21 February 2025

Financial Services | Diversified Financial Services

ELK-Desa Resources (ELK MK)

Brighter Days On The Horizon?

Neutral (Maintained)

Target Price (Return):	MYR1.15 (+1%)
Price (Market Cap):	MYR1.14 (USD117m)
ESG score:	3.1 (out of 4)
Avg Daily Turnover (MYR/USD)	0.06m/0.01m

- **Keep NEUTRAL and MYR1.15 TP, 1% upside with c.6% FY26F (Mar) yield.** ELK-Desa Resources' 9MFY25 results are in line with our estimates, while 3QFY25 net profit showed a sequential rebound, especially from the furniture segment. We think its earnings growth prospects look bright, even with elevated credit costs – but will wait until these costs can actually improve before turning more upbeat on the counter.
- **Results review.** ELK recorded a 3QFY25 net profit of MYR8.8m (-8% YoY, +7% QoQ), bringing the 9M figure to MYR25.2m (-6% YoY). The strong revenue growth of 19% YoY for 9MFY25 was underpinned by stellar performances from both the hire purchase (HP, +14%) and furniture (+28%) divisions, while opex was also well-managed, growing by a smaller 7% YoY. The YoY weakness, however, stemmed from higher impairment allowances, where credit costs spiked to 6.2% from 4.3% in 9MFY24. Group PBT declined 6% YoY to MYR34m but, encouragingly, the furniture segment recorded a 37% higher PBT. 9MFY25 ROAE stood at 7.0%, down from 7.8% in 9MFY24.
- **Priming for further growth.** ELK's robust HP receivables growth of 16% YoY (QoQ: +3%) is in line with management's target of growing at the mid-teens level. We think such growth rates are achievable, especially as the filter-through from the resilient new car market kicks in – management says this process typically takes 5-6 years. To cater for growth, the group is comfortable with increasing its gearing ratio to 1x in the medium term (currently 0.6x), and this should allow it to expand its net receivables base to MYR800-900m (currently MYR716m).
- **Could credit costs moderate in FY26?** From a conversation with management, we gathered that the elevated credit costs in 9MFY25 are partly a result of a decline in used car prices (especially those sold for high prices between 2023 and early 2024) affecting the amount recoverable from repossession. As the loans disbursed between 2023 and early 2024 mature, and coupled with a gradual clear-out of its backlog of repossession cases from the COVID-19 period, these should help ease credit costs moving forward. Management aims for a 1.25ppts reduction in credit costs pa, towards a more normalised figure of 3-4% around FY27-28F.
- **The furniture segment is gaining traction in East Malaysia**, and this led to the strong revenue growth YoY. We think revenue growth in 4QFY25 should continue to be robust, given the festive periods occurring then. Further out, management's focus is to continue building its foundation in East Malaysia, where it thinks the furniture market is still underpenetrated.
- **FY25-27F estimates adjusted by -2%, -2% and +4%** as we factor in higher credit costs, offset by stronger receivables growth and furniture revenue assumptions. Our TP stays at MYR1.15, and includes a 2% ESG premium.

Forecasts and Valuation	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Reported net profit (MYRm)	48	37	34	46	53
Net profit growth (%)	85.4	(23.2)	(6.4)	33.6	16.1
Recurring net profit (MYRm)	48	37	34	46	53
Recurring EPS (MYR)	0.10	0.08	0.08	0.10	0.12
BVPS (MYR)	1.04	1.06	1.10	1.15	1.20
DPS (MYR)	0.05	0.05	0.05	0.06	0.07
Recurring P/E (x)	10.86	14.14	15.13	11.31	9.74
P/B (x)	1.10	1.07	1.04	0.99	0.95
Dividend Yield (%)	4.4	4.4	4.1	5.5	6.4
Return on average equity (%)	10.4	7.7	7.0	9.0	10.0

