

Outthink. Outperform.

Leveraging up

ELK-Desa's 9MFY19 net profit of RM24.4m (+35.5% yoy; EPS +17.6% yoy) was broadly within our expectations, driven by stronger profit contribution from its hire-purchase financing (which contributed 98% of pre-tax profit). HP receivables grew by 23% yoy partially fuelled by increased leverage within the group through block discounting. The furniture segment (though insignificant in contribution to pre-tax profit), continued to turnaround following management's move to focus on the domestic markets. Our investment outlook on ELK-Desa has not changed from our last report, we remain upbeat on management's vertical expansion plan. Maintain BUY, our Price Target of RM1.70 remains unchanged.

9MFY19 continued to be robust, net profit +35.5% yoy

ELK-Desa reported a 9MFY19 net profit of RM24.4m, up +35.5% yoy, while EPS rose by 17.6% yoy, underpinned primarily by profits from its hire-purchase division (98% of PBT). Receivables growth remained robust in 3QFY19, rising by 23% yoy driven by higher transactions in the used car market, following management's move to further expand its scope of financing for cars priced at below RM35,000 (from its previous policy for cars < RM20,000). Overall, ELK's results appear broadly within our expectations for FY19E, as we anticipate a stronger performance in 4QFY19 following management's move to leverage up on its borrowings (block-discounting).

Leverage to further drive earnings in the coming quarters

The shift in management's strategy was observed in its stance to leverage up in 3QFY19, whereby total borrowings have been increased by 126% to RM100.2m (from RM44.4m in Dec17). Even so, gearing ratio remains at a low of 0.25x (vs. other similar peers such as Aeon Credit at 4x).

Maintain BUY with Price Target at RM1.70

Maintain **BUY** based on a **CY19 Price Target** of **RM1.70**, which is pegged to a 13x P/E multiple on our CY19E EPS of 13 sen. We remain upbeat on ELK-Desa as: i) a further expansion of leverage will drive upside in EPS and minimize dilution effects from the last two rights issue; ii) dividend yields remain attractive at 5.2%-8.1%. Downside risks – high cost-of-living may cause higher defaults.

Earnings & Valuation Summary

FYE 31 Mar (RMm)	2017A	2018A	2019E	2020E	2021E
Revenue	94.5	104.1	123.5	141.5	162.5
Net operating income	30.2	37.0	52.6	66.0	79.7
Pretax profit	30.6	35.3	49.6	59.7	70.2
Net profit	23.0	25.9	37.7	45.4	53.4
EPS (sen)	10.7	9.9	12.8	15.4	18.2
EPS growth (%)	(17.0)	(7.2)	29.6	20.3	17.6
FD EPS (sen)	8.6	8.4	12.7	14.2	16.6
PER (x)	15.2	13.5	10.4	8.7	7.4
FD PER (x)	18.6	16.0	11.3	9.5	8.1
ROE (%)	7.0	7.1	9.3	10.5	11.5
BV / share	1.55	1.52	1.41	1.54	1.62
P/BV	0.87	0.88	0.95	0.87	0.83
DPS (sen)	6.8	6.8	7.0	9.3	10.9
Dividend Yield (%)	5.0	5.0	5.2	6.9	8.1
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			NA	NA	NA

Source: Company, Bloomberg, Affin Hwang forecasts

Results Note

ELK-Desa

ELK MK

Sector: Finance

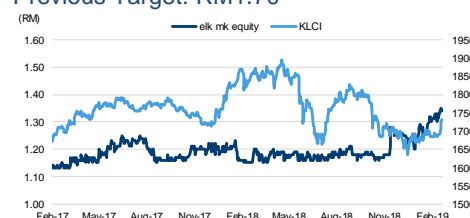
RM1.34 @ 21 Feb 2019

BUY (maintain)

Upside: 26.9%

Price Target: RM1.70

Previous Target: RM1.70



Price Performance

	1M	3M	12M
Absolute	6.3%	7.2%	16.5%
Rel to KLCI	4.6%	5.0%	24.9%

Stock Data

Issued shares (m)	296.1
Mkt cap	396.8/97.3
Avg daily vol - 6mth	0.1
52-wk range (RM)	1.13-1.35
Est free float	38.1%
BV per share (RM)	1.36
P/BV (x)	0.99
Net cash/(debt)	(58.1)
ROE (2019E)	9.3
Derivatives (ICULS)	14.89
Shariah Compliant	No

Key Shareholders

Teoh Hock Chai	37.1%
Eng Lee Kredit Sdn Bhd	32.4%

Source: Affin, Bloomberg

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Fig 1: Results Comparison

FYE 31 Mar (RMm)	3QFY18	2QFY19	3QFY19	QoQ % chg	YoY %chg	9MFY18	9MFY19	YoY % chg	Comments
Revenue	25.9	31.0	31.1	0.4	20.0	76.4	90.9	19.0	Interest income from the hire-purchase unit remains the key topline driver, +16% yoy for 9MFY19. Hire purchase receivables grew by 22% yoy as at Dec18 and .
- Hire Purchase	18.4	20.7	21.7	4.6	18.0	53.8	62.4	16.0	
- Furniture	7.4	10.3	9.4	(8.0)	27.0	22.7	28.6	26.0	
Operating expenses	(16.5)	(18.8)	(20.4)	8.3	23.7	(51.5)	(56.9)	10.4	Increase in 9MFY19 overheads were due to higher marketing expenses and higher COGS at the furniture division. Impairment allowance (hire-purchase) was down by 23.5% yoy.
Other Income	0.2	0.1	0.5	>100	>100	0.6	1.2	>100	
EBIT	9.7	12.3	11.2	(8.5)	16.4	25.5	35.2	38.2	
Net Finance Cost	(0.8)	(0.7)	(1.2)	67.2	53.1	(1.6)	(2.8)	77.4	Interest expense increased in tandem with higher amount of block discounting payables) to fund expansion of the HP receivables.
Pre-Tax Profit	9.5	11.6	10.1	(13.1)	13.2	24.5	32.4	32.0	About 98% of contribution to PBT from hire purchase business.
Taxation	(2.5)	(3.0)	(2.4)	(20.4)	(7.1)	(6.5)	(8.0)	22.4	
Net Profit	7.0	8.6	7.7	(10.5)	21.3	18.0	24.4	35.5	9MFY19 broadly within our expectation.
EPS	2.46	2.94	2.61	(10.5)	21.3	7.1	8.35	17.6	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)	-	3.50	-	n.m	n.m	3.25	3.50		No dividends proposed in 3QFY19.
Net Yield (%)	-	3.0	-	n.m	n.m	2.8	3.0		

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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