

Results Note

RM1.42 @ 18 February 2021

"Though downside risks on asset quality are well-buffered, ELK is still playing it safe"

Share price performance



	1M	3M	12M
Absolute (%)	0.7	0.0	-15.0
Rel KLCI (%)	2.9	1.8	-17.1

	BUY	HOLD	SELL
Consensus	-	1	-

Source: Bloomberg

Stock Data

Sector	Financial services
Issued shares (m)	297.2
Mkt cap (RMm)/(US\$m)	422.1/104.4
Avg daily vol - 6mth (m)	0.1
52-wk range (RM)	1.09-1.70
Est free float	34.8%
Stock Beta	0.73
Net cash/(debt)	(120.5)
ROE (FY21E)	6.5%
Derivatives	Nil
Shariah Compliant	No

Key Shareholders

Teo Hock Chai	37.5%
Amity Corporation	5.2%

Source: Affin Hwang, Bloomberg

ELK-Desa Resources (ELK MK)

HOLD (maintain)

Up/Downside: +5.6%

Price Target: RM1.50

Previous Target (Rating): RM1.53 (HOLD)

Prudent approach underpins a steady quarter

- ELK-Desa's 3QFY21 net profit came in at RM9.1m (-3.7% yoy; -16% qoq) while 9MFY21 net profit was RM21.1m (-25.4% yoy). Overall results were within our expectations
- 3QFY21 appeared steady with normalized provisions (since 2QFY21) as the annualized net credit cost (NCC) stood at 247bps vs. 960bps in 1QFY21. We also saw a lower level of receivables outstanding (-13.1% yoy)
- Maintain HOLD, with 12-month PT adjusted to RM1.50 (based on a 13x P/E target on CY21E EPS; from RM1.53) subsequent to earnings revisions.

3QFY21 profits continued to hold up; within expectations

ELK's 3QFY21 PAT held up well at RM9.1m despite being down by 3.7% yoy and 15.9% qoq, with most of the pre-tax profit generation underpinned by the hire-purchase segment (at 89%) while furniture contributed 11%. 9MFY21 PAT was, however, 25% lower yoy, largely due to a weak 1QFY21. To recap, ELK's management had set aside some pre-emptive provision in 1QFY21 (which saw an annualized NCC rising to 960bps), but the NCC eased subsequently to 179bps (annualized) in 2QFY21 and 247bps in 3QFY21. We expect a FY21 NCC of ~500bps (based on our revised assumption). Overall, 9MFY21 revenue from the hire purchase segment was down 9.8% yoy as the outstanding receivables have been on a declining trend throughout 1Q-3QFY21 (down 13% yoy as at Dec20). This was, however, mitigated by a better receivables yield sequentially (improving from 16.8% to 17.4% qoq) as new HP originations were charged the maximum financing rate of 10%. On a more positive note, the furniture division has seen a turnaround in revenue and more orders since 2QFY21.

Revision in assumptions for FY21E – lower receivables outstanding; lower NCC

We revised our assumptions for FY21E with receivables outstanding down 15% yoy (versus -3% yoy previously) and FY22E-23E growth rates at 5.5% and 8.0% yoy, respectively. In tandem with the reduction in receivables outstanding, our NCC assumptions are also reduced to 500bps/500bps/426bps for FY21-23E (from 598bps/534bps/ 527bps). These resulted in a -4.7%/-3.1%/-1% revisions in FY21E/22E/23E net profits.

Maintain HOLD, with Price Target lowered to RM1.50

We reiterate our **HOLD** rating on ELK, based on our revised 12-month PT of **RM1.50** (based on an unchanged 5-year mean P/E of 13x on CY21E EPS). In the near term, we do not foresee many re-rating catalysts for a robust expansion in ELK's receivables book, as management may continue with its prudent approach. Meanwhile, we note that ELK's loan loss cover continued to provide adequate buffer at ~200%. Downside/upside risks: rise/decline in default rates; slower/more robust receivables growth.

