

RCE Capital Bhd (RCE MK)

Another year of >MYR100m net profit

Maintain BUY call and trim TP by 1sen to MYR3.05

FY3/21 earnings and dividends came in above our expectations again. We conservatively maintain our FY3/22 and FY3/23 earnings estimates but raise our dividend estimates by 1sen p.a. Maintain BUY call and trim TP by 1sen to MYR3.05 on an unchanged 1.2x end-CY22E P/BV. Potential re-rating catalysts are RCE obtaining Shariah status come Nov 2021 and raising its DPR policy from 20-40% currently (FY3/21A: 37.5%).

Earnings and dividends outperform yet again

4QFY3/21 net profit of MYR34.1m (+20% YoY, -2% QoQ) brought FY3/21 net profit to MYR124.6m (+13% YoY) which was above our expectations at 106% of our FY estimate. The outperformance was due to FY3/21 credit cost ratio of only 0.8% (MKE estimate: 1.5%) driven by improved forecasted Real Gross Domestic Product, a forward looking variable used in credit cost calculations. The second interim DPS brought FY3/21 total DPS to 13sen (+18% YoY) which was 1sen higher than we expected.

Maintain earnings estimates...

Though 4QFY3/21 and FY3/21 net profit outperformed our expectations, we conservatively maintain our FY3/22 and FY3/23 earnings estimates as we think it wise not to assume too low a credit cost ratio. We are also wary that a recent directive to have 80% of civil servants working from home will lengthen financing turnaround times ([link](#)). Our newly introduced FY3/24 earnings estimate implies 4% growth YoY and is based on gross financing receivables growth of 3% YoY.

... but raise dividend estimates

We note that the FY3/21 total DPS of 13sen translates into 37.5% DPR (MKE estimate: 35%). Thus, we raise our DPS estimates by 1sen p.a. to reflect 37.5% DPR (35% previously). Consequently, RCE still offers attractive dividend yields of >4.5% p.a. going forward. As we stated before, we continue to believe that there is a lot of scope for RCE to raise its DPR policy from 20-40% currently especially in a time when cost of funds still remain relatively cheap (current MGS 10-year yield: 3.2%).

FYE Mar (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Operating income	221	232	242	252	262
Pre-provision profit	172	183	192	201	209
Core net profit	111	125	123	128	134
Core FDEPS (MYR)	0.32	0.35	0.33	0.35	0.36
Core FDEPS growth(%)	13.5	10.4	(4.7)	4.5	4.5
Net DPS (MYR)	0.11	0.13	0.12	0.13	0.13
Core FD P/E (x)	4.7	7.4	8.2	7.8	7.5
P/BV (x)	0.8	1.2	1.2	1.0	1.0
Net dividend yield (%)	7.4	5.0	4.4	4.6	4.8
Book value (MYR)	1.92	2.15	2.37	2.60	2.84
ROAE (%)	17.6	17.2	15.1	14.3	13.6
ROAA (%)	4.7	5.1	4.8	4.8	4.7
Consensus net profit	-	-	124	129	na
MKE vs. Consensus (%)	-	-	(0.9)	(1.1)	na

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BUY

Share Price MYR 2.73
12m Price Target MYR 3.05 (+16%)
Previous Price Target MYR 3.06

Company Description

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

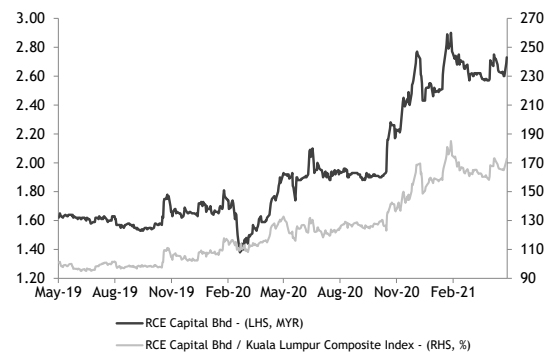
Statistics

52w high/low (MYR)	2.90/1.74
3m avg turnover (USDm)	0.2
Free float (%)	29.2
Issued shares (m)	384
Market capitalisation	MYR1.0B USD253M

