

## Elk-Desa Resources Bhd

### Eyeing further expansion in the hire purchase portfolio

#### Summary

- ELKDESA 3Q23 core net profit grew 7.5% YoY to RM11.1m, bringing a significant 101.9% YoY jump in 9M23 to RM40.2m. The results came in above expectations, amounting to 84.8% of our previous full year forecast at RM47.4m and 103.1% of consensus forecast at RM39.0m. Key deviations were largely due to a lower-than-expected impairment allowance on hire purchase receivables.
- YoY, the bottom line growth was mainly due to a higher contribution from the hire purchase segment, resulted from an increase in hire purchase portfolio which outweighed the increase in impairment allowance. On the other hand, the furniture segment saw lower sales in current quarter. QoQ, core net profit slid 3.4% owing to lower contribution from the hire purchase segment.
- The impairment allowance on hire purchase receivables increased 83.4% YoY to RM3.8m, mainly due to an absence of significant credit recovery in current quarter as compared to the previous corresponding quarter when MCO was uplifted. Hence, credit loss charge increased from 0.4% to 0.7% YoY.
- In line with the ELKDESA's strategic direction to grow its hire purchase portfolio amidst economic recovery environment, the group increased its hire purchase receivables 19.4% YoY and 7.5% QoQ to RM560.3m. Demand for hire purchase receivables was driven by the growth of online trading platforms for used cars, as well as the introduction of a higher minimum wage rate of RM1,500.
- Liabilities wise, the group's bank borrowings increased by 51.9% YoY to RM198.6m as a result of higher drawdown of block discounting facilities to support the increased hire purchase receivables. As at 3Q23, the group's gearing remains at a low level of 0.43 times.
- Moving forward, we believe a continuous expansion in the hire purchase receivables portfolio, coupled with an increase in market share for used car hire purchase financing, will be the key driver for ELKDESA's performance. However, we do not foresee the reversal trend of impairment allowance on hire purchase receivables in 1H23 to continue.

Results Note – 3QFY23

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#### HOLD

Share price	RM1.70
Target price	RM1.53
Previous TP	RM1.52
Capital upside	-10.0%
Dividend return	5.8%
Total return	-4.2%

#### 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)	303.2
Market Cap (m)	515.5
52W High/Low	1.70/1.20
Est. Free float	36.5%
Beta (x)	0.4
3-mth avg vol ('000)	65.5
Shariah compliant	No

#### Major shareholders

ENG Lee Kredit Sdn Bhd	32.2
Amity Corp Sdn Bhd	5.0
Teo Siew Lai	3.5

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

Hist. return	1M	3M	12M
Absolute	2.4	12.6	29.8
Relative	3.5	9.9	40.3

#### Earnings summary

FYE (Mar)	FY22	FY23f	FY24f
PATMI (m)	25.7	50.3	48.5
EPS (sen)	8.5	16.6	16.0
P/E (x)	20.1	10.3	10.6

#### Relative performance chart



Quarterly performance								
FYE Dec (RM m)	3QFY22	2QFY23	3QFY23	QoQ (%)	YoY (%)	9MFY22	9MFY23	YoY (%)
Revenue	38.2	36.0	40.0	10.9	4.6	92.9	114.9	23.7
EBITDA	16.0	17.9	17.8	(0.3)	11.4	35.3	61.4	73.8
PBT	14.0	15.2	14.8	(3.0)	5.8	27.1	53.4	97.2
PAT	10.3	11.5	11.1	(3.4)	7.5	19.9	40.2	101.9
Core PATMI	10.3	11.5	11.1	(3.4)	7.5	19.9	40.2	101.9
Reported PATMI	10.5	11.5	11.1	(3.5)	5.7	20.2	40.2	98.9
Core EPS (sen)	3.4	3.8	3.7	(3.4)	7.5	6.6	13.3	101.9
EBITDA margin (%)	41.9	49.6	44.6			38.0	53.4	
PBT margin (%)	36.5	42.2	36.9			29.1	46.4	
Core PATMI margin (%)	27.1	32.0	27.9			21.4	35.0	

## Valuation & Recommendation

- As the earnings came in above our expectations, we upgrade our earnings forecast by 6.1% to RM50.3m and 12.0% to RM48.5m for FY23f and FY24f respectively. The earnings forecast will take into account a greater hire purchase portfolio amid stronger demand for used-car hire purchase financing, as well as the gradually normalising impairment allowance on hire purchase receivables.
- We maintained our **HOLD** recommendation on ELKDESA, with a revised target price of RM1.53. The target price is derived by ascribing a P/B of 0.95x to FY24f book value per share of RM1.61. Meanwhile, ELKDESA remained committed to distribute not less than 60.0% of its net profit after tax.
- Downside risks to our recommendation include rising living cost and expiry of loan moratoriums given by banks that may impact borrowers' disposable incomes and their repayment ability. Besides, any logistics disruption could cause supply chain constraints and delay shipment for the furniture segment.

