

RCE Capital Bhd (RCE MK)

Another record quarter but likely reflected in share price already, in our view

Downgrade to HOLD with higher TP of MYR2.59 (+9%)

Both earnings and dividends handily beat our expectations. Financing growth is also re-accelerating. We raise EPS estimates by 9-12% and DPS estimates by 2sen p.a. as we employ a higher DPR of 80% (76% previously). We migrate our valuation to 2.2x end-CY24E P/BV from 2.1x end-CY23E P/BV to raise our TP to MYR2.59 from MYR2.38. RCE's recent share price gain reflects the stellar results, in our view. Downgrade to HOLD.

Earnings and dividends outperformed

2QFY24 net profit of MYR38.2m (+5% YoY, +4% QoQ) brought 6MFY24 net profit to MYR75.1m (+9% YoY), at 56% of our FY estimate. The outperformance was due to higher-than-expected other revenue (i.e. fee income which is tied to disbursements) and lower-than-expected profit expense (i.e. lower-than-expected cost of funds). Also, the first interim DPS of 8.0sen was a whole sen above our expectations as RCE employed 80% DPR or 4ppts more than we expected.

Raise EPS estimates by 9-12%...

Delving into the details, we note that 2QFY24 financing receivables growth accelerated to 2% QoQ (1QFY24: +1% QoQ). RCE stated that recent disbursement trends indicate that the 2QFY24 financing receivables growth can continue into the near future. At this rate, FY24 financing receivables growth will come in at 6-7%. Reflecting higher financing receivables growth and lower cost of funds, we raise FY24E/FY25E/FY26E EPS by 12%/9%/9% (Fig. 2).

... and DPS estimates by 2sen p.a.

Moreover, we raise FY24E/FY25E/FY26E DPS by 2sen p.a. to account for 80% DPR from 76% previously. For now, RCE has no plans to revise its 60-80% DPR policy which was just revised 6 months ago. At its last share price, RCE offers decent net dividend yields of $\geq 5.9\%$ p.a. We roll forward our valuation base year to end-CY24E from CY23E and with RCE having raised its DPR by 5% to 80% DPR, we think it reasonable to raise our target P/BV by a similar 5% to 2.2x which raises our TP to MYR2.59 from MYR2.38.

FYE Mar (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Operating income	239	261	272	277	288
Pre-provision profit	189	213	221	224	234
Core net profit	133	139	151	153	160
Core FDEPS (MYR)	0.18	0.19	0.20	0.21	0.22
Core FDEPS growth(%)	3.3	3.7	8.4	1.1	4.4
Net DPS (MYR)	0.11	0.30	0.16	0.17	0.17
Core FD P/E (x)	10.2	9.7	13.3	13.1	12.6
P/BV (x)	1.6	1.7	2.4	2.3	2.2
Net dividend yield (%)	5.8	16.5	5.9	6.1	6.3
Book value (MYR)	1.19	1.10	1.15	1.19	1.24
ROAE (%)	16.2	16.5	18.4	17.9	17.9
ROAA (%)	5.1	4.9	5.0	4.8	4.9
Consensus net profit	-	-	143	150	158
MIBG vs. Consensus (%)	-	-	5.9	2.2	1.3

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HOLD

[Prior:BUY]

Share Price MYR 2.71
12m Price Target MYR 2.59 (+2%)
Previous Price Target MYR 2.38

Company Description

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

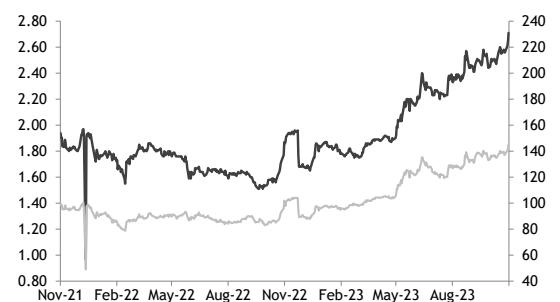
Statistics

52w high/low (MYR)	2.71/1.65
3m avg turnover (USDm)	0.2
Free float (%)	32.5
Issued shares (m)	741
Market capitalisation	MYR2.0B USD429M

Major shareholders:

Cempaka Empayar Sdn. Bhd.	57.9%
Khai Yoon Woo	1.5%
Employees Provident Fund	1.5%

Price Performance



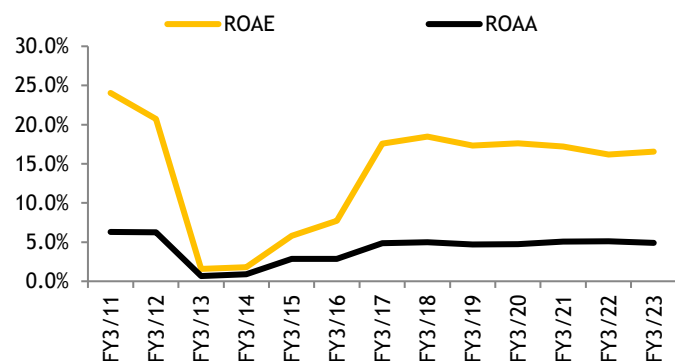
	-1M	-3M	-12M
Absolute (%)	11	15	45
Relative to index (%)	9	14	43

Source: FactSet

Value Proposition

- RCE Capital provides personal financing, the ultimate customers being civil servants.
- With a gross financing balance of just MYR2.0b, we estimate that its market share is only 2%.
- Non-performing financing kept in check thanks to nondiscretionary 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.

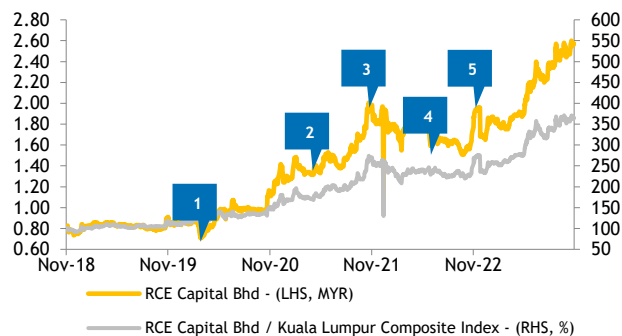
ROE and ROA



Source: Company

Price Drivers

Historical share price trend



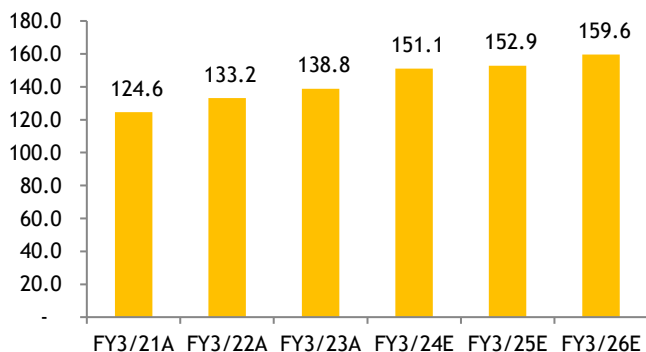
Source: Company, Maybank IBG Research

1. Movement Control Order lengthened time to process new customers applications, resulting in less financing disbursed.
2. 2QFY21 net profit grew 21% YoY to a record high of MYR33.0m.
3. Announced share DPS of 1 treasury share for 20 shares held and bonus issue of 19 shares for 21 shares held.
4. Bank Negara Malaysia raised Overnight Policy Rate by 25bps for the first time since Jul 2020.
5. Announced a huge special DPS of 18sen and higher-than expected interim DPS of 5sen.

Financial Metrics

- Introduced better credit scoring model in 2013. We forecast gross financing CAGR of 5% p.a. over the next three years.
- Average cost of funds is rising but so is average financing yields.
- Asset quality better than before. New financing are smaller in size (<2%).
- Forecast stable three-year forward core net profit CAGR of 5% p.a.
- Recently raised DPR policy from 20-40% to 60-80%.

Core net profit (MYRm)



Source: Company (historical), 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's debt repayment.

