

Outthink. Outperform.

Favourable conditions fuelled a robust year

ELK-Desa's FY19 net profit of RM32.9m (+27% yoy; EPS +13.3% yoy) was below Affin's expectation by 13%, largely due to higher operating expenses, although its HP receivables growth of 23% yoy outperformed our forecast of a 20% yoy growth. Overall, it was a favourable year following management's move to expand financing of its receivables market, in addition to leveraging up. Though we revise down our FY20-21E earnings forecasts by 12-15% (for higher overheads), we remain upbeat on management's vertical expansion plan. **Maintain BUY with a higher RM1.98 Price Target (from RM1.70).**

FY19 a robust year; net profit jumped 27% yoy

ELK-Desa reported a FY19 net profit of RM32.9m, up 27% yoy, while EPS rose by 13.3% yoy, underpinned primarily by profits from its hire-purchase (HP) division (98% of PBT). Subsequent to management's move to expand its scope of financing for cars priced at below RM35,000 (from its previous policy for cars < RM20,000), its HP receivables saw a growth of 23% yoy vis-à-vis FY18's receivables growth rate of 15% yoy. For FY19, ELK-Desa's HP-division credit cost improved to 5.5% (FY18) from 3.8%, representing a marked improvement in terms of asset quality. The furniture segment (though insignificant to pre-tax profit) continued to turn around.

Higher leverage partially drives up profits and ROE

The shift in management's strategy to leverage up since 3QFY19 has seen FY19's borrowings increase by 126% to RM114.3m (from RM53m in FY18). Even so, its gearing ratio remains at a low of 0.28x (vs. other similar peers such as Aeon Credit at 4x). This move has resulted in improvements in net earnings and ROE (rose from 7.1% in FY18 to 8.1% in FY19).

Maintain BUY with a revised Price Target of RM1.98 (from RM1.70)

As we revise our assumptions for ELK-Desa's operating expenses (to factor in higher staff costs), we revise down FY20E-21E's net earnings by 15.7% and 12.2% respectively. That said, ELK-Desa is still a **BUY**, given a potential upside of 43.6% based on our revised **Price Target of RM1.98** (at a 13x P/E on CY20E EPS of 15.25 sen, rolled over from CY19). We remain upbeat on ELK-Desa as it remains an aggressive and prudent mass market HP-financing player in the Klang Valley. FY20-21E dividend yields remain attractive at 5.2-6.4%. Downside risks – higher default rates.

Earnings & Valuation Summary

FYE 31 Mar (RMm)	2018A	2019A	2020E	2021E	2022E
Revenue	104.1	123.4	141.5	162.5	180.0
Net operating income	37.0	47.5	57.2	71.9	79.1
Pretax profit	35.3	43.8	50.4	61.7	67.1
Net profit	25.9	32.9	38.3	46.9	51.0
EPS (sen)	9.9	11.2	13.1	16.0	17.4
EPS growth (%)	(7.2)	13.3	16.4	22.4	8.9
FD EPS (sen)	9.4	10.9	12.7	15.5	16.9
PER (x)	13.9	12.3	10.6	8.6	7.9
FD PER (x)	14.6	12.6	10.9	8.9	8.2
ROE (%)	7.1	8.1	9.0	10.3	10.6
BV / share	1.39	1.39	1.51	1.59	1.68
P/BV	0.99	0.99	0.91	0.87	0.82
DPS (sen)	6.8	7.0	7.2	8.8	9.6
Dividend Yield (%)	4.9	5.1	5.2	6.4	6.9
Chg in EPS (%)			(15.7)	(12.2)	n.m.
Affin/Consensus (x)			NA	NA	NA

