

26 May 2021

Hold

Price
RM2.73

Target Price
RM2.80 (from RM2.55)

Market Data

	RCE MK
Bloomberg Code	RCE MK
No. of shares (m)	361.0
Market cap (RMm)	985.5
52-week high/low (RM)	2.94 / 1.73
Avg daily turnover (RMm)	1.1
KLCI (pts)	1,577.8

Source: Bloomberg, KAF

Major Shareholder (%)

Cempaka Empayar	(55.0%)
EPF	(2.4%)
Cheam Heng Ming	(1.1%)
Free Float	121.2

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	(1.4)	25.2	41.5
Rel Market (%)	(1.2)	26.5	32.8

Source: Bloomberg, KAF

Analyst

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RCE Capital

Ahead of expectations

We maintain our Hold recommendation on RCE Capital (RCE) but raise our target price to RM2.80 (from RM2.55), as we roll forward our valuation to FY22F. FY21 results are above expectations from lower than expected IL provision in 4QFY21. From 1) potential recovery in the broad economy in 2021F and 2) high collection ratio from its auto salary deduction repayment mechanism, we expect its IL provision to normalise in the following quarters. We believe that the upside potential to its share price is capped as it is trading at forward PBR of 1.2x (more than 2SD above 5-year mean of 0.8x).

Financial Highlights

FYE Mar	2019	2020	2021	2022F	2023F
Operating income (RMm)	200.0	221.3	232.1	248.0	261.7
Net profit	95.5	110.6	124.6	131.7	139.1
EPS (sen)	26.5	30.6	34.5	36.5	38.5
EPS growth (%)	7.7	15.8	12.7	5.7	5.6
Net DPS (sen)	8.5	10.7	12.9	13.7	14.4
Net yield (%)	3.1	3.9	4.7	5.0	5.3
PER (x)	10.3	8.9	7.9	7.5	7.1
PB (x)	1.7	1.5	1.3	1.2	1.0
ROE (%)	17.3	17.6	17.2	16.2	15.5

Source: Company, KAF

FY21 results above expectations. RCE recorded net profit of RM125m in FY21, +13% yoy, ahead of ours and market expectations. FY21's earnings were 8% ahead of our net profit forecast of RM115m in FY21. Stronger than expected earnings was due to lower than expected impairment loss (IL) provision in 4QFY21.

Lower provision from ECL model. RCE's IL provision in 4QFY21 has declined by 92% yoy and 69% qoq. This is due to the forward-looking variable (real GDP) in its current expected credit loss (ECL) model which expect a potential recovery in the broad economy in 2021F. In view of this trend, we expect the group's IL provision to normalise to pre-Covid level in FY22-23F to c.8% (FY21: c.7%) of its total operating income.

Stable NPL. RCE's NPL ratio was stable at 4.0% in 4QFY21. RCE's coverage ratio remained high at 168% in 4QFY21. High coverage ratio is justified as consumer financing is unsecured in nature. In FY22F, we expect the group's NPL ratio to remain stable at this level.

Declared 7.0 sen DPS. A DPS of 7.0 sen was declared in 4QFY21. This brings the total DPS declared in FY21 to 13.0 sen or c.37% payout ratio. We estimate a DPS of 13.7 sen for FY22F (based on 37% payout ratio). This translates into a dividend yield of c.5% at current price.

Roll forward valuation to FY22F; Higher TP at RM2.80. On the back of 5% estimated loan growth and stable net credit cost (NCC), we expect the group to continue to record growths in its earnings in FY22-23F. We have also roll forward our valuation to FY22F. As a result, our TP is higher at RM2.80 (from RM2.55).

Stretched valuation. Despite of factoring 1) a sustained loan growth, 2) low IL provision, 3) stronger earnings, and 4) roll forward our valuation to FY22F, we believe that the upside potential to its share price is capped.

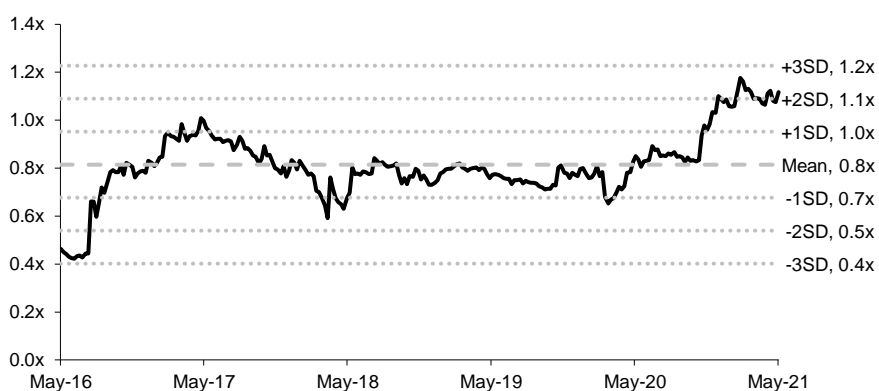
RCE is now trading at 1.2x FY22F PBR. Our GGM-derived TP of RM2.80 implies a FY22F PBR of 1.2x, which is more than 2SD above its 5-year mean. We think valuation at more than 2SD above mean is more than sufficient to price in the potential earnings growth of c.5-6% in FY22-23F. As current valuation is at more than 2SD above its 5-year mean, we think that the valuation is somewhat stretched. Maintain Hold.

