

RCE Capital Bhd (RCE MK)

Another record quarterly earnings

Maintain BUY call and MYR2.78 TP

3QFY3/21 earnings came in within our expectations. In fact, our records indicate that the 3QFY3/21 earnings are another record high. We maintain our earnings and dividend estimates. Our unchanged MYR2.78 TP is based on an undemanding 1.2x end-CY21E P/BV. Maintain BUY call. Potential re-rating catalysts are RCE obtaining Shariah status come Nov 2021 and raising its DPR policy from 20-40% currently (FY3/20A: 35%).

Earnings within our expectations

3QFY3/21 net profit of MYR34.8m (+12% YoY, +5% QoQ) brought 9MFY3/21 net profit to MYR90.6m (+10% YoY), which was within our expectations at 77% of our FY estimate. No dividends were declared in 3QFY3/21 but this was expected as RCE usually declares dividends in the 2Q and 4Q. Like 2QFY3/21, 3QFY3/21 net profit was buoyed by higher early settlement income arising from higher refinancing activities by customers.

Operating parameters even improving

3QFY3/21 gross financing and loans receivables grew 2% QoQ (2QFY3/21: +1% QoQ, 1QFY3/21: -2% QoQ). It appears to us that gross financing and loans receivables growth is accelerating, albeit, measuredly. 3QFY3/Y21 gross NPF ratio ticked down QoQ to 4.0%. 3QFY3/Y21 credit cost as a percentage of gross financing and loans receivables even plunged to 0.5% (MKE forecast: 1.5%).

Maintain earnings and dividends estimates

Going forward, we gather that 4QFY3/20 earnings maybe a tad weaker QoQ due to re-imposition of Movement Control Order (MCO) in all states save for Sarawak from 13 Jan 2021 onwards. Recall that the last MCO prevented most customers from refinancing and being charged early settlement income. Therefore, we maintain our earnings and dividend estimates for now.

| FYE Mar (MYR m) | FY19A | FY20A | FY21E | FY22E | FY23E |
|------------------------|-------|-------|-------|-------|-------|
| Operating income | 200 | 221 | 238 | 246 | 256 |
| Pre-provision profit | 155 | 172 | 186 | 193 | 202 |
| Core net profit | 96 | 111 | 118 | 122 | 128 |
| Core FDEPS (MYR) | 0.28 | 0.32 | 0.33 | 0.34 | 0.36 |
| Core FDEPS growth(%) | 7.6 | 13.5 | 3.9 | 3.8 | 4.6 |
| Net DPS (MYR) | 0.09 | 0.11 | 0.12 | 0.12 | 0.13 |
| Core FD P/E (x) | 5.8 | 4.7 | 7.6 | 7.3 | 7.0 |
| P/BV (x) | 1.0 | 0.8 | 1.2 | 1.1 | 1.0 |
| Net dividend yield (%) | 5.5 | 7.4 | 4.6 | 4.8 | 5.0 |
| Book value (MYR) | 1.71 | 1.92 | 2.14 | 2.37 | 2.61 |
| ROAE (%) | 17.3 | 17.6 | 16.6 | 15.5 | 14.7 |
| ROAA (%) | 4.7 | 4.7 | 4.7 | 4.7 | 4.6 |
| Consensus net profit | - | - | 114 | 121 | 126 |
| MKE vs. Consensus (%) | - | - | 3.5 | 1.4 | 1.2 |

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BUY

| | |
|-----------------------|-----------------|
| Share Price | MYR 2.51 |
| 12m Price Target | MYR 2.78 (+15%) |
| Previous Price Target | MYR 2.78 |

Company Description

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

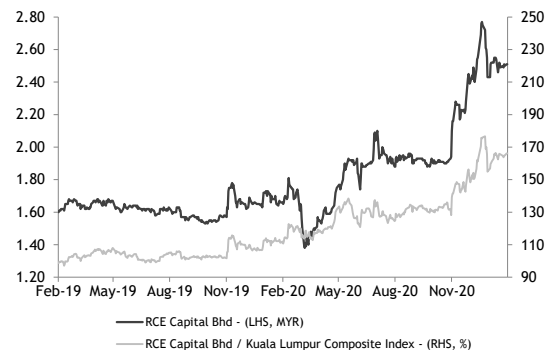
Statistics

| | |
|------------------------|----------------------|
| 52w high/low (MYR) | 2.77/1.38 |
| 3m avg turnover (USDm) | 0.3 |
| Free float (%) | 28.4 |
| Issued shares (m) | 381 |
| Market capitalisation | MYR956.2M USD235M |

