

RCE Capital Bhd (RCE MK)

Mixed start to the new financial year

Maintain HOLD call with a tad lower TP of MYR1.65

1QFY3/23 results were a touch below our expectations on higher-than-expected credit cost. That said, financing growth picked up a bit. Notwithstanding the aforementioned, we trim our earnings estimates by 4-6% to account for higher weighted average cost of funds going forwards. Ascribing an unchanged 1.3x end-CY22E P/BV (+1.5 SD above 5-year mean 12M forward P/BV), we trim our TP by 1sen to MYR1.65 from MYR1.66. Maintain HOLD call.

1QFY3/23 earnings slightly below on high credit cost

1QFY3/22 net profit of MYR32.2m (-9% YoY, +2% QoQ) was a tad below our expectations at 23% of our FY estimate. As a secondary check, 1QFY3/22 revenue of MYR77.7m (-0% YoY, +4% QoQ) was within our expectations at 26% of our FY estimate. The net profit shortfall was due to higher-than-expected allowances for impairment loss on receivables (i.e. credit cost). Positively, financing growth improved to 1.4% QoQ (4QFY3/22: +0.9% QoQ).

1QFY3/23 high credit cost may be an aberration...

The high credit cost was due to a wave of teachers and academic staff resigning in Jun 2022. That said, the resignations normalised in Jul 2022. Moreover, RCE is still pursuing any outstanding amounts owed by the aforementioned group. Thus, we maintain our FY3/23E credit cost ratio assumption at 62bps for now (FY3/22A: 62bps). On another note, RCE stated that the pace of financing growth witnessed in 1QFY3/23 (+2.8% YoY, +1.4% QoQ) has continued into 2QFY3/23 thus far.

... but trim earnings estimates by 4-6% nonetheless

Notwithstanding the above, we trim FY23E/FY24E/FY25E net profit by 4%/6%/6%. This is to reflect higher FY23E/FY24E/FY25E weighted average cost of funds of 4.7%/4.9%/4.9% from 4.4%/4.4%/4.4%. This is to be consistent with our house view that Bank Negara Malaysia will raise the Overnight Policy Rate (OPR) to 3.0% by mid-CY23. The net impact of the OPR hikes will not be overly negative as at least 2/3 of its financing liabilities and debt securities are fixed rate sukus. Overall, we expect earnings growth to be flattish in the near future.

FYE Mar (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Operating income	232	239	238	242	248
Pre-provision profit	183	189	187	189	194
Core net profit	125	133	132	133	137
Core FDEPS (MYR)	0.18	0.18	0.18	0.18	0.18
Core FDEPS growth(%)	5.8	3.3	(3.4)	0.9	2.8
Net DPS (MYR)	0.07	0.11	0.08	0.08	0.08
Core FD P/E (x)	7.6	10.2	9.5	9.4	9.1
P/BV (x)	1.2	1.6	1.3	1.2	1.1
Net dividend yield (%)	5.1	5.8	4.5	4.7	4.8
Book value (MYR)	1.13	1.19	1.30	1.40	1.51
ROAE (%)	17.2	16.2	14.5	13.5	12.8
ROAA (%)	5.1	5.1	4.7	4.6	4.5
Consensus net profit	-	-	137	142	146
MKE vs. Consensus (%)	-	-	(3.9)	(6.1)	(6.5)

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HOLD

Share Price	MYR 1.66
12m Price Target	MYR 1.65 (+4%)
Previous Price Target	MYR 1.66

Company Description

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

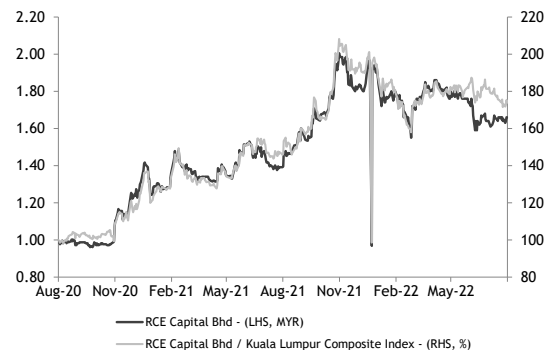
Statistics

52w high/low (MYR)	2.01/0.97
3m avg turnover (USDm)	0.1
Free float (%)	36.1
Issued shares (m)	740
Market capitalisation	MYR1.2B USD277M

Major shareholders:

Cempaka Empayar Sdn. Bhd.	52.9%
Rockwills International Group Bhd	4.5%
Khai Yoon Woo	2.2%