Major shareholders:

Cempaka Empayar Sdn. Bhd.	50.7%
RCE Capital Bhd.	5.9%
Rockwills International Group Bhd	4.4%

Price Performance



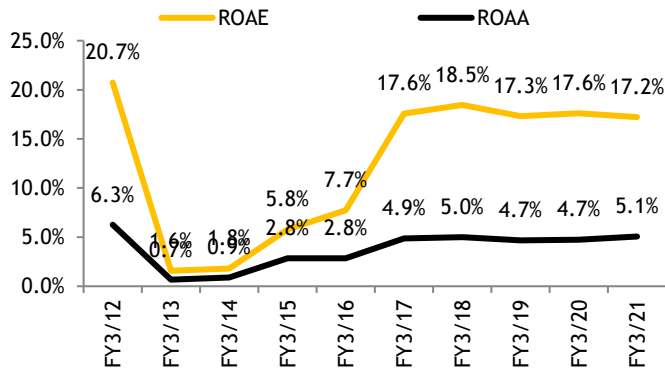
	-1M	-3M	-12M
Absolute (%)	6	(1)	47
Relative to index (%)	9	(1)	34

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

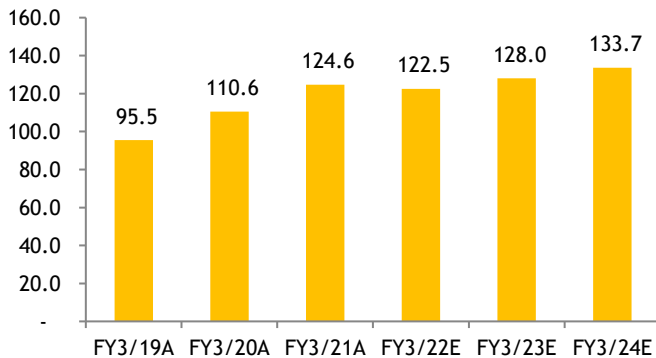


Source: Company

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 2% p.a.
- There is room for dividends to surprise to the upside as its DPR policy is only 20-40%.

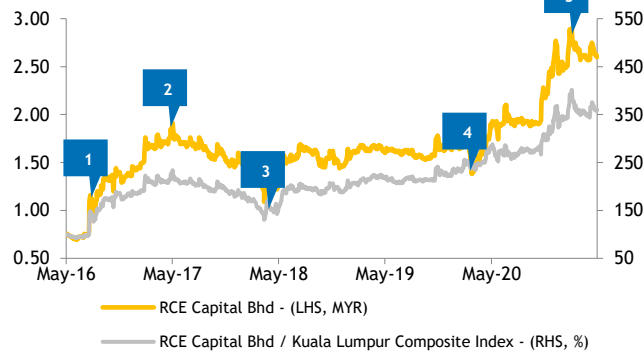
Core net profit (MYRm)



