

15 August 2023

Hold

Price
RM2.23

Target Price
RM2.03 (from RM2.00)

Market Data

| | |
|--------------------------|-------------|
| Bloomberg Code | RCE MK |
| No. of shares (m) | 353.2 |
| Market cap (RMm) | 667.5 |
| 52-week high/low (RM) | 1.93 / 1.37 |
| Avg daily turnover (RMm) | 0.4 |
| KLCI (pts) | 1,445.2 |

Source: Bloomberg, KAF

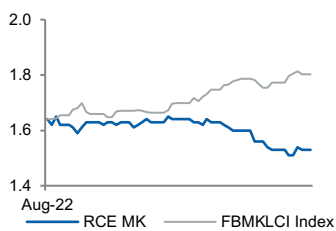
Major Shareholder (%)

| | |
|-----------------|---------|
| Cempaka Empayar | (55.0%) |
| EPF | (2.4%) |
| Cheam Heng Ming | (1.1%) |
| Free Float | 121.2 |

Source: Bloomberg, KAF

Performance

| | 3M | 6M | 12M |
|----------------|------|------|------|
| Absolute (%) | 16.7 | 22.4 | 50.0 |
| Rel Market (%) | 15.5 | 25.0 | 55.9 |



Source: Bloomberg, KAF

Analyst

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RCE Capital

Supported by Lower Impairment Loss

1Q24 results were within expectations, accounting for ~26% of our full-year FY24 projection. Net profit was 14.4% YoY and 5.8% QoQ higher, supported by lower charge for impairment loss. That said, we maintain our HOLD call for RCE. While RCE provides stable earnings and consistent dividends, we view the current stock valuation as overstretched, trading at above its 5-year mean forward P/BV, i.e., within the +2SD territory. Our TP, which is based on a sustainable ROE of 16.8%, cost of equity of 10.5% and an unchanged long-term growth of 3%, is adjusted slightly higher to RM2.03 as we rolled-forward our valuation base.

Financial Highlights

| FYE Mar | 2022 | 2023 | 2024F | 2026F | 2026F |
|------------------|-------|-------|-------|-------|-------|
| Operating income | 239.6 | 261.6 | 269.6 | 282.6 | 296.3 |
| Net profit | 133.2 | 138.8 | 142.7 | 149.5 | 157.5 |
| EPS (sen) | 18.0 | 18.7 | 19.2 | 20.2 | 21.2 |
| EPS growth (%) | 6.9 | 4.2 | 2.8 | 4.8 | 5.3 |
| DPS (sen) | 10.2 | 30.0 | 11.5 | 12.1 | 12.7 |
| Div yield (%) | 4.6 | 13.5 | 5.2 | 5.4 | 5.7 |
| PER (x) | 12.4 | 11.9 | 11.6 | 11.1 | 10.5 |
| PBR (x) | 1.9 | 2.1 | 1.9 | 1.8 | 1.7 |
| ROE (%) | 16.2 | 16.5 | 17.1 | 16.7 | 16.4 |

Source: Company, KAF

1Q24 results inline.

RCE's 1Q24 net profit of RM36.9m (+14.4% YoY, 5.8% QoQ) came in at 25.9% of our FY24 estimate. Performance was supported by lower allowances for impairment loss on receivables of RM4.7m, versus RM8.2m reported in respective 1Q23 and 4Q23, a decline of ~42%. To recap, 1Q23 reported higher impairment loss due mainly to changes in employment trends, i.e., higher retirement and shift in employment status.

No dividends were declared in the current quarter as expected, the Group traditionally declared in 2Q and 4Q.

Healthy on all fronts.

The non-performing financing remains at RM76.4m (FY23: RM77m), translating to an NPL ratio of 3.7%. It has also maintained a healthy coverage ratio of 157%. RCE's financing receivables growth meanwhile, expanded by 7.4% YoY in 1Q24 despite the higher chargeable rates for its current financing product. This is understandable due to the current pressure on the cost of living, supported by annual salary increments early this year.

Maintain Hold, overstretched valuation.

RCE provides relatively stable earnings and consistent dividends with a payout of 60% - 80%. Its business model is generally secure as it is protected by the auto-deduction payment scheme. Nevertheless, we view the current stock valuation as overstretched, trading at above its 5-year mean forward P/BV of 1.5x, i.e., within the +2SD territory.

As such, we maintain our **HOLD** call for RCE with a slightly higher TP of RM2.03 as we rollover our valuation base. Our TP is based on a sustainable ROE of 16.8%, cost of equity of 10.5% and an unchanged long-term growth of 3%, implying a higher P/B of 1.87x. Our FY24F - 26F earnings adjusted marginally by -1.2% on average, post some housekeeping adjustments.

Table 1: Quarterly trends

| Year to 31 March | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 | Jun-23 | % chg | | KAF | |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|
| | 4Q22 | 1Q23 | 2Q23 | 3Q23 | 4Q23 | 1Q24 | QoQ | YoY | 2024F | 3M/F |
| Interest and fee income | 74.7 | 77.7 | 81.8 | 81.6 | 82.6 | 84.0 | 1.6% | 8.1% | 337.3 | 24.9% |
| Interest expense | (20.1) | (20.3) | (21.6) | (22.8) | (25.4) | (24.9) | -1.7% | 22.5% | (99.1) | 25.1% |
| Net interest and fee income | 54.7 | 57.3 | 60.2 | 58.8 | 57.3 | 59.0 | 3.1% | 3.0% | 238.1 | 24.8% |
| Non-interest income | 5.7 | 5.6 | 6.3 | 7.3 | 8.8 | 8.5 | -2.8% | 51.9% | 29.4 | 29.0% |
| Operating income | 60.4 | 62.9 | 66.5 | 66.1 | 66.1 | 67.6 | 2.3% | 7.4% | 269.6 | 25.1% |
| Operating expenses | (13.1) | (11.8) | (11.1) | (14.6) | (11.5) | (13.9) | 20.9% | 17.0% | (50.5) | 27.5% |
| Underlying profit | 47.3 | 51.1 | 55.4 | 51.5 | 54.6 | 53.7 | -1.6% | 5.1% | 219.2 | 24.5% |
| Allowance for impairment | (5.9) | (8.2) | (6.9) | (5.5) | (8.2) | (4.7) | -42.1% | -42.5% | (30.1) | 15.7% |
| Exceptional | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | n.a. | n.a. | n.a. | n.a. |
| Pre-tax profit | 41.4 | 42.9 | 48.6 | 46.1 | 46.4 | 49.0 | 5.5% | 14.2% | 189.1 | 25.9% |
| Taxation | (9.9) | (10.7) | (12.0) | (10.9) | (11.6) | (12.1) | 4.4% | 13.6% | (46.4) | 26.1% |
| Net profit | 31.5 | 32.2 | 36.5 | 35.2 | 34.8 | 36.9 | 5.8% | 14.4% | 142.7 | 25.9% |

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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