

Elk-Desa Resources Bhd

Foresee moderate growth amidst economic uncertainties

Summary

- ELKDESA 3Q23 core net profit advanced 37.5% YoY to RM7.6m, bringing a significant 87.9% jump in FY23 core net profit to RM47.9m. The results, however, came in below expectations, amounting to 94.2% of our full year forecast at RM50.3m. Key deviations were largely due to lower-than-expected margin resulted from higher operating costs. Meanwhile, a second interim dividend of 3.5 sen per share, payable on 22nd June 2023 was declared.
- YoY, the bottom line soared on the back of higher contribution from (i) the hire purchase segment as increase in revenue resulted from larger hire purchase portfolio outweighed the increase in impairment allowance, and (ii) the furniture segment due to lower freight charges as well as lower staff costs. QoQ, core net profit shrank 31.4%, mainly due to lower contribution from the hire purchase segment as impairment allowance climbed.
- The impairment allowance on hire purchase receivables increased 4.2% YoY to RM6.8m, mainly due to slower hirer repayment. Credit loss charge however, declined from 1.3% to 1.1% due to larger hire purchase portfolio which grew 22.9% YoY and 2.6% QoQ to RM575.1m to cater to higher demand for hire purchase financing amidst post-pandemic environments.
- Liabilities wise, bank borrowings increased 69.3% YoY due to higher drawdown of block discounting facilities to support the increased hire purchase receivables. As at 4Q23, ELKDESA's gearing remained at a low level of 0.42 times.
- Moving into FY24, we anticipate a moderate growth in hire purchase receivables due to the uncertain macro-economic conditions. Additionally, the used car financing industry may require process changes to comply with the new regulatory oversight by the Consumer Credit Oversight Board, which is expected to be implemented in 2024.
- For the furniture segment, we continue to like ELKDESA's strategy to focus on the domestic wholesale market to distribute its furniture products to over 800 furniture retailers throughout Malaysia, especially in Sabah and Sarawak.

Results Note – 4QFY23

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HOLD

Share price	RM1.19
Target price	RM1.02
Previous TP	RM1.53
Capital upside	-14.3%
Dividend return	7.0%
Total return	-7.3%

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)	541.2
52W High/Low	1.27/0.81
Est. Free float	35.6%
Beta (x)	0.4
3-mth avg vol ('000)	114.2
Shariah compliant	No

Major shareholders

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

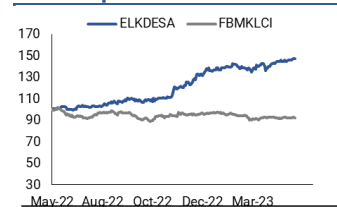
Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	1.7	4.4	39.5
Relative	1.9	7.2	51.6

Earnings summary

FYE (Mar)	FY23	FY24f	FY25f
PATMI (m)	47.9	41.4	43.0
EPS (sen)	10.5	9.1	9.5
P/E (x)	11.3	13.1	12.6

Relative performance chart



Quarterly performance

FYE Dec (RM m)	4QFY22	3QFY23	4QFY23	QoQ (%)	YoY (%)	12MFY22	12MFY23	YoY (%)
Revenue	36.0	40.0	40.3	0.9	12.1	128.9	155.2	20.4
EBITDA	9.8	17.8	13.3	(25.6)	34.8	45.1	74.6	65.3
PBT	7.6	14.8	10.1	(31.6)	33.8	34.6	63.5	83.3
PAT	5.6	11.1	7.6	(31.4)	37.5	25.5	47.9	87.9
Core PATMI	5.6	11.1	7.6	(31.4)	37.5	25.5	47.9	87.9
Reported PATMI	5.5	11.1	7.5	(32.6)	35.3	25.8	47.7	85.2
Core EPS (sen)	1.2	2.4	1.7	(31.4)	37.5	5.6	10.5	87.9
EBITDA margin (%)	27.3	44.6	32.9			35.0	48.1	
PBT margin (%)	21.0	36.9	25.1			26.9	40.9	
Core PATMI margin (%)	15.4	27.9	19.0			19.8	30.8	

Valuation & Recommendation

- As the earnings came in below our expectations, we downgrade our earnings forecast by 14.6% to RM41.4m for FY24f. Meanwhile, FY25f earnings forecast is introduced at RM43.0m. The earnings forecast will take into account a modest growth on the hire purchase portfolio, as well as the gradual improvement on the furniture segment.
- We maintained our **HOLD** recommendation on ELKDESA, with a revised target price of RM1.02 after taking into consideration the increase in number of share arising from the bonus issue. The target price is derived by ascribing a P/B of 0.95x to FY24f book value per share of RM1.07. Meanwhile, ELKDESA remained committed to distribute not less than 60.0% of its net profit after tax.
- Downside risks to our recommendation include the tabling of Consumer Credit Act (CCA). Upon implementation of the new CCA, ELKDESA might need to modify its operational procedure to comply with the requirements of the Act. Additionally, 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)	FY21	FY22	FY23	FY24f	FY25f	FYE Dec (RM m)	FY21	FY22	FY23	FY24f	FY25f
Revenue	143.8	128.9	155.2	165.7	174.4	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
Profit before tax	46.3	34.8	63.5	54.4	56.6	Assets	663.0	582.3	693.0	740.9	776.9
Tax	(10.7)	(9.1)	(15.6)	(13.1)	(13.6)	Debts	195.6	117.3	199.0	229.5	247.6
Net profit	35.6	25.7	47.9	41.4	43.0	Payables	8.1	3.6	3.6	4.2	4.6
Minority interest	-	-	-	-	-	Others	17.5	13.9	18.6	19.0	19.3
Core earnings	35.6	25.7	47.9	41.4	43.0	Liabilities	221.2	134.7	221.3	252.6	271.4
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	-	-	-	-	-
						Equity	441.8	447.5	471.8	488.3	505.5
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY21	FY22	FY23	FY24f	FY25f	FYE Dec (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 (sen)	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)	15.2	21.1	11.3	13.1	12.6
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	6.1%	4.4%	6.6%	7.0%	7.3%
Others	8.6	2.6	10.7	(2.1)	(2.2)	BVPS (RM)	0.97	0.98	1.04	1.07	1.11
Operating cash flow	132.2	78.3	(50.5)	14.8	28.1	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%
Investing cash flow	8.3	58.5	(21.7)	(23.1)	(23.1)	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%
Financing cash flow	(137.6)	(110.4)	47.2	5.6	(7.7)	Gearing	44.3%	26.2%	42.2%	47.0%	49.0%
Net cash flow	2.8	26.4	(25.0)	(2.7)	(2.7)	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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