## Financial Highlights

*All items in (RM m) unless otherwise stated*

Income Statement						Balance Sheet					
FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f	FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f
Revenue	148.0	143.8	128.9	150.3	170.5	Cash	91.6	86.6	55.2	63.5	27.0
EBITDA	60.0	59.9	45.3	76.5	77.3	Receivables	624.3	540.1	484.5	580.2	666.3
EBIT	57.7	57.3	42.6	73.5	73.9	Inventories	12.4	9.1	11.9	12.1	13.3
Net finance income/ (cost)	(10.2)	(10.9)	(7.8)	(7.3)	(10.1)	PPE	10.6	11.1	11.2	11.3	11.4
Associates & JV	-	-	-	-	-	Others	11.6	16.1	19.5	19.0	18.2
Profit before tax	47.5	46.3	34.8	66.2	63.8	Assets	750.6	663.0	582.3	686.1	736.2
Tax	(12.6)	(10.7)	(9.1)	(15.9)	(15.3)	Debts	299.4	195.6	117.3	196.6	226.1
Net profit	34.9	35.6	25.7	50.3	48.5	Payables	11.2	8.1	3.6	6.2	6.8
Minority interest	-	-	-	-	-	Others	14.9	17.5	13.9	14.5	15.1
Core earnings	34.9	35.6	25.7	50.3	48.5	Liabilities	325.5	221.2	134.7	217.3	248.0
Exceptional items	0.0	0.3	(0.1)	-	-	Shareholder's equity	344.3	344.4	344.9	351.5	351.5
Reported earnings	34.9	35.3	25.8	50.3	48.5	Minority interest	-	-	-	-	-
						Equity	425.1	441.8	447.5	468.8	488.2
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f	FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f
Profit before taxation	47.5	46.3	34.8	66.2	63.8	Core EPS (sen)	11.5	11.7	8.5	16.6	16.0
Depreciation & amortisation	2.3	2.7	2.7	3.0	3.4	Diluted Core EPS (sen)	11.5	11.7	8.5	16.6	16.0
Changes in working capital	(163.7)	64.3	24.0	(93.2)	(86.6)	P/E (x)	14.8	14.5	20.1	10.3	10.6
Share of JV profits	-	-	-	-	-	DPS (sen)	7.25	7.25	5.25	10.15	9.79
Taxation	(12.6)	(10.7)	(9.1)	(15.9)	(15.3)	Dividend yield	4.3%	4.3%	3.1%	6.0%	5.8%
Others	8.4	8.6	2.6	(6.3)	(0.9)	BVPS (RM)	1.40	1.46	1.48	1.55	1.61
Operating cash flow	(92.8)	132.2	78.3	(46.1)	(35.6)	P/B (x)	1.2	1.2	1.2	1.1	1.1
Net capex	(0.9)	(1.8)	(1.2)	(1.3)	(1.3)	EBITDA margin	40.5%	41.7%	35.2%	50.9%	45.4%
Others	(64.6)	10.1	59.7	-	-	EBIT margin	39.0%	39.8%	33.1%	48.9%	43.4%
Investing cash flow	(65.5)	8.3	58.5	(1.3)	(1.3)	PBT margin	32.1%	32.2%	27.0%	44.0%	37.4%
Changes in borrowings	185.1	(103.8)	(78.4)	79.3	29.5	PAT margin	23.6%	24.8%	19.9%	33.4%	28.4%
Issuance of shares	1.2	0.1	0.4	6.6	-	Core PAT margin	23.6%	24.8%	19.9%	33.4%	28.4%
Dividends paid	(21.5)	(21.6)	(15.3)	(30.2)	(29.1)	ROE	8.3%	8.2%	5.8%	11.0%	10.1%
Others	(13.3)	(12.4)	(17.2)	-	-	ROA	5.4%	5.0%	4.1%	7.9%	6.8%
Financing cash flow	151.4	(137.6)	(110.4)	55.7	0.4	Gearing	70.4%	44.3%	26.2%	41.9%	46.3%
Net cash flow	(6.9)	2.8	26.4	8.3	(36.5)	Net gearing	48.9%	24.7%	13.9%	28.4%	40.8%
Forex	0.0	(0.0)	-	-	-						
Others	67.1	(7.8)	(57.9)	-	-						
Beginning cash	31.4	91.6	86.6	55.2	63.5						
Ending cash	91.6	86.6	55.2	63.5	27.0						

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