Major shareholders:

| | |
|-----------------------------------|-------|
| Cempaka Empayar Sdn. Bhd. | 51.1% |
| RCE Capital Bhd. | 6.0% |
| Rockwills International Group Bhd | 4.5% |

Price Performance



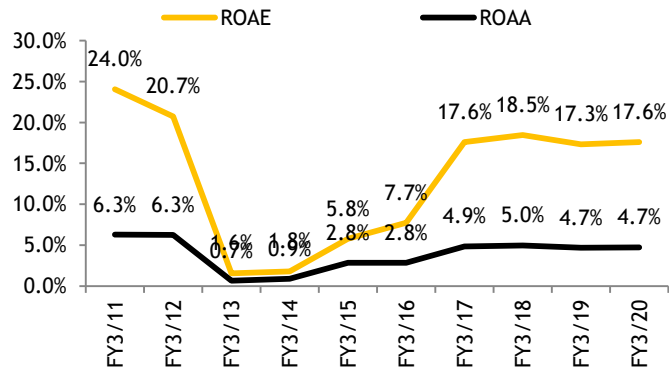
| | -1M | -3M | -12M |
|-----------------------|-----|-----|------|
| Absolute (%) | 3 | 30 | 51 |
| Relative to index (%) | 7 | 26 | 49 |

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

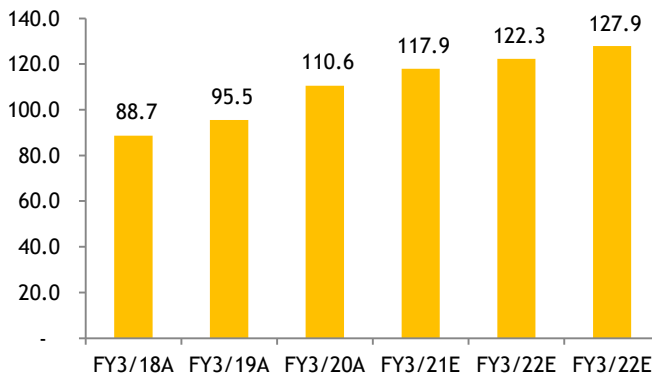


Source: Company

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%.

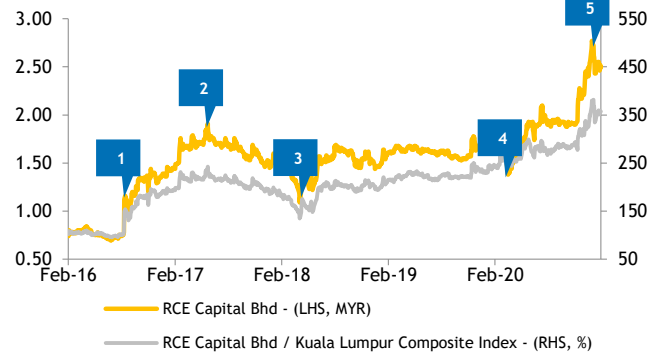
Core net profit (MYRm)



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank Kim Eng

1. 1QFY17 net profit surged 86% YoY as FY17 revenue grew 39% YoY.
2. FY17 net profit surged 98% YoY as FY17 revenue grew 38% YoY.
3. Concerns arise that the government may reduce the size of the civil service.
4. Movement Control Order lengthened time to process new customers, resulting in less financing disbursed.
5. 2QFY21 net profit grew 22% YoY to a record high of MYR33m.

