

# RCE Capital Bhd (RCE MK)

## Record quarterly earnings?

# BUY

Share Price MYR 1.94  
 12m Price Target MYR 2.09 (+14%)  
 Previous Price Target MYR 2.09

### Maintain BUY call and MYR2.09 TP

2QFY3/21 earnings and dividends came in within our expectations. In fact, our records indicate that the 2QFY21 earnings are a record high. That said, we caution that 2QFY21 earnings could have 'played catch up' with the 1QFY21 one. Thus, we think it wise to maintain our earnings estimates and MYR2.09 TP based on target end-CY20E P/BV of 1.0x for now. To be sure, we continue to like RCE for its relatively resilient business model and high dividend yields of ~6% p.a.

### Earnings and dividends within our expectations

2QFY21 net profit of MYR33m (+22% YoY, +45% QoQ) brought 6MFY21 net profit to MYR55.8m (+9% YoY), which was within our expectations at 48% of our FY estimate. The first interim DPS of 6sen (+20% YoY) was also in-line with our expectations at 50% of our FY estimate. We gather the strong net profit growth QoQ was due to lifting of the Movement Control Order (18 Mar to 3 May 2020), which allowed many customers to refinance and be charged early settlement income.

### Maintaining our earnings estimates and TP

According to our records, the 2QFY21 net profit of MYR33m is a record high. That said, we gather the 2QFY21 net profit 'played catch up' to the 1QFY21 net profit as explained above. We gather early settlement income and other income (e.g. fee income) will normalise at lower levels going forward. Thus, we think it prudent to maintain our earnings estimates and MYR2.09 TP, which is based on target end-CY20E P/BV of 1.0x for now.

### Operating parameters healthy still

Yet, the paragraph above does not detract us from our BUY call. 2QFY21 gross financing and loans receivables grew 1% QoQ after 1QFY21 gross financing and loans receivables eased 2% QoQ. 2QFY21 credit cost as a percentage of gross financing and loans receivables remained relatively well controlled vis-à-vis our expectations at 1.3% (MKE forecast: 1.5%). Gross NPF ratio and financing & loans loss coverage ratio also remained relatively unchanged at -4% and -170% respectively.

FYE Mar (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Operating income	200	221	236	245	254
Pre-provision profit	155	172	185	192	199
Core net profit	96	111	116	121	126
Core FDEPS (MYR)	0.28	0.32	0.32	0.34	0.35
Core FDEPS growth(%)	7.6	13.5	2.2	4.2	4.1
Net DPS (MYR)	0.09	0.11	0.12	0.12	0.13
Core FD P/E (x)	5.8	4.7	6.0	5.7	5.5
P/BV (x)	1.0	0.8	0.9	0.8	0.7
Net dividend yield (%)	5.5	7.4	5.9	6.2	6.4
Book value (MYR)	1.71	1.92	2.14	2.37	2.60
ROAE (%)	17.3	17.6	16.4	15.4	14.5
ROAA (%)	4.7	4.7	4.7	4.6	4.6
Consensus net profit	-	-	110	119	126
MKE vs. Consensus (%)	-	-	5.9	1.6	0.0

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### Company Description

RCE Capital is principally involved in the provision of general financing services.

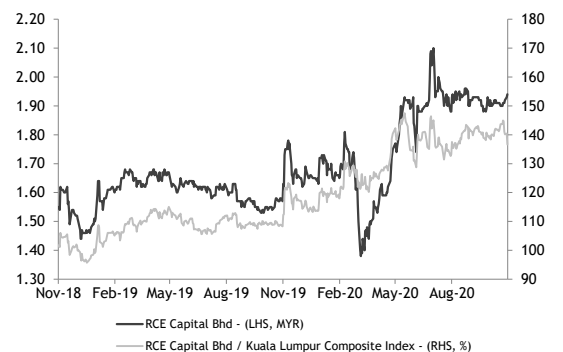
### Statistics

52w high/low (MYR)	2.10/1.38
3m avg turnover (USDm)	0.1
Free float (%)	31.4
Issued shares (m)	380
Market capitalisation	MYR737.4M USD179M

### Major shareholders:

Cempaka Empayar Sdn. Bhd.	52.1%
RCE Capital Bhd.	6.1%
Employees Provident Fund	2.3%

