Malaysia Initiating Coverage

10 January 2020

Financial Services | Non-Bank Financial Institutions

RCE Capital (RCE MK)

Buy

Attractive Valuation With Steady Growth; BUY

Target Price (Return)	MYR2.10 (+26%)
Price:	MYR1.67
Market Cap:	USD138m
Avg Daily Turnover (MYR/USD)	0.65m/0.16m

- **Initiate coverage with a BUY and MYR2.10 TP, 26% upside plus 6% yield.** RCE Capital primarily engages in providing general financing services to civil servants. We forecast net earnings to grow 8.7% and 5.5% in FY20-21 (Mar) on a healthy expansion in receivables. Better borrower profiles should improve asset quality, although receivables growth may moderate. The current 0.8x FY21F P/BV against >15% ROE is at an unjustified discount to that of peers.
- **Measured growth, with asset quality prioritised.** We expect RCE's gross receivables growth to moderate to c.5% for FY20-21F from the 5-year CAGR of 10.5% seen during FY14-19, due to a shift in strategic focus. Customers with better quality are now preferred, and management does not intend to pursue high growth at the expense of asset quality.
- **MYR2bn *sukuk* programme to improve funding cost.** RCE has established a MYR2bn asset-backed securities (ABS) *sukuk* programme via a special purpose vehicle, Zamarad Asset. Three tranches totalling MYR501m have been issued so far, with a 4.67% weighted average profit rate. Compared with FY19's cost of funds of c.5.4%, we think this programme should help improve RCE's overall funding costs and mitigate potential falls in lending yields.
- **Unique salary deduction scheme to safeguard collection.** The group has a claim priority over other financial institutions on borrowers' cash flows. This is via monthly salary deductions, which should better safeguard collection rates and result in gradual improvements in credit costs.
- **Stable NPL ratio with comfortable provisions.** RCE's NPL ratio has been stable at c.4.1-4.4% in FY17-19, improving from a high 14-15% in FY12-13. LLC remains comfortable as well, staying above 170% during the same period. We do not expect either ratios to significantly deteriorate, given such proactive asset management.
- **Earnings and TP.** We project RCE's net earnings to grow 8.7% and 5.5% in FY20-21, largely lifted by healthy expansions in gross receivables and fairly steady credit cost assumptions. Our MYR2.10 TP is based on GGM-derived 1.03x FY21F P/BV, which is approximately +1SD from its historical mean.
- **Key risks.** High indebtedness levels are especially prevalent among civil servants. RCE's receivables growth may be capped, given the lower headroom for leveraging. Notwithstanding this, the regulators are working to legislate the Consumer Protection Act, with the main purpose of promoting a prudent and responsible lending culture. Details are sparse at the moment, but we do not rule out the possible regulatory risks from this initiative.

Analysts

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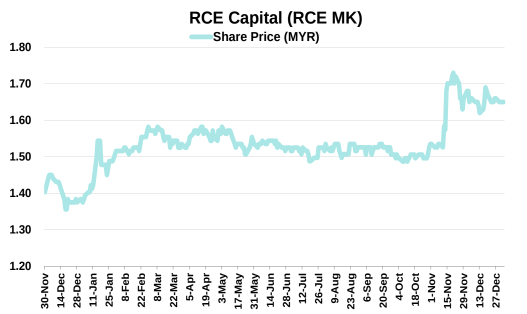
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.0	(1.8)	7.1	2.5	12.2
Relative	5.9	(2.9)	7.8	3.2	18.4
52-wk Price low/high (MYR)					1.44 - 1.81



Source: Bloomberg

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Forecasts and Valuation	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
Reported net profit (MYRm)	88.7	95.5	103.8	109.5	114.7
Net profit growth (%)	12.3	7.7	8.7	5.5	4.7
Recurring net profit (MYRm)	88.7	95.5	103.8	109.5	114.7
Recurring EPS (MYR)	0.26	0.28	0.30	0.32	0.33
BVPS (MYR)	1.46	1.61	1.82	2.06	2.31
DPS (MYR)	0.07	0.09	0.10	0.11	0.11
Recurring P/E (x)	6.3	5.9	5.5	5.2	5.0
P/B (x)	1.13	1.02	0.91	0.80	0.71
Dividend Yield (%)	4.2	5.5	6.1	6.4	6.7
Return on average equity (%)	18.5	17.3	16.6	15.4	14.4
Return on average assets (%)	4.98	4.68	4.54	4.39	4.13

Source: Company data, RHB

Financial Exhibits

Asia
Malaysia
Financial services
RCE Capital
RCE MK

Valuation basis

Our GGM assumptions include:
i. COE of 10.1%;
ii. ROE of 8.2%;
iii. 2% long-term growth.

Key drivers

Our FY20 forecasts are most sensitive to changes in:
i. Financing margins;
ii. Impairment allowances;
iii. Growth in receivables.

Key risks

The downside risks include:
i. Higher credit costs;
ii. Weaker net financing margins;
iii. Weaker growth in receivables.

Company Profile

RCE provides general financing services to civil servants – repayments are done via direct salary deductions through Biro Perkhidmatan Angkasa and the Accountant General's Department of Malaysia. Its wholly-owned EXP Payment unit offers payroll collection management services for government departments under the purview of the Accountant General's Department.

Financial summary	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
EPS (MYR)	0.26	0.28	0.30	0.32	0.33
Core EPS (MYR)	0.26	0.28	0.30	0.32	0.33
DPS (MYR)	0.07	0.09	0.10	0.11	0.11
BVPS (MYR)	1.46	1.61	1.82	2.06	2.31

Valuation metrics	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
Recurring P/E (x)	6.3	5.9	5.5	5.2	5.0
P/B (x)	1.13	1.02	0.91	0.80	0.71
Dividend yield (%)	4.2	5.5	6.1	6.4	6.7

Balance sheet (MYRm)	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
Gross loans & advances	1,643	1,729	1,817	1,907	1,996
Loan impairment allowances	(119)	(130)	(137)	(144)	(151)
Net loans & advances	1,525	1,599	1,681	1,763	1,845
Total assets	1,859	2,226	2,347	2,642	2,913
Deposits from customers	1,298	1,605	1,641	1,853	2,037
Total liabilities	1,340	1,643	1,681	1,889	2,069
Shareholders' funds	519	584	666	754	844
Total equity	519	584	666	754	844

