

27 May 2024

Hold

Price
 RM3.11

Target Price
 RM2.98 (from RM2.95)

Market Data

Bloomberg Code	RCE MK
No. of shares (m)	741.1
Market cap (RMm)	2,305.0
52-week high/low (RM)	3.40 / 1.96
Avg daily turnover (RMm)	3.5
KLCI (pts)	1,619.4

Source: Bloomberg, CIMB Securities

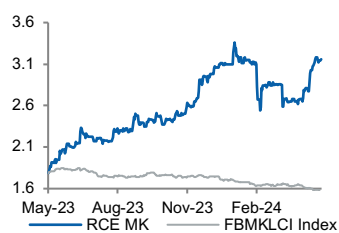
Major Shareholder (%)

Cempaka Empayar	55.0
EPF	2.4
Cheam Heng Ming	1.1
Free Float	121.2

Source: Bloomberg, CIMB Securities

Performance

	3M	6M	12M
Absolute (%)	1.0	23.0	67.2
Rel Market (%)	(2.9)	10.8	47.7



Source: Bloomberg, CIMB Securities

Analyst

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RCE Capital

4QFY24 dragged by higher provisions

RCE's 4QFY24 net profit declined 16.6% yoy, attributed to: i) higher provision of impairment loss (+26.6% yoy), and ii) increase in other expenses by 2.1x yoy. This kept FY24 core net profit flat at RM138.8m. Overall, net earnings were below our and consensus expectations by 3% on higher-than-anticipated other expenses. Our DDM-based TP is tweaked slightly higher, to RM2.98, as we roll over valuation to FY26F. We believe our assumption on dividends, implying a dividend yield of 4.5-4.9% is supportive of the share price. Maintain Hold.

Financial Highlights

FYE Mar	2023	2024	2025F	2026F	2027F
Revenue (RMm)	323.6	341.7	358.4	376.0	394.4
Net profit (RMm)	138.8	138.8	146.7	154.5	161.3
EPS (Sen)	18.7	18.7	19.8	20.8	21.8
EPS growth (%)	4.2	(0.0)	5.7	5.3	4.4
DPS (Sen)	30.0	15.0	13.9	14.6	15.2
Div yield (%)	9.6	4.8	4.5	4.7	4.9
PE (x)	16.6	16.6	15.7	14.9	14.3
PBV (x)	2.9	2.8	2.6	2.5	2.4
ROE (%)	16.5	17.0	17.2	17.1	17.1

Source: Company, CIMB Securities

4Q24 below our and consensus expectations by 3%

RCE's 4QFY24 net profit declined 16.6% yoy to RM29.1m, attributed to: i) higher provision of impairment loss of 26.6% yoy, and ii) increase in other expenses by 2.1x yoy due to new bank facility and professional fees, totalling circa RM3.5m. This kept FY24 core net profit flat at RM138.8m. Overall, net earnings were below our and consensus expectations by 3%. The variance from our forecast stemmed from higher-than-anticipated other expenses. Qoq, 4QFY24 net profit was lower by 15.9% on a combination of lower revenue of 5.7% (profit income: -2.2%, fee income: -24.9%) and higher provision of 24%. The company declared a DPS of 7 sen, bringing FY24 DPS to 15 sen (80% payout). This is above our projected DPS of 13.5sen (70% payout) but within RCE's payout range of 60-80%.

Highest quarterly impairments since 2QFY14 but within our estimates

Impairment trends have been rising since 2QFY24, and impairments were at RM10.3m this quarter, marking the highest quarterly impairments since 2QFY14 (vs historical range: RM4-8m). This is mainly because of changes in employment dynamics, e.g., more retirements, changes in employment statuses, and bankruptcies. Management expects impairment levels to stay high, with no signs of easing soon. Nevertheless, the full-year impairment loss of RM30.2m (+5.4% YoY) was in line with our forecast of RM30.1m. We project a 5% rise in impairment loss for FY25-27, matching the anticipated growth in receivables.

