

Tuesday, May 23, 2023
Sector: Finance

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Elk-Desa Resources Bhd

TP: RM1.23 (+4.2%)

Ends FY23 on a Strong Note

Last Traded: RM1.19

HOLD (ESG: ★★★)

Li Hsia Wong

Tel: +603-2167-9610

liwong@ta.com.my

www.taonline.com.my

Review

- Elk-Desa reported yet another strong YoY results performance. 12M net profit ballooned YoY to RM47.7mn from RM25.8mn a year ago due to solid revenue growth, lower finance costs and writeback in impairment allowance. Despite that, Elk-Desa's results fell slightly short of our expectations, with net profit accounting for 93% of our full-year forecast. QoQ, the group's net profit declined by 32.6% to RM7.5mn.
- A second single tier interim dividend of 3.5 sen per share was declared. In addition to the first interim single tier interim dividend of 4.5 sen per share (3.0 sen per share after restated for bonus issue), the total dividend for the financial year would be 6.5 sen per share (FY22: 3.50 sen after restated for bonus issue), representing a dividend pay out ratio of around 62%.
- 12M revenue jumped by 20.4% YoY due to better contributions from both the hire purchase and furniture segments. 12M revenue in the furniture segment surged to RM54.5mn from RM43.6mn a year ago. 4Q23 furniture sales were lower by 3% YoY although the gross profit margin increased from 31% in 4Q22 to 38% due to lower freight charges.
- Revenue from the hire purchase segment remained buoyant, rising 18% YoY. 4Q23 hire purchase revenue also expanded by 22% YoY. The increase was underpinned by hire purchase receivables, which widened by some 23% YoY to RM575.1mn as of 31 March 2023.
- Overall operating expenses expanded YoY due to the increase in the hire purchase segment which registered higher staff costs as the hire purchase portfolio ballooned. This translates to a cost-to-income ratio of around 37%. The group's 12M PBT surged to RM63.3mn vs. RM34.9mn in FY22. The better-than-expected PBT was underpinned by an impairment allowance of RM7.5mn, vs RM22.4mn a year ago.
- Credit loss charge decreased from 1.27% to 1.09%. Management noted that this is due to a significant reduction in the non-performing accounts YoY, which was underpinned by a recovery in activities and an improvement in the repayment trend. However, on a QoQ basis, the impairment allowance expanded by 90% due to slower higher repayment. The net impaired loans ratio weakened to 1.92% as of 31 Mar 2023 from 1.28% as of 31 December 2022.
- Elsewhere, the group's bank borrowings increased by 70%, attributed to the higher drawdown of block discounting facilities to support the increase in hire purchase receivables. Despite that, Elk-Desa's gearing levels remain manageable at 0.42x.

Impact

- Incorporating the FY23 results, we tweaked Elk-Desa's FY24 and FY25 net profit forecast to RM41.2mn and RM43.0mn from RM42.3mn and RM43.3mn. We forecast FY26 net profit to accelerate by 6% to RM45.5mn.

Share Information

Bloomberg Code	ELK MK
Stock Code	ELK MK
Listing	5228
Share Cap (mn)	454.8
Market Cap (RMmn)	541.2
52-wk Hi/Lo (RM)	1.27/0.81
12-mth Avg Daily Vol ('000 shrs)	127.8
Estimated Free Float (%)	35.6
Beta	0.39

Major Shareholders (%)

Eng Lee Kredit	- 32.2%
Amity Corp	- 4.9%

Forecast Revision

	FY24	FY25
Forecast Revision (%)	(2.6)	(0.5)
Net profit (RMmn)	41.2	43.0
Consensus	46.1	48.2
TA's / Consensus (%)	89.4	89.4
Previous Rating	Hold (maintained)	
Consensus Target Price (RM)	1.16	

Scorecard (%)

vs TA	93	Below
vs Consensus	96	Within

Financial Indicators

	FY24	FY25
CFPS (sen)	(5.2)	(1.5)
Price / CFPS (x)	(23.1)	(79.7)
ROA (%)	5.4	5.3
NTA/Share (RM)	1.1	1.1
Price/NTA (x)	1.1	1.1

