A safe haven in volatile markets

To recap, ELK-Desa's 1HFY19 results outperformed our expectations (due to stronger receivables growth and lower credit cost). Subsequent to a recent meeting with management, we are of the view that its earnings outlook in 2HFY19 will continue to remain resilient. Hence, as we revise up our FY19E-21E FD EPS forecasts by 9.3%/10.3%/11.6%, this has led to an uplift in our TP from RM1.37 to RM1.70. Management's strategy has not changed, stepping up its vertical expansion focus in the used-car hire-purchase markets and maintaining domestic dealer partnerships in its furniture business. Maintain BUY.

Strong receivables growth and improving credit quality

Based on ELK-Desa's 1HFY19 financial results, the group had seen strong receivables growth of 22.4% yoy (against our FY19E assumption of 12% yoy) while operating expenses were lower than our forecasts attributable to sharply lower receivables allowances (as the annualized net credit cost came in at 354bps vs. our FY19E forecast of 644bps). Its credit quality has continued improving, as reflected by a gross NPL ratio of 1.0% (as at FY18) from 1.2% in FY17. As there are no signs of significant macroeconomic deterioration while government policies have remained in favour of the B40 and M40 mass population group, the level of default will continue to stay low, in our view. Meanwhile, ELK's expansion into the financing of used-cars valued at RM35,000 and below (from <RM20,000) about a year ago had partially fuelled its robust receivables growth.

FY19E/20E/21E FD EPS raised by 9.3%/10.3%/11.6

As we pencil in a stronger receivables growth of circa 20% p.a. for FY19E-21E and reduce our credit cost assumptions from 610-640bps to circa 355bps, we saw our FY19E/20E/21E EPS being raised by 9.3-11.6%.

Reiterate BUY rating, Price Target raised to RM1.70 from RM1.37

Maintain **BUY,** with our **CY19 Price Target** now raised to **RM1.70** (based on an unchanged PER target of 13x on a revised CY19E EPS of 13 sen) from RM1.37. We remain upbeat on ELK-Desa as: i) the stock is viewed as a safe haven in volatile markets given a resilient earnings outlook against a backdrop of moderating global growth; ii) dividend yields remain attractive at 5.7-8.9% (at 60% payout ratio); iii) a potential expansion of leverage will drive potential upside in EPS and minimize dilution effects from the last two rights issues. Downside risk is higher defaults.

Earnings & Valuation Summary

FYE 31 Mar (RMm)	2017A	2018A	2019E	2020E	2021E
Revenue	94.5	104.1	123.5	141.5	162.5
Net operating income	30.2	37.0	52.6	66.0	79.7
Pretax profit	30.6	35.3	49.6	59.7	70.2
Net profit	23.0	25.9	37.7	45.4	53.4
EPS (sen)	10.7	9.9	12.8	15.4	18.2
EPS growth (%)	(17.0)	(7.2)	29.6	20.3	17.6
FD EPS (sen)	8.6	8.4	12.7	14.2	16.6
FD PER (x)	17.1	14.7	9.7	8.7	7.4
ROE (%)	7.0	7.1	9.3	10.5	11.5
BV / share	1.55	1.52	1.41	1.54	1.62
P/BV	0.79	0.81	0.87	0.80	0.76
DPS (sen)	6.8	6.8	7.0	9.3	10.9
Dividend Yield (%)	5.5	5.5	5.7	7.5	8.9
Chg in FD EPS (%)			9.3	10.3	11.6
Affin/Consensus (x)			NA	NA	NA

Source: Company, Bloomberg, Affin Hwang forecasts

Company Update

ELK-Desa

ELK MK
Sector: Finance

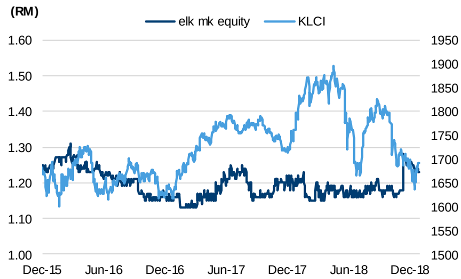
RM1.23 @ 28 December 2018

BUY (maintain)