Source: Company data, RHB

Analysts



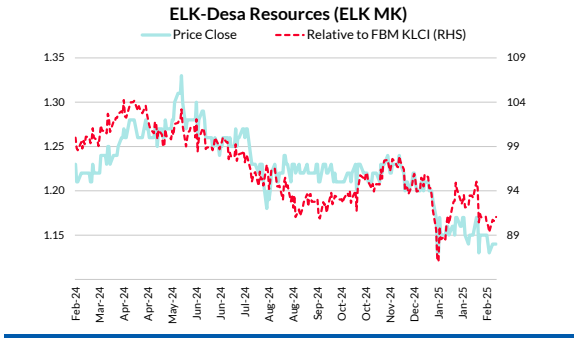
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.9	(1.7)	(6.6)	(8.1)	(6.6)
Relative	4.8	(2.0)	(5.3)	(4.1)	(8.0)
52-wk Price low/high (MYR)					1.13 –1.33



Source: Bloomberg

Overall ESG Score: 3.1 (out of 4)

E Score: 3.0 (GOOD)
S Score: 3.0 (GOOD)
G Score: 3.5 (EXCELLENT)
Please refer to the ESG analysis on the next page

Note:
Small cap stocks are defined as companies with a market capitalization of less than USD0.5bn.

Emissions And ESG

Trend analysis
ELK has begun developing processes to estimate its Scope 1 and Scope 3 emissions, with a particular focus on emissions from business travel and employee commuting.

Emissions (tCO2e)	Mar-22	Mar-23	Mar-24	Mar-25
Scope 1	-	-	-	na
Scope 2	241	352	325	na
Scope 3	-	-	-	na
Total emissions	241	352	325	na

Source: Company data, RHB

Latest ESG-Related Developments

ESG research: ELK's FY23 annual report included an independent research report on ESG in the Malaysian used car industry, which suggests that the industry is still ESG-compatible despite being a laggard in adoption.

Lesser reliance on purchased electricity: ELK is undertaking efforts to install solar-powered generators for use in its Kuala Lumpur headquarters, which will reduce its reliance on purchased electricity and directly lower its Scope 2 emissions.

ESG Unbundled

Overall ESG Score: 3.1 (out of 4)

Last Updated: 24 Aug 2024

E Score: 3.0 (GOOD)

ELK's financing has low exposure to high-environmental-risk sectors, as it mainly finances the purchases of used vehicles. The company reported a YoY decline in its GHG emissions in FY24, and is continually investing in solar power generators for use at its Kuala Lumpur headquarters, to reduce relying on purchased electricity. The group will also look to enhance its emissions data collection, to ensure more accurate data is presented in its annual reports.

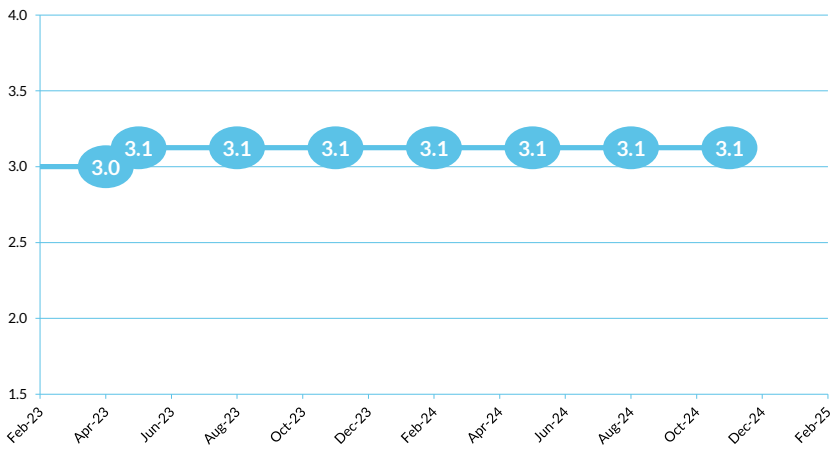
S Score: 3.0 (GOOD)

Each used vehicle financed is subject to a mandatory inspection prior to approval, to ensure customer safety. Most of the hire purchase division's customers come from B40 or lower-M40 backgrounds. The division is also well diversified, with 74% comprising women, and there is a balanced split between ethnicities (HP division only). The company has comprehensive plans to ensure that workplace safety, health and wellbeing are safeguarded at all times.

G Score: 3.5 (EXCELLENT)

The company has policies and a framework to ensure ethical business, integrity and transparency are practiced, as well as a whistleblowing programme. Boardmember responsibilities are revised and published annually. The Board meets around five times a year.