Income statement (MYRm)	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
Net interest income	144	156	173	183	190
Non-interest income	40	39	40	42	44
Operating income	184	195	213	225	235
Overhead expenses	(41)	(45)	(51)	(54)	(56)
Pre-provision operating profit	142	150	162	171	179
Loan impairment allowances	(25)	(18)	(20)	(21)	(21)
Other impairment allowances	0	0	0	0	0
Pretax profit	117	131	142	150	157
Reported net profit	89	96	104	110	115
Recurring net profit	89	96	104	110	115

Profitability	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
ROA (%)	4.98	4.68	4.54	4.39	4.13
ROE (%)	18.5	17.3	16.6	15.4	14.4
Yield on IEAs (%)	12.93	12.26	0.12	0.12	0.12
Cost of funds (%)	5.52	5.38	0.05	0.05	0.05
Net interest margin (%)	8.73	8.18	8.10	8.06	7.91
Non-II / Total income (%)	21.5	19.8	18.8	18.8	18.9
CIR (%)	22.5	23.2	23.9	24.0	23.8
Credit cost (bps)	158	110	113	113	110
PIOP growth (%)	15.2	5.0	8.6	5.4	4.4
Net profit growth (%)	12.3	7.7	8.7	5.5	4.7

Asset quality	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
Gross impaired loans/Gross loans (%)	7.1	7.4	7.5	7.5	7.6
Loan loss coverage ratio (%)	178	172	167	177	178
NPL formation (bps)	4.1	4.4	4.5	4.7	4.6

Liquidity	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
Loan growth (%)	8.0	5.2	5.1	4.9	4.7
Customer deposits growth (%)	7.0	23.6	2.3	12.9	9.9
LDR (%)	126.6	107.7	110.7	102.9	98.0
NPL formation	2.1	1.9	1.7	1.7	1.7

Source: Company data, RHB

Valuation And Recommendation

We initiate coverage on RCE with a BUY and TP of MYR2.10, 26% upside plus 6% yield. Our GGM-derived P/BV values RCE at 1.03x FY21 P/BV – approximately +1SD above its historical mean – against a projected FY20F-22F average ROE of 15.5%. The company currently trades at 0.8x FY21F P/BV.

Despite the share price rising 8% post 2QFY20 results, its current valuation remains attractive, as it is still trading at below its book valuation.

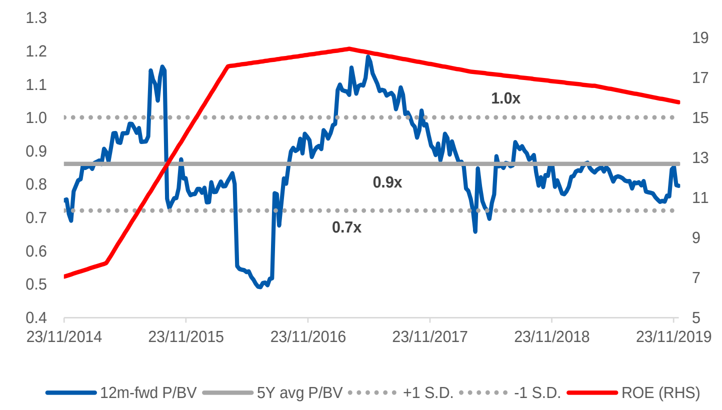
In comparison with its indirect peers – AEON Credit Services (M) (ACSM MK, NEUTRAL, TP: MYR14.20) and ELK-Desa (ELK MK; NR), which are trading at FY21F P/BVs of 1.9x and 1.1x – RCE is trading at a hefty 27-50% discount. Granted that both ACSM and ELK have a better growth outlook, based on Street estimates, we believe such hefty valuation discounts between RCE and its peers are unjustified. In addition, the group's yields are also more attractive than ACSM's and ELK's.

Figure 1: GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	14.5
Risk free rate (%)	3.4	COE (%)	14.1
Equity premium (%)	6.5	Long-term growth (g)	1.00
Beta (x)	1.65	Implied P/BV (x)	1.03
Cost of equity - CAPM (%)	14.1	BVPS – FY21F	MYR 2.06
		TP	MYR 2.12
		TP (rounded)	**MYR 2.10**

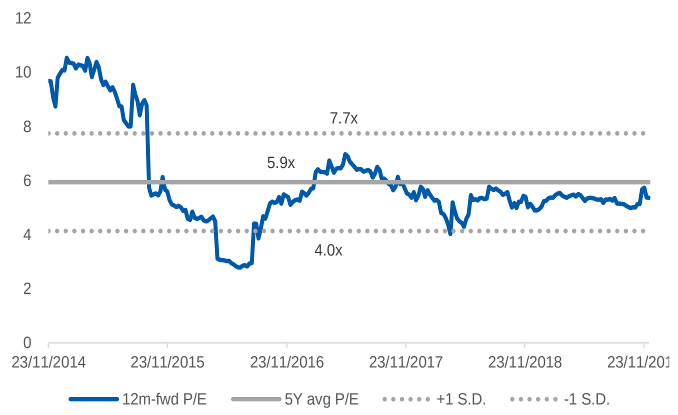
Source: Company data, RHB

Figure 2: RCE's 12-month forward P/BV



Source: Bloomberg, RHB

Figure 3: RCE's 12-month forward P/E



Source: Bloomberg, RHB

Figure 4: Peer comparison

Company	Ticker	Price (MYR)	Market cap (MYR)	P/E FY21F	P/BV FY21F	Yield (%) FY21F	ROE (%) FY21F
RCE Capital	RCE MK	1.65	575	5.4	0.8	5.9	15.3
AEON Credit	ACSM MK	14.68	3,723	10.7	1.9	3.1	18.5
ELK-Desa*	ELK MK	1.66	493	10.4	1.1	5.3	10.3

Note: RCE and ELK's FYE is March, which ACSM's is February
*Note 2: *Based on consensus estimates*
Source: Bloomberg, RHB

Investment Thesis

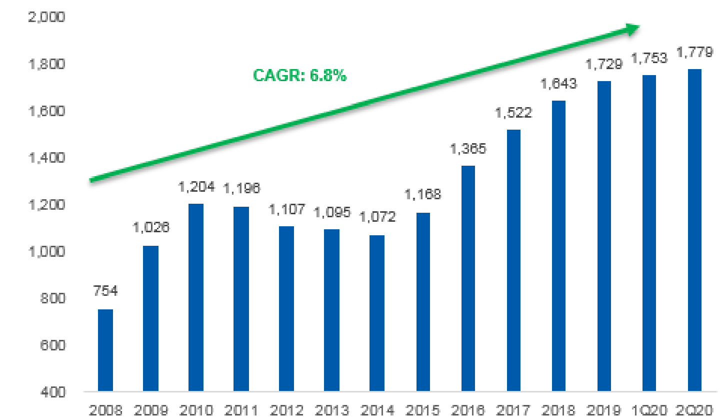
Measured receivables growth with customer quality prioritised

RCE has recorded a respectable 5-year CAGR of 10.5% in receivables during FY14-19. However, we believe the receivables growth will likely moderate in the coming years and track the banking system's loan growth. The group saw a 2.9% YoY expansion in 1HFY20 receivables (annualised: 5.7% YoY) – a notable moderation. Nonetheless, its growth outpaced the banking system's. We project its receivables to expand 5% pa for FY20-21.

