

Elk-Desa Resources Bhd

Higher impairment allowance pressured margin

Summary

- ELK-Desa Resources Bhd's (ELK) 4Q22 core net profit plummeted 61.6% YoY to RM5.6m, bringing the FY22 net profit to RM25.5m (YoY: -30.5%). The results came in below our expectation, amounting to 80.7% of our full year forecast of RM31.6m. Key deviation was mainly due to the higher-than-expected impairment allowances. Meanwhile, a second interim dividend of 3.25 sen per share, payable on 16th Jun 2022 was declared.
- Core net profit plunged YoY, primarily resulted from (i) lower contribution from hire purchase segment due to smaller hire purchase portfolio and higher impairment allowance, as well as (ii) lower furniture sales. Those factors have led to a -46.3% decline in ELK's core net profit QoQ.
- In FY22, impairment allowance for hire purchase segment increased 18.7% YoY to RM22.2m, driving up the credit loss charge to 4.1% from 3.2%. The higher impairment allowance was mainly due to an increase in impaired loan accounts caused by disruptions in hirers' repayment patterns during the June-September 2021 lockdowns.
- We deemed that the special withdrawal facility of up to RM10,000 from Employees Provident Fund (EPF) in April 2022 may boost hirers' repayment in the following quarter. Nevertheless, impairment allowance will likely remain volatile as the Covid-19 Act 2020 which generally protects borrowers' interest has been extended until October 2022.
- ELK's hire purchase receivables stood at RM468.1m as at 4Q22, representing a 10.5% decrease from the previous corresponding quarter. Although Malaysia is transitioning into endemic phase and recovering economy bodes well for ELK's hire purchase portfolio expansion, we reckon the expansion might be gradual as ELK remained cautious to preserve its asset quality. For the furniture segment, we foresee marginal growth in the near term with more work forces returning to office.
- Liabilities wise, ELK's ongoing effort to pare down borrowings via the repayment of block discounting facilities and term loans has reduced its finance cost, providing a cushion to its bottomline. Gearing stood at 0.26x as compared to 0.44x in FY21.

Results Note – 4QFY22

Ng Hui Yee
hyng@msec.com.my
(603) 2201 2100

BUY

Share price	RM1.28
Target price	RM1.47
Previous TP	RM1.51
Capital upside	14.8%
Dividend return	4.7%
Total return	19.6%

Company profile

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

Stock information

Bursa Code	5228
Bloomberg ticker	ELK MK
Listing market	MAIN
Share issued (m)	303.2
Market Cap (m)	388.1
52W High/Low	1.47/1.20
Est. Free float	37.2%
Beta (x)	0.5
3-mth avg vol ('000)	104.5
Shariah compliant	No

Major shareholders

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

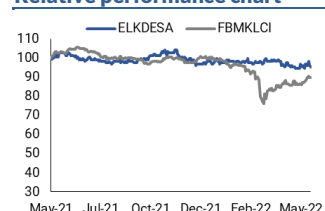
Share price vs. KLCI (%)

	1M	3M	12M
Hist. return			
Absolute	-0.8	-3.0	-9.2
Relative	2.6	-0.7	-8.5

Earnings summary

FYE (Mar)	FY22	FY23f	FY24f
PATMI (m)	25.5	30.1	32.7
EPS (sen)	8.6	10.1	11.0
P/E (x)	14.9	12.7	11.7

Relative performance chart



Quarterly performance								
FYE Dec (RM m)	4QFY21	3QFY22	4QFY22	QoQ (%)	YoY (%)	12MFY21	12MFY22	YoY (%)
Revenue	38.8	38.2	36.0	(5.9)	(7.2)	143.8	128.9	(10.3)
EBITDA	21.5	15.8	9.9	(37.8)	(54.1)	60.6	44.9	(25.9)
PBT	17.8	14.0	7.6	(45.9)	(57.7)	46.6	34.6	(25.8)
PAT	14.5	10.3	5.6	(46.3)	(61.6)	36.6	25.5	(30.5)
Core PATMI	14.5	10.3	5.6	(46.3)	(61.6)	36.6	25.5	(30.5)
Reported PATMI	14.2	10.5	5.5	(47.4)	(60.9)	36.3	25.8	(29.1)
Core EPS (sen)	4.9	3.5	1.9	(46.3)	(61.6)	12.3	8.6	(30.5)
EBITDA margin (%)	55.4	41.5	27.4			42.1	34.8	
PBT margin (%)	46.1	36.5	21.0			32.4	26.9	
Core PATMI margin (%)	37.4	27.1	15.4			25.5	19.8	

Valuation & Recommendation

- As the earnings came below our expectations, we trimmed our earnings forecast by 15.9% to RM30.1m for FY23f, taking into account the volatility in impairment allowance and smaller hire purchase portfolio going forward. The FY24f earnings is projected at RM32.7m. Nevertheless, we are cautiously optimistic in the group's longer term profit trajectory as the overall demand for used-car hire purchase financing will continue to recover amid normalisation of business activities.
- We retained our **BUY** recommendation on ELK, with a revised target price at RM1.47. The target price is derived by ascribing a P/B of 0.95x to FY23f book value per share of RM1.54. Meanwhile, ELK remains committed to the distribution of not less than 60.0% of its net profit after tax.
- Downside risks to our recommendation include the rising living cost amid global inflation as well as the expiry of loan moratoriums given out by banks that may impact borrowers' repayment ability. Besides, logistic disruption for raw material supply for the furniture segment could be another key risk.

