

RCE Capital Bhd (RCE MK)

A record quarter... again

BUY

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

Maintain BUY call and MYR3.05 TP

Despite the Full Movement Control Order (FMCO) coming into effect on 1 Jun 2021, RCE generated another record quarterly profit which exceeded our expectations. For now, we maintain our earnings estimate, BUY call and MYR3.05 TP on an unchanged 1.2x end-CY22E P/BV. Potential re-rating catalysts are RCE obtaining Shariah status come Nov 2021, raising its DPR policy from 20-40% currently (FY3/21A: 37.5%) and securing a digital banking license.

1QFY3/22 results outperformed our expectations

1QFY3/22 net profit of MYR35.4m (+55% YoY, +4% QoQ) was above our expectations at 29% of our FY estimate. Yet, 1QFY3/22 revenue of MYR78.0m (+21% YoY, +4% QoQ) was within our expectations at 26% of our FY estimate. Outperformance of the former was largely due to lower than expect credit cost (4Q moving average: 0.6%, MKE forecast: 1.5%). No dividends were declared but this was within our expectations as dividends are traditionally declared in 2Q and 4Q.

Positive surprise in gross financing growth QoQ

Though we are forecasting FY3/22 gross financing receivables growth of 3% YoY, we were expecting it to be back loaded towards 2HFY3/22. 1QFY3/22 gross financing receivable was up 365bps YoY and 44bps QoQ, to our positive surprise. Malaysia went into FMCO on 1 Jun 2021. This would have:- (i) limited the ability of RCE's marketing agents to approach new customers; and (ii) lengthened financing turnaround times as civil servants work from home.

Maintain earnings estimates for now

We maintain our gross financing receivables growth forecast for now. Note also that the longer the FMCO is in place, the higher the probability that forecasted Real Gross Domestic Product, a forward looking variable used in credit cost calculations will deteriorate. This will result in higher credit cost. Thus, we maintain our earnings estimates that are based on credit cost ratios of 1.5% for now. Nevertheless, we remain BUYers of RCE.

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	-	-	132	137	134
MKE vs. Consensus (%)	-	-	(7.0)	(6.8)	(0.0)

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Company Description

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

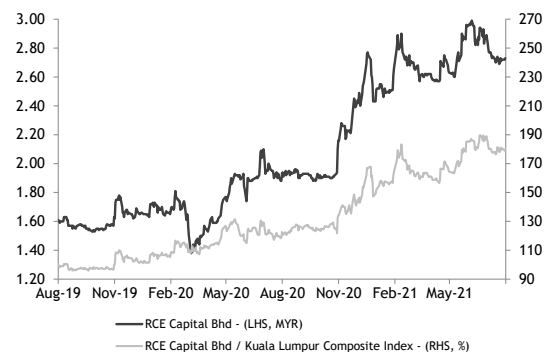
Statistics

52w high/low (MYR)	2.99/1.88
3m avg turnover (USDm)	0.2
Free float (%)	29.2
Issued shares (m)	384
Market capitalisation	MYR1.0B USD247M

Major shareholders:

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

Price Performance



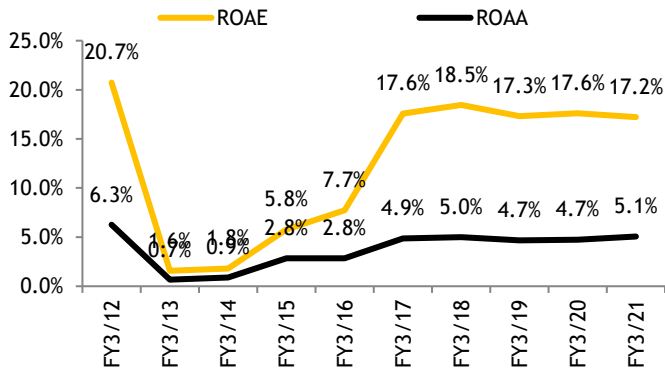
	-1M	-3M	-12M
Absolute (%)	(6)	4	41
Relative to index (%)	(5)	9	46

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.