Source: Company, Maybank Kim Eng

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)	4QFY3/21	4QFY3/20	% YoY	3QFY3/21	% QoQ	FY3/21	FY3/20	% YoY
Interest/profit income	69.8	66.8	4.5	71.6	(2.6)	273.0	256.8	6.3
Other revenue	5.2	6.5	(20.6)	6.2	(17.0)	20.4	27.4	(25.5)
Revenue	75.0	73.3	2.2	77.9	(3.7)	293.5	284.2	3.3
Other income	4.3	4.9	(12.9)	4.3	(1.8)	19.0	18.8	1.2
Interest/profit expense applicable to revenue	-19.9	-20.8	(4.1)	-19.9	0.3	-80.4	-81.7	(1.6)
Directors' remuneration and staff costs	-6.9	-5.6	22.4	-8.4	(17.6)	-26.3	-24.2	8.6
Allowances for impairment loss on receivables, net	-0.6	-8.2	(92.1)	-2.1	(68.8)	-15.6	-23.1	(32.5)
Depreciation of plant and equipment and right-of-use asset	-0.8	-0.7	6.6	-0.8	0.6	-3.2	-2.1	48.5
Other expenses	-5.1	-4.9	3.6	-4.3	17.6	-19.6	-22.9	(14.4)
Finance costs	-0.1	-0.1	(14.3)	-0.1	(4.0)	-0.3	-0.1	118.8
Profit before tax	45.8	37.8	21.0	46.7	(1.9)	167.2	148.9	12.3
Taxation	-11.7	-9.5	23.3	-11.9	(1.5)	-42.6	-38.3	11.1
Net profit	34.1	28.3	20.3	34.8	(2.0)	124.6	110.6	12.7
FD EPS (sen)	9.5	8.1	17.5	9.7	(2.7)	35.0	31.7	10.3
Net DPS (sen)	7.0	6.0	16.7	-	N/M	13.0	11.0	18.2
Financing & loans receivables, gross	1,845.3	1,820.1	1.4	1,832.8	0.7	1,845.3	1,820.1	1.4
(Allowance for impairment)	-124.1	-130.2	(4.7)	-128.1	(3.1)	-124.1	-130.2	(4.7)
Financing & loans receivables, net	1,721.2	1,689.9	1.9	1,704.7	1.0	1,721.2	1,689.9	1.9
	4QFY3/21	4QFY3/20	+/- ppt	3QFY3/21	+/- ppt	FY3/21	FY3/20	+/- ppt
Tax rate (%)	25.6	25.2	0.5	25.5	0.1	25.5	25.7	(0.3)
Gross NPF ratio (%)	4.0	4.1	(0.1)	4.0	(0.0)	4.0	4.1	(0.1)
Financing & loans loss coverage ratio (%)	168.4	173.0	(4.6)	173.7	(5.2)	168.4	173.0	(4.6)
Net gearing (%)	139.2	163.4	(24.1)	153.6	(14.3)	139.2	163.4	(24.1)

Source: Company

Results analysis

4QFY3/21 net profit grew 20% YoY, driven by: - (i) loans growth of 1% YoY; (ii) higher early settlement income YoY and (iii) credit cost plunging 92% YoY.

4QFY3/21 net profit eased 2% QoQ largely due to less early settlement income driven by fewer customers refinancing QoQ.

FYE 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
Core P/E (x)	4.7	7.4	8.0	7.7	7.4
Core FD P/E (x)	4.7	7.4	8.2	7.8	7.5
P/BV (x)	0.8	1.2	1.2	1.0	1.0
P/NTA (x)	0.8	1.3	1.2	1.1	1.0
Net dividend yield (%)	7.4	5.0	4.4	4.6	4.8
INCOME STATEMENT (MYR m)					
Islamic banking income	187.0	204.4	207.8	216.3	225.2
Other income	34.2	27.4	34.4	35.4	36.5
Total non-interest income	221.2	231.8	242.2	251.8	261.7
Operating income	221.2	231.8	242.2	251.8	261.7
Staff costs	(24.2)	(26.3)	(26.7)	(27.5)	(28.3)
Other operating expenses	(25.0)	(22.7)	(23.1)	(23.7)	(24.3)
Operating expenses	(49.2)	(49.0)	(49.7)	(51.1)	(52.6)
Pre-provision profit	172.0	182.8	192.5	200.6	209.1
Other allowances	(23.1)	(15.6)	(28.1)	(28.9)	(29.8)
Associates & JV income	0.0	0.0	0.0	0.0	0.0
Pretax profit	148.9	167.2	164.4	171.7	179.3
Income tax	(38.3)	(42.6)	(41.9)	(43.7)	(45.7)
Reported net profit	110.6	124.6	122.5	128.0	133.7
Core net profit	110.6	124.6	122.5	128.0	133.7
BALANCE SHEET (MYR m)					
Cash & deposits with banks	620.2	597.9	674.1	754.6	839.1
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	1,692.9	1,775.4	1,827.0	1,880.2	1,935.0
Fixed assets	7.3	7.3	7.7	8.0	8.4
Intangible assets	47.3	47.3	47.3	47.3	47.3
Other assets	63.3	62.8	62.8	62.8	62.8
Total assets	2,431.0	2,490.7	2,618.8	2,752.9	2,892.5
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	1,059.1	1,187.4	1,180.0	1,180.0	1,180.0
Other borrowings	429.1	252.9	309.3	360.1	412.4
Other liabilities	269.5	276.3	276.2	276.6	277.0
Total liabilities	1,757.7	1,716.7	1,765.5	1,816.6	1,869.4
Share capital	172.2	188.0	188.0	188.0	188.0
Reserves	501.1	586.0	665.3	748.3	835.1
Shareholders' funds	673.4	774.0	853.3	936.3	1,023.1
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	673.4	774.0	853.3	936.3	1,023.1
Total liabilities & equity	2,431.0	2,490.7	2,618.8	2,752.9	2,892.5