We believe the slower growth pace does not reflect any dwindling in financing demand, but the result of RCE's strategic decision. This is because management has deliberately shifted its focus to enhance asset quality – ie being more selective in providing financing facilities – from pursuing high growth while maintaining a sustainable growth trajectory.

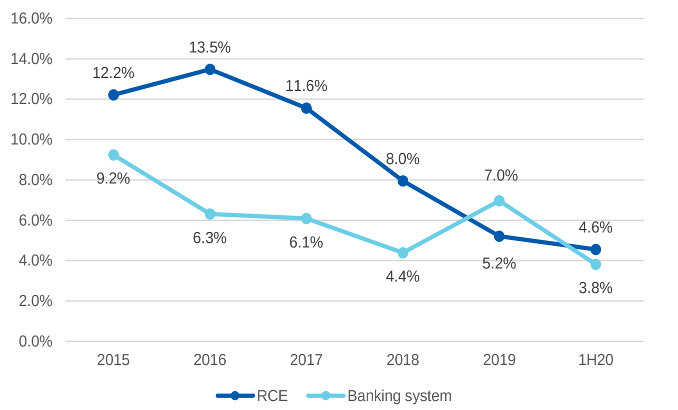
Conversely, asset yields may trend lower, given the less-risky customer profiles. However, as a result of this, its bottomline could be bolstered by lower credit costs.

Figure 5: RCE's growth in outstanding receivables



Source: Company data, RHB

Figure 6: RCE's annual growth vs system loan growth



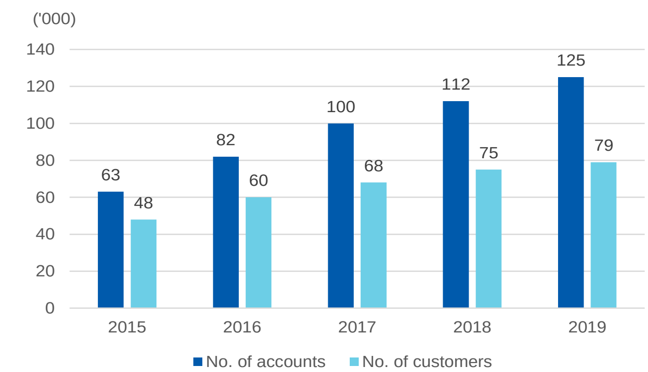
Source: Company data, RHB

Sustainable expansion in customer base with short turnaround time

RCE's receivables growth has, in the past, been supported mainly by an expansion in its customer base as opposed to a higher average lending amount – average disbursements have remained steady at MYR16,000-17,000. We expect such an expansion to be sustainable and forecast a c.5% increase in customer base in FY20-21. The group has approximately 81,000 customers as at end-Oct 2019 – a mere 5% of the total 1.6m civil servants in the public sector.

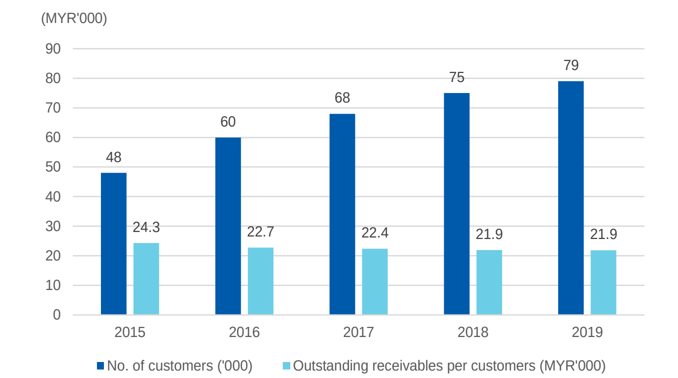
RCE relies on approximately 20 marketing representatives. In turn, these representatives have more than 100 agents working on customer acquisition. These representatives do not work exclusively for the group. As such, RCE's edge lies with its ability to provide credit assessment results and disbursements ahead of the competition. The group claims to be one of the fastest assessment and disbursement facilitators in the market – with a turnaround time of less than 48 hours – and does so by simplifying and standardising the application process.

Figure 7: RCE's growth in customer base



Source: Company data, RHB

Figure 8: RCE's customer base and average receivables



Source: Company data, RHB

Less dependent on the Overnight Policy Rate (OPR)

RCE's lending rates are less dependent on Bank Negara Malaysia's (BNM) OPR decisions. Instead, lending rates are guided by market forces and supply demand dynamics. Besides, customers of non-bank lenders are generally less sensitive to interest rates, given their small loan sizes and limited alternatives.

In fact, we believe a lower OPR should slightly benefit RCE, assuming all else being equal. An OPR cut should result in lower borrowing costs or bond yields for the group, in our view, therefore lowering its overall funding costs.

New *sukuk* programme to lower funding costs and mitigate NIMs outlook

RCE's new MYR2bn *sukuk* programme via Zamarad Asset is expected to improve overall funding costs and should mitigate the potential fall in average asset yields, in our view.

The first issuance tranche – MYR265m – was completed in Mar 2019 at a rate of 4.92%. A second MYR108m tranche was issued in Jul 2019 with a lower rate of 4.54%. The third MYR128m tranche was completed in Nov 2019 – this carried an even lower profit rate of 4.26%. All three tranches compare favourably with its FY19 average funding cost of 5.38%.

