A weaker 4QFY20 as provisions rise

ELK-Desa reported a FY20 net profit of RM34.9m (+6.1% yoy); nonetheless, 4QFY20's results were weaker at RM6.6m in net profit (-30.4% qoq, -23% yoy). Overall results were in-line with our expectations. As the group raised its leverage to 70.5% in FY20 vs. 28% in FY19, it saw robust growth of 28% in hire-purchase (HP) receivables. In 4QFY20, ELK was impacted by the movement control order (MCO), which disrupted customers' repayment activities. As such, we saw a spike in 4QFY20's credit cost, at circa 140bps for the quarter vs. 97.6bps in 4QFY19. Though the MCO will continue to have an impact on ELK's HP collections in 1QFY21, we understand that it has since improved as restrictions were gradually eased from May onwards. We maintain our HOLD rating, with a revised TP of RM1.43.

FY20 net profit up 6% yoy, partially dampened by a weaker 4QFY20

ELK-Desa reported a 4QFY20 net profit of RM6.6m, which declined 23% yoy and 30.4% qoq, largely due to higher provisions for its HP receivables subsequent to the implementation of the MCO. Overall, FY20 net profit of RM34.9m (+6.1% yoy) was within our expectation. The modest earnings growth was underpinned by robust HP receivables growth of 28% yoy, on the back of additional leverage through an MTN programme and expansion of its block-discounting facility. Its debt-to-equity ratio stood at 0.7x and we believe that there is still further room for growth towards the 1.5-2.0x debt-to-equity level.

Maintaining FY21-22E earnings, while introducing FY23E

We remain cautious on ELK's earnings outlook, as we foresee the risk of higher NPLs subsequent to a potential rise in theunemployment rate in our country due to the impact of the COVID-19 pandemic. Based on our assumptions, we expect net credit cost at 485-535bps and receivables growth at circa 5% yoy in FY21E-23E.

Maintain HOLD, with revised Price Target of RM1.43

We reiterate our **HOLD** rating on ELK, and raise our **12-month Target Price** from RM1.13 to **RM1.43** (based on a 5-year mean P/E average of 13x on CY21E EPS). As the economy is expected to start recovering in 2H20, there could be some pockets of opportunities for ELK-Desa in the used-car market, given incentives given by the government on the exemption of sales taxes on new car purchases. Downside/upside risk – rise/decline in default rates.

Earnings & Valuation Summary

FYE 31 Mar (RMm)	2019	2020	2021E	2022E	2023E
Revenue	123.4	148.0	137.7	140.8	154.3
Net operating income	47.5	60.0	53.3	53.5	57.2
Pretax profit	43.8	47.5	42.4	42.5	46.3
Net profit	32.9	34.9	32.2	32.3	35.2
EPS (sen)	11.2	11.8	11.0	11.0	11.6
EPS growth (%)	13.3	4.9	(6.6)	0.2	5.3
FD EPS (sen)	10.9	11.8	10.7	10.7	11.6
PER (x)	12.7	12.1	12.9	12.9	12.2
ROE (%)	8.1	8.7	7.4	7.3	7.5
BV / share	1.39	1.41	1.50	1.54	1.59
P/BV	1.02	1.01	0.95	0.92	0.89
DPS (sen)	7.0	7.25	6.6	6.6	7.0
Dividend Yield (%)	4.9	5.1	4.6	4.7	4.9
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			NA	NA	NA

Source: Company, Bloomberg, Affin Hwang forecasts

Results Note

ELK-Desa

ELK MK
Sector: Finance

RM1.42 @ 9 June 2020

HOLD (maintain)

Upside: 0.7%

Price Target: RM1.43

Previous Target: RM1.13

Price Performance

	1M	3M	12M
Absolute	7.6%	-2.1%	0.7%
Rel to KLCI	-5.6%	-7.8%	5.5%

Stock Data

Issued shares (m)	297.1
Mkt cap (RMm)/(US$m)	421.9/98.6
Avg daily vol - 6mth (m)	0.2
52-wk range (RM)	1.09-1.77
Est free float	32.7%
BV per share (RM)	1.41
P/BV (x)	0.99
Net cash/(debt) (RMm)	(208.0)
ROE (2021E)	7.4
Derivatives (ICULS)	6m
Shariah Compliant	No

Key Shareholders

Teoh Hock Chai	37.5%
Amity Corporation	5.2%

Source: Affin, Bloomberg

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Fig 1: Results Comparison

FYE 31 Mar (RMm)	4QFY19	3QFY20	4QFY20	QoQ % chg	YoY %chg	FY19	FY20	YoY % chg	Comments
Revenue	**32.5**	**38.7**	**37.5**	*(3.0)*	*15.5*	**123.4**	**148.0**	*19.9*	Hire-purchase (HP) revenue remains the key top-line driver, +23% yoy for FY20. Hire-purchase receivables grew by 28% yoy in 4QFY20.
- Hire Purchase	22.5	27.6	27.3	*(1.3)*	*21.1*	84.9	104.7	*23.3*	
- Furniture	9.9	11.0	10.2	*(7.3)*	*2.8*	38.5	43.3	*12.5*	
Operating expenses	(20.3)	(22.8)	(25.5)	*11.7*	*25.5*	(77.9)	(90.7)	*16.4*	Increase in FY20 overheads due to staff costs, higher COGS at the furniture division and a 40% yoy increase in hire-purchase impairment.
Other Income	0.5	0.7	0.7	*(4.3)*	*25.8*	2.0	2.7	*3.0*	
EBIT	**12.7**	**16.5**	**12.7**	*(23.3)*	*0.0*	**47.5**	**60.0**	*26.3*	
EBIT margin (%)	*39.1*	*42.8*	*33.8*	*(8.94)*	*(5.25)*	*38.5*	*40.1*	*1.6*	Margins improved yoy due to more robust hire-purchase income.
Net Finance Cost	(1.3)	(3.3)	(3.5)	*7.5*	*178.0*	(3.7)	(11.1)	*>100*	Interest expense increased in tandem with a 71% yoy increase in borrowings (block discounting payables and MTNs).
Pre-Tax Profit	11.4	13.3	9.2	*(30.9)*	*(19.8)*	**43.8**	**47.5**	*8.6*	About 97% of FY20 PBT from hire-purchase business.
Taxation	(2.9)	(3.8)	(2.6)	*(32.1)*	*(10.8)*	(10.9)	(12.6)	*16.0*	
Net Profit	**8.5**	**9.4**	**6.6**	*(30.4)*	*(22.9)*	**32.9**	**34.9**	*6.1*	Within our expectation.
EPS	**2.87**	**3.17**	**2.21**	*(30.4)*	*(23.1)*	**11.21**	**11.76**	*4.9*	Minor difference in EPS growth vs. net profit growth rate due to dilution effect of the ICULS conversion.
Single-tier DPS (sen)	**3.50**	**-**	**3.75**	*n.m.*	*7.1*	**7.0**	**7.25**	*3.6*	A final dividend of 3.75 sen proposed in 4QFY20
Net Yield (%)	2.5	-	2.6	*n.m.*	*0.2*	4.9	5.1	*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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