

19 August 2020

Financial Services | Banks

RCE Capital (RCE MK)

Buy (Maintained)

Returning To Normalcy; Stay BUY

Target Price (Return): MYR2.50 (+28%)
 Price: MYR1.95
 Market Cap: USD166m
 Avg Daily Turnover (MYR/USD) 0.96m/0.23m

- **Keep BUY and TP of MYR2.50, 28% upside and c.6% yield.** 1QFY21 (Mar) results were broadly in line. Operations were slightly affected by the Movement Control Order (MCO) but we deemed it as a one-off. Further macroeconomic variables (MEV)-related provisions (MYR2.6m) were made as well. Sequential improvements should be the focus as its business activities were mostly back to pre-COVID levels. We believe RCE Capital's pure civil servant exposure continues to provide resilience while its unique salary-deduction scheme safeguards asset quality.

- **1QFY21 (Mar) results were broadly in line** (20% of our and consensus estimates). 1QFY21 net profit was MYR22.8m (-5.4% YoY, -19% QoQ) while ROE slipped to 13.8% (FY20: 17.6%). PIOP fell 18% QoQ on weaker topline – NII declined 12% QoQ while non-II was down 9% QoQ. Opex spending remained disciplined (+2% QoQ). Impairment allowance was 13% QoQ lower at MYR7.16m, albeit, still 59% higher YoY on additional charges in MEV in its expected credit loss (ECL) model – annualised credit cost stood at 146bps (4QFY20: 181bps).

- **Other key highlights.** The weaker topline was due to the MCO where RCE's operations were slightly affected – lower financing disbursement and restricted mobility resulted in lower fee income and early settlement profit income. Gross financing also shrank 1.8% QoQ due to lower disbursement. Separately, the company booked in an additional MYR2.6m MEV provisions due to the downward revision in GDP outlook (MYR2.3m MEV provisions booked in 4QFY20 for the same reason). That said, provisions would still have been 23% QoQ lower on a business-as-usual basis. Overall asset quality remained sound with GIL ratio at 4.4% (within historical range). Pending management clarification, we do not rule out the possibility of further MEV provisions in the coming quarter should macroeconomic conditions deteriorate. However, we take comfort from management's prudent stance – also, the MEV provisions are not reflective of underlying asset quality.

- **Returning to normalcy.** We gather that overall business activities are mostly back to pre-COVID levels and expect RCE to register better sequential performance. We are of the view that 1QFY21 topline weakness was non-recurring as disbursement picked up and MCO eased. Gross financing should resume growth as well. Provisions remain the wild card but we expect full-year gross credit cost to be within our revised forecasts of 160bps (previous: 150bps).

- **Earnings and TP.** We fine-tune our FY21F-23F earnings by 1-3% mainly to factor in the one-off topline weakness, slightly slower financing growth and minor bump-up in gross credit cost. We leave the TP unchanged as our earnings revisions were not significant.

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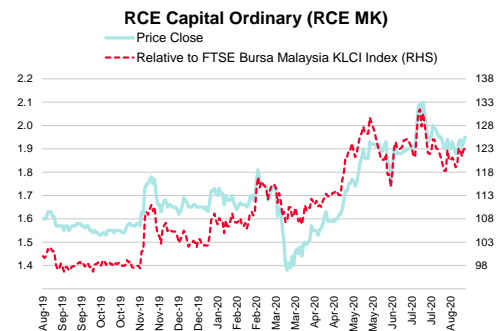


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	18.2	0.0	8.3	15.4	21.9
Relative	18.9	1.2	(3.6)	12.7	23.2
52-wk Price low/high (MYR)	1.38 – 2.10				



Source: Bloomberg

Forecasts and Valuation	Mar-18	Mar-19	Mar-20	Mar-21F	Mar-22F
Reported net profit (MYRm)	89	96	111	110	119
Net profit growth (%)	12.3	7.7	15.8	(0.2)	7.9
Recurring net profit (MYRm)	89	96	111	110	119
Recurring EPS (MYR)	0.26	0.28	0.32	0.32	0.34
BVPS (MYR)	1.52	1.71	1.94	2.17	2.43
DPS (MYR)	0.07	0.09	0.11	0.11	0.12
Recurring P/E (x)	7.49	6.96	6.13	6.19	5.74
P/B (x)	1.28	1.14	1.01	0.90	0.80
Dividend Yield (%)	3.6	4.6	5.6	5.6	5.9
Return on average equity (%)	18.5	17.3	17.6	15.4	14.8

