

13 August 2021

Financial Services | Banks

RCE Capital (RCE MK)

Buy (Maintained)

Solid Performance With Positive Catalyst; BUY

Target Price (Return): MYR3.20 (+17%)
 Price: MYR2.73
 Market Cap: USD235m
 Avg Daily Turnover (MYR/USD) 0.70m/0.17m

- **Keep BUY and TP MYR3.20, 17% upside and c.5% yield.** 1QFY22 (Mar) results were in line with our and consensus estimates. Overall business operations remained highly resilient amidst the latest lockdown. Collections were healthy, with asset quality steady despite the allowance cut among civil servants. Although early settlement income could be QoQ lower, we believe RCE Capital will recoup the losses. With the *shariah* listing status application on track to meet the November deadline, this positive catalyst should be a meaningful re-rating event.
- **Outlook and updates.** Overall business operations have been largely stable with no major disruption from the current lockdown. That said, income is likely to see some QoQ weakness due to the reduced early settlement income caused by the lockdown. We believe RCE will recoup lost ground when restrictions ease – similar to the situation seen in 1QFY21. No issue with collection despite the Government's decision to cut 800,000 civil servants' allowances to contribute to the COVID fund. The application for *shariah* listing status is seemingly on track to meet the November deadline.
- **1QFY22 earnings in line.** RCE printed MYR35.4m in PATAMI during 1QFY22 (+4% QoQ, 55% YoY). The results were largely in line with our and consensus expectations (c.28% of full-year). ROE was stable QoQ at 18.1%.
- **Earnings drivers.** PIOP was 8% QoQ/33% YoY higher, lifted by the 6% QoQ/27% YoY increase in income, largely due to the normalisation in NII – recall that 1QFY21 NII was impacted by MCO 1.0. Opex was also 8% YoY higher (but 3% QoQ lower) as the lender significantly tightened spending during MCO 1.0. CIR was fairly steady at 19.8%. Impairment provisions were 57% lower YoY as due to the lack of macroeconomic variable adjustments.
- **Other highlights.** Gross financing grew 0.4% QoQ/3.6% YoY as growth momentum was slightly impacted by the lockdown. Collection and asset quality were healthy – NPL ratio barely changed at 4% during 1QFY22. Almost all of its staff have received one dose of the vaccine and RCE has been procuring vaccines for its employees.
- **Earnings and TP.** We fine-tune our FY22F-23F earnings by 1-2% on lower financing growth, but offset by higher NIM assumptions. Our TP is kept at MYR3.20. We value RCE at 1.3x FY22F P/BV against 16% ROE.

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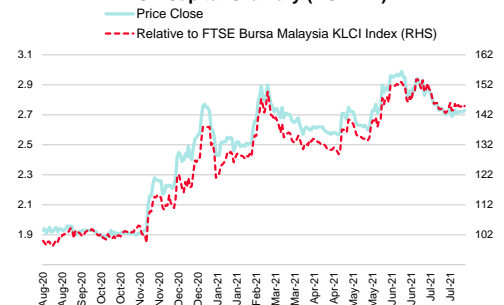
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(0.7)	(5.5)	3.8	2.6	41.5
Relative	7.0	(4.8)	8.9	8.7	45.0
52-wk Price low/high (MYR)	1.88 – 2.99				

RCE Capital Ordinary (RCE MK)



Source: Bloomberg

Overall ESG Score: 3.1 (out of 4)

E: Good

Some green initiatives undertaken by RCE include a lock-print policy that has been implemented to limit and reduce paper wastage. As a result, a 20% reduction in paper utilisation per headcount was recorded in FY20. Electricity consumption per sq ft also dropped due to the extensive use of energy saving lights.

S: Good

RCE practises responsible lending by ensuring customers are aware of their obligations and commitments when financing is obtained. It is also imperative that they use the financing for legitimate purposes. The product features are clearly disclosed to the borrowers for their consideration. Financing will only be disbursed after obtaining their unambiguous acceptance of the offer.

G: Excellent

RCE's board comprised eight members, entirely of Non-Executive Directors. Four are non-independent directors (including the Chairman) and four are independent directors.

