

Monday, May 23, 2022  
Sector: Finance

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# Elk-Desa Resources Bhd

*Softer FY22 Results Within Expectations*

**TP: RM1.50 (+17.2%)**

Last Traded: RM1.28

**BUY (ESG: ★★★)**

Li Hsia Wong

Tel: +603-2167-9610

liwong@ta.com.my

www.taonline.com.my

## Review

- Elk-Desa reported FY22 results, which came within expectations. As expected, net profit declined by around 27% YoY to RM25.8mn from RM35.3mn a year ago. Despite the softer performance, Elk-Desa's net profit came within our expectations, with net profit accounting for 99.3% of our full-year forecast.
- A second single-tier interim dividend of 3.25 sen per share has been proposed. Combined with the first single-tier interim dividend of 2.00 sen per share, the total dividend for the FY stood at 5.25 sen per share. This represents a dividend payout ratio of around 61%, higher than the dividend policy of 60%.
- As expected, 12M revenue fell by 10.3% YoY due to disruptions to the group's business and operations during the MCO from June to September 2021, as well as lower overall furniture sales. QoQ revenue declined by close to 6% due to a smaller hire purchase portfolio.
- Hire purchase receivables fell by 10% to RM468.1mn as at 31 March 2022, from RM522.8mn a year ago. The decline is in tandem with the group's cautious stance to preserve asset quality instead of driving receivables growth.
- Meanwhile, the group's 12M PBT declined by 24.2% YoY, exacerbated by a higher impairment allowance (+19.8% YoY). The credit loss charge climbed to 4.13% from 3.15% a year ago, underpinned by an increase in impaired loan accounts during the year, which was largely caused by the disruptions of the hirers' repayment patterns amidst the movement restrictions and lockdowns imposed during the FY.
- Elsewhere, the finance costs decreased by 26.5% YoY on the back of the group's concerted effort to pare down its borrowings during the FY. Elk Desa's gearing remains at a low level of 0.26x.

## Impact

- Incorporating FY22 results, we tweaked Elk Desa's FY23/24 net profit forecast to RM27.8/31.2mn from RM29.5/32.5mn previously. We forecast stronger net profit growth of 14% YoY to RM35.7mn in FY25 as we assume 1) more robust HP receivables growth of 12% and 2) improving impairment allowances.

## Outlook

- With the domestic economy expected to remain on its recovery path, management expects the overall demand for used-car hire purchase financing to accelerate. The rise in online trading platforms for used cars is also envisaged to contribute towards a slower price reduction rate for older used cars. Other catalysts driving demand for used cars include the introduction of a higher minimum wage rate of RM1500 may be positive for the industry. With that, ELK-Desa aims to gradually bring its hire

## 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
<b>Major Shareholders (%)</b>	
Eng Lee Kredit	32.2%
Amity Corp	5.1%

## Forecast Revision

	FY23	FY24
Forecast Revision (%)	(5.8)	(4.0)
Net profit (RMmn)	27.8	31.2
Consensus	n.a.	n.a.
TA's / Consensus (%)	n.a.	n.a.
Previous Rating	Buy	

## Scorecard (%)

vs TA	99.3	Within
vs Consensus	n.a.	n.a.

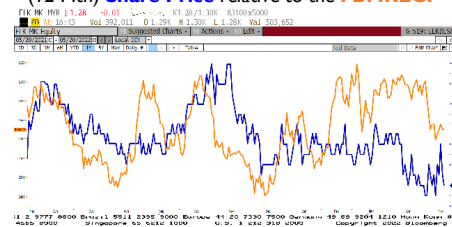
## Financial Indicators

	FY23	FY24
CFPS (sen)	9.0	6.5
Price / CFPS (x)	14.3	19.8
ROA (%)	4.0	4.1
NTA/Share (RM)	1.5	1.5
Price/NTA (x)	0.9	0.8

## Share Performance (%)

Price Change	ELK	FBM KLCI
1 mth	0.8	(2.8)
3 mth	(2.3)	(3.4)
6 mth	(3.8)	1.5
12 mth	(5.4)	(1.7)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

purchase receivables portfolio towards pre-pandemic levels.

- However, management is aware of potential downside risks such as rising living costs and the expiration of loan moratoriums, affecting borrowers' disposable incomes and ability to repay. Furthermore, the Covid-19 Act continues to limit the group's debt collection efforts.
- Elsewhere, management expects improving business and consumer sentiments to stimulate demand for quality and value-for-money furniture products in the furniture market. In line with plans to increase its footprint in the domestic home furniture wholesale market, ELK-Desa will be working closely with furniture dealers and manufacturers to find the perfect furniture products for the Malaysian consumers.

### Valuation

- Tagging 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 maintain a Buy recommendation on Elk-Desa 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 4.5-5.5%.

**Table 1: Earnings Summary (RMmn)**

FYE Mar (RMmn)	2021	2022	2023F	2024F	2025F
Revenue	143.8	128.9	137.2	149.1	164.0
Gross profit	110.0	99.6	105.9	114.7	125.5
EBITDA	64.5	49.9	59.4	69.3	81.9
EBITDA margin (%)	44.8	38.7	43.3	46.5	49.9
EBIT	61.8	47.2	56.6	66.3	78.7
PBT	46.0	34.9	36.6	41.1	47.0
PAT	35.3	25.8	27.8	31.2	35.7
Core profit	35.3	25.8	27.8	31.2	35.7
Core EPS (sen)	11.6	8.5	9.2	10.3	11.8
PER (x)	11.0	15.1	14.0	12.4	10.9
Gross dividend (sen)	7.3	5.3	6.0	6.5	7.0
Dividend yield (%)	5.7	4.1	4.7	5.1	5.5

**Table 2: 4QFY22 Results Analysis (RMmn)**

FYE 31 Mar (RM mn)	4QFY21	3QFY22	4QFY22	QoQ	YoY	FY21	FY22	YoY
Revenue	38.8	38.2	36.0	(5.9)	(7.2)	143.8	128.9	(10.3)
Other income	1.1	0.5	0.8	77.3	(23.5)	3.7	2.4	(34.8)
Cost of inventories sold	(10.6)	(10.3)	(10.0)	(2.8)	(5.0)	(33.7)	(29.3)	(13.1)
Depreciation of PPE & ROU assets	(0.8)	(0.7)	(0.7)	0.6	(12.6)	(2.7)	(2.7)	0.1
Impairment allowance	1.2	(2.1)	(6.6)	214.2	(655.3)	(18.7)	(22.4)	19.8
Other expenses	(9.3)	(9.6)	(10.3)	7.0	10.7	(33.2)	(32.4)	(2.6)
Finance costs	(2.9)	(1.9)	(1.7)	(10.9)	(42.6)	(13.1)	(9.6)	(26.5)
Profit before taxation	17.5	14.1	7.5	(46.7)	(57.0)	46.0	34.9	(24.2)
Taxation	(3.4)	(3.6)	(2.0)	(44.7)	(40.8)	(10.7)	(9.1)	(15.0)
Net profit	14.2	10.5	5.5	(47.4)	(60.9)	35.3	25.8	(27.0)

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### 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
<b>Scoring</b>	★★★	★★★	★★★	★★★
<b>Remark</b>	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.

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As of Monday, May 23, 2022, the analyst, Li Hsia Wong, who prepared this report, has interest in the following securities covered in this report:  
(a) nil

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**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