

## ELK-Desa Resources Bhd

### Started the financial year on a softer note

#### Summary

- **Below expectations.** In 1Q24, ELKDESA registered a core net profit RM8.5m (+11.9% QoQ, -51.4% YoY). The core net profit is only accounted for 20-21% of ours and consensus estimates, we think it is below expectation and the conditions may stay soft amid the elevated inflationary pressure over the next 3 quarters. The key deviation was due to the absence of the reversal of impairment allowance for the hire purchase segment.
- **QoQ/YTD.** Core net profit rose 11.9% to RM8.5m in 1QFY24 from RM7.6m in 4QFY23, thanks to the higher profit contribution from the hire purchase segment in the quarter. Meanwhile, net impaired loans ratio increased from 1.92% in 4Q23 to 2.25% in 1QFY24.
- **YoY.** For 1QFY24, revenue increased 9% to RM26.7m, but the core net profit declined by 51.4% to RM8.5m from RM17.6m in 1QFY23. This was due to (i) the reversal of impairment allowance amounting to RM5.36m in the previous quarter, (ii) credit loss charge of 1.18% as compared to a reversal of credit loss charge of 1.01% in 1QFY23, (iii) higher operating and staff costs and (iv) higher finance costs. The reversal of impairment allowance and credit loss charge were due to exceptionally good collection and positive recovery activities.
- **Outlook.** The Malaysian economy has expanded at a more moderate pace at 2.9% in 2Q23 as compared to 5.6% and 14.2% in 1Q23 and 4Q22, respectively. Meanwhile, the core inflation remained elevated despite the moderation of headline inflation. Hence, with this environment, we expect the higher cost of living and tighter disposable incomes may impact the purchase of “big ticket” items such as used car and furniture and even the ability of loans repayment. Looking at FY24, we expect ELKDESA to grow at a moderate pace in view of the uncertain macroeconomic environment. The key focus for ELKDESA will be on the reduction of its impaired loans ratio, which is relatively high due to the operational disruptions caused by the MCO.

Quarterly performance					
FYE Mar (RM m)	1QFY23	4QFY23	1QFY24	QoQ (%)	YoY (%)
Revenue	39.0	40.3	39.2	(2.8)	0.6
EBITDA	25.6	13.3	14.3	7.5	(44.4)
PBT	23.4	10.1	11.2	10.4	(52.3)
PAT	17.6	7.6	8.5	11.9	(51.4)
Core PATMI	17.6	7.6	8.5	11.9	(51.4)
Reported PATMI	17.6	7.5	8.5	13.5	(51.7)
Core EPS (sen)	3.9	1.7	1.9	11.9	(51.4)
EBITDA margin (%)	65.8	32.9	36.4		
PBT margin (%)	60.0	25.1	28.5		
Core PATMI margin (%)	45.2	19.0	21.8		

#### Valuation & Recommendation

- Despite ELKDESA's core net profit was below expectation, we are not revising the earnings forecast and we are ceasing the coverage due to reallocation of internal resources. Our last recommendation on ELKDESA was **HOLD** with a fair value of RM1.02, which was derived by ascribing a P/B of 0.95x to FY24f BVPS of RM1.07.

#### Results note & Cease coverage

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#### HOLD

Share price	RM1.25
Target price	-
Previous TP	RM1.02
Capital upside	-
Dividend return	-
Total return	-

#### Company profile

Principally involved in the hire purchase (HP) financing for used car motor vehicles and furniture trading.

#### Stock information

Bursa Code	5228
Bloomberg ticker	ELK MK
Listing market	MAIN
Share issued (m)	454.8
Market Cap (m)	568.5
52W High/Low	1.28 / 0.873
Est. Free float	37.0
Beta	0.4
3-mth avg vol ('000)	69.2
Shariah	No
compliant	

#### Major shareholders

ENG Lee Kredit Sdn Bhd	32.2
Amity Corp Sdn Bhd	5.0
Teo Siew Lai	3.4

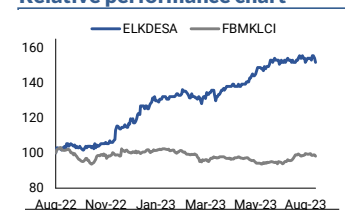
#### Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	0.0	3.3	43.2
Relative	-0.5	0.3	48.2

#### Earnings snapshot

FYE (Dec)	FY23	FY24f	FY25f
PATMI (m)	47.9	41.4	43.0
EPS (sen)	10.5	9.1	9.5
P/E (x)	11.9	13.7	13.2