### Price Performance



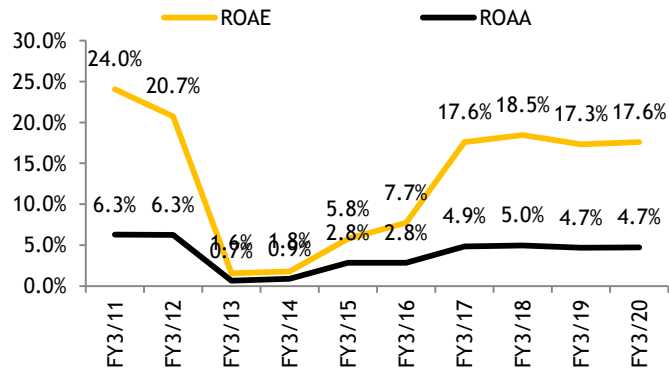
	-1M	-3M	-12M
Absolute (%)	1	3	23
Relative to index (%)	1	6	30

Source: FactSet

## Value Proposition

- RCE Capital provides personal financing, the ultimate customers being civil servants.
- With a gross financing balance of just MYR1.8b, we estimate that its market share is only 2%.
- Non-performing financing kept in check thanks to non-discretionary direct salary deductions.
- Competitive advantage lies in fast financing processing turnaround time of 48 hours.
- ROE generation surpasses that of the average for the overall banking industry.

### ROE and ROA

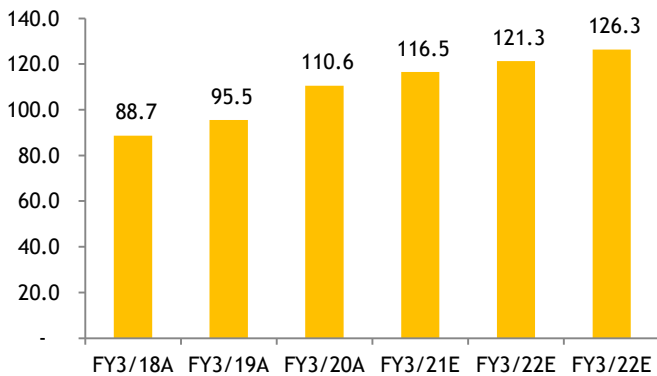


Source: Company

## Financial Metrics

- Introduced a better credit scoring model in 2013. Forecast gross financing growth of 3% p.a. over the next three years.
- Average financing yields may be peaking at 14-15% but average cost of funds is falling.
- Asset quality better than before. New financing are smaller in size (<MYR20k) and their NPF ratios are low (<2%).
- Forecast stable three-year forward core net profit CAGR of 5% p.a.
- There is room for dividends to surprise to the upside as its DPR policy is only 20-40%.

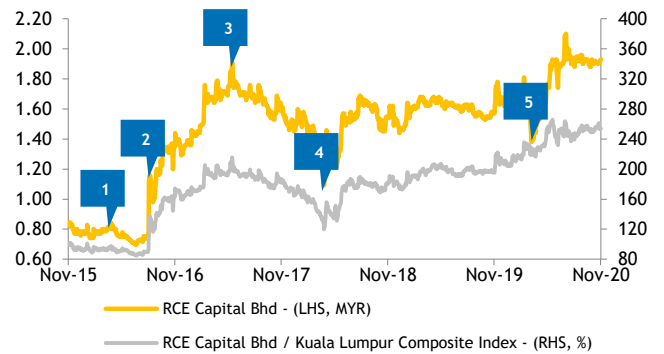
### Core net profit (MYRm)



Source: Company

## Price Drivers

### Historical share price trend



Source: Company, Maybank Kim Eng

1. Proposed capital repayment of MYR0.075/shr and 4-into-1 share consolidation.
2. 1QFY17 net profit surged 86% YoY as FY17 revenue grew 39% YoY.
3. FY17 net profit surged 98% YoY as FY17 revenue grew 38% YoY.
4. Concerns arise that the government may reduce the size of the civil service.
5. Movement Control Order lengthened time to process new customers, resulting in less financing disbursed.