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) | 3QFY3/21 | 3QFY3/20 | % YoY | 2QFY3/21 | % QoQ | 9MFY3/21 | 9MFY3/20 | % YoY |
|--|----------------|----------------|-------------|----------------|----------------|----------------|----------------|-------------|
| Interest/profit income | 71.6 | 65.2 | 9.8 | 70.2 | 2.0 | 203.2 | 190.0 | 7.0 |
| Other revenue | 6.2 | 7.3 | (14.1) | 5.7 | 8.8 | 15.3 | 19.7 | (22.3) |
| Revenue | 77.9 | 72.5 | 7.4 | 75.9 | 2.5 | 218.5 | 209.6 | 4.2 |
| Other income | 4.3 | 5.2 | (15.7) | 4.8 | (9.7) | 14.8 | 15.2 | (2.6) |
| Interest/profit expense applicable to revenue | -19.9 | -20.3 | (2.2) | -19.6 | 1.4 | -60.5 | -60.9 | (0.7) |
| Directors' remuneration and staff costs | -8.4 | -5.4 | 55.6 | -5.3 | 59.3 | -19.3 | -18.5 | 4.4 |
| Allowances for impairment loss on receivables, net | -2.1 | -4.7 | (55.8) | -5.7 | (63.6) | -14.9 | -14.9 | 0.5 |
| Depreciation of plant and equipment and right-of-use asset | -0.8 | -0.5 | 50.9 | -0.8 | (1.4) | -2.4 | -1.4 | 71.2 |
| Other expenses | -4.3 | -5.7 | (24.5) | -5.1 | (15.9) | -14.5 | -18.0 | (19.3) |
| Finance costs | -0.1 | -0.0 | 212.5 | -0.1 | 5.6 | -0.2 | -0.0 | 346.9 |
| Profit before tax | 46.7 | 41.0 | 13.9 | 44.2 | 5.7 | 121.4 | 111.1 | 9.3 |
| Taxation | -11.9 | -10.0 | 19.3 | -11.2 | 6.8 | -30.9 | -28.8 | 7.1 |
| Net profit | 34.8 | 31.0 | 12.2 | 33.0 | 5.3 | 90.6 | 82.3 | 10.1 |
| FD EPS (sen) | 9.7 | 8.8 | 10.0 | 9.3 | 5.1 | 25.5 | 23.7 | 7.9 |
| Net DPS (sen) | - | - | N/M | 6.0 | (100.0) | 6.0 | 5.0 | 20.0 |
| Financing & loans receivables, gross | 1,832.8 | 1,807.4 | 1.4 | 1,802.2 | 1.7 | 1,832.8 | 1,807.4 | 1.4 |
| (Allowance for impairment) | -128.1 | -129.9 | (1.4) | -131.4 | (2.5) | -128.1 | -129.9 | (1.4) |
| Financing & loans receivables, net | 1,704.7 | 1,677.5 | 1.6 | 1,670.7 | 2.0 | 1,704.7 | 1,677.5 | 1.6 |
| | 3QFY3/21 | 3QFY3/20 | +/- ppt | 2QFY3/21 | +/- ppt | 9MFY3/21 | 9MFY3/20 | +/- ppt |
| Tax rate (%) | 25.5 | 24.4 | 1.1 | 25.3 | 0.3 | 25.4 | 25.9 | (0.5) |
| Gross NPF ratio (%) | 4.0 | 4.3 | (0.3) | 4.2 | (0.2) | 4.0 | 4.3 | (0.3) |
| Financing & loans loss coverage ratio (%) | 173.7 | 167.4 | 6.2 | 174.6 | (0.9) | 173.7 | 167.4 | 6.2 |
| Net gearing (%) | 153.6 | 177.1 | (23.6) | 148.4 | 5.2 | 153.6 | 177.1 | (23.6) |