#### Relative performance chart



## Financial Highlights

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Mar (RM m)	FY21	FY22	FY23	FY24f	FY25f	FYE Mar (RM m)	FY21	FY22	FY23	FY24f	FY25f
<b>Revenue</b>	<b>143.8</b>	<b>128.9</b>	<b>155.2</b>	<b>165.7</b>	<b>174.4</b>	Cash	86.6	55.2	29.7	27.0	24.3
EBITDA	59.9	45.3	74.6	69.9	74.7	Receivables	540.1	484.5	592.7	622.6	639.6
EBIT	57.3	42.6	71.9	65.9	69.4	Inventories	9.1	11.9	17.2	16.8	18.4
Net finance income/ (cost)	(10.9)	(7.8)	(8.4)	(11.5)	(12.8)	PPE	11.1	11.2	33.2	54.3	74.5
Associates & JV	-	-	-	-	-	Others	16.1	19.5	20.2	20.3	20.1
<b>Profit before tax</b>	<b>46.3</b>	<b>34.8</b>	<b>63.5</b>	<b>54.4</b>	<b>56.6</b>	<b>Assets</b>	<b>663.0</b>	<b>582.3</b>	<b>693.0</b>	<b>740.9</b>	<b>776.9</b>
Tax	(10.7)	(9.1)	(15.6)	(13.1)	(13.6)	Debts	195.6	117.3	199.0	229.5	247.6
<b>Net profit</b>	<b>35.6</b>	<b>25.7</b>	<b>47.9</b>	<b>41.4</b>	<b>43.0</b>	Payables	8.1	3.6	3.6	4.2	4.6
Minority interest	-	-	-	-	-	Others	17.5	13.9	18.6	19.0	19.3
<b>Core earnings</b>	<b>35.6</b>	<b>25.7</b>	<b>47.9</b>	<b>41.4</b>	<b>43.0</b>	<b>Liabilities</b>	<b>221.2</b>	<b>134.7</b>	<b>221.3</b>	<b>252.6</b>	<b>271.4</b>
Exceptional items	0.3	(0.1)	0.2	-	-	Shareholder's equity	344.4	344.9	351.5	351.5	351.5
Reported earnings	35.3	25.8	47.7	41.4	43.0	Minority interest	-	-	-	-	-
						<b>Equity</b>	<b>441.8</b>	<b>447.5</b>	<b>471.8</b>	<b>488.3</b>	<b>505.5</b>
Cash Flow Statement						Valuation & Ratios					
FYE Mar (RM m)	FY21	FY22	FY23	FY24f	FY25f	FYE Mar (RM m)	FY21	FY22	FY23	FY24f	FY25f
Profit before taxation	46.3	34.8	63.5	54.4	56.6	Core EPS (sen)	7.8	5.6	10.5	9.1	9.5
Depreciation & amortisation	2.7	2.7	2.7	4.0	5.3	Diluted Core EPS (¢)	11.7	8.5	15.8	13.6	14.2
Changes in working capital	64.3	24.0	(111.8)	(28.4)	(17.9)	P/E (x)	16.0	22.1	11.9	13.7	13.2
Share of JV profits	-	-	-	-	-	DPS (sen)	7.25	5.25	7.91	8.35	8.68
Taxation	(10.7)	(9.1)	(15.6)	(13.1)	(13.6)	Dividend yield	5.8%	4.2%	6.3%	6.7%	6.9%
Others	8.6	2.6	10.7	(2.1)	(2.2)	BVPS (RM)	0.97	0.98	1.04	1.07	1.11
<b>Operating cash flow</b>	<b>132.2</b>	<b>78.3</b>	<b>(50.5)</b>	<b>14.8</b>	<b>28.1</b>	P/B (x)	1.2	1.2	1.1	1.1	1.1
Net capex	(1.8)	(1.2)	(23.1)	(23.1)	(23.1)	EBITDA margin	41.7%	35.2%	48.0%	42.2%	42.8%
Others	10.1	59.7	1.4	-	-	EBIT margin	39.8%	33.1%	46.3%	39.8%	39.8%
<b>Investing cash flow</b>	<b>8.3</b>	<b>58.5</b>	<b>(21.7)</b>	<b>(23.1)</b>	<b>(23.1)</b>	PBT margin	32.2%	27.0%	40.9%	32.8%	32.4%
Changes in borrowings	(103.8)	(78.4)	81.7	30.5	18.1	PAT margin	24.8%	19.9%	30.9%	25.0%	24.7%
Issuance of shares	0.1	0.4	6.6	-	-	Core PAT margin	24.8%	19.9%	30.9%	25.0%	24.7%
Dividends paid	(21.6)	(20.1)	(23.5)	(24.8)	(25.8)	ROE	8.2%	5.8%	10.4%	8.6%	8.6%
Others	(12.4)	(12.4)	(17.7)	-	-	ROA	5.0%	4.1%	7.5%	5.8%	5.7%
<b>Financing cash flow</b>	<b>(137.6)</b>	<b>(110.4)</b>	<b>47.2</b>	<b>5.6</b>	<b>(7.7)</b>	Gearing	44.3%	26.2%	42.2%	47.0%	49.0%
<b>Net cash flow</b>	<b>2.8</b>	<b>26.4</b>	<b>(25.0)</b>	<b>(2.7)</b>	<b>(2.7)</b>	Net gearing	24.7%	13.9%	35.9%	41.5%	44.2%
Forex	(0.0)	-	-	-	-						
Others	(7.8)	(57.9)	(0.4)	-	-						
Beginning cash	91.6	86.6	55.2	29.7	27.0						
Ending cash	86.6	55.2	29.7	27.0	24.3						

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As of **Thursday, 24 Aug, 2023**, the analyst(s), **Loui Low Ley Yee**, whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) nil.

## Stock recommendation guide

<b>BUY</b>	The share price is expected to appreciate more than 10% over the next 12 months
<b>HOLD</b>	The stock price is expected to range between -10% and +10% over the next 12 months
<b>SELL</b>	The share price is expected to fall more than 10% over the next 12 months
<b>TRADING BUY</b>	The share price is projected to rise more than 10% over the next three (3) months due to an ongoing or impending corporate development. The stock price is also expected to be volatile over the next three months
<b>TRADING SELL</b>	The stock price is expected to fall more than 10% over the next three months due to an ongoing or impending corporate developments. The stock price is also expected to be volatile over the next three months
<b>NOT RATED</b>	No recommendation is assigned

# Stock Digest

Thursday, 24 Aug, 2023

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