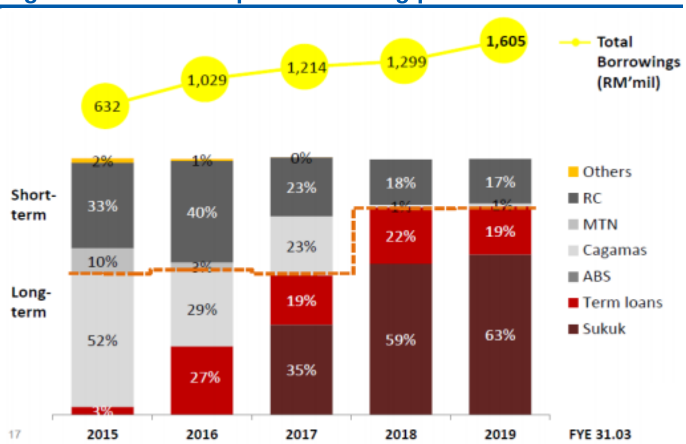
RCE is not allowed to accept customer deposits. Consequently, it relies on raising funds via the debt market to support its business expansion. Long-term funding has improved to 82% of total debt funding in FY19 (FY15: 55%). This reflects management's efforts over the past few years to improve the funding mix to better manage the liquidity risk. Based on our estimates, NIM has been fairly stable over the years at c.8%.

Figure 9: RCE – improved funding profile

Tranche	Senior (MYRm)		Sub-notes (MYRm)	Total (MYRm)	Weighted average rate (%)	Issuance date
1	Class A:	195	25	265	4.92	27/3/2019
	Class B:	45				
2	Class A:	80	8	108	4.54	26/7/2019
	Class B:	20				
3	Class A:	100	8	128	4.26	19/11/2019
	Class B:	20				
Grand total		**460**	**41**	**501**	**4.67**	

Source: Company data, RHB

Figure 10: RCE – improved funding profile



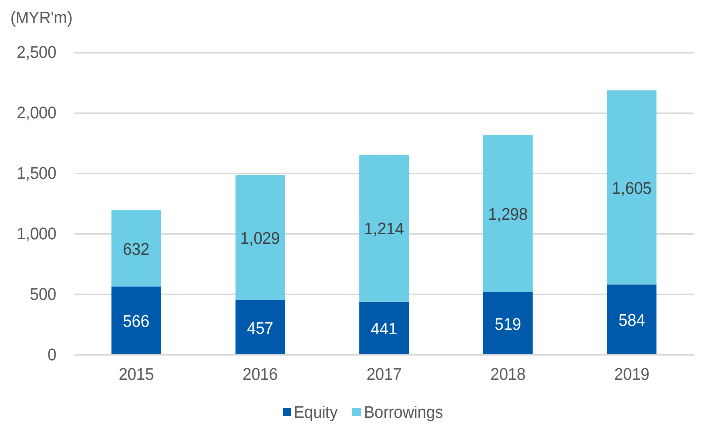
Source: Company data, RHB

Gearing ratio well-managed

Despite its total borrowings having more than doubled over five years, RCE's gearing level is still within a comfortable 1.77x – far below that of its peers (Figure 12). Even with the MYR2bn ABS *sukuk* programme in place, we do not expect gearing to reach an alarming level. The is because some of the *sukuk* will be used to replace short-term borrowings to better match RCE's lending duration.

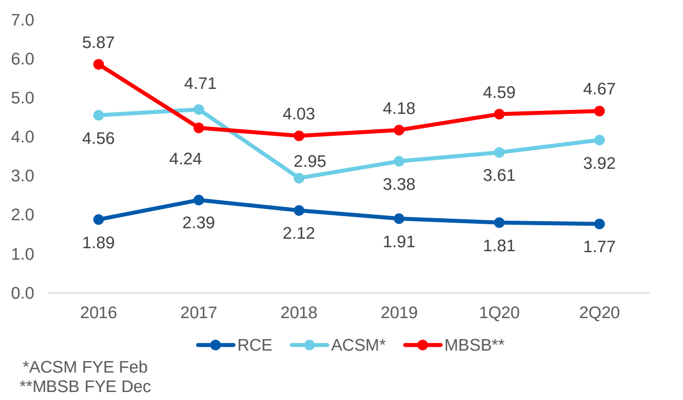
We do not see any imminent risk of an equity-raising exercise in the near future. Based on our estimates, RCE requires c.MYR500m worth of funds to support its annual business expansion. As such, the MYR2bn *sukuk* programme should be able to sustain the group's growth for the next five years or so.

Figure 11: RCE's capital structure



Source: Company data, RHB

Figure 12: RCE's gearing level vs peers'