Forecasts and Valuation	Mar-20	Mar-21	Mar-22F	Mar-23F	Mar-24F
Reported net profit (MYRm)	111	125	130	131	137
Net profit growth (%)	15.8	12.7	4.4	1.0	4.3
Recurring net profit (MYRm)	111	125	130	131	137
Recurring EPS (MYR)	0.32	0.35	0.36	0.36	0.38
BVPS (MYR)	1.94	2.15	2.42	2.32	2.21
DPS (MYR)	0.11	0.13	0.14	0.14	0.14
Recurring P/E (x)	8.58	7.89	7.56	7.48	7.17
P/B (x)	1.41	1.27	1.13	1.18	1.23
Dividend Yield (%)	4.0	4.7	4.9	5.1	5.1
Return on average equity (%)	17.6	17.2	15.8	15.4	16.8

Source: Company data, RHB

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Financial Services | Banks

Financial Exhibits

Asia	Financial summary (MYR)	Mar-20	Mar-21	Mar-22F	Mar-23F	Mar-24F
Malaysia	EPS	0.32	0.35	0.36	0.36	0.38
Financial Services	Recurring EPS	0.32	0.35	0.36	0.36	0.38
RCE Capital	DPS	0.11	0.13	0.14	0.14	0.14
RCE MK	BVPS	1.94	2.15	2.42	2.32	2.21
Buy						
	Valuation metrics	Mar-20	Mar-21	Mar-22F	Mar-23F	Mar-24F
	Recurring P/E (x)	8.58	7.89	7.56	7.48	7.17
	P/B (x)	1.4	1.3	1.1	1.2	1.2
	Dividend Yield (%)	4.0	4.7	4.9	5.1	5.1
	Income statement (MYRm)	Mar-20	Mar-21	Mar-22F	Mar-23F	Mar-24F
	Interest income	257	273	267	272	280
	Interest expense	(82)	(81)	(74)	(75)	(78)
	Net interest income	175	192	193	197	203
	Non interest income	40	39	49	51	54
	Total operating income	215	232	243	247	256
	Overheads	(49)	(49)	(52)	(54)	(56)
	Pre-provision operating profit	166	183	191	193	201
	Loan impairment allowances	(17)	(16)	(16)	(17)	(17)
	Pre-tax profit	149	167	175	176	184
	Taxation	(38)	(43)	(44)	(45)	(47)
	Reported net profit	111	125	130	131	137
	Recurring net profit	111	125	130	131	137
	Profitability ratios	Mar-20	Mar-21	Mar-22F	Mar-23F	Mar-24F
	Return on average assets (%)	4.7	5.1	5.1	5.0	5.2
	Return on average equity (%)	17.6	17.2	15.8	15.4	16.8
	Return on IEAs (%)	12.2	11.7	10.9	11.1	11.2
	Cost of funds (%)	4.9	4.8	4.4	4.3	4.3
	Net interest spread (%)	7.3	7.0	6.5	6.7	6.9
	Net interest margin (%)	8.3	8.3	7.9	8.0	8.1
	Non-interest income / total income (%)	18.8	17.0	20.3	20.5	20.9
	Cost to income ratio (%)	22.8	21.1	21.3	21.9	21.8
	Credit cost (bps)	97.4	85.1	87.9	87.9	82.8
	Balance sheet (MYRm)	Mar-20	Mar-21	Mar-22F	Mar-23F	Mar-24F
	Total gross loans	1,820	1,845	1,891	1,967	2,065
	Other interest earning assets	364	625	553	503	453
	Total gross IEAs	2,184	2,471	2,445	2,470	2,519
	Total provisions	(130)	(124)	(129)	(134)	(139)
	Net loans to customers	1,690	1,721	1,763	1,833	1,927
	Total net IEAs	2,054	2,346	2,316	2,337	2,380
	Total non-IEAs	377	144	295	290	270
	Total assets	2,431	2,491	2,611	2,627	2,650
	Other interest-bearing liabilities	1,714	1,671	1,708	1,759	1,821
	Total IBLs	1,714	1,671	1,708	1,759	1,821
	Total non-IBLs	43	46	32	32	32
	Total liabilities	1,758	1,717	1,740	1,792	1,853
	Share capital	172	188	194	201	207
	Shareholders' equity	673	774	871	835	797
	Asset quality and capital	Mar-20	Mar-21	Mar-22F	Mar-23F	Mar-24F
	Reported NPLs / gross cust loans (%)	4.1	4.0	4.1	4.2	4.2
	Total provisions / reported NPLs (%)	173.0	168.4	165.8	161.8	160.1

