20 November 2020

Outthink. Outperform.

AFFIN HWANG CAPITAL

Results Note | **RM1.39 @ 19 November 2020**

"The quarters ahead are expected to recover in tandem with potentially lower provisions"

Share price performance

	1M	3M	12M
Absolute (%)	0.0	-4.1	-19.7
Rel KLCI (%)	-4.1	-4.6	-18.6

	BUY	HOLD	SELL
Consensus	-	1	-

Source: Bloomberg

Stock Data

Sector	Financial services
Issued shares (m)	297.2
Mkt cap (RMm)/(US$m)	413.1/100.8
Avg daily vol - 6mth (m)	0.1
52-wk range (RM)	1.09-16.4
Est free float	34.8%
Stock Beta	0.74
Net cash/(debt)	(144.5)
ROE (FY21E)	5.9%
Derivatives	Nil
Shariah Compliant	No

Key Shareholders

Teo Hock Chai	37.5%
Amity Corporation	5.2%

Source: Affin Hwang, Bloomberg

Tan Ei Leen
T (603) 2146 7543
E eileen.tan@affinhwang.com

ELK-Desa Resources (ELK MK)

HOLD (maintain)
Up/Downside: +0.7%

Price Target: RM1.40
Previous Target (Rating): RM1.40 (HOLD)

Lower impairment loss drives recovery in 2QFY21

- **ELK-Desa's 2QFY21 net profit came in at RM10.8m (+12.3% yoy; >100% qoq) while 1HFY21 net profit of RM12m (-36.3% yoy) was within our expectations. A substantial increase in receivables impairment (+78%) was the key dampener.**
- **2QFY21 turned around with significantly lower provisions, as collections resumed subsequent to the RMCO period since June. 2QFY21 net credit cost (at group level) declined to an annualized 179bps vs. 960bps in 1QFY21.**
- **We maintain our FY21-23 forecasts, while more updates could be available from its upcoming briefing. Maintain HOLD, with PT unchanged at RM1.40. An interim DPS of 2.5 sen (vs. 3.5 sen in 2QFY20) was proposed.**

2QFY21 net profit recovered, up 12.3% yoy and >100% qoq; within expectations

ELK saw a higher 2QFY21 PAT of RM10.8m, recovering by 12.3% yoy and >100% qoq, attributable to an 83.5% qoq decrease in the hire-purchase receivables impairment (equivalent to an annualized net credit cost of 179bps vs. 960bps in 1QFY21). Nonetheless, 1HFY21 net profit was still lower by 36% yoy, largely due to a weak 1QFY21. ELK's 1HFY21 net credit cost now stands at an annualized 600bps, which is still much higher vs. an annualized 350bps in 1HFY20, as provisions have increased by 78% yoy (largely in 1QFY21). Overall, 1HFY21 revenue from the hire purchase segment was down 6.1% yoy underpinned by a 3% decline yoy in receivables growth. On a more positive note, revenue from the furniture division turned around sequentially in 2QFY21 following higher orders from showrooms during the RMCO period (from June onwards).

ELK-Desa's management to stay cautious throughout FY21

ELKs management remains cautious on expanding its hire-purchase receivables book, which on a ytd-basis declined by 11.6% while qoq was also down by 5%. Contrary to the banks' relief measures (loan moratorium) to borrowers, ELK opted not to do so as management believes that they would be able to identify the good customers against those who could not cope with the repayments. Nonetheless, the situation now looks under control despite the reimplementation of the CMCO.

Maintain HOLD, with Price Target unchanged at RM1.40

We reiterate our **HOLD** rating on ELK, and our 12-month Target Price at **RM1.40** (based on a 5-year mean P/E average of 13x on CY21E EPS). There are no changes in our key assumptions for FY21E/22E/23E, with receivables growth at flat/+5.7%+4.6% and net credit cost at 633bps/535bps/580bps. In the near term, we do not foresee re-rating catalysts for a robust expansion in ELK's receivables book, while the earnings outlook in 2HFY21 may appear unexciting. Downside/upside risks – rise/decline in default rates; slower/more robust receivables growth.

Earnings & Valuation Summary

FYE 31 March	2019	2020	2021E	2022E	2023E
Revenue (RMm)	123.4	148.0	137.7	140.8	154.3
Net operating income (RMm)	47.5	60.0	44.3	53.5	57.2
Pretax profit (RMm)	43.8	47.5	33.4	42.5	46.3
Net profit (RMm)	32.9	34.9	25.4	32.3	35.2
EPS (sen)	11.2	11.8	8.7	11.0	11.6
FD EPS (sen)	10.9	11.8	8.5	10.7	11.6
FD EPS growth (%)	15.8	7.7	(28.1)	27.0	8.2
FD PER (x)	12.4	11.8	16.1	12.6	12.0
ROE (%)	8.1	8.3	5.9	7.3	7.6
P/BV (x)	1.00	0.99	0.94	0.91	0.88
Net DPS (sen)	7.0	7.25	5.2	6.6	7.0
Dividend Yield (%)	5.0	5.2	3.7	4.8	5.0
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			NA	NA	NA