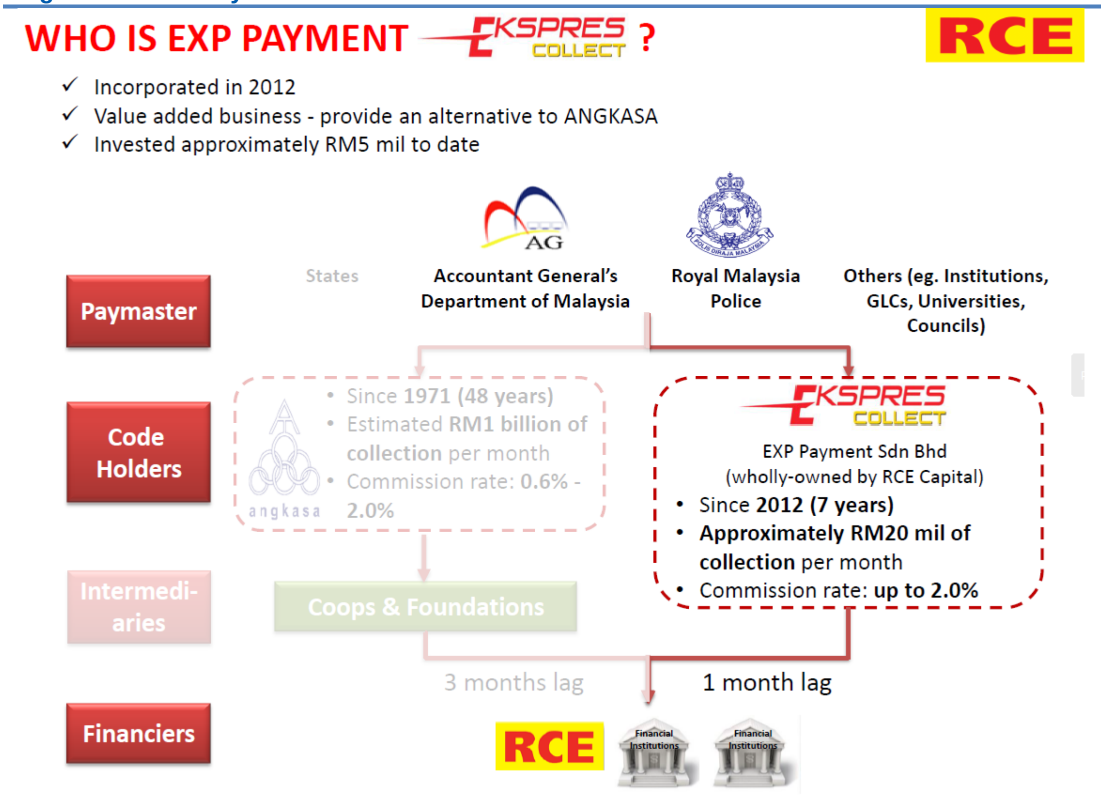
Source: Company data, RHB

Prudent credit assessment and salary deduction scheme to safeguard asset quality

To better safeguard asset quality, RCE adopts a conservative debt service ratio ceiling of 60% – excluding mortgages, credit cards, and other loans from financial institutions – in its credit assessment processes. In addition, all repayments are collected through monthly salary deductions via two main agents: Angkatan Koperasi Kebangsaan Malaysia (ANGKASA) and EXP Payment, as the group is not allowed to directly perform such deductions.

This unique repayment scheme, where lenders like RCE have a prior claim over the borrowers, should help mitigate any difficulties in debt collection. Interestingly, EXP Payment has been the group's wholly-owned subsidiary since 2014. Currently, it only collects on behalf of RCE – as an alternative to ANGKASA – but management is eyeing potential new partnerships with other lenders.

Figure 13: EXP Payment – an alternative to ANGKASA



Source: Company data, RHB

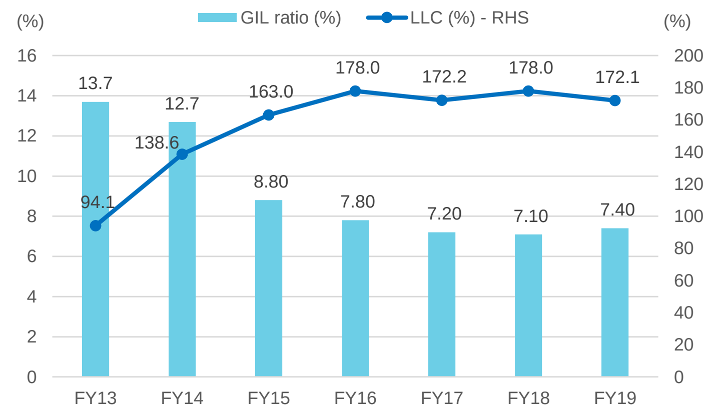
Stable asset quality with sufficient provisions

We gather that only c.25% of RCE's customers are those with monthly incomes lower than MYR3,000 – the B40 group – and exposure is even lower for new financing approved after FY13. We welcome management's efforts to improve the group's lending portfolio quality, and expect the non-B40 segment to be RCE's main source of growth going forward. In light of this, credit costs should see a gradual improvement over time.

While the salary deduction scheme does provide some degree of assurance in terms of the collection rate, some receivables do turn out to be duds. Among the most common reasons cited by management are civil servants' early retirement or prolonged absences from work.

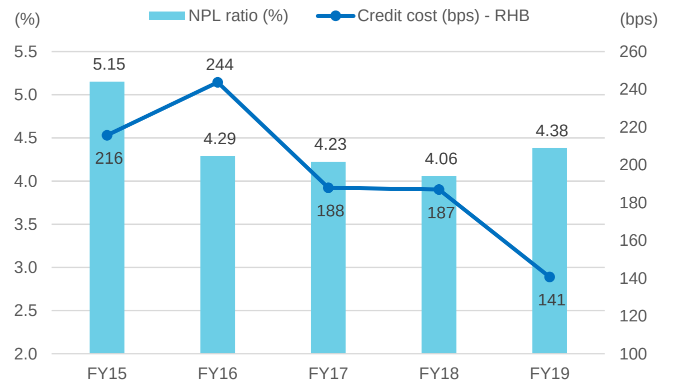
Nonetheless, RCE's asset quality has shown consistent improvement over the years – both GIL and NPL ratios have witnessed significant enhancements. With a LLC ratio of more than 170%, we believe the risks have been adequately provided for.

Figure 14: RCE – GIL vs LLC ratios



Source: Company data, RHB

Figure 15: RCE's NPL ratio vs credit costs



Source: Company data, RHB

Financial Overview

Earnings forecasts. We project RCE's net earnings to grow 8.7% and 5.5% in FY20-21, a notable moderation from the CAGR of 12.2% seen during FY17-19. This is in line with management's plan to pursue better quality clients – ie "measured" growth – as opposed to chasing growth at the expense of asset quality.

Receivable growth should remain healthy – this is projected to see a c.5% expansion in FY20-21 – driven mainly by the expansion in RCE's customer base. Average disbursements should remain steady: Approximately MYR16,000-17,000.

We conservatively pencil in mild contractions in NIMs of 7bps and 4bps for FY20F-21F, as we expect higher-quality borrowers to fetch lower borrowing rates – although the lower financing costs from the *sukuk* issuance should help mitigate further downsides.

In light of the softening macro backdrop, we assume FY20F credit costs to inch up 3bps YoY to 113bps and stay at this level in FY21. We note that this is still meaningfully lower than FY17-19's average of 140bps. Besides, the moderating financing growth should keep credit costs at bay as well – a contrast to ACSM's recent experience.

Dividend. RCE has been paying dividends consistently: In the 13-32% range during FY17-19. Dividend payout ratios have been on a steady rising trend during the past three financial years as well.

While the group does not commit to any fixed dividend policy, we gather from management that it intends to maintain payouts of 20-40% of profit after tax, subject to business conditions. We forecast its payout to be c.33% for FY20-21F, similar to levels seen in FY19.

2QFY20F results. RCE recorded PATAMI of MYR27m in 2QFY20, a 15.8% YoY increase in net earnings. The robust bottomline growth was primarily driven by 9.9% higher PIOP and 23.1% lower loan loss provisions. 2QFY20's annualised ROE stood at 17.5%, recovering from the 16.1% booked in the preceding quarter. This was due to better margins.

