

30 May 2022

Buy

Price
RM1.76

Target Price
RM2.00 (from RM1.80)

Market Data

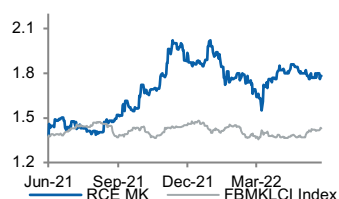
Bloomberg Code	RCE MK
No. of shares (m)	731.7
Market cap (RMm)	1,288.0
52-week high/low (RM)	2.09 / 1.40
Avg daily turnover (RMm)	0.7
KLCI (pts)	1,543.0
Source: Bloomberg, KAF	

Major Shareholder (%)

Cempaka Empayar	(55.0%)
EPF	(2.4%)
Cheam Heng Ming	(1.1%)
Free Float	121.2
Source: Bloomberg, KAF	

Performance

	3M	6M	12M
Absolute (%)	5.4	(9.1)	23.7
Rel Market (%)	9.8	(10.9)	27.8



Source: Bloomberg, KAF

Analyst

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RCE Capital

FY22 results in line; Upgrade to Buy

We upgrade RCE Capital (RCE) to Buy and raise our TP to RM2.00 (from RM1.80) based on our GGM value. FY22 earnings were largely in line with our and market expectations. A total DPS of 10.4 sen that was declared in FY22 implies a total payout ratio of c.57%. The asset price adjustment mechanism that management has in place should offset potential hikes in the OPR (funding cost). We expect RCE's valuation to remain elevated due to 1) continuous improvement in the quality of its receivables (while maintaining a high coverage ratio), 2) high NIM at c.7%, and 3) premium for shariah-compliant financial counter (with high ROE i.e., c.15%).

Financial Highlights

FYE Mar	FY20	FY21	FY22	FY23F	FY24F
Operating income	221.3	232.1	239.6	250.0	261.9
Net profit	110.6	124.6	133.2	137.1	144.6
EPS (sen)	15.1	17.0	18.2	18.7	19.8
EPS growth (%)	15.8	12.7	6.9	3.0	5.5
Net DPS (sen)	5.3	6.4	10.4	7.5	7.9
Net yield (%)	3.0	3.6	5.9	4.3	4.5
PER (x)	11.6	10.3	9.7	9.4	8.9
PB (x)	1.9	1.7	1.5	1.3	1.2
ROE (%)	17.6	17.2	16.2	15.0	14.5

Source: Company, KAF

FY22 results in line. RCE recorded net profit of RM133m in FY22, +7% yoy. FY22 earnings were largely in line with our and market expectations, making up c.101% (consensus: 102%) of our FY22F's earnings forecast. Stronger earnings were driven by higher fee income and lower allowance for impairment. This was as a result of the improvement in receivables quality.

Continuous improvement in NPL. Coverage ratio remains high. RCE's NPL ratio was 3.8% in FY22. The group has consistently recorded improvements in its receivables quality as its NPL ratio has improved from 4.4% three years ago to 3.8% at present. Despite this improvement, the coverage ratio remains high i.e., >160%. This was expected as management has adopted stringent risk management and a prudent provisioning policy. We think this is justified as consumer financing is unsecured in nature.

Adjustment in assets price to hedge against rate hike. To hedge against potential hikes in OPR and, hence, the funding cost, management will likely adjust its receivables financing rate. In recent years, the company's effective yields and overall NIMs have been on a downtrend. This was expected as higher-quality receivables attract lower effective yields. However, its NIM remains healthy at c.6.8% in FY22. With the assets price adjustment mechanism mentioned earlier, we expect the group to be able to maintain its NIM in the range of 6.7%-6.8% in FY23F-24F.

Generous dividend. A DPS of 4.0 sen was declared in 4QFY22. In total, the group has declared a total DPS of 10.4 sen (inclusive of share dividend as part of its bonus issue in 3QFY22) in FY22. The dividend payout ratio was c.57% in FY22. Excluding the share dividend, the total payout ratio for FY22 would have been c.40%. RCE has a dividend guidance payout of 20-40% of its net profit. Our dividend estimates in FY23F-24F are based on the same normalise payout ratio as FY22 i.e., 40%. At the current price, this implies a c.5% yield.

A premium for shariah-compliant financial counter. RCE trades at a PBR 1.3x FY23F around 1.5SD above its 5-year mean. We believe that the valuation for the company to remain elevated due to 1) continuous improvement in its receivables quality (while maintaining high coverage ratio), 2) high NIM at c.7%, and 3) premium for shariah-compliant financial counter (with high ROE i.e., c.15%).

RCE's valuation has improved overtime. RCE's 10-year, 5-year, and 3-year's forward PB mean stood at 0.6x, 0.9x, and 1.0x, respectively. We think that the improvement in its valuation was justifiable as it was in line with the improvement in its receivables quality.

Roll-forward valuation to FY23F: Upgrade to Buy. As we 1) expect earnings to continue to grow in FY23F and 2) roll forward our valuation into FY23F with potentially higher shareholders fund, we expect the company's valuation to improve to RM1.4b. Based on sustainable ROE of 14.5%, cost of equity of 10.5%, and long-term growth of 3.0%, this implies a price-to-book of 1.5x.