Financial Highlights

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f	FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f
Revenue	148.0	143.8	128.9	130.0	140.3	Cash	91.6	86.6	55.2	63.8	54.7
EBITDA	60.0	59.9	45.1	48.9	53.9	Receivables	624.3	540.1	484.5	499.3	552.7
EBIT	57.7	57.3	42.4	45.5	50.1	Inventories	12.4	9.1	11.9	11.6	11.8
Net finance income/ (cost)	(10.2)	(10.9)	(7.8)	(6.0)	(7.1)	PPE	10.6	11.1	11.2	11.3	11.4
Associates & JV	-	-	-	-	-	Others	11.6	16.1	19.5	18.7	17.6
Profit before tax	47.5	46.3	34.6	39.6	43.0	Assets	750.6	663.0	582.3	604.7	648.1
Tax	(12.6)	(10.7)	(9.1)	(9.5)	(10.3)	Debts	299.4	195.6	117.3	125.3	155.2
Net profit	34.9	35.6	25.5	30.1	32.7	Payables	11.2	8.1	3.6	6.0	6.1
Minority interest	-	-	-	-	-	Others	14.9	17.5	13.9	13.9	14.2
Core earnings	34.9	35.6	25.5	30.1	32.7	Liabilities	325.5	221.2	134.7	145.2	175.5
Exceptional items	0.0	0.3	(0.3)	-	-	Shareholder's equity	344.3	344.4	344.9	344.9	344.9
Reported earnings	34.9	35.3	25.8	30.1	32.7	Minority interest	-	-	-	-	-
						Equity	425.1	441.8	447.5	459.6	472.6
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f	FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f
Profit before taxation	47.5	46.3	34.6	39.6	43.0	Core EPS (sen)	11.7	12.0	8.6	10.1	11.0
Depreciation & amortisation	2.3	2.7	2.7	3.3	3.8	P/E (x)	10.9	10.7	14.9	12.7	11.7
Changes in working capital	(163.7)	64.3	24.0	(12.0)	(53.4)	DPS (sen)	7.25	7.25	5.25	6.07	6.60
Share of JV profits	-	-	-	-	-	Dividend yield	5.7%	5.7%	4.1%	4.7%	5.2%
Taxation	(12.6)	(10.7)	(9.1)	(9.5)	(10.3)	BVPS (RM)	1.43	1.48	1.50	1.54	1.59
Others	8.4	8.6	2.8	0.0	0.3	P/B (x)	0.9	0.9	0.9	0.8	0.8
Operating cash flow	(92.8)	132.2	78.3	21.4	(16.6)	EBITDA margin	40.5%	41.7%	35.0%	37.6%	38.4%
Net capex	(0.9)	(1.8)	(1.2)	(1.3)	(1.3)	EBIT margin	39.0%	39.8%	32.9%	35.0%	35.7%
Others	(64.6)	10.1	59.7	-	-	PBT margin	32.1%	32.2%	26.9%	30.4%	30.7%
Investing cash flow	(65.5)	8.3	58.5	(1.3)	(1.3)	PAT margin	23.6%	24.8%	19.8%	23.1%	23.3%
Changes in borrowings	185.1	(103.8)	(78.4)	8.1	29.8	Core PAT margin	23.6%	24.8%	19.8%	23.1%	23.3%
Issuance of shares	1.2	0.1	0.4	-	-	ROE	8.3%	8.2%	5.7%	6.6%	7.0%
Dividends paid	(21.5)	(21.6)	(15.3)	(18.0)	(19.6)	ROA	5.4%	5.0%	4.1%	5.1%	5.2%
Others	(13.3)	(12.4)	(17.2)	-	-	Gearing	70.4%	44.3%	26.2%	27.3%	32.8%
Financing cash flow	151.4	(137.6)	(110.4)	(10.0)	10.2	Net gearing	48.9%	24.7%	13.9%	13.4%	21.3%
Net cash flow	(6.9)	2.8	26.4	8.7	(9.2)						
Forex	0.0	(0.0)	-	-	-						
Others	67.1	(7.8)	(57.9)	-	-						
Beginning cash	31.4	91.6	86.6	55.2	63.8						
Ending cash	91.6	86.6	55.2	63.8	54.7						