Source: Company, Bloomberg, Affin Hwang forecasts

Results Note

ELK-Desa

ELK MK

Sector: Finance

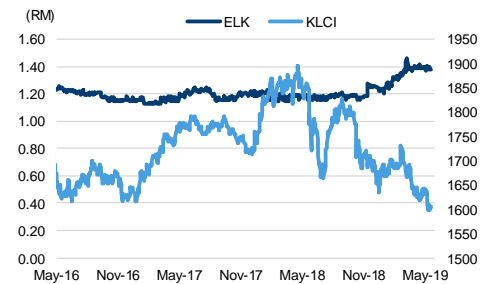
RM1.38 @ 21 May 2019

BUY (maintain)

Upside: 43.6%

Price Target: RM1.98

Previous Target: RM1.70



Price Performance

	1M	3M	12M
Absolute	-2.1%	3.0%	19.0%
Rel to KLCI	-1.0%	10.8%	37.6%

Stock Data

Issued shares (m)	296.4
Mkt cap (RMm)/(US\$m)	409/97.7
Avg daily vol - 6mth (m)	0.1
52-wk range (RM)	1.13-1.48
Est free float	38.1%
BV per share (RM)	1.36
P/BV (x)	0.99
Net cash/(debt) (RMm)	(83.5)
ROE (2019E)	8.1
Derivatives (ICULS) (m)	11.7
Shariah Compliant	No

Key Shareholders

Teoh Hock Chai	37.5%
Eng Lee Kredit Sdn Bhd	32.4%

Source: Affin, Bloomberg

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Fig 1: Results Comparison

FYE 31 Mar (RMm)	4QFY18	3QFY19	4QFY19	QoQ % chg	YoY %chg	FY18	FY19	YoY % chg	Comments
Revenue	27.7	31.1	32.5	4.3	17.2	104.1	123.4	18.5	Hire-purchase (HP) revenue remains the key top-line driver, +16.2% yoy for FY19. Hire-purchase receivables grew by 23% yoy for FY19.
- Hire Purchase	19.3	21.7	22.5	3.9	16.5	73.1	84.9	16.2	
- Furniture	8.4	9.4	9.9	5.2	18.8	31.0	38.5	24.0	
Operating expenses	(17.0)	(20.4)	(20.3)	(0.3)	19.6	(68.5)	(77.9)	13.7	Increase in FY19 overheads were due to staff costs, staff development expenses and higher COGS at the furniture division. Impairment allowance (hire-purchase) was down by 15.5% yoy.
Other Income	0.6	0.5	0.5	7.3	(-3.2)	1.4	2.0	41.7	Margins improved but were below our expectation.
EBIT	11.3	11.2	12.7	12.8	12.7	37.0	47.5	28.3	
<i>EBIT margin (%)</i>	<i>40.7</i>	<i>36.1</i>	<i>39.1</i>	<i>2.9</i>	<i>(1.6)</i>	<i>35.6</i>	<i>38.5</i>	<i>2.9</i>	
Net Finance Cost	(0.5)	(1.2)	(1.5)	25.2	>100	(1.7)	(3.7)	>100	Interest expense increased in tandem with higher borrowings (block discounting payables) to fund expansion of the HP receivables.
Pre-Tax Profit	10.8	10.1	11.4	13.3	5.7	35.3	43.8	27.0	About 98% of contribution to PBT from hire-purchase business.
Taxation	(2.9)	(2.4)	(2.9)	23.0	0.5	(9.4)	(10.9)	15.7	FY19 below our expectation due to higher operating expenses.
Net Profit	7.9	7.7	8.5	10.4	7.6	25.9	32.9	27.0	
EPS	2.77	2.61	2.87	10.1	3.8	9.90	11.21	13.3	EPS growth was slower than net profit growth rate due to dilution effect of the ICULS conversion.
Single-tier DPS (sen)	3.50	-	3.50	n.m	n.m	6.75	7.00	3.7	A final dividend of 3.5 sen was proposed.
Net Yield (%)	2.6	-	2.6	n.m		5.0	5.2	0.2	

Source: Affin Hwang, Company data

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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