Price Performance



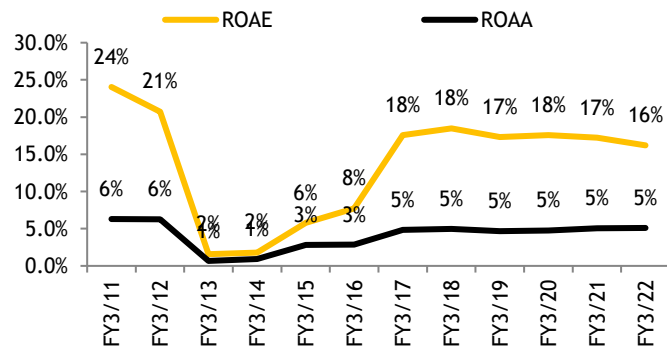
	-1M	-3M	-12M
Absolute (%)	1	(8)	19
Relative to index (%)	(3)	(4)	20

Source: FactSet

Value Proposition

- RCE Capital provides personal financing, the ultimate customers being civil servants.
- With a gross financing balance of just MYR1.9b, 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.

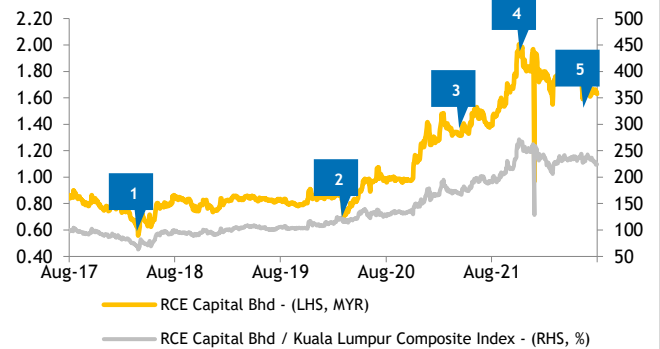
ROE and ROA



Source: Company

Price Drivers

Historical share price trend



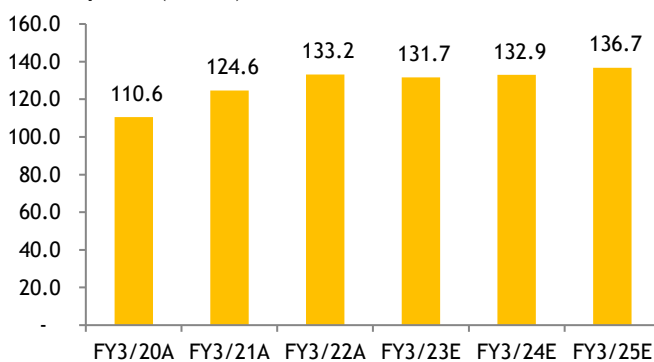
Source: Company, Maybank IBG Research

1. Concerns arise that the government may reduce the size of the civil service.
2. Movement Control Order lengthened time to process new customers, resulting in less financing disbursed.
3. 2QFY3/21 net profit grew 21% YoY to a record high of MYR33.0m.
4. Announced share DPS of 1 treasury share: 20 shares held and bonus issue of 19 bonus shares: 21 shares held.
5. Bank Negara Malaysia raised Overnight Policy Rate by 25bps in May 2022, for the first time since Jul 2020. This was followed by another 25bps hike in July 2022.

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 1% 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 (historicals), Maybank IBG Research (forecasts)

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.

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Figure 1: Summary Results Table

