

11 Nov 2019

Buy

Price
RM1.57

Target Price
RM1.98

Bloomberg code
RCE MK

Equity | Malaysia | Non-Bank Financials

Flashnote

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RCE Capital

2Q20 results in line

Financial Highlights

| FYE Mar | 2017 | 2018 | 2019 | 2020F | 2021F |
|------------------|-------|-------|-------|-------|-------|
| Operating income | 171.7 | 188.3 | 200.0 | 206.6 | 221.0 |
| Net profit | 78.9 | 88.7 | 95.5 | 98.4 | 106.3 |
| EPS (sen) | 23.2 | 26.0 | 28.0 | 28.9 | 31.2 |
| EPS growth (%) | 99.5 | 12.3 | 7.7 | 3.0 | 8.1 |
| DPS (sen) | 3.0 | 7.0 | 9.0 | 9.3 | 10.0 |
| Div yield (%) | 1.9 | 4.5 | 5.7 | 5.9 | 6.4 |
| PER (x) | 6.8 | 6.0 | 5.6 | 5.4 | 5.0 |
| PB (x) | 1.2 | 1.0 | 0.9 | 0.8 | 0.7 |
| ROE (%) | 17.6 | 18.5 | 17.3 | 16.0 | 15.4 |

Source: Company, KAF

- We reiterate our Buy recommendation on RCE Capital (RCE) with an unchanged target price of RM1.98 based on our GGM valuation.
- RCE recorded a net profit of RM51m in 6M20, +10% yoy, making up 52% (consensus: 51%) of our full-year net profit forecast of RM98m for FY20F. We maintain our full-year net profit forecast of RM98m for FY20F.
- A dividend per share of 5.0 sen (34% of payout) was declared in 2Q20. RCE has a dividend policy with the payout ratio in the range of 20-40% of its net profit. We estimate DPS to be 9.3 sen for FY20F as we assume the same payout ratio of 32% in FY20. At current price, this implies a 6-7% yield.
- The group reported 9% yoy operating income growth in 6M20, which surpassing 6% full-year growth in FY19. The income growth is mainly due to income growth in the consumer financing (CF) segment as its receivables grew by 5% yoy.
- To maintain such growth, RCE is working closely with its business partners to build customers' loyalty by focusing on better customer experience and dissemination of appropriate information via authorised digital channels. All things considered, we expect its receivables to grow by 5% in FY20-21F.
- RCE's annualised lending yield stood at 17.2% (2Q19: 16.7%) while its annualised funding cost stood at 5.5% (2Q19: 5.5%). Consequently, its annualised lending spread stood at 11.7% (2Q19: 11.2%).
- RCE's NPL ratio stood at 4.4% as of 2Q20. The assets quality remains unchanged against the previous quarter. RCE's average cost-to-income (CTI) ratio stood at 23%, +1ppts yoy. A slight uptick in CTI ratio was a result of higher OPEX by 17% yoy, while NIM only improved by 10% yoy.
- RCE's coverage ratio stood at 168% which is similar to the previous quarter (1Q20: 169%). The management practices stringent risk management and prudent provisioning policy. The coverage ratio is much higher compared with banks. We believe that its high coverage ratio is justified as consumer financing is unsecured in nature with no collateral.
- RCE is trading at PBR 0.8x FY20F, which is below its 3-year average PBR 1.1x. Currently the banks are, on average, trading at around 1.2-1.4x PBR. We think the valuation is attractive considering that it is trading below its 3-year average PBR and at a discount to the banks. Our TP of RM1.98 (based on GGM) implies a PBR of 1.1x. In addition, RCE offers generous dividend payout with an implied 6-7% yield at current price. Maintain Buy.

Table 1: Quarterly trends

| Year to 31 March | Jun-18 | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 | % chg | | Cumulative | | | KAF | |
|------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|------------|------------|------------|------------|------------|------------|------------|
| RM m | 1Q19 | 2Q19 | 3Q19 | 4Q19 | 1Q20 | 2Q20 | qoq | yoy | 6M19 | 6M20 | % chg | 2020F | 6M/F |
| Interest and fee income | 63 | 65 | 67 | 67 | 67 | 70 | 5% | 8% | 128 | 137 | 7% | 276 | 50% |
| Interest expense | (19) | (19) | (20) | -20 | (20) | (20) | -1% | 4% | (38) | (41) | 7% | (85) | 48% |
| Net interest and fee income | 45 | 46 | 47 | 47 | 47 | 50 | 7% | 10% | 90 | 97 | 7% | 190 | 51% |
| Non-interest income | 4 | 4 | 4 | 4 | 5 | 5 | 7% | 34% | 8 | 10 | 33% | 16 | 62% |
| Operating income | 48 | 49 | 51 | 51 | 51 | 55 | 7% | 11% | 98 | 107 | 9% | 207 | 52% |
| Operating expenses | (11) | (11) | (12) | (12) | (14) | (13) | -7% | 17% | (22) | (26) | 21% | (47) | 56% |
| Underlying profit | 37 | 39 | 39 | 39 | 38 | 42 | 12% | 10% | 76 | 80 | 6% | 160 | 50% |
| Provisions | (6) | (7) | (4) | (6) | (5) | (6) | 25% | -23% | (14) | (10) | -26% | (25) | 41% |
| Exceptional | 0 | 0 | 0 | 0 | 0 | 0 | nm | nm | 0 | 0 | na | na | na |
| Pre-tax profit | 31 | 31 | 35 | 33 | 33 | 37 | 11% | 18% | 62 | 70 | 12% | 135 | 52% |
| Taxation | (8) | (8) | (10) | (10) | (9) | (10) | 5% | 23% | (16) | (19) | 20% | (37) | 51% |
| Net profit | 23 | 23 | 25 | 24 | 24 | 27 | 13% | 16% | 47 | 51 | 10% | 98 | 52% |

Source: Company, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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