

## RCE Capital Bhd (RCE MK)

# Solid management and earnings delivery...

### ... but valuations are ahead; D/G to SELL

3Q/9MFY24 earnings were within our expectation. While we acknowledge that RCE's ROAEs are c.80% higher than the banking industry's average, we are unsure if it should be trading at 3x the average P/BV multiples the banking industry is trading at (Fig. 2). Maintain our MYR2.59 TP premised on 2.2x end-CY24E P/BV. With share price ahead of our TP, we downgrade RCE to SELL from HOLD. Risk to our SELL call is RCE raising its DPR policy to 100% (MIBG forecast: 80%). We prefer **AMMB Holdings**.

### Earnings in-line

3QFY24 core net profit of MYR34.6m (-2% YoY, -10% QoQ) brought 9MFY24 core net profit to MYR109.7m (+6% YoY) which was within our expectations at 73% of our FY estimate. As a secondary check, 9MFY24 revenue of MYR259.2m (+8% YoY) also met our expectation at 76% of our FY estimate. No dividend was declared in the current quarter but this is expected as they are traditionally declared in the 2QFY and 4QFY.

### Operations weakened a tad QoQ...

Non-performing financing (NPF) ratio inched up 10bps QoQ to 3.8% as at end-3QFY24 because there was an uptick in early retirements and resignations in the civil service. Consequently, credit cost (i.e. net allowances for impairment loss on receivables) rose 21% QoQ to MYR8.3m or the highest level since 3QFY18. Moreover, gross financing receivables growth decelerated to 1% QoQ in 3QFY24 from 2% QoQ in 2QFY24.

### ... but maintaining earnings estimates

RCE stated the uptick in early retirements and resignations in the civil service has moderated. Thus, NPF ratio and credit cost ought to moderate going forward as well. Furthermore, it also hopes that the government's introduction of new guidelines for civil service salaries in the next couple of months will translate into gross financing receivables growth accelerating ([link](#)).

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	15.4	15.2	14.5
P/BV (x)	1.6	1.7	2.7	2.6	2.5
Net dividend yield (%)	5.8	16.5	5.1	5.3	5.4
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	-	-	149	152	159
MIBG vs. Consensus (%)	-	-	1.4	0.6	0.5

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# SELL

[Prior:HOLD]

Share Price MYR 3.14  
12m Price Target MYR 2.59 (-12%)  
Previous Price Target MYR 2.59

### Company Description

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

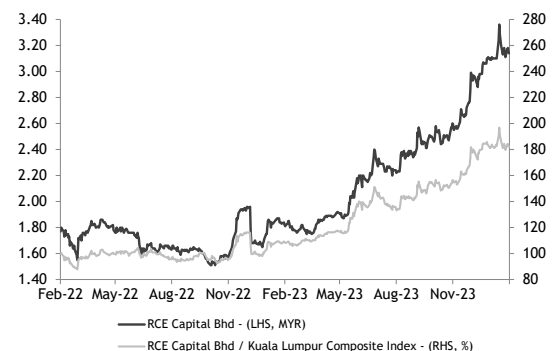
### Statistics

52w high/low (MYR)	3.36/1.75
3m avg turnover (USDm)	0.6
Free float (%)	32.5
Issued shares (m)	741
Market capitalisation	MYR2.3B USD488M

### Major shareholders:

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

### Price Performance



	-1M	-3M	-12M
Absolute (%)	2	21	73
Relative to index (%)	0	16	68

Source: FactSet

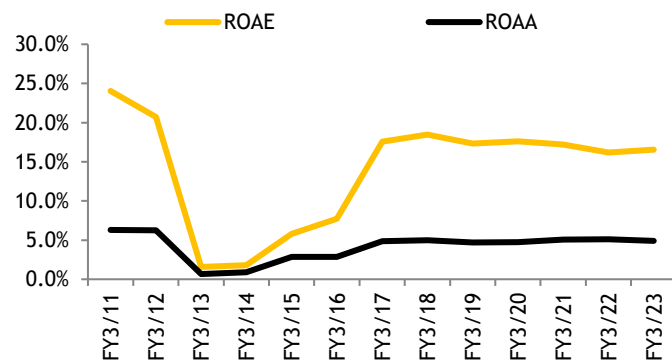
Other companies mentioned in this report:-

AMMB Holdings (AMMB MK, BUY, CP: MYR4.29, TP: MYR4.75)

