

RCE Capital Bhd (RCE MK)

All eyes on civil service salary hike announcement today

Maintain HOLD call and MYR3.00 TP for now

Like 4QFY24, 1QFY25 results were lacklustre. That said, we believe that the worst is over. The government will announce a major civil service salary hike effective 1 Dec 2024 today. With history as our guide, this ought to be positive for financing growth. Our earnings estimates and MYR3.00 TP based on 2.5x end-CY25E P/BV are maintained for now as we wait for the full details of this announcement. As things stand, RCE offers decent dividend yields of >5% p.a.

Could have been better but results were in-line

Although 1QFY25 net profit of MYR30.3m (-18% YoY, +4% QoQ) accounted for only 20% of our FY estimate, it is within our expectations. Like the 4QFY24 results, 1QFY25 gross financing growth eased 1% QoQ (4QFY24: flat QoQ) as RCE has been declining financing applications more frequently recently as the credit quality of new applicants has not been ideal due to higher cost of living. 1QFY25 non-performing financing (NPF) ratio also ticked up 22bps QoQ as customers left the civil service or retired early.

The worst is likely over, in our opinion

Yet, we expect future quarterly earnings to improve. We understand that operations have stabilised somewhat after a slight civil service salary adjustment in Jul. Recall also that the government is due to announce a major civil service salary hike effective 1 Dec 2024 today. Historically, there is a strong correlation between government emoluments and RCE's financing receivables (Fig. 2). Thus, the upcoming civil service salary hike ought to be positive for financing growth.

Could there be upside to our estimates and TP?

Regarding the civil service salary hike that will be announced today, the Communications Minister teased on 7 Aug 2024 that civil service salaries will be raised by 15% to 43%. Our earnings estimates and TP are premised on financing receivables growing an average 15% for 12 months from 1 Dec 2024 onwards. Thus, there could be upside to our estimates and TP should the average growth in civil service salaries be larger than our imputed 15%.

FYE Mar (MYR m)	FY23A	FY24A	FY25E	FY26E	FY27E
Operating income	261	281	294	317	333
Pre-provision profit	213	215	226	244	256
Core net profit	139	139	149	161	169
Core FDEPS (MYR)	0.19	0.19	0.20	0.22	0.23
Core FDEPS growth(%)	3.7	(0.0)	7.0	8.1	4.9
Net DPS (MYR)	0.30	0.15	0.17	0.18	0.19
Core FD P/E (x)	9.7	14.2	16.2	15.0	14.3
P/BV (x)	1.7	2.4	2.8	2.7	2.6
Net dividend yield (%)	16.5	5.6	5.0	5.5	5.8
Book value (MYR)	1.10	1.13	1.17	1.21	1.25
ROAE (%)	16.5	17.0	17.7	18.5	18.7
ROAA (%)	4.9	4.7	4.9	5.0	4.9
Consensus net profit	-	-	149	161	169
MIBG vs. Consensus (%)	-	-	(0.0)	(0.0)	(0.0)

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HOLD

Share Price MYR 3.27
12m Price Target MYR 3.00 (-3%)
Previous Price Target MYR 3.00

Company Description

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

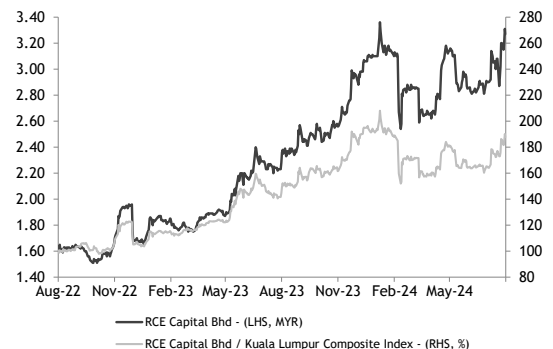
Statistics

52w high/low (MYR)	3.36/2.33
3m avg turnover (USDm)	0.4
Free float (%)	34.0
Issued shares (m)	741
Market capitalisation	MYR2.4B USD546M

Major shareholders:

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

Price Performance



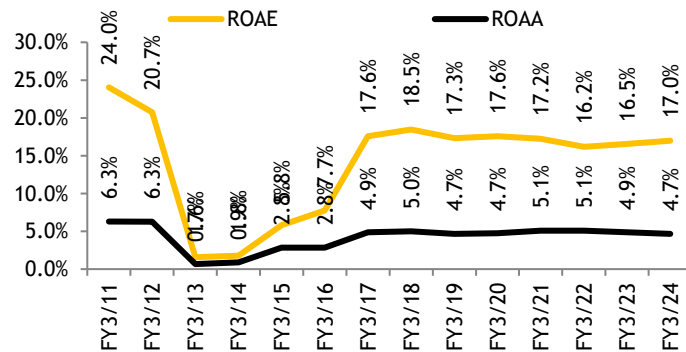
	-1M	-3M	-12M
Absolute (%)	12	4	43
Relative to index (%)	14	4	30

Source: FactSet

Value Proposition

- RCE Capital provides personal financing, the ultimate customers being civil servants.
- With a gross financing balance of just MYR2.1b, 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.