Source: Company

Results analysis

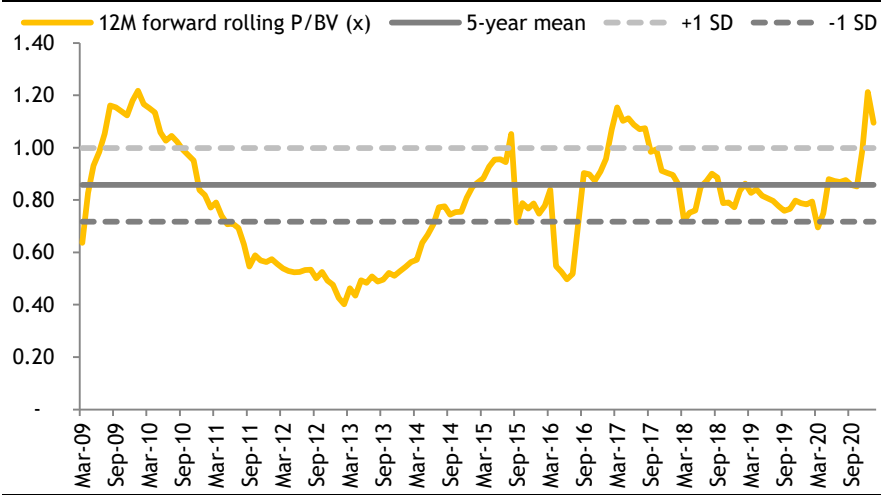
3QFY3/21 net profit grew 12% YoY, driven by:-

- (i) loans growth of 1% YoY;
- (ii) higher early settlement income due to more customers refinancing; and
- (iii) credit cost falling 56% YoY.

3QFY3/21 net profit grew 5% QoQ, driven by:-

- (i) loans growth of 2% QoQ; and
- (ii) credit cost falling 64% QoQ.

Figure 2: RCE Capital rolling 12M forward P/BV (x)



Source: Company, Maybank Kim Eng, Bloomberg

| FYE 31 Mar | FY19A | FY20A | FY21E | FY22E | FY23E |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Key Metrics | | | | | |
| Core P/E (x) | 5.8 | 4.7 | 7.5 | 7.2 | 6.9 |
| Core FD P/E (x) | 5.8 | 4.7 | 7.6 | 7.3 | 7.0 |
| P/BV (x) | 1.0 | 0.8 | 1.2 | 1.1 | 1.0 |
| P/NTA (x) | 1.0 | 0.8 | 1.2 | 1.1 | 1.0 |
| Net dividend yield (%) | 5.5 | 7.4 | 4.6 | 4.8 | 5.0 |
| INCOME STATEMENT (MYR m) | | | | | |
| Islamic banking income | 164.2 | 187.0 | 202.0 | 209.2 | 218.1 |
| Other income | 35.8 | 34.2 | 35.5 | 36.6 | 37.7 |
| Total non-interest income | 200.0 | 221.2 | 237.6 | 245.8 | 255.8 |
| Operating income | 200.0 | 221.2 | 237.6 | 245.8 | 255.8 |
| Staff costs | (21.4) | (24.2) | (25.2) | (25.9) | (26.7) |
| Other operating expenses | (23.8) | (25.0) | (25.9) | (26.7) | (27.4) |
| Operating expenses | (45.2) | (49.2) | (51.1) | (52.6) | (54.1) |
| Pre-provision profit | 154.8 | 172.0 | 186.4 | 193.3 | 201.7 |
| 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 |
| Pretax profit | 131.1 | 148.9 | 158.7 | 164.7 | 172.3 |
| Income tax | (35.6) | (38.3) | (40.8) | (42.4) | (44.3) |
| Reported net profit | 95.5 | 110.6 | 117.9 | 122.3 | 127.9 |
| Core net profit | 95.5 | 110.6 | 117.9 | 122.3 | 127.9 |
| BALANCE SHEET (MYR m) | | | | | |
| Cash & deposits with banks | 492.4 | 620.2 | 699.4 | 780.2 | 863.3 |
| 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 |
| Total assets | 2,226.1 | 2,431.0 | 2,559.3 | 2,691.7 | 2,829.9 |
| 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 | 478.5 | 530.5 | 584.2 |
| Other liabilities | 356.6 | 269.5 | 269.8 | 270.0 | 270.3 |
| Total liabilities | 1,642.6 | 1,757.7 | 1,808.3 | 1,860.5 | 1,914.5 |
| Share capital | 154.5 | 172.2 | 172.2 | 172.2 | 172.2 |
| Reserves | 429.1 | 501.1 | 578.7 | 659.0 | 743.2 |
| Shareholders' funds | 583.5 | 673.4 | 751.0 | 831.3 | 915.4 |
| 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 | 751.0 | 831.3 | 915.4 |
| Total liabilities & equity | 2,226.1 | 2,431.0 | 2,559.3 | 2,691.7 | 2,829.9 |