Source: Company, Affin Hwang estimates

Fig 1: Results Comparison

FYE Mar (RMm)	2QFY20	1QFY21	2QFY21	QoQ % chg	YoY % chg	1HFY20	1HFY21	YoY % chg	Comments
Revenue	**36.6**	**30.4**	**37.4**	*23.0*	*2.1*	**71.8**	**67.8**	*(5.6)*	
- Hire purchase	25.7	23.5	23.2	*(1.0)*	*(9.5)*	49.7	46.7	*(6.1)*	Hire purchase income declined 6.1% yoy as receivables growth was down 3% yoy .
- Furniture	11.0	6.9	14.2	*>100*	*29.2*	22.1	21.1	*(4.5)*	Turnaround in furniture sales (qoq) in 2QFY21 as more orders came in during the RMCO period.
Operating expense	(22.0)	(24.9)	(21.7)	*(12.8)*	*(1.0)*	(43.7)	(46.7)	*6.7*	Hire-purchase impairment allowances declined 83.5% qoq (RM2.7m; annualized NCC 179bps) as collection activity normalized during the RMCO period. Overall, group impairments for 1HFY21 had increased by 78% yoy, with annualized NCC at 600bps vs. 350bps in 1HFY20.
Other income	0.9	0.5	0.6	*15.2*	*(31.6)*	1.2	1.1	*(3.7)*	
EBIT	**15.6**	**6.0**	**16.3**	*>100*	*4.6*	**29.3**	**22.3**	*(23.9)*	
EBIT margin (%)	*42.5*	*19.8*	*43.5*	*(14.1)*	*(19.5)*	*40.8*	*32.9*	*(7.9)*	Lower 1HFY21 EBIT margin due to higher provision expenses.
Net finance cost	(2.7)	(3.3)	(2.9)	*(12.3)*	*5.9*	(4.3)	(6.2)	*45.4*	Net finance cost declined qoq in 2QFY21 subsequent to the redemption of a RM50m senior note in 2Q FY21.
Pre-tax Profit	**12.8**	**2.7**	**13.4**	***>100***	***4.3***	**25.1**	**16.1**	***(35.9)***	About 88% of pre-tax profit from hire-purchase segment.
Taxation	(3.2)	(1.5)	(2.6)	*76.4*	*(19.5)*	(6.2)	(4.1)	*(34.9)*	
Tax rate (%)	*25.0*	*54.2*	*19.3*	*25.8*	*29.7*	*24.8*	*25.2*	*0.4*	
Net profit	**9.6**	**1.2**	**10.8**	*>100*	*12.3*	**18.9**	**12.0**	*(36.3)*	Results within our expectation. 1HFY21 net profit accounted for 47.4% of our FY21 forecast of RM25.4m.
Core net profit	**9.6**	**1.2**	**10.8**	*>100*	*12.3*	**18.9**	**12.0**	(36.3)	
EPS (sen)	3.24	0.42	3.63	*>100*	*12.2*	6.37	**4.05**	(36.4)	
Core EPS (sen)	3.24	0.42	3.30	*>100*	*12.2*	6.37	**4.05**	(36.4)	
DPS (sen)	3.5	-	2.5	*n.m.*	*(28.6)*	3.5	2.5	(28.6)	
Net yield (%)	*2.5*	-	*1.8*	*n.m.*	*(0.7)*	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

This report is intended for information purposes only and has been prepared by Affin Hwang Investment Bank Berhad (14389-U) ("the Company") based on sources believed to be reliable and is not to be taken in substitution for the exercise of your judgment. You should obtain independent financial, legal, tax or such other professional advice, when making your independent appraisal, assessment, review and evaluation of the company/entity covered in this report, and the extent of the risk involved in doing so, before investing or participating in any of the securities or investment strategies or transactions discussed in this report. However, such sources have not been independently verified by the Company, and as such the Company does not give any guarantee, representation or warranty (expressed or implied) as to the adequacy, accuracy, reliability or completeness of the information and/or opinion provided or rendered in this report. Facts, information, estimates, views and/or opinion presented in this report have not been reviewed by, may not reflect information known to, and may present a differing view expressed by other business units within the Company, including investment banking personnel and the same are subject to change without notice. Reports issued by the Company, are prepared in accordance with the Company's policies for managing conflicts of interest. Under no circumstances shall the Company, be liable in any manner whatsoever for any consequences (including but are not limited to any direct, indirect or consequential losses, loss of profit and damages) arising from the use of or reliance on the information and/or opinion provided or rendered in this report. Under no circumstances shall this report be construed as an offer to sell or a solicitation of an offer to buy any securities. The Company its directors, its employees and their respective associates may have positions or financial interest in the securities mentioned therein. The Company, its directors, its employees and their respective associates may further act as market maker, may have assumed an underwriting commitment, deal with such securities, may also perform or seek to perform investment banking services, advisory and other services relating to the subject company/entity, and may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report. The Company, its directors, its employees and their respective associates, may provide, or have provided in the past 12 months investment banking, corporate finance or other services and may receive, or may have received compensation for the services provided from the subject company/entity covered in this report. No part of the research analyst's compensation or benefit was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. Employees of the Company may serve as a board member of the subject company/entity covered in this report.

Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

This report is printed and published by:
Affin Hwang Investment Bank Berhad (14389-U)
A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
69, Jalan Raja Chulan,
50200 Kuala Lumpur, Malaysia.

T : + 603 2142 3700
F : + 603 2146 7630
research@affinhwang.com

www.affinhwang.com