ESG Rating History



Source: RHB

Financial Exhibits

Asia
Malaysia
Financial Services
ELK-Desa Resources
ELK MK
Neutral

Valuation basis

GGM-derived intrinsic value with zero ESG overlay. Key GGM assumptions are:

i. Cost of equity of 8.8%;
ii. Sustainable ROE of 8.7%;
iii. 3.5% long-term growth.

Key drivers

Key drivers include:

i. Hire purchase receivables growth;
ii. Low impairment allowances on HPR;
iii. Profits from its furniture business.

Key risks

The upside risks include:

i. Stronger-than-expected HPR growth;
ii. Lower-than-expected credit costs;
iii. Softer-than-expected furniture business performance.

The opposite of such circumstances would present downside risks.

Company Profile

ELK-Desa Resources is a financial services company that provides hire purchase financing, with a focus on financing for used motor vehicles. As an extension, the company also cross-sells general insurance products from leading insurance brands to its hire purchase customers. On top of its financing operations, the company also operates a furniture trading business. It currently employs approximately 250 individuals, with most of its operations centred in the Klang Valley.

Financial summary (MYR)	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
EPS	0.11	0.08	0.08	0.10	0.12
Recurring EPS	0.10	0.08	0.08	0.10	0.12
DPS	0.05	0.05	0.05	0.06	0.07
BVPS	1.04	1.06	1.10	1.15	1.20

Valuation metrics	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Recurring P/E (x)	10.86	14.14	15.13	11.31	9.74
P/B (x)	1.1	1.1	1.0	1.0	1.0
Dividend Yield (%)	4.4	4.4	4.1	5.5	6.4

Income statement (MYRm)	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Interest income	89	113	131	150	168
Interest expense	(9)	(12)	(17)	(21)	(25)
Net interest income	**80**	**101**	**115**	**129**	**143**
Non interest income	68	57	68	73	78
Total operating income	**148**	**158**	**183**	**202**	**221**
Overheads	(77)	(82)	(93)	(99)	(106)
Pre-provision operating profit	**71**	**76**	**90**	**103**	**115**
Loan impairment allowances	(7)	(26)	(44)	(41)	(43)
Other impairment allowances	(1)	(0)	(1)	(1)	(1)
Pre-tax profit	**63**	**49**	**46**	**61**	**71**
Taxation	(16)	(12)	(11)	(15)	(18)
Reported net profit	**48**	**37**	**34**	**46**	**53**
Recurring net profit	**48**	**37**	**34**	**46**	**53**

Profitability ratios	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Return on average assets (%)	7.5	4.9	4.0	4.7	5.0
Return on average equity (%)	10.4	7.7	7.0	9.0	10.0
Return on IEAs (%)	14.9	16.7	16.5	16.0	15.9
Cost of funds (%)	5.5	4.8	4.9	4.9	5.0
Net interest spread (%)	9.4	11.8	11.6	11.1	10.9
Net interest margin (%)	13.5	14.9	14.4	13.8	13.6
Non-interest income / total income (%)	45.8	35.9	37.3	36.1	35.3
Cost to income ratio (%)	52.1	51.9	50.7	49.1	48.0
Credit cost (bps)	123	412	600	480	450

Balance sheet (MYRm)	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Total gross loans	624	658	801	908	1,020
Other interest earning assets	11	64	74	85	97
Total gross IEAs	635	722	874	993	1,118
Total provisions	(48)	(16)	(63)	(73)	(82)
Net loans to customers	575	642	738	836	939
Total net IEAs	586	706	811	920	1,036
Total non-IEAs	107	101	112	101	86
Total assets	693	807	924	1,021	1,122
Other interest-bearing liabilities	199	301	384	458	535
Total IBLs	199	301	384	458	535
Total non-IBLs	22	22	39	41	44
Total liabilities	221	324	424	500	578
Share capital	351	351	351	351	351
Shareholders' equity	472	483	500	521	544

Asset quality and capital	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Reported NPLs / gross cust loans (%)	7.4	1.9	5.0	5.0	5.0
Total provisions / reported NPLs (%)	104.9	130.0	157.0	160.0	160.0