ROAE and ROAA

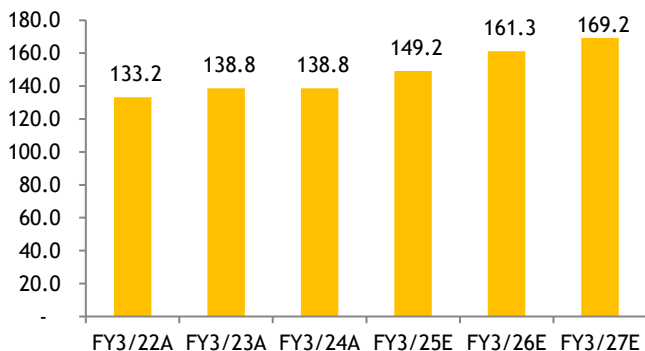


Source: Company

Financial Metrics

- Introduced better credit scoring model in 2013. We forecast gross financing CAGR of 6% 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 financings are smaller in size (<2%).
- Forecast stable three-year forward core net profit CAGR of 7% p.a.
- Recently raised DPR policy from 20-40% to 60-80%.

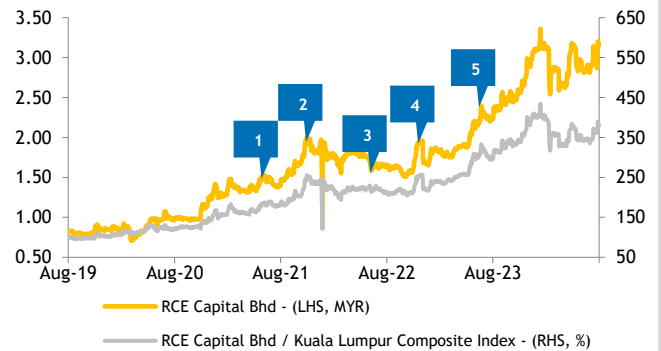
Core net profit (MYRm)



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.

Figure 1: Summary Results Table

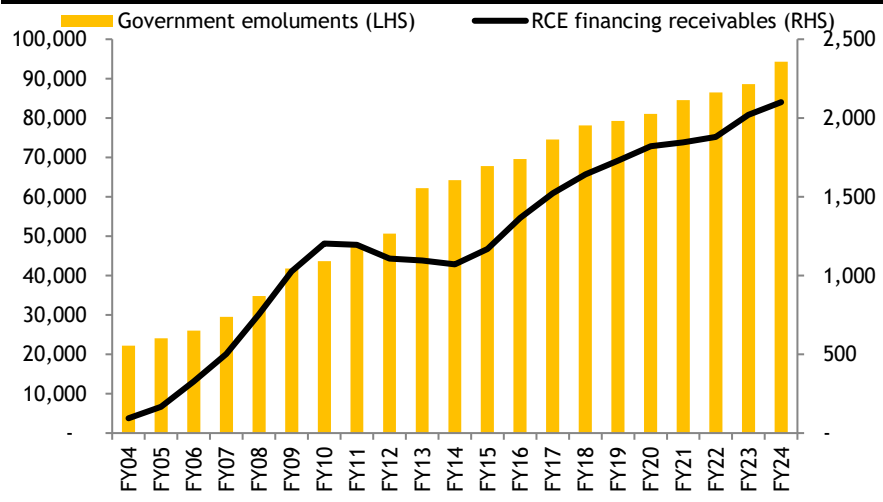
FY Mar (MYR m)	1QFY3/25	1QFY3/24	% YoY	4QFY3/24	% QoQ
Interest/profit income	72.0	71.1	1.3	72.4	(0.5)
Other revenue	7.1	12.9	(45.0)	10.0	(29.3)
Revenue	79.1	84.0	(5.8)	82.5	(4.1)
Other income	8.8	8.5	3.4	9.6	(8.6)
Interest/profit expense applicable to revenue	(25.5)	(24.9)	2.4	(25.0)	1.9
Directors' remuneration and staff costs	(7.3)	(7.1)	3.0	(6.9)	6.3
Allowances for impairment loss on receivables, net	(7.7)	(4.7)	64.2	(10.3)	(24.9)
Depreciation	(1.1)	(0.9)	15.5	(1.0)	1.9
Other expenses	(5.8)	(5.8)	0.4	(9.6)	(39.5)
Finance costs	(0.0)	(0.1)	(26.4)	(0.1)	(43.5)
Profit before tax	40.4	49.0	(17.4)	39.1	3.4
Taxation	(10.1)	(12.1)	(16.4)	(10.1)	0.5
Net profit	30.3	36.9	(17.8)	29.1	4.3
Financing & loans receivables, gross	2,074.4	2,045.4	1.4	2,100.4	(1.2)
(Allowance for impairment)	(129.9)	(119.9)	8.4	(127.7)	1.8
Financing & loans receivables, net	1,944.4	1,925.5	1.0	1,972.7	(1.4)
	1QFY3/25	1QFY3/24	+/- ppt	4QFY3/24	+/- ppt
Tax rate (%)	25.0	24.7	0.3	25.7	(0.7)
Gross NPF ratio (%)	4.2	3.7	0.4	4.0	0.2
Financing & loans loss coverage ratio (%)	149.6	156.9	(7.3)	153.3	(3.8)
Net gearing (%)	160.1	160.8	(0.7)	154.6	5.5