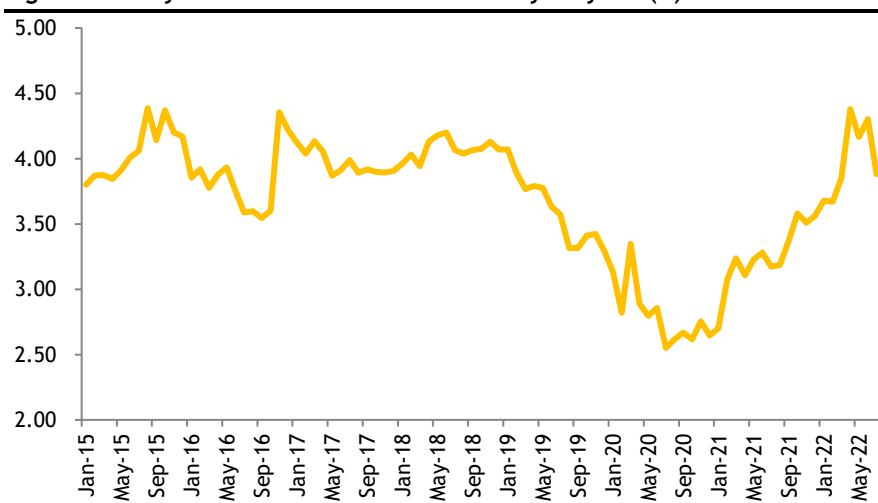
FY Mar (MYRm)	1QFY3/23	1QFY3/22	% YoY	4QFY3/22	% QoQ
Interest/profit income	69.2	71.6	(3.3)	70.4	(1.6)
Other revenue	8.4	6.5	30.4	4.3	94.6
Revenue	77.7	78.0	(0.5)	74.7	4.0
Other income	5.6	4.6	22.1	5.7	(2.3)
Interest/profit expense applicable to revenue	-20.3	-19.8	2.5	-20.1	1.4
Directors' remuneration and staff costs	-6.1	-6.1	(0.4)	-5.2	17.4
Allowances for impairment loss on receivables, net	-8.2	-3.1	166.2	-5.9	39.9
Depreciation of plant and equipment and right-of-use asset	-0.8	-0.8	1.9	-1.0	(10.9)
Other expenses	-4.9	-5.5	(10.9)	-6.9	(29.7)
Finance costs	-0.1	-0.1	(17.4)	-0.1	(5.0)
Profit before tax	42.9	47.3	(9.2)	41.4	3.5
Taxation	-10.7	-11.9	(10.1)	-9.9	7.8
Net profit	32.2	35.4	(8.9)	31.5	2.2
Financing & loans receivables, gross	1,904.7	1,853.4	2.8	1,879.2	1.4
(Allowance for impairment)	-118.3	-123.4	(4.2)	-115.1	2.7
Financing & loans receivables, net	1,786.4	1,730.0	3.3	1,764.1	1.3
	1QFY3/23	1QFY3/22	+/- ppt	4QFY3/22	+/- ppt
Tax rate (%)	24.9	25.1	(0.3)	23.9	1.0
Gross NPF ratio (%)	4.0	4.0	(0.0)	3.8	0.2
Financing & loans loss coverage ratio (%)	157.1	167.1	(10.0)	162.8	(5.7)
Net gearing (%)	117.7	133.2	(15.5)	115.6	2.1

Source: Company

Results analysis

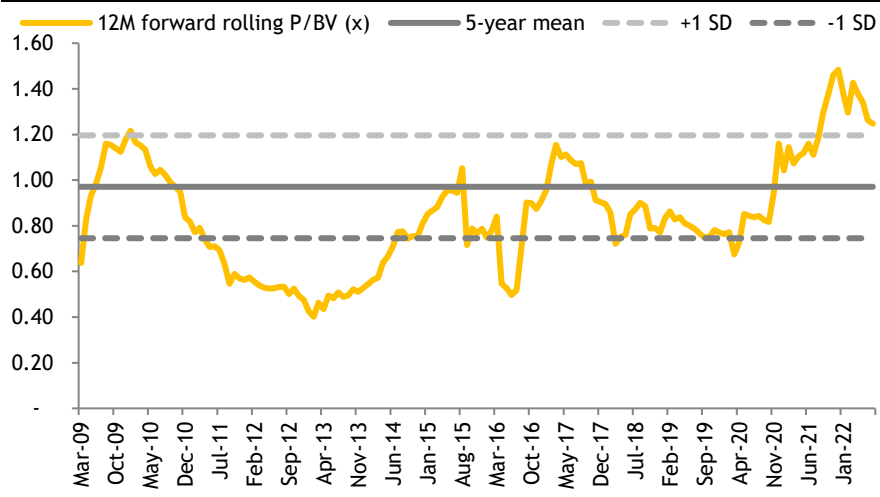
- 1QFY3/23 net profit was down 9% YoY largely due to more allowances for impairment loss on receivables (i.e. credit cost).
- 1QFY3/23 net profit was up 2% QoQ largely due to higher fee income moderated by higher credit cost.

Figure 2: Malaysian Government Securities 10-year yield (%)



Source: Bloomberg

Figure 3: 12M forward P/BV (x)