## Swing Factors

### Upside

- Easing competition - competitors have been reducing their exposure to personal financing.
- Lower cost of funds - we estimate that every 25bps reduction in cost of funds will accrete 3% to earnings.
- Access to CCRIS - if RCE Capital gains access to CCRIS, it can better assess customers' total indebtedness.

### Downside

- High household debt - Household debt to GDP is elevated at >80% and may crimp customers' repayment ability.
- Need to leverage - RCE Capital cannot take deposits and thus, has to assume debt to finance its financing.
- Asset-liability duration mismatch - customers' repayment may not match RCE Capital's debt repayment.

Figure 1: Summary Results Table

FY Mar (MYRm)	2QFY3/21	2QFY3/20	% YoY	1QFY3/21	% QoQ	6MFY3/21	6MFY3/20	% YoY
Interest/profit income	70.2	63.2	11.2	61.4	14.3	131.6	124.7	5.5
Other revenue	5.7	7.0	(18.5)	3.3	73.3	9.0	12.4	(27.1)
<b>Revenue</b>	<b>75.9</b>	<b>70.2</b>	<b>8.2</b>	<b>64.7</b>	<b>17.3</b>	<b>140.6</b>	<b>137.1</b>	<b>2.6</b>
Other income	4.8	5.2	(7.1)	5.6	(14.4)	10.4	10.0	4.1
Interest/profit expense applicable to revenue	-19.6	-20.2	(3.2)	-21.0	(6.7)	-40.6	-40.6	(0.0)
Directors' remuneration and staff costs	-5.3	-5.6	(6.1)	-5.7	(7.5)	-11.0	-13.1	(16.6)
Allowances for impairment loss on receivables, net	-5.7	-5.7	0.8	-7.2	(20.4)	-12.9	-10.2	26.5
Depreciation of plant and equipment and right-of-use asset	-0.8	-0.4	82.2	-0.8	3.9	-1.6	-0.9	83.6
Other expenses	-5.1	-6.6	(22.2)	-5.1	1.6	-10.2	-12.3	(16.9)
Finance costs	-0.1	-0.0	491.7	-0.1	(2.7)	-0.1	-0.0	476.0
<b>Profit before tax</b>	<b>44.2</b>	<b>36.8</b>	<b>20.0</b>	<b>30.6</b>	<b>44.4</b>	<b>74.7</b>	<b>70.1</b>	<b>6.7</b>
Taxation	-11.2	-9.6	15.9	-7.8	43.9	-18.9	-18.8	0.7
<b>Net profit</b>	<b>33.0</b>	<b>27.2</b>	<b>21.5</b>	<b>22.8</b>	<b>44.5</b>	<b>55.8</b>	<b>51.3</b>	<b>8.9</b>
<b>FD EPS (sen)</b>	<b>9.3</b>	<b>7.8</b>	<b>18.7</b>	<b>6.5</b>	<b>42.7</b>	<b>15.7</b>	<b>14.8</b>	<b>6.4</b>
<b>Net DPS (sen)</b>	<b>6.0</b>	<b>5.0</b>	<b>20.0</b>	<b>-</b>	<b>N/M</b>	<b>6.0</b>	<b>5.0</b>	<b>20.0</b>
<b>Financing &amp; loans receivables, gross</b>	<b>1,802.2</b>	<b>1,778.8</b>	<b>1.3</b>	<b>1,788.2</b>	<b>0.8</b>	<b>1,802.2</b>	<b>1,778.8</b>	<b>1.3</b>
(Allowance for impairment)	-131.4	-132.5	(0.8)	-131.8	(0.2)	-131.4	-132.5	(0.8)
<b>Financing &amp; loans receivables, net</b>	<b>1,670.7</b>	<b>1,646.2</b>	<b>1.5</b>	<b>1,656.5</b>	<b>0.9</b>	<b>1,670.7</b>	<b>1,646.2</b>	<b>1.5</b>
	2QFY3/21	2QFY3/20	+/- ppt	1QFY3/21	+/- ppt	6MFY3/20	6MFY3/20	+/- ppt
Tax rate (%)	25.3	26.2	(0.9)	25.4	(0.1)	25.3	26.8	(1.5)
Gross NPF ratio (%)	4.2	4.4	(0.3)	4.4	(0.2)	4.2	4.4	(0.3)
Financing & loans loss coverage ratio (%)	174.6	167.7	6.9	168.5	6.1	174.6	167.7	6.9
Net gearing (%)	148.4	177.6	(29.2)	157.2	(8.8)	148.4	177.6	(29.2)