Source: Company data, RHB

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

Financial Exhibits

Asia	Financial summary (MYR)	Mar-18	Mar-19	Mar-20	Mar-21F	Mar-22F
Malaysia	EPS	0.26	0.28	0.32	0.32	0.34
Financial Services	Recurring EPS	0.26	0.28	0.32	0.32	0.34
RCE Capital	DPS	0.07	0.09	0.11	0.11	0.12
RCE MK	BVPS	1.52	1.71	1.94	2.17	2.43
Buy						
	Valuation metrics	Mar-18	Mar-19	Mar-20	Mar-21F	Mar-22F
	Recurring P/E (x)	7.49	6.96	6.13	6.19	5.74
	P/B (x)	1.3	1.1	1.0	0.9	0.8
	Dividend Yield (%)	3.6	4.6	5.6	5.6	5.9
	Income statement (MYRm)	Mar-18	Mar-19	Mar-20	Mar-21F	Mar-22F
	Interest income	214	234	257	268	279
	Interest expense	(69)	(78)	(82)	(87)	(91)
	Net interest income	144	156	175	181	188
	Non interest income	40	39	46	48	49
	Total operating income	184	195	221	229	238
	Overheads	(41)	(45)	(49)	(53)	(55)
	Pre-provision operating profit	142	150	172	176	183
	Loan impairment allowances	(25)	(18)	(23)	(27)	(23)
	Pre-tax profit	117	131	149	149	160
	Taxation	(29)	(36)	(38)	(38)	(41)
	Reported net profit	89	96	111	110	119
	Recurring net profit	89	96	111	110	119
	Profitability ratios	Mar-18	Mar-19	Mar-20	Mar-21F	Mar-22F
	Return on average assets (%)	5.0	4.7	4.7	4.3	4.3
	Return on average equity (%)	18.5	17.3	17.6	15.4	14.8
	Return on IEAs (%)	12.2	12.2	12.2	11.9	11.8
	Cost of funds (%)	5.5	5.4	4.9	4.8	4.8
	Net interest spread (%)	6.7	6.9	7.3	7.1	7.1
	Net interest margin (%)	8.3	8.2	8.3	8.1	8.0
	Non-interest income / total income (%)	21.5	19.8	20.9	20.9	20.8
	Cost to income ratio (%)	22.5	23.2	22.2	23.2	23.1
	Credit cost (bps)	158	110	130	149	119
	Balance sheet (MYRm)	Mar-18	Mar-19	Mar-20	Mar-21F	Mar-22F
	Total gross loans	1,643	1,729	1,820	1,866	1,965
	Other interest earning assets	173	279	364	444	438
	Total gross IEAs	1,817	2,009	2,184	2,309	2,403
	Total provisions	(119)	(130)	(130)	(142)	(151)
	Net loans to customers	1,525	1,599	1,690	1,724	1,814
	Total net IEAs	1,698	1,878	2,054	2,168	2,253
	Total non-IEAs	161	348	377	521	545
	Total assets	1,859	2,226	2,431	2,688	2,798
	Other interest-bearing liabilities	1,298	1,605	1,714	1,893	1,913
	Total IBLs	1,298	1,605	1,714	1,893	1,913
	Total non-IBLs	41	38	43	35	32
	Total liabilities	1,340	1,643	1,758	1,928	1,945
	Share capital	45	154	172	179	185
	Shareholders' equity	519	584	673	760	852
	Asset quality and capital	Mar-18	Mar-19	Mar-20	Mar-21F	Mar-22F
	Reported NPLs / gross cust loans (%)	4.1	4.4	4.1	4.7	4.6
	Total provisions / reported NPLs (%)	178.0	172.1	173.0	163.3	166.5

Source: Company data, RHB

Results At a Glance

Figure 1: Quarterly results summary

FYE Mar (MYRm)	1QFY20	4QFY20	1QFY21	% QoQ	% YoY	Comments
NII	41.2	45.9	40.3	(12.2)	(2.1)	
Interest income	61.6	66.8	61.4	(8.1)	(0.2)	Lower QoQ due to lower early settlement profit income
Interest expense	(20.4)	(20.9)	(21.1)	0.9	3.4	
Non-II	10.2	11.4	8.9	(21.8)	(12.6)	Lower QoQ on lower processing fee income
Non-II/Total income (%)	19.9	19.9	18.1			
Operating income	51.4	57.4	49.3	(14.1)	(4.2)	
Overheads	(13.6)	(11.3)	(11.5)	2.0	(15.3)	Opex spending remain disciplined
CIR (%)	26.5	19.7	23.4			
PIOP	37.8	46.1	37.8	(18.0)	(0.1)	
Impairment on other assets	0.0	0.0	0.0			
Impairment on financings	(4.5)	(8.2)	(7.2)	(12.8)	58.7	1QFY21: Included MYR2.6m MEV provisions. 4QFY20: Included MYR2.3m MEV provisions.
Credit cost	104	181	159			
Operating profit	33.3	37.8	30.6	(19.2)	(8.1)	
Associates & others						
Pre-tax profit	33.3	37.8	30.6	(19.2)	(8.1)	
Tax	(9.2)	(9.5)	(7.8)			
ETR (%)	27.5	25.2	25.4			
Net earnings	24.1	28.3	22.8	(19.4)	(5.4)	
Other key data and ratios						
Gross financing	1,752.6	1,820.1	1,788.2	(1.8)	2.0	Shrank QoQ on lower disbursement.
Total borrowings	1,463.7	1,714.4	1,531.2	(10.7)	4.6	
Gross impaired financing	(130.1)	(130.2)	(131.8)	1.2	1.2	
Total assets	2,109.2	2,431.0	2,269.7	(6.6)	7.6	
Shareholders' funds	613.9	673.4	680.4	1.0	10.8	
ROAA	4.5%	4.8%	3.9%			
ROAE	16.1%	17.2%	13.5%			
GIL ratio	4.4%	4.1%	4.4%			