NII growth was a robust 12.4% YoY in 2QFY20, lifted by both higher gross receivables (+4.6% YoY) and a rebound in NIM, based on our estimates. Non-II also saw a healthy 8.4% growth on higher other revenue and other income.

However, RCE recorded negative jaws for the quarter, as opex growth predominantly outpaced income growth (54% YoY higher other expenses). Management attributed this to higher expenses in relation to the *sukuk* issuance. As a result, PIOP growth stood at 9.9% YoY, partially moderated by the higher opex.

Figure 16: Summary of RCE's 2QFY20 and 1HFY20 results

FYE Mar (MYRm)	2Q19	1Q20	2Q20	% QoQ	% YoY	YTD19	YTD20	% YoY
NII	**38.2**	**41.2**	**42.9**	*4.1*	*12.4*	**76.1**	**84.1**	*10.5*
Interest income	*57.6*	*61.6*	*63.2*	*2.6*	*9.7*	*114.0*	*124.7*	*9.4*
Interest expense	*(19.4)*	*(20.4)*	*(20.3)*	*(0.6)*	*4.3*	*(37.9)*	*(40.6)*	*7.0*
Non-II	**11.3**	**10.2**	**12.2**	*19.5*	*8.4*	**21.7**	**22.4**	*3.3*
Non-II/Total income (%)	*22.8*	*19.9*	*22.1*			*22.2*	*21.0*	
Total operating income	**49.4**	**51.4**	**55.1**	*7.2*	*11.5*	**97.8**	**106.5**	*8.9*
Overheads	(10.8)	(13.6)	(12.6)	*(7.1)*	*16.9*	(21.8)	(26.3)	*20.7*
CIR (%)	*21.9*	*26.5*	*23.0*			*22.2*	*24.6*	
PIOP	**38.6**	**37.8**	**42.5**	*12.3*	*9.9*	**76.0**	**80.3**	*5.6*
Impairment on financings	(7.4)	(4.5)	(5.7)	*25.4*	*(23.1)*	(13.7)	(10.2)	*(25.5)*
Credit cost (annualised)	*175.0*	*103.7*	*128.3*			*163.4*	*116.0*	
Operating profit	**31.3**	**33.3**	**36.8**	*10.5*	*17.7*	**62.4**	**70.1**	*12.4*
Associates & others								
Pre-tax profit	**31.3**	**33.3**	**36.8**	*10.5*	*17.7*	**62.4**	**70.1**	*12.4*
Tax	(7.8)	(9.2)	(9.6)			(15.7)	(18.8)	
ETR (%)	*25.0*	*27.5*	*26.2*			*25.2*	*26.8*	
Net earnings	**23.5**	**24.1**	**27.2**	*12.6*	*15.8*	**46.7**	**51.3**	*9.9*
Other key data/ratios								
Gross financing	1,701.2	1,752.6	1,778.8	*1.5*	*4.6*			
Total borrowings	1,396.4	1,463.7	1,478.3	*1.0*	*5.9*			
Gross impaired financing	132.1	130.1	132.5	*1.8*	*0.3*			
Total assets	1,999.4	2,109.2	2,143.1	*1.6*	*7.2*			
Shareholders' funds	547.9	613.9	629.4	*2.5*	*14.9*			
ROAA	4.7%	4.5%	5.1%			4.8%	4.7%	
ROAE	17.4%	16.1%	17.5%			17.5%	16.9%	
GIL ratio	7.8%	7.4%	7.5%					

Source: Company data, RHB

Key Risks

High debt levels among civil servants may cap growth

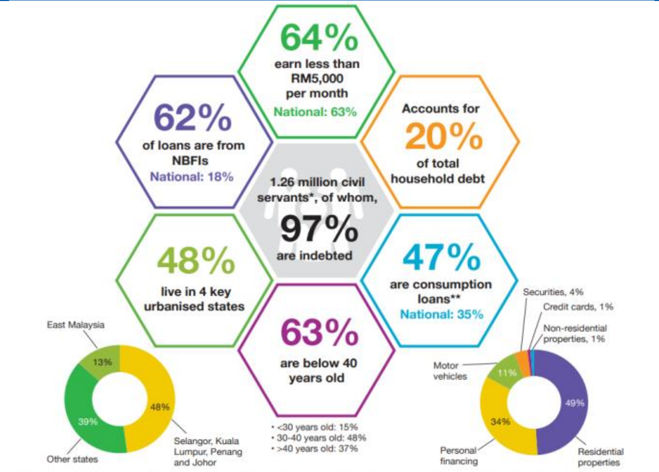
We believe RCE's expansion pace may be capped by the high indebtedness levels among the country's civil servants. Growth in gross receivables should taper off from the teens to high-single digits moving forward. Having said that, we take comfort in management's decision to go after better-quality customers, rather than growing at the expense of asset quality.

According to a BNM study – which covered 1.26m civil servants out of the 1.6m in total – total outstanding civil servant debt stood at MYR236bn, equivalent to c.20% of Malaysia's total household debt as at Feb 2018. Around 97% of all civil servants have some form of borrowings and almost half of such borrowings are for consumption purposes: Personal financing, motor vehicles, credit cards, etc. Non-bank financial institutions (NBFIs) account for 62% of all loans to civil servants, significantly higher than the national average of 18%.

The central bank has raised concerns over this high indebtedness level among the civil service, where the latter spend more than half of their monthly incomes on debt repayments. However, the same study reveals that the asset quality of civil servants' borrowings have remained sound, with an aggregate impairment ratio of 1.3%. This is lower than the ratio for overall households (1.6%), given that a significant portion of the monthly repayments are deducted via automatic salary deduction facilities.

We believe RCE is able to mitigate this risk via the salary deduction scheme, as well as its focus on attracting customers with better risk profiles.