| FYE 31 Mar | FY19A | FY20A | FY21E | FY22E | FY23E |
|------------------------------|-------|-------|-------|-------|-------|
| Key Ratios | | | | | |
| Growth (%) | | | | | |
| Net interest income | na | na | na | na | na |
| Non-interest income | 6.2 | 10.6 | 7.4 | 3.5 | 4.0 |
| Operating expenses | 9.4 | 8.9 | 3.9 | 2.9 | 2.9 |
| Pre-provision profit | 5.3 | 11.1 | 8.4 | 3.7 | 4.3 |
| Core net profit | 7.7 | 15.8 | 6.6 | 3.8 | 4.6 |
| 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 | 5.3 | 5.2 | 5.1 |
| Profitability (%) | | | | | |
| Non-int. income/Total income | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Cost/income | 22.6 | 22.2 | 21.5 | 21.4 | 21.1 |
| Liquidity (%) | | | | | |
| Loans/customer deposits | na | na | na | na | na |
| Asset quality (%) | | | | | |
| Gross NPF | 4.4 | 4.1 | 4.3 | 4.4 | 4.4 |
| Capital adequacy (%) | | | | | |
| CET1 | na | na | na | na | na |
| Tier 1 capital | na | na | na | na | na |
| Risk-weighted capital | na | na | na | na | na |
| Returns (%) | | | | | |
| ROAE | 17.3 | 17.6 | 16.6 | 15.5 | 14.7 |
| ROAA | 4.7 | 4.7 | 4.7 | 4.7 | 4.6 |
| Shareholders equity/assets | 26.2 | 27.7 | 29.3 | 30.9 | 32.3 |

Source: Company; Maybank

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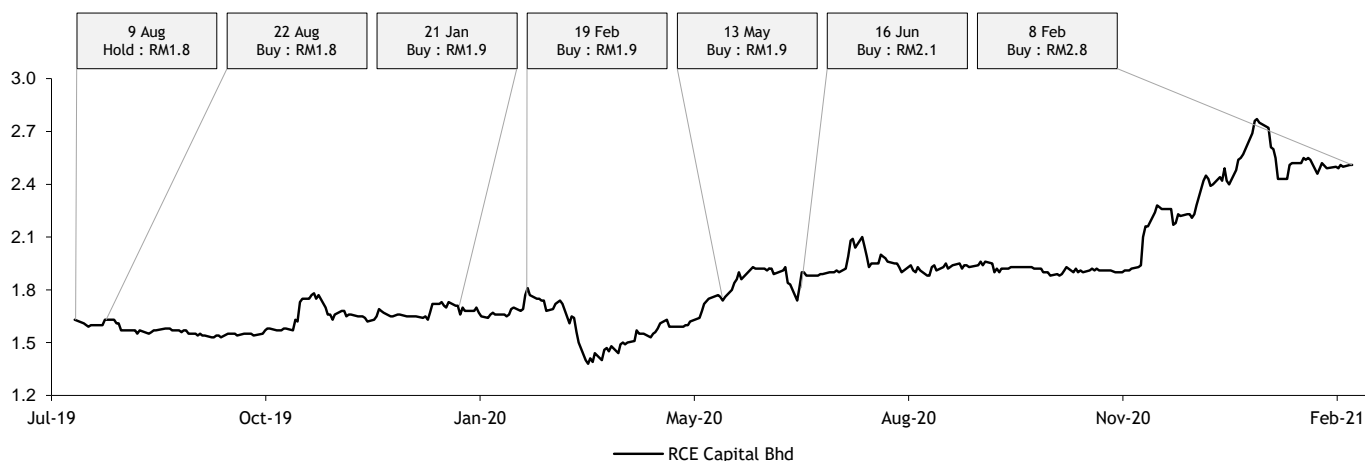
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