

11 Aug 2022

Buy

Price
RM1.66

Target Price
RM2.00

Bloomberg code
RCE MK

Equity | Malaysia | Non-Bank Financials
Flashnote

Analyst

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

RCE Capital

1Q23 results in line

Financial Highlights

FYE Mar	2020	2021	2022	2023F	2024F
Revenue (RMm)	221.3	232.1	239.6	250.0	261.9
Core net profit (RMm)	110.6	124.6	133.2	137.1	144.6
Core EPS (Sen)	15.1	17.0	18.2	18.7	19.8
EPS growth (%)	15.8	12.7	6.9	3.0	5.5
DPS (Sen)	5.3	6.4	10.4	7.5	7.9
Div yield (%)	3.2	3.9	6.2	4.5	4.8
PER (x)	11.0	9.7	9.1	8.9	8.4
PBR (x)	1.8	1.6	1.4	1.3	1.2
ROE (%)	17.6	17.2	16.2	15.0	14.5

Source: Company, KAF

- We reiterate our Buy recommendation on RCE Capital (RCE) with an unchanged price target of RM2.00 based on our GGM valuation.
- **Results in line.** RCE recorded net profit of RM32m in 3M23, -9% yoy, making up 24% of our and consensus's full-year net profit forecast in FY23F. We maintain our full-year net profit forecast of RM137m for FY23F.
- **Higher provisioning due to change in employment trend.** Earnings were lower yoy due to higher provision for impairment. The combination of flattish income growth and a surge in total impairment translated into lower earnings by 9% yoy.
- According to management, due to higher retirement and the shift of employment status from public to private sector in some of its customers, they were no longer on auto-deduction scheme. As such, it took a more prudent approach by allocating higher provisioning for these customers.
- As the trend was sudden, management is still observing its customers' behavior to have a better gauge on the trend's continuity. We believe that 2Q23F's sets of data will provide more clarity on this trend. As such, we maintain our forecasts for FY23F-24F.
- **Lower lending spread by 70bps.** RCE's annualised lending yield stood at 11.2% (1Q22: 12.1%) while its annualised funding cost stood at 4.4% (1Q22: 4.6%). Consequently, its annualised lending spread stood at 6.8% (1Q22: 7.5%). The slight contraction in its lending spread was mainly due to lower lending yield.
- **Higher CTI ratio.** RCE's cost-to-income (CTI) ratio stood at 49%, +5ppts yoy. Higher CTI was a result of higher impairment loss, +166% yoy.
- **RCE's coverage ratio remained high >100%.** RCE's coverage ratio remained high at 157%. This was expected, as management practices stringent risk management and prudent provisioning policy. We believe that its high coverage ratio is justified, as consumer financing is unsecured in nature with no collateral.
- **Maintain Buy.** 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. 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. Maintain Buy.

Table 1: Quarterly trends

Year to 31 March	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	% chg		Cumulative			KAF	
	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	qoq	yoy	3M22	3M23	% chg	FY23F	3M/F
RM m													
Interest and fee income	75	78	70	77	75	78	4%	0%	78	78	0%	314	25%
Interest expense	(20)	(20)	(20)	(20)	(20)	(20)	1%	3%	(20)	(20)	3%	(85)	24%
Net interest and fee income	55	58	49	57	55	57	5%	-2%	58	57	-2%	229	25%
Non-interest income	4	5	5	6	6	6	-2%	22%	5	6	22%	21	26%
Operating income	59	63	54	62	60	63	4%	0%	63	63	0%	250	25%
Operating expenses	(13)	(12)	(11)	(14)	(13)	(12)	-10%	-5%	(12)	(12)	-5%	(53)	22%
Underlying profit	46	50	43	48	47	51	8%	2%	50	51	2%	197	26%
Allowance for impairment	(1)	(3)	(1)	(2)	(6)	(8)	40%	166%	(3)	(8)	166%	(14)	57%
Exceptional	0	0	0	0	0	0	nm	nm	0	0	nm	Na	na
Pre-tax profit	46	47	42	46	41	43	4%	-9%	47	43	-9%	182	24%
Taxation	(12)	(12)	(11)	(12)	(10)	(11)	8%	-10%	(12)	(11)	-10%	(45)	23%
Net profit	34	35	32	35	32	32	2%	-9%	35	32	-9%	137	24%

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)