FYE 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth (%)					
Net interest income	na	na	na	na	na
Non-interest income	10.6	4.8	4.5	3.9	4.0
Operating expenses	8.9	(0.4)	1.5	2.8	2.8
Pre-provision profit	11.1	6.3	5.3	4.2	4.2
Core net profit	15.8	12.7	(1.7)	4.5	4.5
Gross loans	5.3	1.4	3.0	3.0	3.0
Customer deposits	na	na	na	na	na
Total assets	9.2	2.5	5.1	5.1	5.1
Profitability (%)					
Non-int. income/Total income	100.0	100.0	100.0	100.0	100.0
Cost/income	22.2	21.1	20.5	20.3	20.1
Liquidity (%)					
Loans/customer deposits	na	na	na	na	na
Asset quality (%)					
Gross NPF	4.1	4.0	4.0	4.0	4.0
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	17.6	17.2	15.1	14.3	13.6
ROAA	4.7	5.1	4.8	4.8	4.7
Shareholders equity/assets	27.7	31.1	32.6	34.0	35.4

Source: Company; Maybank

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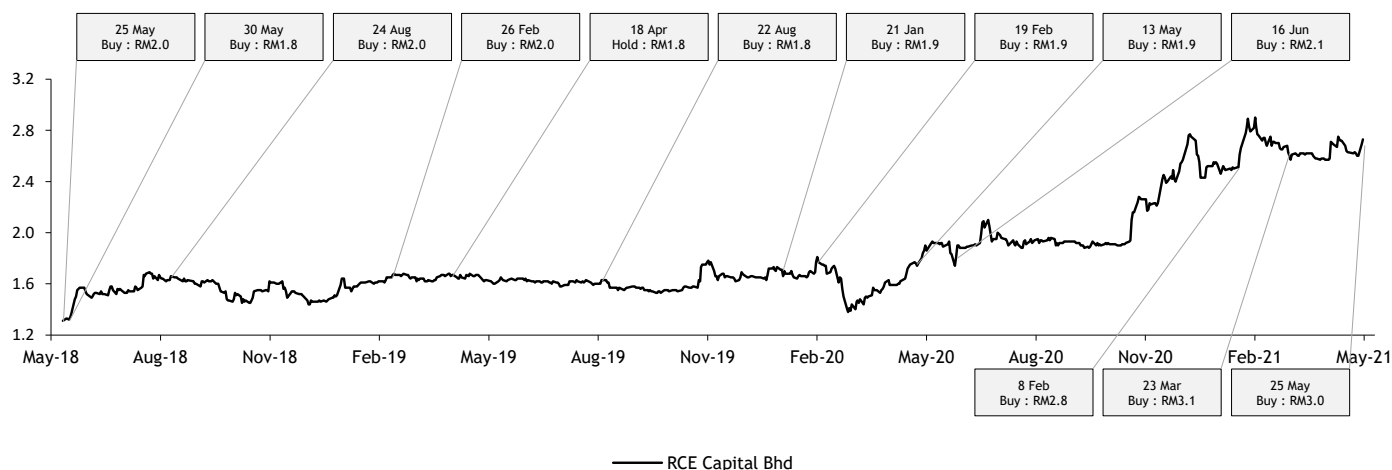
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