Source: Company data, RHB

Figure 1: ELK-Desa – summary of 3QFY25 and 9MFY25 results

FYE Mar (MYRm)	3Q FY24	2Q FY25	3Q FY25	QoQ (%)	YoY (%)	9M FY24	9M FY25	YoY (%)	Comments
Revenue	**42.8**	**46.4**	**51.3**	***10.6***	***20.1***	**121.1**	**143.7**	***18.6***	
HP division	*29.0*	*31.8*	*32.7*	*2.9*	*12.7*	*83.2*	*95.1*	*14.4*	Driven by robust HP receivables growth (+16% YoY).
Furniture division	*13.8*	*14.7*	*18.7*	*27.3*	*35.5*	*38.0*	*48.5*	*27.7*	Strong domestic sales, particularly from East Malaysia.
Cost of sales	(8.9)	(9.8)	(12.2)	*24.7*	*37.6*	(24.4)	(31.8)	*30.1*	
Gross Profit	**33.9**	**36.6**	**39.1**	***6.8***	***15.5***	**96.7**	**111.9**	***15.7***	
Gross margin (%)	*79.2*	*78.9*	*76.2*			*79.9*	*77.9*		
Non-II	0.4	0.6	0.6	*8.0*	*50.6*	1.4	2.2	*59.6*	
Overhead expenses	(11.8)	(11.4)	(12.7)	*11.4*	*7.6*	(34.1)	(36.6)	*7.2*	
EBIT	**22.5**	**25.8**	**27.1**	***4.8***	***20.2***	**64.0**	**77.5**	***21.2***	
EBIT margin	*52.6*	*55.6*	*52.7*			*52.8*	*54.0*		
Finance costs	(3.1)	(3.8)	(4.1)	*7.6*	*32.2*	(8.7)	(11.7)	*33.9*	In tandem with the 38% YoY increase in total borrowings.
PIOP	**19.4**	**22.0**	**23.0**	***4.3***	***18.3***	**55.2**	**65.8**	***19.1***	
Impairment allowances	(6.4)	(10.9)	(11.1)	*1.6*	*73.4*	(19.3)	(31.9)	*65.2*	Includes losses on repossessed cars auctioned off. The group's inventory of repossessed cars is currently at elevated levels (due to the repossession ban during the pandemic period), but this should moderate by end-FY25.
Ann. credit costs (bps)	*388*	*616*	*620*			*426*	*621*		
PBT	**13.0**	**11.1**	**11.9**	***7.0***	***(8.8)***	**35.9**	**33.9**	***(5.6)***	72% of our full-year estimates. No consensus data is available for this counter.
HP division	*12.0*	*10.7*	*10.4*	*(3.0)*	*(13.4)*	*33.9*	*31.2*	*(8.1)*	
Furniture division	*1.0*	*0.3*	*1.4*	*>100*	*48.3*	*2.0*	*2.8*	*36.7*	
Tax expenses	(3.4)	(2.8)	(3.0)	*6.7*	*(11.3)*	(9.0)	(8.7)	*(3.4)*	
ETR (%)	*26.1*	*25.5*	*25.4*			*25.0*	*25.6*		
Net earnings	**9.6**	**8.3**	**8.8**	***7.1***	***(8.0)***	**26.9**	**25.2**	***(6.3)***	
Net margin (%)	*22.5*	*17.8*	*17.2*			*22.2*	*17.6*		
Other key data and ratios									
Net HP receivables (MYRm)	616.1	694.0	715.9	*3.2*	*16.2*				
Net debt/equity (x)	0.4	0.6	0.6						Management is comfortable with raising gearing to 1x in the medium term, to fund growth.
ROAE (%) – annualised	8.1	6.9	7.3			7.8	7.0		
ROAA (%) – annualised	5.1	4.1	4.2			5.4	4.3		
CIR (%) – hire purchase	30.9	24.1	26.6			30.1	26.7		

Source: Company data, RHB

Figure 2: Revisions in full-year earnings forecasts

	Net profit (MYRm)			PBT (MYRm) – HP division			PBT (MYRm) – Furniture division		
FYE Mar	Previous	Revised	% Chg	Previous	Revised	% Chg	Previous	Revised	% Chg
2025F	35.1	34.3	-2.2	43.6	42.1	-3.5	3.2	3.6	15.4
2026F	46.6	45.8	-1.7	58.5	56.9	-2.7	3.7	4.3	15.1
2027F	51.5	53.3	3.5	64.3	66.1	2.8	4.3	4.9	14.8