Upside: 37.4%

Price Target: RM1.70

Previous Target: RM1.37



Price Performance

	1M	3M	12M
Absolute	-1.6%	3.4%	3.4%
Rel to KLCI	-2.3%	9.5%	9.8%

Stock Data

Issued shares (m)	296.1
Mkt cap	364.2/87.9
Avg daily vol - 6mth	0.2
52-wk range (RM)	1.13-1.33
Est free float	38.2%
BV per share (RM)	1.38
P/BV (x)	0.9
Net cash/(debt)	(45.0)
ROE (%) (2019E)	9.3
Derivatives (ICULS)	37.7
Shariah Compliant	No

Key Shareholders

Teoh Hock Chai	38.0%
Dr Yeong Cheong Thye	5.2%

Source: Affin, Bloomberg

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ELK-Desa Resources – FINANCIAL SUMMARY

Profit & Loss Statement

FYE 31 Mar (RMm)	2017	2018	2019E	2020E	2021E
Revenue	**95.1**	**105.5**	**123.7**	**142.9**	**164.4**
- HP financing & related income	65.4	73.1	85.7	101.8	120.8
- Furniture division	29.1	31.0	37.8	39.7	41.7
- Other Income	0.6	1.4	0.2	1.4	1.9
Operating expenses	(64.9)	(68.5)	(70.0)	(76.5)	(84.1)
EBITDA	**30.8**	**37.6**	**53.2**	**66.6**	**80.3**
EBIT	**30.2**	**37.0**	**52.6**	**66.0**	**79.7**
Net Finance Costs	0.3	(1.7)	(3.0)	(6.3)	(9.5)
Pre-tax Profit	**30.6**	**35.3**	**49.6**	**59.7**	**70.2**
Taxation	(7.6)	(9.4)	(11.9)	(14.3)	(16.9)
Profit After Tax	**23.0**	**25.9**	**37.7**	**45.4**	**53.4**

Balance Sheet Statement

FYE 31 Mar (RMm)	2017	2018	2019E	2020E	2021E
Plant and Equipment	7.2	7.2	10.8	10.8	10.8
Deferred Tax Assets	3.9	3.6	2.9	2.9	2.9
Receivables	243.3	281.9	364.1	444.3	520.7
Non-current Assets	**254.4**	**292.7**	**377.8**	**458.0**	**534.4**
Inventories	6.7	8.5	9.0	9.5	9.9
Trade Receivables & Others	9.9	11.3	13.7	14.3	14.9
Hire Purchase Receivables	94.9	105.4	100.4	110.1	142.4
Prepayments & Others	1.9	2.1	1.9	1.9	1.9
Cash and bank balances	14.6	50.3	27.0	13.7	14.1
Current Assets	**127.9**	**177.6**	**152.0**	**149.4**	**183.3**
	127.9	177.6	152.0	149.4	183.3
TOTAL ASSETS	**382.3**	**470.3**	**529.8**	**607.4**	**717.6**
ICULS - Liability component	4.2	2.3	1.0	1.0	1.0
Block discounting payables	12.1	29.4	50.0	55.0	70.0
Non-current liabilities	**16.3**	**31.7**	**51.0**	**56.0**	**71.0**
Trade Payables	14.9	13.6	17.1	18.0	18.9
Other Payables and accruals	4.8	4.8	4.8	4.8	4.8
Block discounting payables	9.7	21.2	36.0	70.0	140.0
Overdrafts	0.5	-	3.0	3.0	3.3
Taxation	2.0	2.7	2.7	2.7	2.7
Current liabilities	**31.9**	**42.2**	**63.6**	**98.5**	**169.7**
Share Capital	243.1	307.4	317.4	317.4	317.4
Reserves	81.8	88.4	105.6	128.4	152.4
ICULS - Equity component	25.9	17.3	8.9	23.9	23.9
Treasury Shares	(16.7)	(16.7)	(16.7)	(16.7)	(16.7)
Shareholders Funds	**334.1**	**396.4**	**415.2**	**453.0**	**477.0**
TOTAL EQUITY & LIABILITY	**382.3**	**470.3**	**529.8**	**607.4**	**717.6**

Receivables (RMm)	2017	2018	2019E	2020E	2021E
Hire Purchase	350.5	400.4	481.3	574.5	687.1
Total Receivables	**350.5**	**400.4**	**481.3**	**574.5**	**687.1**
Growth rate (%)	*22.4*	*14.3*	*20.2*	*19.4*	*19.6*