## 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

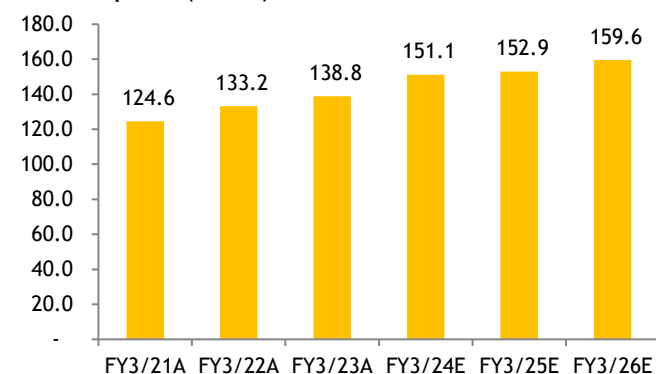


Source: Company

## 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%.

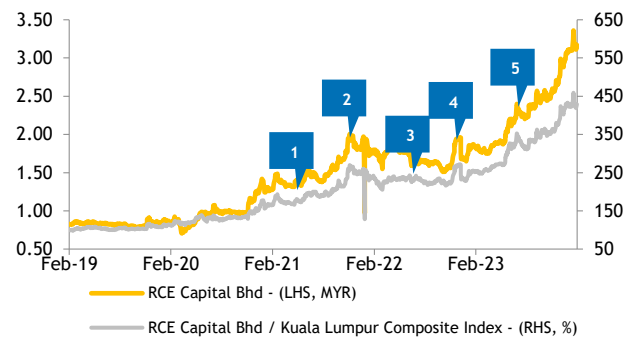
### Core net profit (MYRm)



Source: Company (historicals), Maybank IBG Research (forecasts)

## Price Drivers

### Historical share price trend



Source: Company, Maybank IBG Research

1. 2QFY21 net profit grew 21% YoY to a record high of MYR33.0m.
2. Announced share DPS of 1 treasury share for 20 shares held and bonus issue of 19 shares for 21 shares held.
3. Bank Negara Malaysia raised Overnight Policy Rate by 25bps for the first time since Jul 2020.
4. Announced a huge special DPS of 18sen and higher-than-expected interim DPS of 5sen.
5. Announced that it raised its dividend policy from 20-40% DPR to 60-80% DPR.

## 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.

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Figure 1: Summary Results Table

FY Mar (MYR m)	3QFY3/24	3QFY3/23	% YoY	2QFY3/24	% QoQ	9MFY3/24	9MFY3/23	% YoY
Interest/profit income	74.1	70.1	5.7	73.2	1.1	218.4	210.2	3.9
Other revenue	13.4	11.5	16.0	14.6	(8.6)	40.8	30.7	32.9
<b>Revenue</b>	<b>87.4</b>	<b>81.6</b>	<b>7.2</b>	<b>87.8</b>	<b>(0.5)</b>	<b>259.2</b>	<b>241.0</b>	<b>7.6</b>
Other income	10.0	7.3	37.3	9.7	3.2	28.3	19.3	46.8
Interest/profit expense applicable to revenue	(24.0)	(22.8)	5.3	(24.6)	(2.3)	(73.5)	(64.7)	13.5
Directors' remuneration and staff costs	(11.3)	(9.4)	20.9	(6.9)	64.5	(25.3)	(21.1)	20.0
Allowances for impairment loss on receivables, net	(8.3)	(5.5)	52.1	(6.9)	21.1	(19.9)	(20.5)	(3.0)
Depreciation of plant and equipment and right-of-use asset	(1.0)	(0.9)	2.8	(0.9)	5.5	(2.8)	(2.7)	3.7
Other expenses	(6.9)	(4.2)	64.5	(7.4)	(6.1)	(20.1)	(13.6)	48.3
Finance costs	(0.1)	(0.1)	41.4	(0.1)	36.7	(0.2)	(0.2)	14.0
<b>Profit before tax</b>	<b>45.8</b>	<b>46.1</b>	<b>(0.5)</b>	<b>50.9</b>	<b>(9.9)</b>	<b>145.7</b>	<b>137.5</b>	<b>6.0</b>
Taxation	(11.3)	(10.9)	3.6	(12.6)	(10.8)	(36.0)	(33.6)	7.3
<b>Net profit</b>	<b>34.6</b>	<b>35.2</b>	<b>(1.7)</b>	<b>38.2</b>	<b>(9.6)</b>	<b>109.7</b>	<b>103.9</b>	<b>5.5</b>
Financing & loans receivables, gross	2,106.8	1,978.5	6.5	2,086.6	1.0	2,106.8	1,978.5	6.5
(Allowance for impairment)	(123.9)	(119.6)	3.6	(121.4)	2.1	(123.9)	(119.6)	3.6
<b>Financing &amp; loans receivables, net</b>	<b>1,982.8</b>	<b>1,859.0</b>	<b>6.7</b>	<b>1,965.3</b>	<b>0.9</b>	<b>1,982.8</b>	<b>1,859.0</b>	<b>6.7</b>
	3QFY3/24	3QFY3/23	+/- ppt	2QFY3/24	+/- ppt	9MFY3/24	9MFY3/23	+/- ppt
Tax rate (%)	24.6	23.6	1.0	24.8	(0.2)	24.7	24.4	0.3
Gross NPF ratio (%)	3.8	3.9	(0.1)	3.7	0.1	3.8	3.9	(0.1)
Financing & loans loss coverage ratio (%)	153.4	153.7	(0.3)	155.8	(2.4)	153.4	153.7	(0.3)
Net gearing (%)	161.2	156.5	4.7	152.8	8.4	161.2	156.5	4.7