Asset quality position remains healthy

Non-performing financing increased by 8.1% yoy, reaching RM83m in FY24 compared to RM77m in FY23. As a result, the NPL ratio rose to 4% from 3.8%, although this is still within the historical range of 3.8-4.3% since 2016, indicating a healthy level. Additionally, the company maintained a coverage ratio of 153%. Meanwhile, RCE's financing receivables grew by 4% yoy in FY24, despite the higher chargeable rates for its current financing products. We project 5% growth in RCE's financing receivables in FY25-27F. This growth should also be bolstered by the more than 13% wage hike for civil servants from Dec 2024.

Maintain Hold, boost TP by 1% to RM2.98

We have fine-tuned our FY25-26F earnings forecast by -1.9%. Our DDM-based TP increases by 1% to RM2.98 (previously RM2.95) as we roll over valuation to FY26, based on an unchanged cost of equity of 10.1% and a growth rate of 5%. Our TP implies P/BV of 2.4x, which is 2 s.d. above its 5-year mean of 1.4x and justified by its higher ROE of 17% (vs banks: 11% on average). We think our conservative assumption on dividends (70% payout vs FY24's 80%), implying a dividend yield of 4.5-4.9% is supportive of the share price. We maintain our Hold rating. Key upside risks: i) higher-than-expected receivable growth, and ii) higher-than-expected dividend. Key downside risk: i) higher-than-expected impairment loss on receivables.

Table 1: Quarterly trends

Year to 31 March	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	% chg		Cumulative			CIMB	
RM m	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	qoq	yoy	FY23	FY24	% chg	2024F	12M/F
Profit income	70.1	70.5	71.1	73.2	74.1	72.4	(2.2)	2.8	280.7	290.8	3.6	287.04	101.3
Other revenue	11.5	12.2	12.9	14.6	13.4	10.0	(24.9)	(17.6)	42.9	50.9	18.6	50.23	101.3
Total revenue	81.6	82.6	84.0	87.8	87.4	82.5	(5.7)	(0.2)	323.6	341.7	5.6	337.3	101.3
Interest expense	(22.8)	(25.4)	(24.9)	(24.6)	(24.0)	(25.0)	4.4	(1.3)	(90.1)	(98.5)	9.4	(99.1)	99.4
Net interest and fee income	58.8	57.3	59.0	63.3	63.4	57.4	(9.5)	0.2	233.6	243.2	4.1	238.1	102.1
Non-interest income	7.3	8.8	8.5	9.7	10.0	9.6	(4.0)	10.0	28.0	37.9	35.3	29.4	129.0
Operating income	66.1	66.1	67.6	73.0	73.5	67.1	(8.7)	1.5	261.6	281.1	7.4	269.6	104.3
Operating expenses	(14.6)	(11.5)	(13.9)	(15.2)	(19.3)	(17.6)	(8.8)	53.6	(49.0)	(66.0)	34.8	(50.5)	130.8
Underlying profit	51.5	54.6	53.7	57.8	54.2	49.5	(8.7)	(9.4)	212.6	215.1	1.2	219.2	98.1
Allowance for impairment loss	(5.5)	(8.2)	(4.7)	(6.9)	(8.3)	(10.3)	24.0	26.6	(28.7)	(30.2)	5.4	(30.1)	100.5
Exceptional	0.0	0.0	0.0	0.0	0.0	0.0	n.a.	n.a.	0.0	0.0	n.a.	n.a.	n.a.
Pre-tax profit	46.1	46.4	49.0	50.9	45.8	39.1	(14.6)	(15.7)	183.9	184.8	0.5	189.1	97.8
Taxation	(10.9)	(11.6)	(12.1)	(12.6)	(11.3)	(10.1)	(10.7)	(13.2)	(45.2)	(46.1)	2.1	(46.4)	99.3
Net profit	35.2	34.8	36.9	38.2	34.6	29.1	(15.9)	(16.6)	138.8	138.8	0.0	142.7	97.3

