

Outthink. Outperform.

A robust start in 1QFY20

ELK-Desa's 1QFY20 net profit of RM9.3m (+14.9% yoy; +9.0% qoq) was within Affin's expectation. The robust quarter was underpinned by HP receivables growth of 24% yoy and relatively stable EBIT margin. Overall, it was a good start for FY20 following management's move to leverage up while being prudent and selective in credit approvals. As a relatively small player (total receivables outstanding at ~0.3% of Malaysia's car-financing market), we see room for growth even in the Klang Valley alone, coupled with strong support from car dealers. Ultimately, with more leverage, ELK-Desa could grow its receivables at 16-20% p.a. Reaffirm our BUY call and TP of RM1.98 (at 13x CY20E EPS).

1QFY20 a robust start; net profit expanded by 14.9% yoy

ELK-Desa reported a 1QFY20 net profit of RM9.3m, up 14.9% yoy and 9.0% qoq, underpinned primarily by profits from its hire-purchase (HP) division (97.2% of PBT). Subsequent to management's move to expand its scope of financing for cars priced at below RM35,000 (from its previous policy for cars < RM20,000), its HP receivables saw a growth of 24% yoy as at 1QFY20 (annualized growth rate at 30.6%) vis-à-vis FY19's receivables growth rate of 23% yoy. For 1QFY20, ELK-Desa's HP-division credit cost was relatively stable at 3.76% (annualized) from 3.8% (FY19), arising from recoveries from receivables. The furniture segment (though insignificant to pre-tax profit) continued to turn around.

Higher leverage partially drives up profits and ROE

The shift in management's strategy to leverage up since 3QFY19 has seen 1QFY20's borrowings increase to RM131m from RM100m in Sept18. Even so, its gearing ratio remains at a low of 0.31x (vs. other similar peers such as Aeon Credit at 3.66x). This move has resulted in improvements in net earnings and ROE (rose from 7.1% in FY18 to 8.1% in FY19 and 9.0% annualized 1QFY20).

Maintain BUY with a revised Price Target of RM1.98 (from RM1.70)

We reiterate our **BUY** call and **12-month Target Price** of **RM1.98** (based on a 13x target P/E multiple on our CY20E EPS). We remain upbeat on ELK-Desa's prospects as it remains a prudent mass-market HP-financing player in the Klang Valley. We also see better dividend payouts and expansion in ROE driving a re-rating of the stock. Downside risk – rise in default rates.

Earnings & Valuation Summary

FYE 31 Mar (RMm)	2018A	2019A	2020E	2021E	2022E
Revenue	104.1	123.4	142.5	162.6	185.2
Net operating income	37.0	47.5	58.2	72.5	82.4
Pretax profit	35.3	43.8	50.7	61.6	66.8
Net profit	25.9	32.9	38.6	46.8	50.8
EPS (sen)	9.9	11.2	13.1	16.0	17.3
EPS growth (%)	(7.2)	13.3	17.3	21.5	8.5
FD EPS (sen)	9.4	10.9	12.8	15.5	16.8
PER (x)	16.8	14.8	12.6	10.4	9.6
FD PER (x)	17.6	15.2	13.0	10.7	9.9
ROE (%)	7.1	8.1	9.2	10.7	11.0
BV / share	1.39	1.39	1.46	1.54	1.61
P/BV	1.19	1.19	1.14	1.08	1.03
DPS (sen)	6.8	7.0	7.9	9.6	10.4
Dividend Yield (%)	4.1	4.2	4.8	5.8	6.3
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			NA	NA	NA

Source: Company, Bloomberg, Affin Hwang forecasts

Results Note

ELK-Desa

ELK MK

Sector: Finance

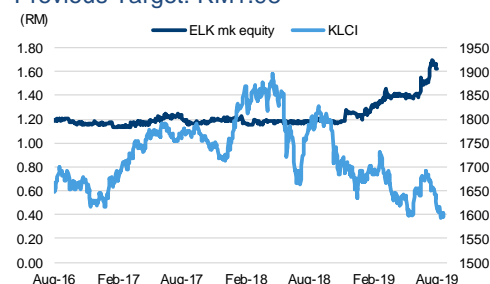
RM1.66 @ 22 Aug 2019

BUY (maintain)

Upside: 19.3%

Price Target: RM1.98

Previous Target: RM1.98



Price Performance

	1M	3M	12M
Absolute	-2.4%	20.3%	39.5%
Rel to KLCI	0.9%	20.4%	56.5%

Stock Data

Issued shares (m)	297.0
Mkt cap (RMm)/(US\$m)	493/97.7
Avg daily vol - 6mth (m)	0.1
52-wk range (RM)	1.13-1.48
Est free float	38.1%
BV per share (RM)	1.38
P/BV (x)	1.20
Net cash/(debt) (RMm)	(112.3)
ROE (2020E)	9.2
Derivatives (ICULS) (m)	7.9
Shariah Compliant	No

Key Shareholders

Teoh Hock Chai	37.5%
Eng Lee Kredit Sdn Bhd	32.4%

Source: Affin, Bloomberg

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Fig 1: Results Comparison

FYE 31 Mar (RMm)	1QFY19	4QFY19	1QFY20	QoQ % chg	YoY %chg	Comments
Revenue	28.8	32.5	35.2	8.4	22.1	
- Hire Purchase	20.0	22.5	24.1	6.8	20.6	Hire-purchase (HP) revenue remains the key top-line driver, +20.6% yoy for 1QFY20. Hire-purchase receivables grew by 2% yoy in 1QFY20.
- Furniture	8.9	9.9	11.1	11.9	25.6	
Operating expenses	(17.7)	(20.3)	(21.8)	7.2	22.8	Increase in FY19 overheads were due to staff costs, staff development expenses and higher COGS at the furniture division. Impairment allowance (hire-purchase) was down by 15.5% yoy.
Other Income	0.3	0.5	0.6	10.9	>100	
EBIT	11.1	12.7	14.0	10.4	26.6	
<i>EBIT margin (%)</i>	<i>38.4</i>	<i>39.1</i>	<i>39.8</i>	<i>0.7</i>	<i>1.4</i>	Margins improved marginally yoy and qoq in 1QFY20.
Net Finance Cost	(0.3)	(1.5)	(1.7)	36.4	>100	Interest expense increased in tandem with a 127% increase in borrowings (block discounting payables) to fund expansion of the HP receivables.
Pre-Tax Profit	10.7	11.4	12.3	7.6	14.6	About 97.2% of contribution to PBT from hire-purchase business.
Taxation	(2.7)	(2.9)	(3.0)	3.5	13.5	
Net Profit	8.1	8.5	9.3	9.0	14.9	Within our expectations.
EPS	2.80	2.87	3.13	8.9	11.6	Minor difference in EPS growth vs. net profit growth rate due to dilution effect of the ICULS conversion.
Single-tier DPS (sen)	-	3.50	-	<i>n.m.</i>	<i>n.m.</i>	No dividends proposed in 1QFY20.
Net Yield (%)	-	2.6	-		<i>n.mn.m..</i>	

Source: Affin Hwang, Company data

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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