Source: Company

## Results analysis

- 3QFY24 core net profit was down 2% YoY largely due to higher profit and fee income being offset by higher directors' remuneration and staff costs coupled with higher net allowances for impairment loss on receivables.
- 3QFY24 core net profit eased 10% QoQ largely due to higher directors' remuneration and staff costs driven by higher Employee Share Scheme expense, coupled with higher net allowances for impairment loss on receivables.
- 9MFY24 core net profit was up 6% YoY largely due to higher profit and fee income moderated by higher profit expense, directors' remuneration and staff costs, and other expenses.

Figure 2: Banking sector - Peer valuation summary

Stock	Rec	Shr px (MYR)	Mkt cap (MYR m)	TP (MYR)	PER (x) CY23E	PER (x) CY24E	P/B (x) CY23E	P/B (x) CY24E	ROAE (%) CY23E	ROAE (%) CY24E	Net yield CY23E	Net yield CY24E
Maybank *	NR	9.29	112,040	NR	12.3	11.6	1.3	1.3	10.5	11.0	6.9	7.3
Public Bank	BUY	4.39	85,213	5.05	12.7	11.9	1.6	1.5	13.0	13.0	4.3	4.6
CIMB	BUY	6.20	66,124	6.70	9.7	9.3	1.0	0.9	10.2	10.1	5.5	5.8
HL Bank	BUY	19.20	41,620	23.00	10.3	10.0	1.2	1.1	11.5	12.1	3.3	3.6
RHB Bank	HOLD	5.60	24,004	6.20	8.4	8.2	0.8	0.8	9.6	9.3	6.0	6.1
HLFG	BUY	16.32	18,727	21.70	6.6	6.4	0.7	0.6	10.5	10.0	2.4	3.4
AMMB	BUY	4.29	14,218	4.75	8.5	8.3	0.7	0.7	11.2	9.4	5.1	4.6
BIMB	HOLD	2.26	5,122	2.45	9.9	9.4	0.7	0.7	7.4	7.5	5.6	6.3
ABMB	BUY	3.47	5,372	4.10	8.3	8.0	0.8	0.7	9.4	9.2	6.0	6.3
<b>Simple average</b>					<b>9.6</b>	<b>9.2</b>	<b>1.0</b>	<b>0.9</b>	<b>10.4</b>	<b>10.2</b>	<b>5.0</b>	<b>5.3</b>
RCE	SELL	3.14	2,327	2.59	16.1	15.3	2.9	2.7	18.3	18.3	4.8	5.2