Source: Company data, RHB

Results At a Glance

Figure 1: RCE – 1QFY22 results summary

FYE Mar (MYRm)	1QFY21	4QFY21	1QFY22	% QoQ	% YoY	Comments
NII	40.3	49.8	51.7	3.8	28.1	
Interest income	61.4	69.8	71.6	2.5	16.5	Higher YoY as 1QFY21 lacked early settlement income.
Interest expense	(21.1)	(20.0)	(19.9)	(0.5)	(5.5)	
Non-II	8.9	9.4	11.1	17.2	24.0	
Non-II/Total income (%)	18.1	15.9	17.6			
Operating income	49.3	59.2	62.7	5.9	27.3	
Overheads	(11.5)	(12.8)	(12.4)	(3.0)	7.6	Higher YoY as RCE froze salary adjustment during 1QFY21.
CIR (%)	23.4	21.6	19.8			
PIOP	37.8	46.4	50.3	8.4	33.3	
Impairment on financings	(7.2)	(0.6)	(3.1)	>100	(57.0)	1QFY21 high base due to macroeconomic variable adjustments.
Credit cost	159	14	67			
Pre-tax profit	30.6	45.8	47.3	3.2	54.5	
Tax	(7.8)	(11.7)	(11.9)			
ETR (%)	25.4	25.6	25.1			
Net earnings	22.8	34.1	35.4	3.9	55.0	
Other key data and ratios						
Gross financing	1,788.2	1,845.3	1,853.4	0.4	3.6	
Total borrowings	1,531.2	1,670.6	1,718.2	2.8	12.2	
Gross impaired financing	(131.8)	(124.1)	(123.4)	(0.6)	(6.3)	
Total assets	2,269.7	2,490.7	2,576.7	3.5	13.5	
Shareholders' funds	680.4	774.0	787.1	1.7	15.7	
ROAA	3.9%	5.5%	5.6%			
ROAE	13.5%	18.1%	18.1%			
GIL ratio	4.4%	4.0%	4.0%			

Source: Company data, RHB

Earnings revisions

We fine-tune our FY22F-23F earnings by 1-2% on lower financing growth but offset by higher NIM assumptions.

Figure 2: RCE – revisions to forecasts

FYE Mar	Net profit (MYRm)			EPS (MYR)			DPS (MYR)		
	Previous	Revised	% Chg	Previous	Revised	% Chg	Previous	Revised	% Chg
2021F	131.5	130.1	-1.1%	0.37	0.36	-1.1%	0.14	0.14	0.0%
2022F	134.3	131.4	-2.2%	0.37	0.36	-2.2%	0.14	0.14	0.0%
2023F	137.3	137.0	-0.2%	0.4	0.38	-0.2%	0.14	0.14	0.0%

Source: RHB

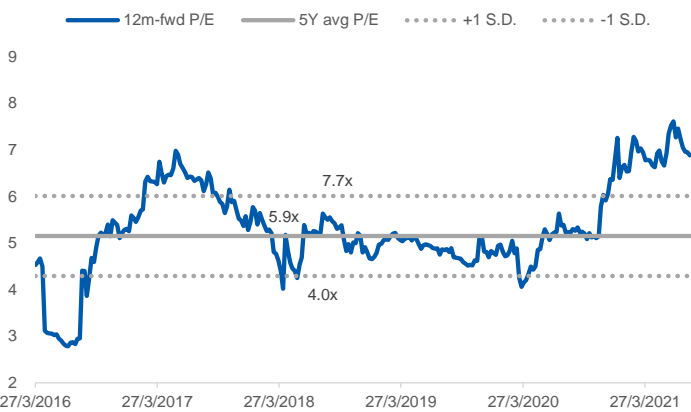
Valuation

Figure 3: RCE's GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	16.0
Risk free rate (%)	3.5	12.4	12.8
Equity premium (%)	7.5	2.0	2.0
Beta (x)	1.2	1.34	1.3
Cost of equity - CAPM (%)	12.4	BVPS – FY22F	MYR 2.42
		Target price	MYR 3.24
		TP (rounded)	MYR 3.20

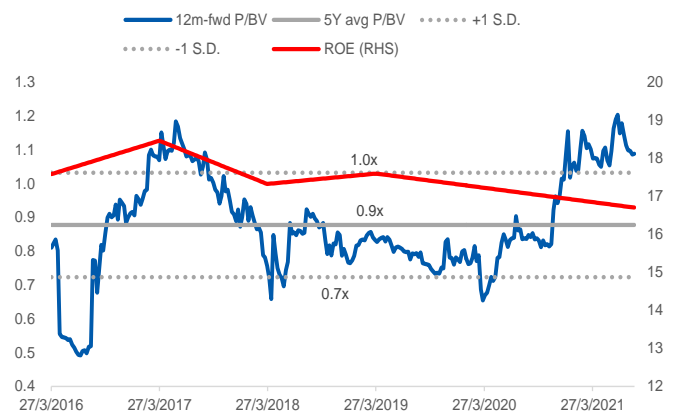
Source: Company data, RHB

Figure 4: RCE's 12-month forward P/E



Source: Bloomberg, RHB

Figure 5: RCE's 12-month forward P/BV



Source: Bloomberg, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-05-26	Buy	3.20	2.73
2021-02-09	Buy	3.00	2.51
2020-12-08	Buy	2.80	2.45
2020-07-06	Buy	2.50	1.92
2020-06-16	Buy	2.20	1.81
2020-03-15	Buy	2.10	1.50
2020-02-19	Buy	2.20	1.77
2020-01-10	Buy	2.10	1.72
2019-08-16	Not Rated	na	1.60

Source: RHB, Bloomberg

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