Source: Company, CIMB Securities

RCE Capital

Income Statement

FYE Mar (RMm)	2023	2024	2025F	2026F	2027F
Net interest income	190.7	192.3	203.4	213.3	223.6
Non-interest income	71.0	88.8	93.2	97.7	102.5
Total income	261.6	281.1	296.6	311.0	326.2
Operating costs	(49.0)	(66.0)	(69.7)	(73.0)	(76.6)
Pre-provision operating profit	212.6	215.1	226.9	238.0	249.6
Provision charges	(28.7)	(30.2)	(31.5)	(33.1)	(34.7)
Pre-tax profit	183.9	184.8	195.4	205.8	214.9
Taxation	(45.2)	(46.1)	(48.7)	(51.3)	(53.6)
Net Profit	138.8	138.8	146.7	154.5	161.3

Balance Sheet

FYE Mar (RMm)	2023	2024	2025F	2026F	2027F
Consumer financing	1,899.4	1,972.7	2,071.4	2,174.9	2,283.7
Factoring and confirming	53.9	54.6	55.3	56.0	56.7
Deposits with financial institutions	799.9	745.0	782.8	822.7	864.4
Plant and equipment	11.9	11.0	11.6	12.1	12.8
Investment in properties	0.0	0.0	0.0	0.0	0.0
Goodwill on consolidation	47.3	47.3	47.3	47.3	47.3
Other investments	0.0	0.0	0.0	0.0	0.0
AFS financial assets	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	38.6	48.4	50.9	53.4	56.2
Other receivables and deposits	16.0	21.4	21.4	21.4	21.4
Asset held for sale	0.0	0.0	0.0	0.0	0.0
Cash and bank balances	79.8	95.3	107.4	120.2	133.5
Total Assets	2,946.8	2,995.6	3,148.0	3,308.1	3,475.9
Borrowings	2,091.5	2,119.6	2,225.6	2,336.8	2,453.7
Payables and accruals	36.3	34.2	36.0	37.8	39.7
Hire purchase	1.5	1.3	1.4	1.4	1.5
Deferred tax liabilities	2.9	2.0	2.1	2.2	2.3
Tax liabilities	8.9	8.7	9.2	9.6	10.1
Total Liabilities	2,141.2	2,165.8	2,274.2	2,387.9	2,507.4
Share capital	201.9	201.9	201.9	201.9	201.9
Reserves	603.0	627.0	671.0	718.0	766.0
Total Shareholders' Equity	805.7	829.8	873.8	920.1	968.5
Total Liabilities & Equity	2,946.8	2,995.6	3,148.0	3,308.1	3,475.9

ROE composition

FYE Mar	2023	2024	2025F	2026F	2027F
a. Net interest income/Avg. assets (%)	6.7%	6.5%	6.6%	6.6%	6.6%
b. Non-Interest Income/Avg. Assets (%)	2.5%	3.0%	3.0%	3.0%	3.0%
c. Income Yield (%)	9.2%	9.5%	9.7%	9.6%	9.6%
d. Cost/Avg. Assets (%)	1.7%	2.2%	2.3%	2.3%	2.3%
f. Cost/Income (d/c)	18.7%	23.5%	23.5%	23.5%	23.5%
g. Underlying Profitability (c-d)	7.5%	7.2%	7.4%	7.4%	7.4%
a. Underlying Profitability (%)	7.5%	7.2%	7.4%	7.4%	7.4%
b. B&DD Expense (%)	1.0%	1.0%	1.0%	1.0%	1.0%
c. Pre-tax ROA (a-b)	6.5%	6.2%	6.4%	6.3%	6.3%
d. Tax Retention Rate (%)	75.4%	75.1%	75.1%	75.1%	75.1%
e. Post tax ROA (c*d)	4.9%	4.7%	4.8%	4.8%	4.8%
f. Leverage	3.4	3.6	3.6	3.6	3.6
g. ROE (e*g)	16.5%	17.0%	17.2%	17.1%	17.1%

Source: Bloomberg, CIMB Securities

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Hold	The stock's total return is expected to be between 0% and positive 10% over the next twelve (12) months.
Reduce	The stock's total return is expected to fall below 0% or more over the next twelve (12) months.
	<i>Note: The total expected return of a stock is defined as the sum of: the percentage difference between the target price and the current price; and the forward net dividend yields of the stock. Stock price targets have an investment horizon of twelve (12) months.</i>
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