Figure 17: Civil servants' indebtedness profile

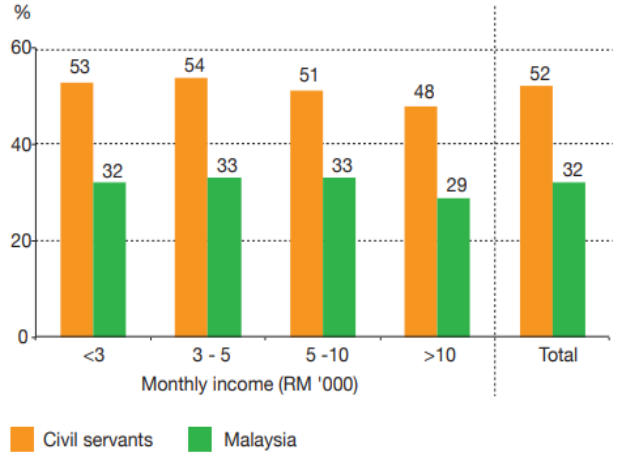


* This study covers 1.26 million out of 1.6 million civil servants. This comprises permanent Federal Government employees and police only (excluding army, State Governments, statutory bodies and local authorities)
** Personal financing, motor vehicles, credit cards and others

Source: Accountant General's Department of Malaysia and Bank Negara Malaysia

Source: Bank Negara Malaysia (BNM), RHB

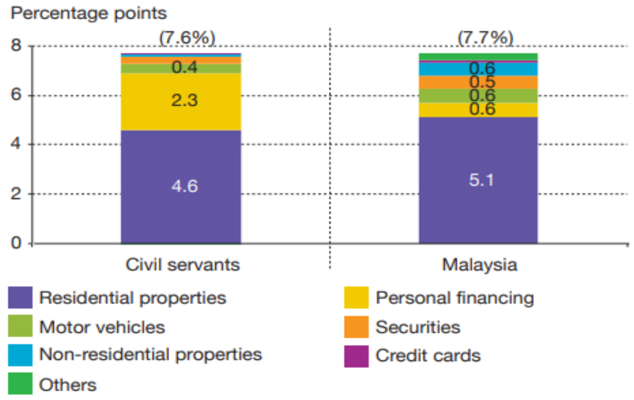
Figure 18: Debt service ratio



Source: Accountant General's Department of Malaysia and Bank Negara Malaysia

Source: BNM, RHB

Figure 19: Civil servants' debt growth contributors

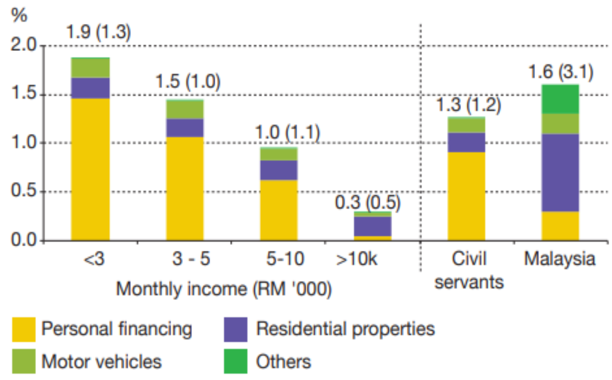


Note: (..%) denotes the CAGR 2012-2018

Source: Accountant General's Department of Malaysia and Bank Negara Malaysia

Source: BNM, RHB

Figure 20: Impairment ratio analysis



Note: (...) denotes impairment ratio in 2012

Source: Accountant General's Department of Malaysia and Bank Negara Malaysia

Source: BNM, RHB

Consumer Protection Act

BNM is working with a number of ministries to expedite legislation of the Consumer Protection Act (CCA), with the aim of:

i. Promoting a prudent and responsible credit culture;

ii. Strengthening the protection of consumers in dealing with credit providers;

iii. Promoting a coordinated and coherent regulatory and oversight framework for consumer credit activities.

Currently, RCE does not directly fall under the jurisdiction of the central bank. The money lending license held was granted by the Ministry of Housing & Local Government under the Moneylenders Act 1951. The enactment of the CCA will likely mean greater regulation on the group's lending activities, in our view.

Based on our conversations with several NBFIs, we believe the new legislation will likely be a "qualitative" approach towards achieving the abovementioned goals rather than a "quantitative" one, eg capping the lending rate, etc. Any hard limits imposed on the lending capacity should be detrimental to the NBFIs. It could also potentially backfire, with civil servants possibly finding it harder to obtain necessary financing.

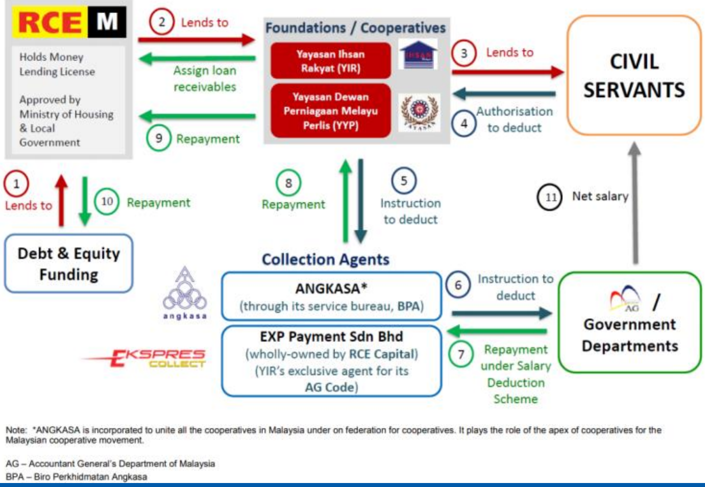
Company Overview

Business overview

Incorporated in 1953 and listed on Bursa Malaysia's Second Board in 1994 – the counter was subsequently transferred to the Main Market in 2003 – RCE took on its current form following the acquisition of an 87.5% equity stake in RCE Marketing (RCEM) in 2003. The latter move allowed the group to venture into the consumer financing space. Since then, RCEM has been RCE's main business contributor, accounting for c.97% of its topline.

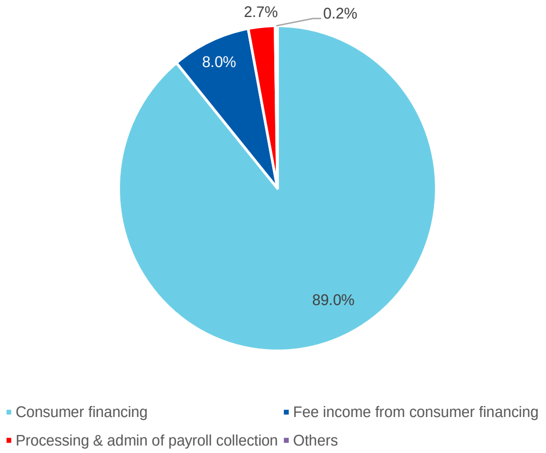
The group is engaged in a money-lending business by providing consumer financing – this is mainly to civil servants. Repayments are done via a salary deduction scheme, whereby instalment payments are deducted directly from the salaries of the participating employees on a monthly basis.