Share Performance (%)

	ELK	FBM KLCI
Price Change		
1 m th	0.8	(0.2)
3 m th	6.9	(3.1)
6 m th	21.8	(1.5)
12 m th	46.2	(8.4)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Outlook

- We expect the overall demand for used-car hire purchase financing to remain buoyant. However, as ELK-Desa focuses on steadily raising the hire purchase receivables portfolio towards pre-pandemic levels, management remains cautious of the ongoing challenging macro environment. The QoQ increase in impairment allowances is inline with expectations that credit charge trends is normalising. We continue to note that potential downside risks, such as rising living costs due to the increased inflationary pressures and rising interest rates, could affect borrowers' disposable incomes and ability to repay.
- In line with plans to increase its footprint in the domestic home furniture wholesale market, ELK-Desa will continue to work closely with furniture dealers and manufacturers to find the perfect furniture products for Malaysian consumers. In the meantime, efforts are being made to optimise stock and logistics management capabilities, including managing potential supply chain bottlenecks resulting from logistics interruptions, to ensure the timely delivery of customer orders.

Valuation

- Tagging a 15% discount to Malaysia's average NBFI (such as AEON Credit and RCE Capital) slightly higher P/B ratio of 1.35x (from 1.3x) due to Elk-Desa's smaller market cap, we raise the stock's fair value to RM1.23/share from RM1.18/share. We maintain our HOLD recommendation on the stock.

Table 1: Earnings Summary (RMmn)

FYE Mar (RMmn)	2022	2023	2024F	2025F	2026F
Revenue	128.89	155.24	171.73	184.27	197.74
Gross profit	99.57	121.33	134.11	143.64	153.86
EBITDA	49.89	77.56	83.53	88.14	93.30
EBITDA margin (%)	38.71	49.96	48.64	47.83	47.18
EBIT	47.19	74.89	76.33	81.61	87.26
PBT	34.89	63.31	54.23	56.62	59.92
PAT	25.77	47.74	41.21	43.03	45.54
Core profit	25.77	47.74	41.21	43.03	45.54
Core EPS (sen)	8.50	10.50	9.06	9.46	10.01
PER (x)	13.88	11.24	13.02	12.47	11.79
Gross dividend (sen)	5.25	7.50	6.00	6.25	6.25
Dividend yield (%)	4.45	6.36	5.08	5.30	5.30
ROE (%)	5.80	10.39	8.59	8.66	8.85

Table 2: 4QFY23 Results Analysis (RMmn)

FYE 31 Mar (RM mn)	4QFY22	3QFY23	4QFY23	QoQ	YoY	FY22	FY23	YoY
Revenue	36.0	40.0	40.3	0.9	12.1	128.9	155.2	20.4
Other income	0.8	0.4	0.3	(20.7)	(59.0)	2.4	1.8	(23.6)
Cost of inventories sold	(10.0)	(9.0)	(8.7)	(3.1)	(13.0)	(29.3)	(33.9)	15.6
Depreciation of PPE & ROU assets	(0.7)	(0.7)	(0.6)	(3.2)	(3.6)	(2.7)	(2.7)	(1.2)
Impairment allowance	(6.6)	(3.7)	(7.1)	90.0	6.9	(22.4)	(7.5)	(66.3)
Other expenses	(10.3)	(9.7)	(11.7)	20.2	13.7	(32.4)	(40.7)	25.8
Finance costs	(1.7)	(2.5)	(2.6)	0.9	54.2	(9.6)	(8.9)	(7.1)
Profit before taxation	7.5	14.8	10.0	(32.5)	32.2	34.9	63.3	81.4
Taxation	(2.0)	(3.6)	(2.5)	(32.1)	23.5	(9.1)	(15.6)	70.7
Net profit	5.5	11.1	7.5	(32.6)	35.3	25.8	47.7	85.2

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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
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.

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As of Tuesday, May 23, 2023, 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