Source: Company

## Results analysis

- 2QFY21 net profit grew 22% YoY largely due to increase in early settlement income arising from higher refinancing activities by customers.
- Recall that the MCO resulted in decrease in early settlement income arising from lower refinancing activities by customers in 1QFY21.
- This is because the MCO, being a lockdown in all but name, restricted the movement of most customers.
- We gather many customers refinanced once the MCO was lifted, resulting in an increase in early settlement income in 2QFY21.
- 2QFY21 net profit surged 45% QoQ again largely due to the aforementioned and lower credit cost.

FYE 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Key Metrics</b>					
Core P/E (x)	5.8	4.7	5.8	5.6	5.4
Core FD P/E (x)	5.8	4.7	6.0	5.7	5.5
P/BV (x)	1.0	0.8	0.9	0.8	0.7
P/NTA (x)	1.0	0.8	1.0	0.9	0.8
Net dividend yield (%)	5.5	7.4	5.9	6.2	6.4
<b>INCOME STATEMENT (MYR m)</b>					
Islamic banking income	164.2	187.0	200.5	208.2	216.2
Other income	35.8	34.2	36.0	37.1	38.2
<b>Total non-interest income</b>	<b>200.0</b>	<b>221.2</b>	<b>236.5</b>	<b>245.3</b>	<b>254.4</b>
<b>Operating income</b>	<b>200.0</b>	<b>221.2</b>	<b>236.5</b>	<b>245.3</b>	<b>254.4</b>
Staff costs	(21.4)	(24.2)	(25.6)	(26.3)	(27.1)
Other operating expenses	(23.8)	(25.0)	(26.3)	(27.1)	(27.8)
<b>Operating expenses</b>	<b>(45.2)</b>	<b>(49.2)</b>	<b>(51.9)</b>	<b>(53.4)</b>	<b>(54.9)</b>
<b>Pre-provision profit</b>	<b>154.8</b>	<b>172.0</b>	<b>184.6</b>	<b>191.9</b>	<b>199.5</b>
Other allowances	(23.7)	(23.1)	(27.7)	(28.5)	(29.4)
Associates & JV income	0.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>131.1</b>	<b>148.9</b>	<b>156.9</b>	<b>163.4</b>	<b>170.1</b>
Income tax	(35.6)	(38.3)	(40.4)	(42.1)	(43.8)
<b>Reported net profit</b>	<b>95.5</b>	<b>110.6</b>	<b>116.5</b>	<b>121.3</b>	<b>126.3</b>
<b>Core net profit</b>	<b>95.5</b>	<b>110.6</b>	<b>116.5</b>	<b>121.3</b>	<b>126.3</b>
<b>BALANCE SHEET (MYR m)</b>					
Cash & deposits with banks	492.4	620.2	698.7	779.3	861.5
Sec. under resale agreements	0.0	0.0	0.0	0.0	0.0
Derivatives financial assets	0.0	0.0	0.0	0.0	0.0
Dealing securities	0.0	0.0	0.0	0.0	0.0
Available-for-sale securities	0.0	0.0	0.0	0.0	0.0
Investment securities	0.0	0.0	0.0	0.0	0.0
Financing and advances	1,602.4	1,692.9	1,740.6	1,790.9	1,844.5
Fixed assets	4.5	7.3	8.7	10.1	11.4
Intangible assets	47.3	47.3	47.3	47.3	47.3
Other assets	79.5	63.3	63.3	63.3	63.3
<b>Total assets</b>	<b>2,226.1</b>	<b>2,431.0</b>	<b>2,558.6</b>	<b>2,690.8</b>	<b>2,828.0</b>
Derivatives financial instruments	0.0	0.0	0.0	0.0	0.0
Subordinated debt	0.0	0.0	0.0	0.0	0.0
Other securities in issue	1,005.2	1,059.1	1,060.0	1,060.0	1,060.0
Other borrowings	280.8	429.1	479.3	532.0	586.4
Other liabilities	356.6	269.5	269.8	270.0	270.2
<b>Total liabilities</b>	<b>1,642.6</b>	<b>1,757.7</b>	<b>1,809.0</b>	<b>1,861.9</b>	<b>1,916.6</b>
Share capital	154.5	172.2	172.2	172.2	172.2
Reserves	429.1	501.1	577.3	656.6	739.2
Shareholders' funds	583.5	673.4	749.6	828.9	911.4
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	0.0	0.0	0.0	0.0	0.0
Total equity	583.5	673.4	749.6	828.9	911.4
<b>Total liabilities &amp; equity</b>	<b>2,226.1</b>	<b>2,431.0</b>	<b>2,558.6</b>	<b>2,690.8</b>	<b>2,828.0</b>