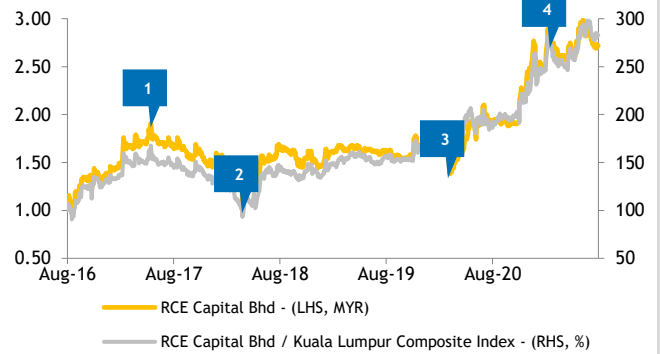
ROE and ROA



Source: Company

Price Drivers

Historical share price trend



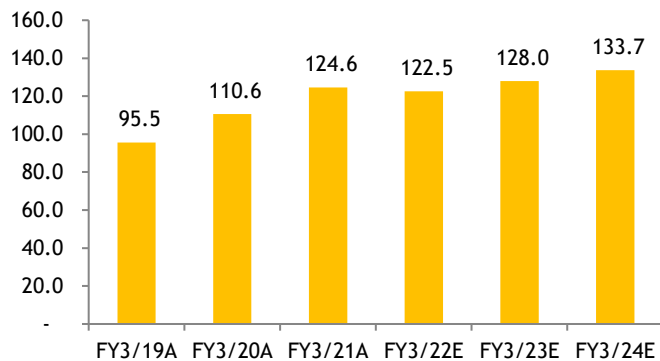
Source: Company, Maybank Kim Eng

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

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

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)	1QFY3/22	1QFY3/21	% YoY	4QFY3/21	% QoQ
Interest/profit income	71.6	61.4	16.5	69.8	2.5
Other revenue	6.5	3.3	95.6	5.2	25.1
Revenue	78.0	64.7	20.6	75.0	4.1
Other income	4.6	5.6	(18.2)	4.3	7.6
Interest/profit expense applicable to revenue	-19.8	-21.0	(5.5)	-19.9	(0.5)
Directors' remuneration and staff costs	-6.1	-5.7	7.2	-6.9	(11.7)
Allowances for impairment loss on receivables, net	-3.1	-7.2	(57.0)	-0.6	375.9
Depreciation of plant and equipment and right-of-use asset	-0.8	-0.8	7.8	-0.8	4.5
Other expenses	-5.5	-5.1	8.1	-5.1	7.6
Finance costs	-0.1	-0.1	(5.5)	-0.1	(4.2)
Profit before tax	47.3	30.6	54.5	45.8	3.2
Taxation	-11.9	-7.8	52.8	-11.7	1.1
Net profit	35.4	22.8	55.0	34.1	3.9
FD EPS (sen)	9.8	6.5	50.6	9.5	3.2
Net DPS (sen)	-	-	N/M	7.0	(100.0)
Financing & loans receivables, gross	1,853.4	1,788.2	3.6	1,845.3	0.4
(Allowance for impairment)	-123.4	-131.8	(6.3)	-24.1	(0.6)
Financing & loans receivables, net	1,730.0	1,656.5	4.4	1,721.2	0.5
	1QFY3/22	1QFY3/21	+/- ppt	4QFY3/21	+/- ppt
Tax rate (%)	25.1	25.4	(0.3)	25.6	(0.5)
Gross NPF ratio (%)	4.0	4.4	(0.4)	4.0	(0.0)
Financing & loans loss coverage ratio (%)	167.1	168.5	(1.4)	168.4	(1.3)
Net gearing (%)	133.2	157.2	(24.0)	139.2	(6.0)

Source: Company

Results analysis

1QFY3/22 net profit grew 55% YoY, driven by:- (i) loans growth of 4% YoY; (ii) higher early settlement and fee income YoY; and (iii) credit cost falling 57% YoY.

1QFY3/22 net profit grew 4% QoQ largely due to:- (i) higher early settlement and fee income QoQ; and (ii) lower directors' remuneration and staff costs 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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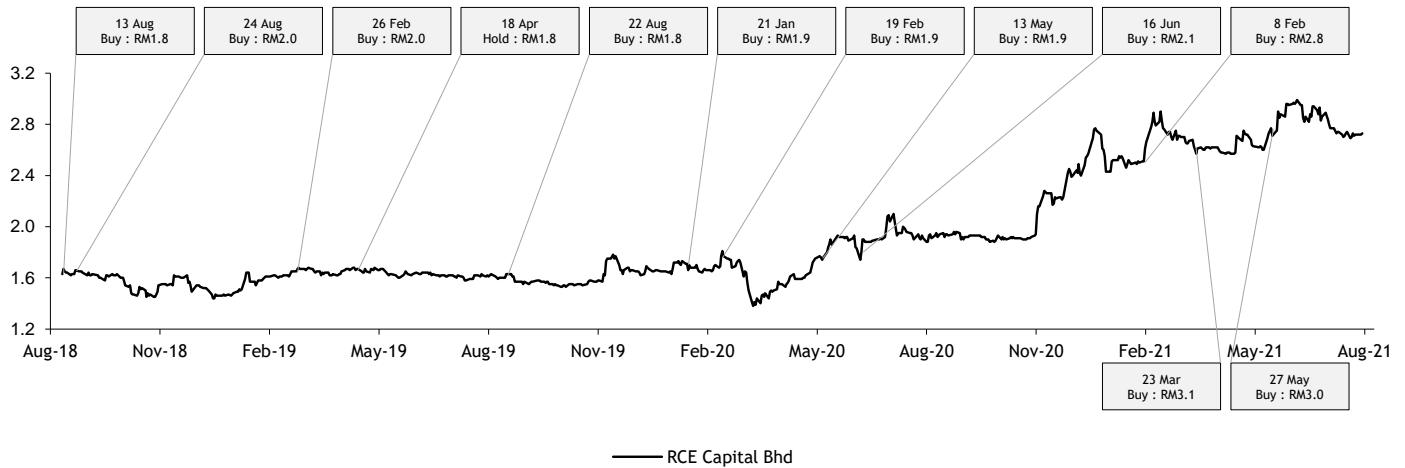
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