Source: Company data, RHB

Figure 3: Revisions to key assumptions

	Net HP receivables (MYRm)			Credit costs (bps) – HP division			Revenue (MYRm) – Furniture		
FYE Mar	Previous	Revised	% Chg	Previous	Revised	bps Chg	Previous	Revised	% Chg
2025F	737.9	737.9	0.0	500	600	100	58.4	65.5	12.1
2026F	812.2	835.6	2.9	450	480	30	62.5	70.0	12.1
2027F	865.6	938.7	8.4	420	450	30	66.8	74.9	12.1

Source: Company data, RHB

Valuation and TP

Our unchanged TP of MYR1.15 is based on a GGM-derived fair value P/BV of 0.97x (near the mean) on CY25F BVPS (minimally adjusted following our earnings revisions). Cuts to FY25F and FY26F earnings were balanced out by the upgrade to FY27F net profit – so no change to our ROE assumption was required.

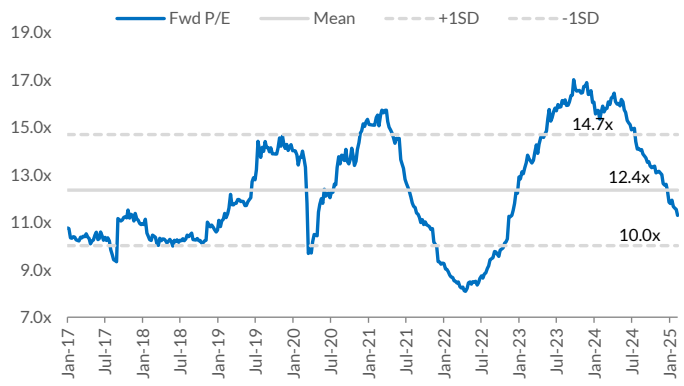
We think the counter is fairly valued at this juncture, as its bright receivables growth prospects are balanced out by still-elevated credit costs. A reversal of the credit cost trend, however, would be a key swing factor, although we would wait until this actually materialises before turning more optimistic on the stock.

Figure 4: ELK-Desa – GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	8.7
Risk free rate (%)	4.0	COE (%)	8.8
Equity premium (%)	4.8	Long-term growth (g)	3.5
Beta (x)	1.0	Implied P/BV (x)	0.97
Cost of equity - CAPM (%)	8.8	BVPS – CY25F	MYR1.13
		Intrinsic value	MYR1.10
ESG premium/(discount) (%)	2.0	ESG premium/(discount)	**MYR0.02**
		TP (rounded)	**MYR1.15**

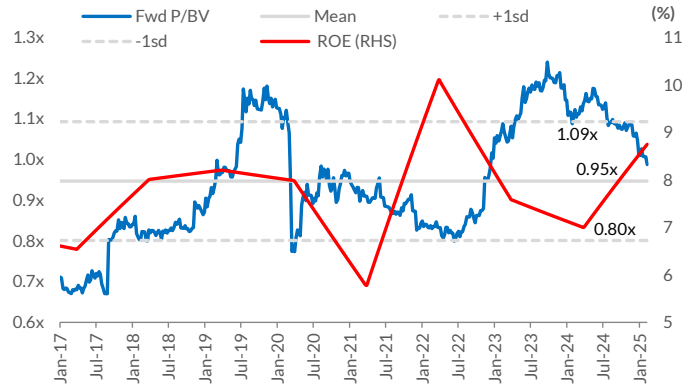
Source: Company data, RHB

Figure 5: ELK-Desa's 12-month forward P/E



Source: Bloomberg, RHB

Figure 6: ELK-Desa's 12-month forward P/BV and ROE



Source: Bloomberg, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-11-13	Neutral	1.15	1.22
2024-08-16	Neutral	1.10	1.22
2024-05-24	Sell	1.05	1.30
2023-11-16	Sell	1.05	1.31
2023-08-06	Neutral	1.20	1.28
2023-05-23	Neutral	1.20	1.21
2023-04-07	Neutral	1.15	1.12
2023-02-16	Buy	2.00	1.13
2022-11-16	Buy	1.80	0.99
2022-08-21	Neutral	1.60	0.90
2022-07-17	Neutral	1.30	0.85

Source: RHB, Bloomberg

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Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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