Earnings & Valuation Summary

FYE 31 Mar	2019	2020	2021E	2022E	2023E
Revenue (RMm)	123.4	148.0	139.5	151.9	164.7
Net operating income (RMm)	47.5	60.0	48.0	58.3	65.1
Pretax profit (RMm)	43.8	47.5	37.1	45.3	51.1
Net profit (RMm)	32.9	34.9	28.2	34.4	38.9
EPS (sen)	11.2	11.8	9.6	11.7	12.8
FD EPS (sen)	10.9	11.8	(18.3)	22.1	9.3
FD EPS growth (%)	15.8	7.7	139.5	151.9	164.7
FD PER (x)	13.0	12.1	15.1	12.4	11.1
ROE (%)	8.1	8.3	6.5	7.7	8.3
P/BV (x)	1.02	1.01	0.96	0.92	0.89
Net DPS (sen)	7.0	7.25	5.5	7.0	7.7
Dividend Yield (%)	4.9	5.1	3.9	4.9	5.4
Chg in EPS (%)			-4.7	-3.1	-1.0
Affin/Consensus (x)			NA	NA	NA

Source: Company, Affin Hwang estimates

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Fig 1: Results Comparison

FYE Mar (RMm)	3QFY20	2QFY21	3QFY21	QoQ % chg	YoY % chg	9MFY20	9MFY21	YoY % chg	Comments
Revenue	38.7	37.4	37.2	(0.5)	(3.7)	110.5	105.0	(5.0)	
- Hire purchase	27.6	23.2	23.1	(0.6)	(16.4)	77.4	69.8	(9.8)	9MFY21 hire purchase income declined 9.8% yoy as receivables outstanding was 13% lower yoy while the receivables yield was improving gradually qoq due to higher rates.
- Furniture	11.0	14.2	14.1	(0.4)	28.1	33.1	35.2	6.4	Furniture sales sustained on a qoq basis.
Operating expense	(22.8)	(21.7)	(22.3)	2.8	(2.1)	(66.5)	(69.0)	3.7	Hire-purchase impairment allowances in 3QFY21 continued to normalize with an annualized net credit cost of 247bps vs. 431bps in 3QFY20. Nonetheless, 9MFY21 annualized NCC remained elevated at 500bps vs. 359bps in 9MFY20 due to pre-emptive provisions in 1QFY21.
Other income	0.7	0.6	0.2	(63.4)	(68.0)	2.0	1.1	(46.4)	
EBIT	16.5	16.3	15.1	(7.3)	(8.7)	45.9	37.4	(18.6)	
<i>EBIT margin (%)</i>	<i>42.8</i>	<i>43.5</i>	<i>40.6</i>	(3.0)	(2.2)	<i>41.6</i>	<i>37.1</i>	(4.5)	Lower 9MFY21 EBIT margin due to higher provision expenses and lower HP income.
Net finance cost	(3.3)	(2.9)	(2.7)	(6.8)	(17.7)	(7.5)	(8.9)	17.9	Net finance cost continued easing qoq due to the redemption of a RM50m senior note in 2QFY21.
Pre-tax Profit	13.3	13.4	12.4	(7.4)	(6.5)	38.4	28.5	(25.8)	About 89% of 9MFY21 pre-tax profit from hire-purchase segment.
Taxation	(3.8)	(2.6)	(3.3)	27.8	(13.4)	(10.0)	(7.4)	(26.7)	
<i>Tax rate (%)</i>	<i>28.8</i>	<i>19.3</i>	<i>26.7</i>	<i>7.4</i>	<i>(2.1)</i>	<i>26.2</i>	<i>25.8</i>	<i>(0.3)</i>	
Net profit	9.4	10.8	9.1	(15.9)	(3.7)	28.3	21.1	(25.4)	Results within our expectation. 9MFY21 net profit accounted for 71% of our previous FY21E forecast of RM29.6m.
Core net profit	9.4	10.8	9.1	(15.9)	(3.7)	28.3	21.1	(25.4)	
EPS (sen)	3.17	3.63	3.06	(15.9)	(3.7)	9.55	7.11	(25.6)	
Core EPS (sen)	3.17	3.63	3.06	(15.9)	(3.7)	9.55	7.11	(25.6)	
DPS (sen)	-	2.5	-	n.m.	n.m.	3.50	2.50	(28.6)	
Net yield (%)	-	1.8	-	n.m.	n.m.	2.5	1.8	(0.7)	

Source: Affin Hwang, Company



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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