

12 Aug 2021

Hold

Price  
RM2.73

Target Price  
RM2.80

Bloomberg code  
RCE MK

Equity | Malaysia | Non-Bank Financials  
**Flashnote**

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# RCE Capital

## 1QFY22 results in line

### Financial Highlights

FYE Dec	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)	26.3	30.5	34.4	36.3	38.4
EPS growth (%)	7.7	15.8	12.7	5.7	5.6
Net DPS (sen)	8.5	10.6	12.9	13.6	14.4
Net yield (%)	3.1	3.9	4.7	5.0	5.3
PER (x)	10.4	9.0	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

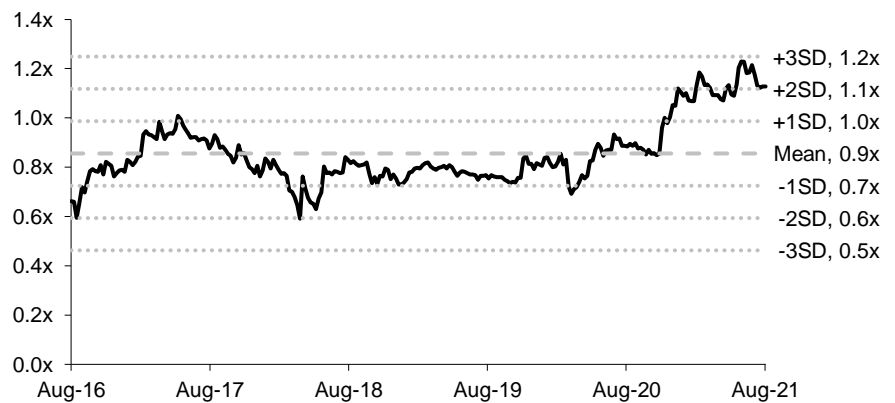
- We maintain our Hold recommendation on RCE Capital (RCE) with an unchanged target price of RM2.80 based on our GGM valuation.
- **1Q22 results in line.** RCE recorded net profit of RM35m in 3MFY22, +55% yoy, in line with our and market expectations. 3M22's earnings made up c.27% (consensus: c.28%) of our full-year FY22F earnings forecast. Strong earnings was due to 1) stronger operating income, +27% yoy and 2) lower impairment loss (IL) provision, -57% yoy.
- **Receivables growth intact.** The group's receivables grew c.4.4% yoy in 3MFY22 to c.RM1.7b. This is in line with our receivables growth target in FY22F at c.4.8% yoy. On the back of 4.8% estimated receivables growth and stable net credit cost (NCC), we expect the group to continue to record growth in its earnings in FY22-23F.
- **Stable NPL.** RCE's NPL ratio was stable at 4.0% in 1QFY22. RCE's coverage ratio remained high at 167% in 1QFY22. 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.
- **No further update on digital banking license.** On 30-Jun-21, the group joined a consortium, led by Paramount Corp (PAR MK, NR, RM0.74), and submitted an application for a digital banking license to Bank Negara Malaysia (BNM). The consortium has yet to announce a more detailed structure and arrangement pertaining to this.
- **No dividend declared.** No dividend was declared in 1QFY22. Typically, the group declares dividends only in 2Q and 4Q. We estimate a DPS of 13.6 sen for FY22F (based on a 37% payout ratio, as per FY21's payout ratio). This translates into a dividend yield of c.5% at the current price.
- **Stretched valuation.** Despite factoring in 1) sustained loan growth, 2) low IL provision, and 3) stronger earnings, we view upside potential in the share price as 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 potential earnings growth of c.5-6% in FY22-23F. As current valuation is at more than 2SD above its 5-year mean, we find the valuation somewhat stretched. Maintain Hold.

**Table 1: Quarterly trends**

Year to 31 March	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	% chg		Cumulative			KAF	
RM m	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	qoq	yoy	3M21	3M22	% chg	2022F	3M/F
Interest and fee income	73	65	76	78	75	78	4%	21%	65	78	21%	308	25%
Interest expense	(21)	(21)	(20)	(20)	(20)	(20)	0%	-6%	(21)	(20)	-6%	(80)	25%
<b>Net interest and fee income</b>	<b>52</b>	<b>44</b>	<b>56</b>	<b>58</b>	<b>55</b>	<b>58</b>	<b>6%</b>	<b>33%</b>	<b>44</b>	<b>58</b>	<b>33%</b>	<b>228</b>	<b>26%</b>
Non-interest income	5	6	5	4	4	5	8%	-18%	6	5	-18%	20	23%
<b>Operating income</b>	<b>57</b>	<b>49</b>	<b>61</b>	<b>62</b>	<b>59</b>	<b>63</b>	<b>6%</b>	<b>27%</b>	<b>49</b>	<b>63</b>	<b>27%</b>	<b>248</b>	<b>25%</b>
Operating expenses	(11)	(12)	(11)	(14)	(13)	(12)	-3%	8%	(12)	(12)	8%	(53)	24%
<b>Underlying profit</b>	<b>46</b>	<b>38</b>	<b>50</b>	<b>49</b>	<b>46</b>	<b>50</b>	<b>8%</b>	<b>33%</b>	<b>38</b>	<b>50</b>	<b>33%</b>	<b>195</b>	<b>26%</b>
Provisions	(8)	(7)	(6)	(2)	(1)	(3)	376%	-57%	(7)	(3)	-57%	(19)	17%
Exceptional	0	0	0	0	0	0	nm	nm	0	0	na	na	na
<b>Pre-tax profit</b>	<b>38</b>	<b>31</b>	<b>44</b>	<b>47</b>	<b>46</b>	<b>47</b>	<b>3%</b>	<b>54%</b>	<b>31</b>	<b>47</b>	<b>54%</b>	<b>177</b>	<b>27%</b>
Taxation	(10)	(8)	(11)	(12)	(12)	(12)	1%	53%	(8)	(12)	53%	(45)	26%
<b>Net profit</b>	<b>28</b>	<b>23</b>	<b>33</b>	<b>35</b>	<b>34</b>	<b>35</b>	<b>4%</b>	<b>55%</b>	<b>23</b>	<b>35</b>	<b>55%</b>	<b>132</b>	<b>27%</b>

Source: Company, KAF

**Exhibit 1: RCE's 5-year forward PB**



Source: Bloomberg, 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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