Source: Company, Bloomberg, Maybank IBG Research

FYE 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
Core P/E (x)	7.5	10.1	9.2	9.1	8.9
Core FD P/E (x)	7.6	10.2	9.5	9.4	9.1
P/BV (x)	1.2	1.6	1.3	1.2	1.1
P/NTA (x)	1.3	1.6	1.3	1.2	1.2
Net dividend yield (%)	5.1	5.8	4.5	4.7	4.8
INCOME STATEMENT (MYR m)					
Islamic banking income	204.4	206.4	202.5	205.5	212.0
Other income	27.4	33.0	35.8	36.1	36.3
Total non-interest income	231.8	239.4	238.3	241.6	248.3
Operating income	231.8	239.4	238.3	241.6	248.3
Staff costs	(26.3)	(26.6)	(27.0)	(27.7)	(28.5)
Other operating expenses	(22.7)	(24.0)	(24.2)	(24.8)	(25.4)
Operating expenses	(49.0)	(50.6)	(51.2)	(52.5)	(53.8)
Pre-provision profit	182.8	188.8	187.1	189.1	194.5
Other allowances	(15.6)	(11.5)	(11.8)	(12.2)	(12.5)
Associates & JV income	0.0	0.0	0.0	0.0	0.0
Pretax profit	167.2	177.2	175.3	176.9	181.9
Income tax	(42.6)	(44.1)	(43.6)	(44.0)	(45.2)
Reported net profit	124.6	133.2	131.7	132.9	136.7
Core net profit	124.6	133.2	131.7	132.9	136.7
BALANCE SHEET (MYR m)					
Cash & deposits with banks	597.9	800.5	877.4	954.0	1,033.0
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	1,775.4	1,818.0	1,871.0	1,925.5	1,981.6
Fixed assets	7.3	6.4	6.3	6.2	6.1
Intangible assets	47.3	47.3	47.3	47.3	47.3
Other assets	62.8	53.0	53.0	53.0	53.0
Total assets	2,490.7	2,725.3	2,855.0	2,986.0	3,121.1
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	1,187.4	1,310.0	1,310.0	1,310.0	1,310.0
Other borrowings	252.9	342.0	395.1	449.8	506.5
Other liabilities	276.3	201.2	201.1	201.2	201.4
Total liabilities	1,716.7	1,853.2	1,906.1	1,960.9	2,017.9
Share capital	188.0	200.7	200.7	200.7	200.7
Reserves	586.0	671.4	748.2	824.4	902.5
Shareholders' funds	774.0	872.1	948.9	1,025.1	1,103.2
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	774.0	872.1	948.9	1,025.1	1,103.2
Total liabilities & equity	2,490.7	2,725.3	2,855.0	2,986.0	3,121.1

FYE 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth (%)					
Net interest income	na	na	na	na	na
Non-interest income	4.8	3.3	(0.4)	1.4	2.8
Operating expenses	(0.4)	3.3	1.2	2.5	2.5
Pre-provision profit	6.3	3.3	(0.9)	1.1	2.8
Core net profit	12.7	6.8	(1.1)	0.9	2.8
Gross loans	1.4	1.8	3.0	3.0	3.0
Customer deposits	na	na	na	na	na
Total assets	2.5	9.4	4.8	4.6	4.5
Profitability (%)					
Non-int. income/Total income	100.0	100.0	100.0	100.0	100.0
Cost/income	21.1	21.1	21.5	21.7	21.7
Liquidity (%)					
Loans/customer deposits	na	na	na	na	na
Asset quality (%)					
Gross NPF	4.0	3.8	3.8	3.8	3.8
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	17.2	16.2	14.5	13.5	12.8
ROAA	5.1	5.1	4.7	4.6	4.5
Shareholders equity/assets	31.1	32.0	33.2	34.3	35.3

Source: Company; Maybank IBG Research

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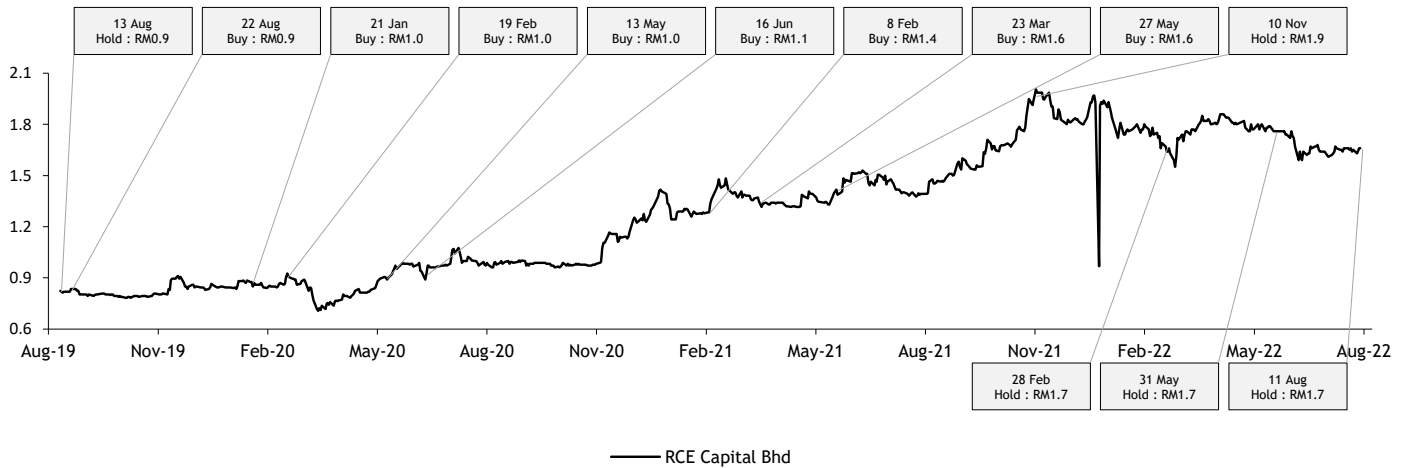
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