

25 Feb 2022

Hold

Price
RM1.66

Target Price
RM1.80

Bloomberg code
RCE MK

Analyst

Izzul Hakim Abdul Molob
(603) 2171 0502
izzul@kaf.com.my

RCE Capital

3QFY22 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)	12.7	14.7	16.6	17.5	18.5
EPS growth (%)	7.7	15.8	12.7	5.7	5.6
Net DPS (sen)	4.1	5.1	6.2	6.6	6.9
Net yield (%)	2.5	3.1	3.7	4.0	4.2
PER (x)	13.1	11.3	10.0	9.5	9.0
PB (x)	2.1	1.9	1.6	1.4	1.3
ROE (%)	17.3	17.6	17.2	15.8	14.8

Source: Company, KAF

- We maintain our Hold recommendation on RCE Capital (RCE) with an unchanged target price of RM1.80 (ex-bonus issue price) based on our GGM valuation.
- **9MFY22 results in line.** RCE recorded net profit of RM102m in 9MFY22, +12%yoy, in line with our and market expectations. 9M22's earnings made up c.77% (consensus: c.76%) of our full-year FY22F earnings forecast. Strong earnings was largely due to lower total impairment charge, -62% yoy.
- **Receivables growth slower than expectation.** The group's receivables grew c.2.5% yoy in 9MFY22 to c.RM1.7b. This is behind our receivables growth target in FY22F at c.4.8% yoy. Earnings were however in line with our expectation as we have forecasted for a much higher impairment than it had recorded throughout the 9-month period.
- We maintain our full-year earnings forecast for the group at RM132m, implying a yoy growth of c.5.7% in FY22F.
- **Improvement in NPL.** RCE's NPL ratio improved to 3.8% in 3QFY22 from 4.0% in 2QFY22. Lower NPL was partially due to higher receivables write-off in 3QFY22 than 2QFY22. Overall, its assets quality remain healthy. RCE's coverage ratio remained high at 163% in 3QFY22. 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 3QFY22. Typically, the group declares dividends only in 2Q and 4Q. We estimate a DPS of 6.6 sen for FY22F (based on a 37% payout ratio, as per FY21's payout ratio). This translates into a dividend yield of c.4% 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 1.4x FY22F PBR. Our GGM-derived TP of RM1.80 implies a FY22F PBR of 1.5x, which is at 3.0SD above its 5-year mean. We think valuation at more than 3.0SD above mean is more than sufficient to price in potential earnings growth of c.5-6% in FY22-23F. As current valuation is at 3.0SD above its 5-year mean, we find the valuation somewhat stretched. Maintain Hold.

Table 1: Quarterly trends

Year to 31 March	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Sep-21	% chg		Cumulative			KAF	
RM m	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	qoq	yoy	9M21	9M22	% chg	2022F	9M/F
Interest and fee income	76	78	75	78	70	77	10%	-1%	218	225	3%	308	73%
Interest expense	(20)	(20)	(20)	(20)	(20)	(20)	-2%	0%	(60)	(60)	0%	(80)	76%
Net interest and fee income	56	58	55	58	49	57	15%	-2%	158	165	4%	228	72%
Non-interest income	5	4	4	5	5	6	21%	27%	15	15	-1%	20	74%
Operating income	61	62	59	63	54	62	16%	0%	173	179	4%	248	72%
Operating expenses	(11)	(14)	(13)	(12)	(11)	(14)	29%	5%	(36)	(38)	4%	(53)	72%
Underlying profit	50	49	46	50	43	48	12%	-1%	136	141	4%	195	72%
Provisions	(6)	(2)	(1)	(3)	(1)	(2)	151%	-10%	(15)	(6)	-62%	(19)	31%
Exceptional	0	0	0	0	0	0	nm	nm	0	0	nm	na	na
Pre-tax profit	44	47	46	47	42	46	10%	-1%	121	136	12%	177	77%
Taxation	(11)	(12)	(12)	(12)	(11)	(12)	9%	-2%	(31)	(34)	11%	(45)	76%
Net profit	33	35	34	35	32	35	10%	0%	91	102	12%	132	77%

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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Dato' Ahmad Bin Kadis
Managing Director
KAF Equities Sdn Bhd (Reg No. 198501002182)