Figure 1: Summary Results Table

FY Mar (MYR m)	2QFY24	2QFY23	% YoY	1QFY24	% QoQ	6MFY24	6MFY23	% YoY
Interest/profit income	73.2	71.0	3.2	71.1	3.0	144.3	140.2	2.9
Other revenue	14.6	10.8	35.2	12.9	13.3	27.5	19.2	42.9
Revenue	87.8	81.8	7.4	84.0	4.6	171.8	159.4	7.8
Other income	9.7	6.3	53.3	8.5	14.2	18.3	12.0	52.6
Interest/profit expense applicable to revenue	(24.6)	(21.6)	14	(24.9)	(1.5)	(49.5)	(41.9)	18.0
Directors' remuneration and staff costs	(6.9)	(5.7)	21.8	(7.1)	(2.9)	(14.0)	(11.7)	19.2
Allowances for impairment loss on receivables, net	(6.9)	(6.9)	0.1	(4.7)	45.7	(11.6)	(15.1)	(23.1)
Depreciation of plant and equipment and right-of-use asset	(0.9)	(0.9)	0.6	(0.9)	(1.4)	(1.8)	(1.7)	4.2
Other expenses	(7.4)	(4.5)	64.5	(5.8)	27.3	(13.2)	(9.4)	40.9
Finance costs	(0.1)	(0.1)	7.1	(0.1)	13.2	(0.1)	(0.1)	-
Profit before tax	50.9	48.6	4.8	49.0	3.9	99.9	91.5	9.2
Taxation	(12.6)	(12.0)	5.1	(12.1)	4.4	(24.8)	(22.7)	9.1
Net profit	38.2	36.5	4.7	36.9	3.7	75.1	68.8	9.2
Financing & loans receivables, gross	2,086.6	1,957.6	6.6	2,045.4	2.0	2,086.6	1,957.6	6.6
(Allowance for impairment)	(121.4)	(120.2)	1.0	(119.9)	1.2	(121.4)	(120.2)	1.0
Financing & loans receivables, net	1,965.3	1,837.4	7.0	1,925.5	2.1	1,965.3	1,837.4	7.0
	2QFY24	2QFY23	+/- ppt	1QFY24	+/- ppt	6MFY24	6MFY23	+/- ppt
Tax rate (%)	24.8	24.8	0.1	24.7	0.1	24.8	24.8	(0.0)
Gross NPF ratio (%)	3.7	4.0	(0.3)	3.7	(0.0)	3.7	4.0	(0.3)
Financing & loans loss coverage ratio (%)	155.8	154.0	1.7	156.9	(1.1)	155.8	154.0	1.7
Net gearing (%)	152.8	114.1	38.7	160.8	(8.0)	152.8	114.1	38.7

Source: Company

Results analysis

- 2QFY24 core net profit was up 5% YoY largely due to higher revenue derived from higher profit and fee income, higher other income derived from profit income from deposit placements with licensed financial institutions but moderated by higher profit expense and other expenses.
- 2QFY24 core net profit was up 4% YoY largely due to higher revenue derived from higher early settlement profit and fee income but moderated by higher net allowances for impairment loss on receivables and other expenses.
- 6MFY24 core net profit was up 9% YoY largely due to higher revenue derived from higher profit and fee income, higher other income derived from profit income from deposit placements with licensed financial institutions, lower net allowances for impairment loss on receivables and other expenses but moderated by higher profit expense and other expenses.

Figure 2: Major assumptions and estimates

FY Mar	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Revised						
Financing growth (%)	1.4%	1.8%	7.5%	6.0%	4.0%	4.0%
Cost of funds (%)	4.8%	4.6%	4.6%	4.6%	4.5%	4.5%
Net profit (MYRm)	124.6	133.2	138.8	151.1	152.9	159.6
Previous						
Financing growth (%)	1.4%	1.8%	7.5%	4.0%	4.0%	4.0%
Cost of funds (%)	4.8%	4.6%	4.6%	5.1%	5.1%	5.1%
Net profit (MYRm)	124.6	133.2	138.8	134.8	140.7	146.7

Source: Company

FYE 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
Core P/E (x)	10.1	9.6	13.1	13.0	12.4
Core FD P/E (x)	10.2	9.7	13.3	13.1	12.6
P/BV (x)	1.6	1.7	2.4	2.3	2.2
P/NTA (x)	1.6	1.8	2.5	2.4	2.3
Net dividend yield (%)	5.8	16.5	5.9	6.1	6.3
INCOME STATEMENT (MYR m)					
Islamic banking income	206.4	209.4	223.9	235.6	245.7
Other income	33.0	52.0	48.5	41.1	42.7
Total non-interest income	239.4	261.4	272.3	276.6	288.3
Operating income	239.4	261.4	272.3	276.6	288.3
Staff costs	(26.6)	(27.1)	(28.5)	(29.1)	(30.3)
Other operating expenses	(24.0)	(21.7)	(22.7)	(23.1)	(23.8)
Operating expenses	(50.6)	(48.8)	(51.2)	(52.2)	(54.1)
Pre-provision profit	188.8	212.6	221.1	224.4	234.2
Other allowances	(11.5)	(28.7)	(20.8)	(21.9)	(22.7)
Associates & JV income	0.0	0.0	0.0	0.0	0.0
Pretax profit	177.2	183.9	200.3	202.6	211.5
Income tax	(44.1)	(45.2)	(49.2)	(49.7)	(51.9)
Reported net profit	133.2	138.8	151.1	152.9	159.6
Core net profit	133.2	138.8	151.1	152.9	159.6
BALANCE SHEET (MYR m)					
Cash & deposits with banks	800.5	879.7	924.5	963.5	1,006.7
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	1,818.0	1,953.3	2,067.3	2,147.8	2,231.6
Fixed assets	6.4	7.2	7.2	7.1	7.0
Intangible assets	47.3	47.3	47.3	47.3	47.3
Other assets	53.0	59.3	59.3	59.3	59.3
Total assets	2,725.3	2,946.8	3,105.6	3,225.0	3,351.9
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	1,310.0	1,290.9	1,290.9	1,290.9	1,290.9
Other borrowings	342.0	434.3	558.5	645.8	737.3
Other liabilities	201.2	416.0	416.7	416.8	417.2
Total liabilities	1,853.2	2,141.2	2,266.1	2,353.5	2,445.4
Share capital	200.7	201.9	201.9	201.9	201.9
Reserves	671.4	603.7	637.6	669.6	704.5
Shareholders' funds	872.1	805.7	839.5	871.5	906.4
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	872.1	805.7	839.5	871.5	906.4
Total liabilities & equity	2,725.3	2,946.8	3,105.6	3,225.0	3,351.9