FYE 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Key Ratios</b>					
<b>Growth (%)</b>					
Net interest income	na	na	na	na	na
Non-interest income	6.2	10.6	6.9	3.8	3.7
Operating expenses	9.4	8.9	5.5	2.9	2.9
Pre-provision profit	5.3	11.1	7.3	4.0	3.9
Core net profit	7.7	15.8	5.3	4.2	4.1
Gross loans	5.2	5.3	3.0	3.0	3.0
Customer deposits	na	na	na	na	na
Total assets	19.8	9.2	5.2	5.2	5.1
<b>Profitability (%)</b>					
Non-int. income/Total income	100.0	100.0	100.0	100.0	100.0
Cost/income	22.6	22.2	21.9	21.8	21.6
<b>Liquidity (%)</b>					
Loans/customer deposits	na	na	na	na	na
<b>Asset quality (%)</b>					
Gross NPL	4.4	4.1	4.3	4.4	4.4
Loan loss coverage	172.1	173.0	170.1	168.4	168.4
<b>Capital adequacy (%)</b>					
CET1	na	na	na	na	na
Tier 1 capital	na	na	na	na	na
Risk-weighted capital	na	na	na	na	na
<b>Returns (%)</b>					
ROAE	17.3	17.6	16.4	15.4	14.5
ROAA	4.7	4.7	4.7	4.6	4.6
Shareholders equity/assets	26.2	27.7	29.3	30.8	32.2

Source: Company; Maybank

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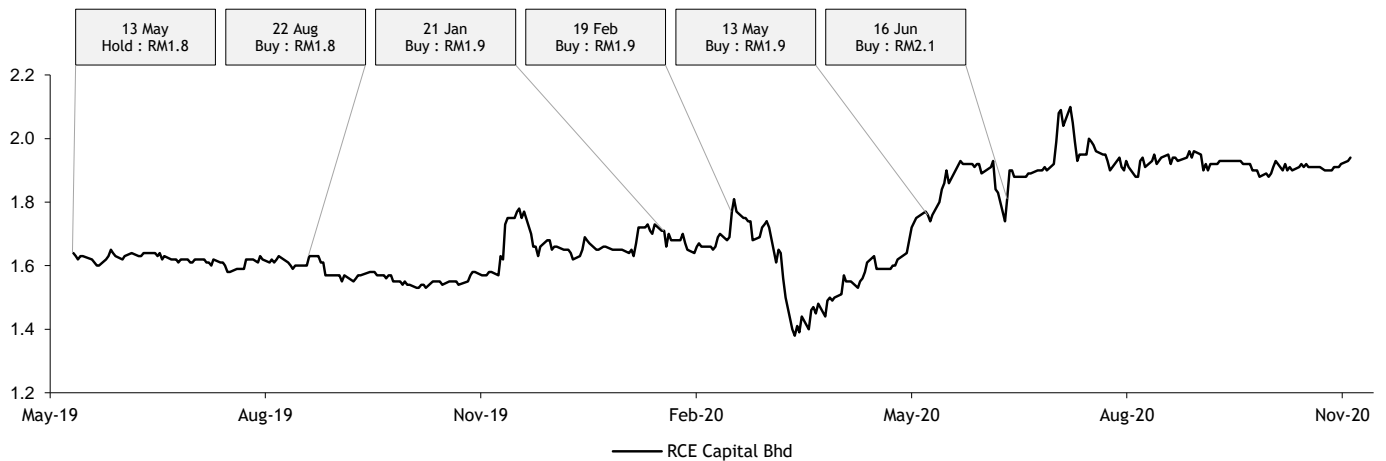
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