\* consensus estimates

Source: Bloomberg, Maybank Investment Banking Group

FYE 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Metrics</b>					
Core P/E (x)	10.1	9.6	15.2	15.1	14.4
Core FD P/E (x)	10.2	9.7	15.4	15.2	14.5
P/BV (x)	1.6	1.7	2.7	2.6	2.5
P/NTA (x)	1.6	1.8	2.9	2.8	2.7
Net dividend yield (%)	5.8	16.5	5.1	5.3	5.4
<b>INCOME STATEMENT (MYR m)</b>					
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
<b>Total non-interest income</b>	<b>239.4</b>	<b>261.4</b>	<b>272.3</b>	<b>276.6</b>	<b>288.3</b>
<b>Operating income</b>	<b>239.4</b>	<b>261.4</b>	<b>272.3</b>	<b>276.6</b>	<b>288.3</b>
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)
<b>Operating expenses</b>	<b>(50.6)</b>	<b>(48.8)</b>	<b>(51.2)</b>	<b>(52.2)</b>	<b>(54.1)</b>
<b>Pre-provision profit</b>	<b>188.8</b>	<b>212.6</b>	<b>221.1</b>	<b>224.4</b>	<b>234.2</b>
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
<b>Pretax profit</b>	<b>177.2</b>	<b>183.9</b>	<b>200.3</b>	<b>202.6</b>	<b>211.5</b>
Income tax	(44.1)	(45.2)	(49.2)	(49.7)	(51.9)
<b>Reported net profit</b>	<b>133.2</b>	<b>138.8</b>	<b>151.1</b>	<b>152.9</b>	<b>159.6</b>
<b>Core net profit</b>	<b>133.2</b>	<b>138.8</b>	<b>151.1</b>	<b>152.9</b>	<b>159.6</b>
<b>BALANCE SHEET (MYR m)</b>					
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
<b>Total assets</b>	<b>2,725.3</b>	<b>2,946.8</b>	<b>3,105.6</b>	<b>3,225.0</b>	<b>3,351.9</b>
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
<b>Total liabilities</b>	<b>1,853.2</b>	<b>2,141.2</b>	<b>2,266.1</b>	<b>2,353.5</b>	<b>2,445.4</b>
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
<b>Total liabilities &amp; equity</b>	<b>2,725.3</b>	<b>2,946.8</b>	<b>3,105.6</b>	<b>3,225.0</b>	<b>3,351.9</b>

FYE 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Ratios</b>					
<b>Growth (%)</b>					
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
<b>Profitability (%)</b>					
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
<b>Liquidity (%)</b>					
Loans/customer deposits	na	na	na	na	na
<b>Asset quality (%)</b>					
Gross NPF	3.8	3.8	3.8	3.8	3.8
<b>Capital adequacy (%)</b>					
CET1	na	na	na	na	na
Tier 1 capital	na	na	na	na	na
Risk-weighted capital	na	na	na	na	na
<b>Returns (%)</b>					
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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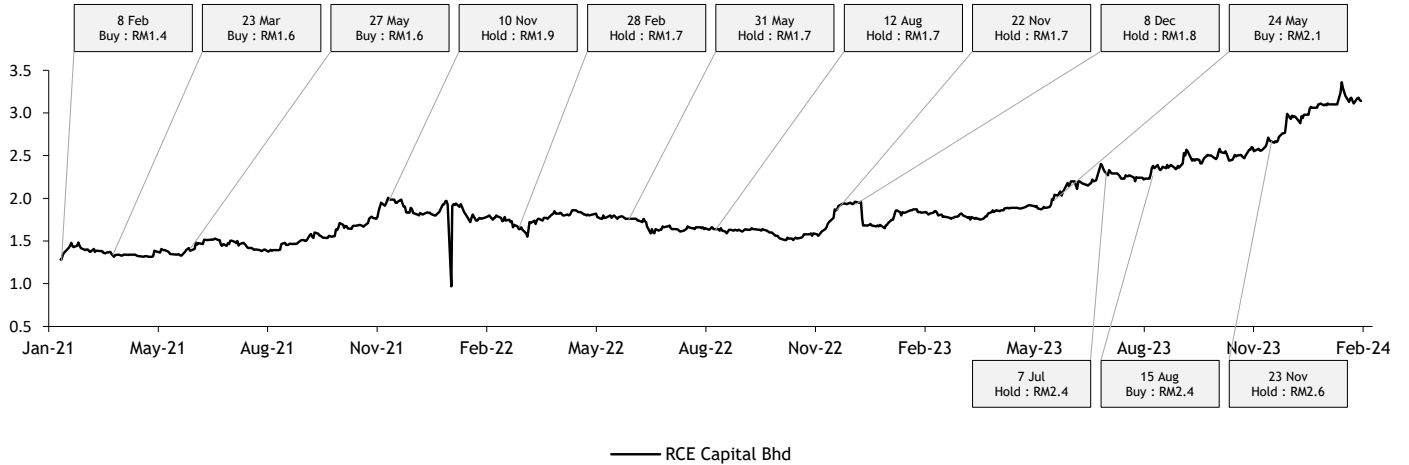
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