsia Wong, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

TA SECURITIES HOLDINGS BERHAD (14948-M)
A Participating Organisation of Bursa Malaysia Securities Berhad
Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048
www.ta.com.my