Source: Company data, RHB

19 August 2020

Financial Services | Non-Bank Financials

Earnings revisions

We fine-tune our FY21F-23F earnings by 1-3% mainly to factor the one-off topline weakness, slightly slower financing growth and minor bump-up in gross credit cost.

Figure 2: RCE – revisions to forecasts

FYE Mar	Net profit (MYRm)			EPS (MYR)			DPS (MYR)		
	Previous	Revised	% Chg	Previous	Revised	% Chg	Previous	Revised	% Chg
2020F	113.4	110.4	-2.7%	0.32	0.32	-2.7%	0.11	0.11	0.0%
2021F	119.7	119.0	-0.5%	0.34	0.34	-0.5%	0.12	0.12	0.0%
2022F	128.5	124.9	-2.8%	0.4	0.36	-2.8%	0.12	0.12	0.0%

Source: RHB

Valuation

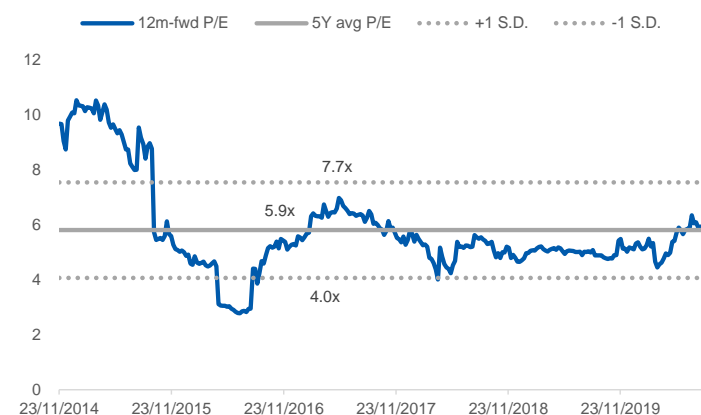
We maintained our GGM-derived TP of MYR2.50 on RCE post-1QFY21 results. Our TP values RCE at 1.0x FY22F P/BV, which is +1SD from its historical mean.

Figure 3: RCE's GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	14.7
Risk free rate (%)	2.9	COE (%)	14.4
Equity premium (%)	7.42	Long-term growth (g)	2.0
Beta (x)	1.55	Implied P/BV (x)	1.0
Cost of equity - CAPM (%)	14.4	BVPS – FY22F	MYR 2.43
		Target price	MYR 2.49
		TP (rounded)	MYR 2.50

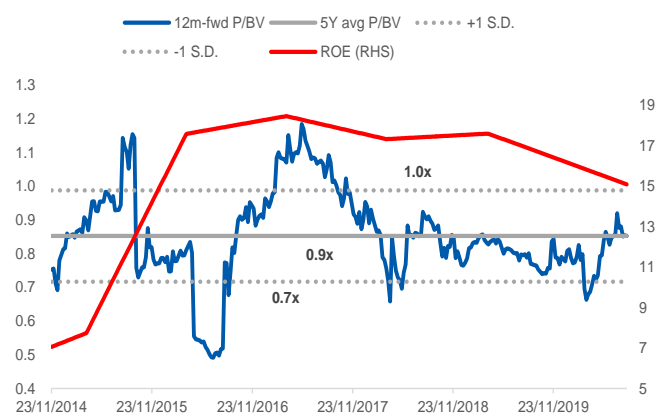
Source: Company data, RHB

Figure 4: RCE's 12-month forward P/E



Source: Bloomberg, RHB

Figure 5: RCE's 12-month forward P/BV



Source: Bloomberg, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-07-06	Buy	2.50	1.92
2020-06-16	Buy	2.20	1.81
2020-03-15	Buy	2.10	1.50
2020-02-19	Buy	2.20	1.77
2020-01-10	Buy	2.10	1.72
2019-08-16	Not Rated	na	1.60

Source: RHB, Bloomberg

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