

Outthink. Outperform.

Vertical expansion fuels growth

ELK-Desa's 1HFY19 net profit of RM16.7m (+51.6% yoy; EPS +24% yoy) was above our expectations, driven by stronger profit contribution from its hire-purchase financing (which contributed 98% of pre-tax profit). Though contribution from the furniture segment is still insignificant, it continues to turnaround subsequent to management's focus on domestic markets and forming new local partnerships. Strong hire-purchase receivables growth in 2QFY19 (+22% yoy; +5.4% qoq) was largely fuelled by management's vertical expansion and higher disposal of cars into the 2nd-hand market during the GST-free period (for new cars). A 1st interim dividend of 3.5 sen was proposed in 2QFY19. We believe that there are some potential earnings upside to our forecasts given the strong results. Maintain BUY, Price Target of RM1.37 is unchanged.

2QFY19 continued to be robust, net profit +44.6% yoy, +6.8% qoq

ELK-Desa a 2QFY19 net profit of RM8.6m was up +44.6% yoy and +6.8% qoq, while EPS rose by 21% yoy. For 1HFY19, net profit of RM16.7m rose by 51.6% yoy (EPS +24.2% yoy) underpinned mainly by profits from its hire-purchase division (98% of PBT). The results was above our expectations for FY19E, given the strong receivables growth, of which in 2QFY19, rose by 22% yoy and 5.4% qoq. This was partially driven by higher transactions in the used car market, following upbeat new car sales during the GST-free period.

Management's strategies for HP and furniture division bearing fruits

The HP receivables saw a 22% yoy growth rate in 2QFY19, driven by management's vertical expansion to finance cars priced at below RM35,000 (from <RM20k). The furniture division had started to see a turnaround in profits since 4QFY18 driven by shift in business strategy focus on expanding domestic wholesale distribution and local partnerships.

Maintain BUY with Price Target at RM1.37

Maintain **BUY** based on a **CY19 Price Target** of **RM1.37**, which is pegged to a 13x P/E multiple on our CY19E EPS. Our P/E multiple of 13x is derived from the 1-year historical average P/E multiple of ELK. Downside risks – higher cost-of-living may cause higher defaults.

Earnings & Valuation Summary

FYE 31 Mar (RMm)	2017A	2018A	2019E	2020E	2021E
Revenue	94.5	104.1	120.5	129.9	138.5
Net operating income	30.2	37.0	37.8	43.1	48.4
Pretax profit	30.6	35.3	36.7	40.7	45.7
Net profit	23.0	25.9	27.9	30.9	34.7
EPS (sen)	10.7	9.9	9.8	10.8	12.1
EPS growth (%)	(17.0)	(7.2)	(1.3)	10.9	12.2
FD EPS (sen)	9.2	8.7	9.3	10.3	11.6
PER (x)	13.4	11.9	12.1	10.9	9.7
FD PER (x)	15.6	13.6	12.6	11.4	10.2
ROE (%)	7.0	7.1	7.0	7.6	8.2
BV / share	1.55	1.52	1.42	1.45	1.49
P/BV	0.76	0.78	0.83	0.81	0.79
DPS (sen)	6.8	6.3	6.8	7.6	8.5
Dividend Yield (%)	5.7	5.4	5.8	6.4	7.2
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			NA	NA	NA

Source: Company, Bloomberg, Affin Hwang forecasts

Results Note

ELK-Desa

ELK MK

Sector: Finance

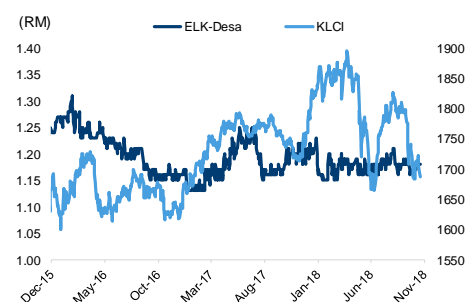
RM1.18 @ 13 Nov 2018

BUY (maintain)

Upside: 16.1%

Price Target: RM1.37

Previous Target: RM1.37



Price Performance

	1M	3M	12M
Absolute	0.0%	0.0%	-1.7%
Rel to KLCI	2.6%	5.7%	1.2%

Stock Data

Issued shares (m)	296.1
Mkt cap	349.4/83.3
Avg daily vol - 6mth	0.1
52-wk range (RM)	1.13-1.25
Est free float	38.1%
BV per share (RM)	1.38
P/BV (x)	0.85
Net cash/(debt)	33.7
ROE (2019E)	7.0
Derivatives (ICULS)	14.89
Shariah Compliant	No

Key Shareholders

Eng Lee Kredit	32.4%
Amity Corporation SD	5.2%

Source: Affin, Bloomberg

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Fig 1: Results Comparison

FYE 31 Mar (RMm)	2QFY18	1QFY19	2QFY19	QoQ % chg	YoY %chg	1H18	1H19	YoY % chg	Comments
Revenue	25.0	28.8	31.0	7.5	24.2	50.5	59.8	18.4	Interest income from the hire-purchase unit remains the key topline driver, +17.3% yoy in 2QFY19 and 15.3% yoy for 1HFY19. Hire purchase receivables grew by 22% yoy as at Sept18.
- Hire Purchase	17.7	20.0	20.7	3.8	17.3	35.3	40.7	15.3	
- Furniture	7.3	8.9	10.3	15.9	40.7	15.2	19.1	25.5	
Operating expenses	(16.7)	(17.7)	(18.8)	6.2	12.5	(35.1)	(36.5)	4.2	Most of the increase in FY18 overheads were due to higher marketing expenses and higher COGS at the furniture division while impairment allowance (hire-purchase) was down by 7.7% yoy.
Other Income	0.2	0.3	0.1	(62.7)	(53.2)	0.3	0.1	(75.6)	
EBIT	8.5	11.1	12.3	11.0	45.0	15.8	23.4	47.9	Interest expense increased in tandem with higher amount of block discounting payables (+56.3% yoy) to support the HP business.
Net Finance Cost	(0.4)	(0.3)	(0.7)	100.7	81.9	(0.8)	(1.0)	29.5	
Pre-Tax Profit	8.1	10.7	11.6	8.1	43.3	15.0	22.3	48.8	About 98% of contribution to PBT from hire purchase business.
Taxation	(2.1)	(2.7)	(3.0)	12.0	39.5	(4.0)	(5.6)	41.3	
Net Profit	6.0	8.1	8.6	6.8	44.6	11.0	16.7	51.6	1HFY19 net profit above our expectation, underpinned by a stronger 2QFY19.
Core EPS	2.43	2.80	2.94	4.7	21.0	4.62	5.74	24.2	EPS growth was slower than net profit growth rate due to the dilution effect of the RM54m rights issue and conversion of ICULS.
Single-tier DPS (sen)	3.25	-	3.50	n.m.	7.7	3.25	3.50	7.7	A 1 st interim DPS of 3.5 sen proposed for 2QFY19 (2QFY18: 3.25 sen).
Net Yield (%)	2.8	-	3.0	n.m.	0.2	2.8	3.0	0.2	

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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