Table 1: Quarterly trends

Year to 31 March	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	% chg		Cumulative			KAF	
RM m	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	qoq	yoy	FY20	FY21	% chg	2021F	12M/F
Interest and fee income	73	73	65	76	78	75	-4%	2%	283	293	4%	288	102%
Interest expense	(20)	(21)	(21)	(20)	(20)	(20)	0%	-4%	(82)	(80)	-2%	(81)	99%
Net interest and fee income	52	52	44	56	58	55	-5%	5%	201	213	6%	207	103%
Non-interest income	5	5	6	5	4	4	-2%	-18%	20	19	-7%	21	92%
Operating income	57	57	49	61	62	59	-5%	3%	222	232	5%	228	102%
Operating expenses	(12)	(11)	(12)	(11)	(14)	(13)	-5%	13%	(49)	(49)	0%	(51)	97%
Underlying profit	46	46	38	50	49	46	-5%	0%	172	183	6%	177	103%
Provisions	(5)	(8)	(7)	(6)	(2)	(1)	-69%	-92%	(23)	(16)	-32%	(24)	66%
Exceptional	0	0	0	0	0	0	nm	nm	0	0	na	na	na
Pre-tax profit	41	38	31	44	47	46	-2%	20%	149	167	12%	154	109%
Taxation	(10)	(10)	(8)	(11)	(12)	(12)	-2%	23%	(38)	(43)	11%	(40)	107%
Net profit	31	28	23	33	35	34	-2%	19%	111	125	12%	115	108%

Source: Company, KAF

Exhibit 1: RCE's 5-year forward PB



Source: Bloomberg, KAF

Exhibit 2: Income Statement

FYE March (RM m)	2019	2020	2021	2022F	2023F
Net interest income	156.2	175.1	192.6	206.6	218.3
Non-interest income	43.8	46.2	39.5	41.4	43.4
Total income	200.0	221.3	232.1	248.0	261.7
Operating costs	(45.2)	(49.3)	(49.3)	(52.7)	(55.6)
Pre-prov operating profit	154.8	172.0	182.8	195.3	206.2
Provision charges	(23.7)	(23.1)	(15.6)	(18.6)	(19.5)
Pre-tax profit	131.0	148.9	167.2	176.7	186.6
Taxation	(35.6)	(38.3)	(42.6)	(45.0)	(47.5)
Net Profit	95.5	110.6	124.6	131.7	139.1

Source: Company, KAF

Exhibit 3: Balance Sheet

FYE March (RM m)	2019	2020	2021	2022F	2023F
Consumer financing	1,598.7	1,689.9	1,721.2	1,807.2	1,897.6
Factoring and confirming	3.7	3.0	54.2	54.2	54.2
Deposits with financial institutions	275.8	360.7	571.0	594.9	635.0
Plant and equipment	4.5	13.1	12.1	12.6	13.5
Investment in properties	0.0	0.0	0.0	0.0	0.0
Goodwill on consolidation	47.3	47.3	47.3	49.3	52.6
Other investments	0.0	0.0	0.0	0.0	0.0
AFS financial assets	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	42.0	45.4	43.2	45.0	48.0
Other receivables and deposits	37.5	12.0	14.8	14.8	14.8
Asset held for sale	0.0	0.0	0.0	0.0	0.0
Cash and bank balances	216.6	259.5	26.9	17.1	54.3
Total Assets	2,226.1	2,431.0	2,490.7	2,595.2	2,770.1
Borrowings	1,604.9	1,714.4	1,670.6	1,754.1	1,841.9
Payables and accruals	27.0	31.0	31.0	32.3	34.5
Hire purchase	1.1	0.7	0.6	0.7	0.7
Deferred tax liabilities	0.0	5.2	4.4	4.6	4.9
Tax liabilities	9.7	6.4	10.0	10.4	11.1
Total Liabilities	1,642.6	1,757.7	1,716.7	1,802.1	1,893.1
Share capital	134.5	146.3	162.1	162.1	162.1
Redeemable convertible preference shares	0.0	0.0	0.0	0.0	0.0
Reserves	449.0	527.0	611.9	694.3	781.2
Total Shareholders' Equity	583.5	674.0	775.0	857.0	944.0

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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