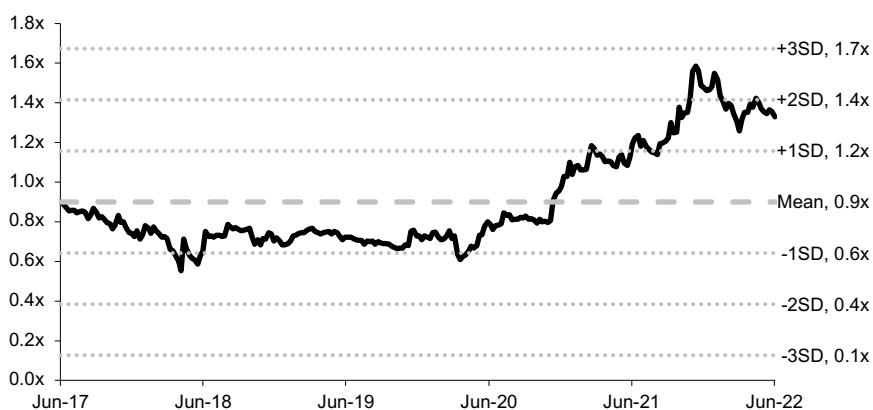
Therefore, our GGM-derived TP is revised upward to RM2.00 (from RM1.80). As RCE is currently trading at PBR 1.3x FY23F, we see some potential upside to its share price. RCE also offers a generous dividend payout with potential yields of c.5% in FY23F-24F at the current price. Upgrade to Buy.

Table 1: Quarterly trends

Year to 31 March	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	% chg		Cumulative			KAF	
	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	qoq	yoy	FY21	FY22	% chg	FY22F	12M/F
RM m													
Interest and fee income	78	75	78	70	77	75	-3%	0%	293	299	2%	308	97%
Interest expense	(20)	(20)	(20)	(20)	(20)	(20)	1%	1%	(80)	(80)	0%	(80)	101%
Net interest and fee income	58	55	58	49	57	55	-4%	-1%	213	219	3%	228	96%
Non-interest income	4	4	5	5	6	6	4%	35%	19	20	7%	20	102%
Operating income	62	59	63	54	62	60	-3%	2%	232	240	3%	248	97%
Operating expenses	(14)	(13)	(12)	(11)	(14)	(13)	-8%	2%	(49)	(51)	3%	(53)	97%
Underlying profit	49	46	50	43	48	47	-2%	2%	183	189	3%	195	97%
Allowance for impairment	(2)	(1)	(3)	(1)	(2)	(6)	214%	806%	(16)	(12)	-26%	(19)	62%
Exceptional	0	0	0	0	0	0	nm	nm	0	0	nm	na	na
Pre-tax profit	47	46	47	42	46	41	-11%	-10%	167	177	6%	177	100%
Taxation	(12)	(12)	(12)	(11)	(12)	(10)	-15%	-16%	(43)	(44)	3%	(45)	98%
Net profit	35	34	35	32	35	32	-9%	-7%	125	133	7%	132	101%

Source: Company, KAF

Exhibit 1: RCE's 5-year forward PB



Source: Bloomberg, KAF

Exhibit 2: Income Statement

FYE March (RM m)	FY20	FY21	FY22	FY23F	FY24F
Net interest income	175.1	192.6	194.4	202.5	212.2
Non-interest income	46.2	39.5	45.2	47.4	49.7
Total income	221.3	232.1	239.6	250.0	261.9
Operating costs	(49.3)	(49.3)	(50.9)	(53.1)	(55.6)
Pre-prov operating profit	172.0	182.8	188.8	196.9	206.3
Provision charges	(23.1)	(15.6)	(11.5)	(14.4)	(13.9)
Pre-tax profit	148.9	167.2	177.2	182.5	192.4
Taxation	(38.3)	(42.6)	(44.1)	(45.4)	(47.8)
Net Profit	110.6	124.6	133.2	137.1	144.6

Source: Company, KAF

Exhibit 3: Balance Sheet

FYE March (RM m)	FY20	FY21	FY22	FY23F	FY24F
Consumer financing	1,689.9	1,721.2	1,764.1	1,852.3	1,944.9
Factoring and confirming	3.0	54.2	54.0	53.7	53.5
Deposits with financial institutions	360.7	571.0	647.6	688.9	732.8
Plant and equipment	13.1	12.1	10.4	11.0	11.7
Investment in properties	0.0	0.0	0.0	0.0	0.0
Goodwill on consolidation	47.3	47.3	47.3	50.4	53.6
Other investments	0.0	0.0	0.0	0.0	0.0
AFS financial assets	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	45.4	43.2	40.7	43.3	46.0
Other receivables and deposits	12.0	14.8	8.3	8.3	8.3
Asset held for sale	0.0	0.0	0.0	0.0	0.0
Cash and bank balances	259.5	26.9	152.9	191.3	233.0
Total Assets	2,431.0	2,490.7	2,725.3	2,899.2	3,083.9
Borrowings	1,714.4	1,670.6	1,804.0	1,894.2	1,988.9
Payables and accruals	31.0	31.0	34.5	36.7	39.0
Hire purchase	0.7	0.6	0.6	0.6	0.7
Deferred tax liabilities	5.2	4.4	2.0	2.1	2.3
Tax liabilities	6.4	10.0	10.5	11.2	11.9
Total Liabilities	1,757.7	1,716.7	1,851.6	1,944.8	2,042.8
Share capital	146.3	162.1	200.7	200.7	200.7
Redeemable convertible preference shares	0.0	0.0	0.0	0.0	0.0
Reserves	527.0	611.9	671.4	753.6	840.4
Total Shareholders' Equity	673.4	774.0	872.1	954.3	1,041.1

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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