Figure 21: RCE's business model



Source: BNM, RHB

Figure 22: RCE's revenue breakdown



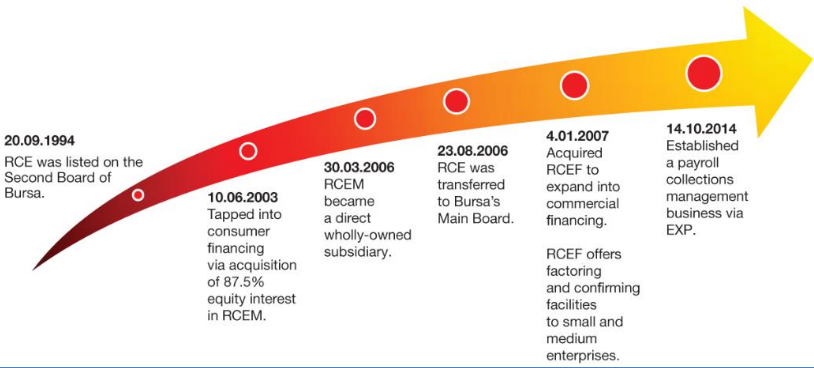
Source: BNM, RHB

In 2007, RCE acquired RCE Factoring (RCEF), which offers factoring and confirming facilities to small & medium enterprises. In 2014, the group established a payroll collections management business through the incorporation of EXP Payment.

Depending on the dataset used, we estimate that RCE commands a 2-5% market share in the civil servant lending space. As at end Sep 2019, the group has approximately 81,000 customers. This represents c.5% of the total number of civil servants in Malaysia (c.1.6m).

Alternatively, according to a study conducted by BNM in 2018, as at end Feb 2018, the total civil servant outstanding debt stood at MYR236bn – of which 34% of such debt comprised personal financing loans. Comparing this to RCE, as at end-Mar 2018, the group's total outstanding loans stood at c.MYR1.64bn, which translates into a c.2% market share.

Figure 23: RCE's key milestones



Source: Company data, RHB

Key management personnel

RCE is a 60.7%-owned subsidiary of Amcorp Group, which – in turn – is wholly owned by Malaysian investor Tan Sri Azman Hashim. Shahman Azman has been the group's Non-Independent Non-Executive Chairman since Apr 2015, while Shalina Azman was appointed to the board in Jan 2000. Both Shahman and Shalina are Tan Sri Azman's children.

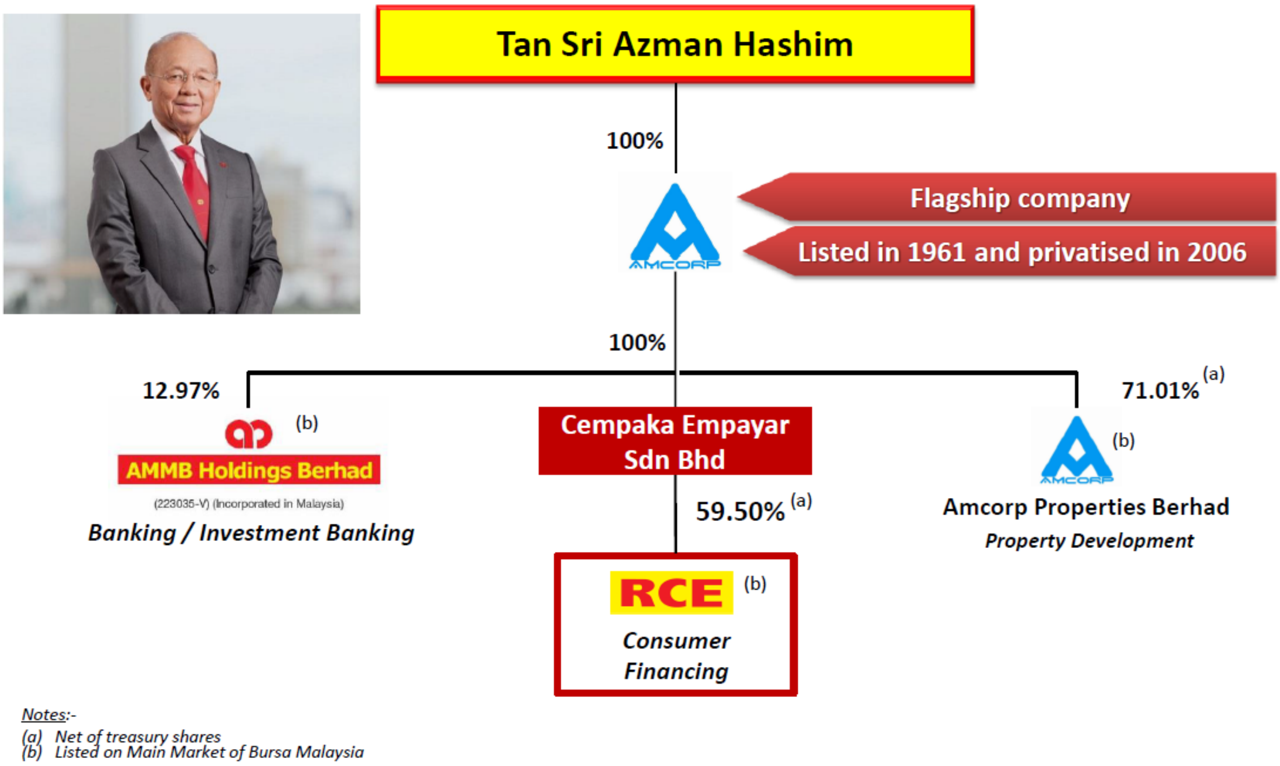
The group is run by a team of seasoned professionals:

Loh Kam Chuin, CEO. Loh was appointed to this role in 2006. Prior to this, he was a Director with RCEM, a wholly-owned subsidiary of RCE. Loh holds a Bachelor of Business in Banking & Finance from the University of South Australia.

Johnson Yap Choon Seng, CFO and company secretary. Yap was appointed as CFO in Feb 2003 and has been the company secretary since Feb 2005. He has over 28 years of financial reporting, corporate finance, and company secretarial experience. Yap is also a Fellow of the Association of Certified Chartered Accounts.

Oon Hooi Kee, CBO. Oon joined RCE in Sep 2006 and has since held various positions within the group prior to her current appointment as CBO. She is a Fellow of the Certified Practising Accountant, Australia.

Figure 24: RCE's corporate structure



Source: Company data, RHB

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