Another favourable quarter

ELK-Desa's 6MFY20 net profit came in at RM18.9m (+13.2% yoy), while the 2QFY20 net profit of RM9.6m (+3.7% qoq, +11.5% yoy) was within Affin's expectation. The robust quarter was underpinned by HP receivables growth of 27% yoy, supported by the group's strategy to leverage up (with total borrowings up 85% yoy). ELK-Desa's annualized credit cost of 358bps for 6MFY20 was well within our expectations. As a relatively small player (total receivables outstanding at ~0.3% of Malaysia's car-financing market) and given strong support from car dealers, it has room for growth even in Klang Valley alone, in our view. We project ELK-Desa to grow its receivables at 16-20% p.a. Reaffirm BUY call and TP of RM1.98 (at 13x CY20E EPS).

2QFY20 net profit continued to expand 3.7% qoq

ELK-Desa reported a 2QFY20 net profit of RM9.6m, up 11.5% yoy and 3.7% qoq. The 6MFY20 net profit of RM1839m (+13.2% yoy) was within our expectations. The robust growth was underpinned primarily by its hire-purchase (HP) receivables growth of 27% yoy, following management's decision to leverage up through the drawdown of MTNs and expansion of its block-discounting facility. Its leverage ratio stood at 0.6x and we believe that there is still further room for growth towards the 1.5-2.0x debt-to-equity level. The 6MFY20 profit from its hire-purchase (HP) division accounted for 96.7% of group PBT. The furniture segment (though insignificant to pre-tax profit) continued to turn around.

Annualized 6MFY20 credit cost is within our expectations

ELK-Desa saw a stable HP-division net credit cost of 179bps or 358bps on an annualized basis. This is within our FY20E assumption of 355bps. The stable credit charge rate was due to its sound asset quality and recovery efforts.

Maintain BUY at our Price Target of RM1.98 (at 13x P/E multiple)

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)	17.5	15.4	13.3	10.8	9.9
FD PER (x)	18.3	15.8	13.6	11.1	10.2
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	1.24	1.24	1.14	1.09	1.03
DPS (sen)	6.8	7.0	7.5	8.8	9.6
Dividend Yield (%)	3.9	4.0	4.3	5.1	5.5
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			NA	NA	NA

Source: Company, Bloomberg, Affin Hwang forecasts

Results Note

ELK-Desa

ELK MK
Sector: Finance

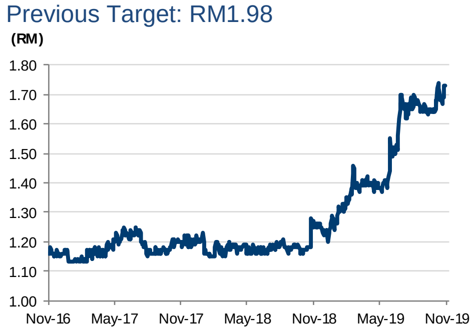
RM1.73 @ 19 Nov 2019

BUY (maintain)

Upside: 14.5%

Price Target: RM1.98

Previous Target: RM1.98



Price Performance

	1M	3M	12M
Absolute	5.5%	4.2%	36.2%
Rel to KLCI	3.2%	3.6%	45.2%

Stock Data

Issued shares (m)	297.1
Mkt cap (RMm)/(US$m)	514.1/23.6
Avg daily vol - 6mth (m)	0.2
52-wk range (RM)	1.2-1.77
Est free float	33.5%
BV per share (RM)	1.41
P/BV (x)	1.23
Net cash/(debt) (RMm)	(153.5)
ROE (2020E)	9.2
Derivatives (ICULS) (m)	6.3
Shariah Compliant	No

Key Shareholders

Teoh Hock Chai	32.3%
Amity Corporation	5.2%

Source: Affin, Bloomberg

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Fig 1: Results Comparison

FYE 31 Mar (RMm)	2QFY19	1QFY20	2QFY20	QoQ % chg	YoY %chg	6MFY19	6MFY20	YoY % chg	Comments
Revenue	**31.0**	**35.2**	**36.6**	*4.1*	*18.2*	**59.8**	**71.8**	*20.1*	Hire-purchase (HP) revenue remains the key top-line driver, +22% yoy for 6MFY20. Hire-purchase receivables grew by 27% yoy in 2QFY20.
- Hire Purchase	20.7	24.1	25.7	*6.7*	*23.8*	40.7	49.7	*22.2*	
- Furniture	10.3	11.1	11.0	*(1.5)*	*6.7*	19.1	22.1	*15.4*	
Operating expenses	(18.8)	(21.8)	(22.0)	*0.9*	*16.7*	(36.5)	(43.7)	*19.7*	Increase in 6MFY20 overheads due to staff costs, staff development expenses and higher COGS at the furniture division. The hire purchase impairment allowance rose by 23% yoy.
Other Income	0.2	0.4	0.8	*>100*	*>100*	0.5	1.2	*>100*	
EBIT	**12.4**	**14.0**	**15.6**	*12.7*	*25.7*	**23.7**	**29.3**	*23.3*	
EBIT margin (%)	*39.9*	*39.8*	*42.5*	*3.3*	*2.6*	*39.7*	*40.8*	*1.1*	Margins improved marginally yoy and qoq in 2QFY20.
Net Finance Cost	(0.8)	(1.7)	(2.7)	*79.4*	*246.6*	(1.4)	(4.3)	*>100*	Interest expense increased in tandem with a 85% increase in borrowings (block discounting payables and MTNs).
Pre-Tax Profit	11.6	12.3	12.8	*4.4*	*10.7*	**22.3**	**25.1**	*12.6*	About 96.7% of contribution to PBT from hire-purchase business.
Taxation	(3.0)	(3.0)	(3.2)	*6.8*	*8.2*	(5.6)	(6.2)	*10.7*	
Net Profit	**8.6**	**9.3**	**9.6**	*3.7*	*11.5*	**16.7**	**18.9**	*13.2*	Broadly within our expectation.
EPS	**2.94**	**3.13**	**3.24**	*3.5*	*10.3*	**5.74**	**6.37**	*10.9*	Minor difference in EPS growth vs. net profit growth rate due to dilution effect of the ICULS conversion..
Single-tier DPS (sen)	**3.5**	**-**	**3.5**	*n.m.*	-	**3.5**	**3.5**	-	A 1st interim dividend of 3.5 sen was proposed.
Net Yield (%)	2.0	**-**	2.0	*n.m.*	-	2.0	2.0	-	

Source: Affin Hwang, Company data

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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