Operating Income Breakdov	2017	2018	2019	2020	2021
Hire Purchase	54.1	61.6	72.3	86.6	103.5

Receivables Yield (%)	2017	2018	2019	2020	2021
Hire Purchase	17.6%	17.0%	17.0%	17.0%	17.0%

Key Financial Ratios

FYE 31 Mar (RMm)	2017	2018	2019E	2020E	2021E
Returns and efficiency:					
ROE (%)	7.0%	7.1%	9.3%	10.5%	11.5%
ROA (%)	6.1%	6.1%	7.5%	8.0%	8.1%
Net Profit Margin (%)	24.3%	24.9%	30.6%	32.1%	32.9%
Cost-to-income ratio (%)	68.7%	65.8%	56.7%	54.1%	51.8%
Asset Quality:					
Gross NPL ratio (%)	1.21%	1.00%	1.00%	1.00%	1.00%
Credit Cost (bps)	575.4	518.1	353.2	355.1	356.3
Loan Loss Cover (%)	289%	463%	527%	592%	606%
Leverage Ratio:					
Debt Service Ratio (x)	27.5	15.3	12.9	10.0	8.0
Net Debt/Equity (x)	0.1	0.1	0.2	0.3	0.4
Investment statistics					
PBT growth (%)	20.7%	15.5%	40.6%	20.3%	17.6%
Net earnings growth (%)	22.4%	12.6%	45.7%	20.3%	17.6%
EPS growth (%)	-17.0%	-7.2%	29.6%	20.3%	17.6%
Fully-diluted EPS growth (%)	9.6%	-2.8%	51.1%	11.9%	17.3%
PER (X)	11.5	12.4	9.6	8.0	6.8
FD PER (X)	14.3	14.7	9.7	8.7	7.4
EPS (sen)	10.7	9.9	12.8	15.4	18.2
FD EPS (sen)	8.6	8.4	12.7	14.2	16.6
BV/share (RM)	1.55	1.52	1.41	1.54	1.62
P/BV	0.8	0.8	0.9	0.8	0.8
Net DPS (sen)	6.8	6.8	7.0	9.3	10.9
Net yield (%)	5.5%	5.5%	5.7%	7.5%	8.9%
Dividend payout (%)	68%	76%	55%	60%	60%

Cash Flow Statement

FYE 31 Mar (RMm)	2017	2018	2019E	2020E	2021E
EBIT	**30.2**	**37.0**	**52.6**	**66.0**	**79.7**
Depreciation & Amortization	0.6	0.6	0.6	0.6	0.6
Allowance for impairment	20.9	20.7	17.0	20.4	24.5
Working capital changes	(91.3)	(52.9)	(53.8)	(94.2)	(113.7)
Taxes paid	(7.8)	(9.4)	(11.9)	(14.3)	(16.9)
Interest expense paid	(4.0)	(2.4)	(4.1)	(6.6)	(10.0)
Others	(0.1)	(7.4)	(52.2)	(16.6)	(19.7)
Cash Flow from Operations	**(51.6)**	**(13.8)**	**(51.8)**	**(44.7)**	**(55.5)**
Capex	(0.9)	(0.1)	(3.5)	-	-
Sale / (Purchase) of investments	0.0	-	-	-	-
Interest Received	1.4	1.2	1.1	0.3	0.6
Fixed Deposits	26.0	-	-	-	-
Cash Flow from Investing	**26.6**	**(0.1)**	**(3.5)**	**-**	**-**
Dividends paid	(15.4)	(17.3)	(20.6)	(22.5)	(29.4)
Term Loan raised/(repaid)	6.4	12.4	51.0	39.0	85.3
Equity raised	-	54.4	1.7	14.9	(0.0)
Share buy-back	(3.3)	-	-	-	-
Cash flow from Financing	**(12.4)**	**49.5**	**32.1**	**31.4**	**55.9**
Net Cash Flow	**(37.3)**	**35.7**	**(23.2)**	**(13.3)**	**0.4**
Effects of overdraft	**0.5**	**-**	**-**	**-**	**-**
Cash at Start of Year	**51.4**	**14.6**	**50.3**	**27.0**	**13.7**
Cash at End of Year	**14.6**	**50.3**	**27.0**	**13.7**	**14.1**

Source: Company data, Affin Hwang estimates

Outthink. Outperform.

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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