FYE 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth (%)					
Net interest income	na	na	na	na	na
Non-interest income	3.3	9.2	4.2	1.6	4.2
Operating expenses	3.3	(3.6)	5.0	2.0	3.7
Pre-provision profit	3.3	12.6	4.0	1.5	4.4
Core net profit	6.8	4.2	8.9	1.1	4.4
Gross loans	1.8	7.5	6.0	4.0	4.0
Customer deposits	na	na	na	na	na
Total assets	9.4	8.1	5.4	3.8	3.9
Profitability (%)					
Non-int. income/Total income	100.0	100.0	100.0	100.0	100.0
Cost/income	21.1	18.7	18.8	18.9	18.8
Liquidity (%)					
Loans/customer deposits	na	na	na	na	na
Asset quality (%)					
Gross NPF	3.8	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	16.2	16.5	18.4	17.9	17.9
ROAA	5.1	4.9	5.0	4.8	4.9
Shareholders equity/assets	32.0	27.3	27.0	27.0	27.0

Source: Company; Maybank IBG Research

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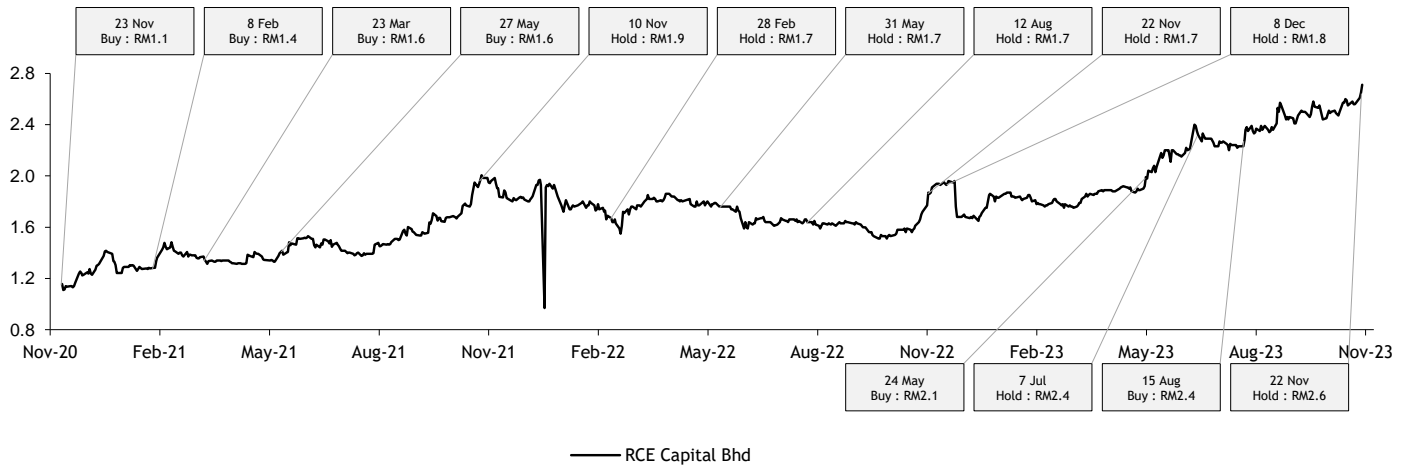
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