Source: Company

Results analysis

- 1QFY25 net profit was down 18% YoY mainly due to:- (i) lower fee income as fewer financing was disbursed YoY; and (ii) higher net allowances for impairment loss on receivables as NPF ratio ticked up 45bps YoY.
- 1QFY25 net profit was up 4% QoQ despite:- (i) lower fee income as fewer financing was disbursed QoQ; due to (ii) lower net allowances for impairment loss on receivables QoQ as Expected Credit Loss was reduced due to the Malaysian economic outlook improving; and (iii) non-recurrence of facility fee relating to new funding secured and IT professional fees (c.MYR3m).

Figure 2: Government emoluments vs. RCE financing receivables (MYRm)



Source: Company

FYE 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
Key Metrics					
Core P/E (x)	9.6	14.2	16.1	14.9	14.2
Core FD P/E (x)	9.7	14.2	16.2	15.0	14.3
P/BV (x)	1.7	2.4	2.8	2.7	2.6
P/NTA (x)	1.8	2.5	3.0	2.9	2.8
Net dividend yield (%)	16.5	5.6	5.0	5.5	5.8
INCOME STATEMENT (MYR m)					
Islamic banking income	209.4	221.2	231.6	248.6	263.1
Other income	52.0	59.6	62.6	68.8	70.3
Total non-interest income	261.4	280.8	294.2	317.5	333.4
Operating income	261.4	280.8	294.2	317.5	333.4
Staff costs	(27.1)	(32.2)	(33.6)	(36.3)	(38.2)
Other operating expenses	(21.7)	(33.6)	(34.9)	(37.4)	(39.2)
Operating expenses	(48.8)	(65.8)	(68.6)	(73.7)	(77.4)
Pre-provision profit	212.6	215.1	225.6	243.8	256.0
Other allowances	(28.7)	(30.2)	(26.9)	(28.9)	(30.6)
Associates & JV income	0.0	0.0	0.0	0.0	0.0
Pretax profit	183.9	184.8	198.7	214.8	225.4
Income tax	(45.2)	(46.1)	(49.6)	(53.6)	(56.2)
Reported net profit	138.8	138.8	149.2	161.3	169.2
Core net profit	138.8	138.8	149.2	161.3	169.2
BALANCE SHEET (MYR m)					
Cash & deposits with banks	879.7	840.2	875.3	920.3	953.8
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	1,953.3	2,027.3	2,126.0	2,333.1	2,378.7
Fixed assets	7.2	7.3	7.0	6.6	6.3
Intangible assets	47.3	47.3	47.3	47.3	47.3
Other assets	59.3	73.5	73.5	73.5	73.5
Total assets	2,946.8	2,995.6	3,129.1	3,380.9	3,459.6
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	1,290.9	1,175.8	1,175.8	1,175.8	1,175.8
Other borrowings	434.3	552.9	657.6	879.4	927.7
Other liabilities	416.0	437.1	437.7	438.3	438.8
Total liabilities	2,141.2	2,165.8	2,271.1	2,493.6	2,542.3
Share capital	201.9	201.9	201.9	201.9	201.9
Reserves	603.7	627.9	656.1	685.4	715.4
Shareholders' funds	805.7	829.8	858.0	887.3	917.3
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	805.7	829.8	858.0	887.3	917.3
Total liabilities & equity	2,946.8	2,995.6	3,129.1	3,380.9	3,459.6

FYE 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
Key Ratios					
Growth (%)					
Net interest income	na	na	na	na	na
Non-interest income	9.2	7.4	4.8	7.9	5.0
Operating expenses	(3.6)	34.9	4.3	7.5	5.0
Pre-provision profit	12.6	1.2	4.9	8.1	5.0
Core net profit	4.2	(0.0)	7.5	8.1	4.9
Gross loans	7.5	3.9	5.0	10.0	2.0
Customer deposits	na	na	na	na	na
Total assets	8.1	1.7	4.5	8.0	2.3
Profitability (%)					
Non-int. income/Total income	100.0	100.0	100.0	100.0	100.0
Cost/income	18.7	23.4	23.3	23.2	23.2
Liquidity (%)					
Loans/customer deposits	na	na	na	na	na
Asset quality (%)					
Gross NPF	3.8	4.0	4.0	4.0	4.0
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	16.5	17.0	17.7	18.5	18.7
ROAA	4.9	4.7	4.9	5.0	4.9
Shareholders equity/assets	27.3	27.7	27.4	26.2	26.5

Source: Company; Maybank IBG Research

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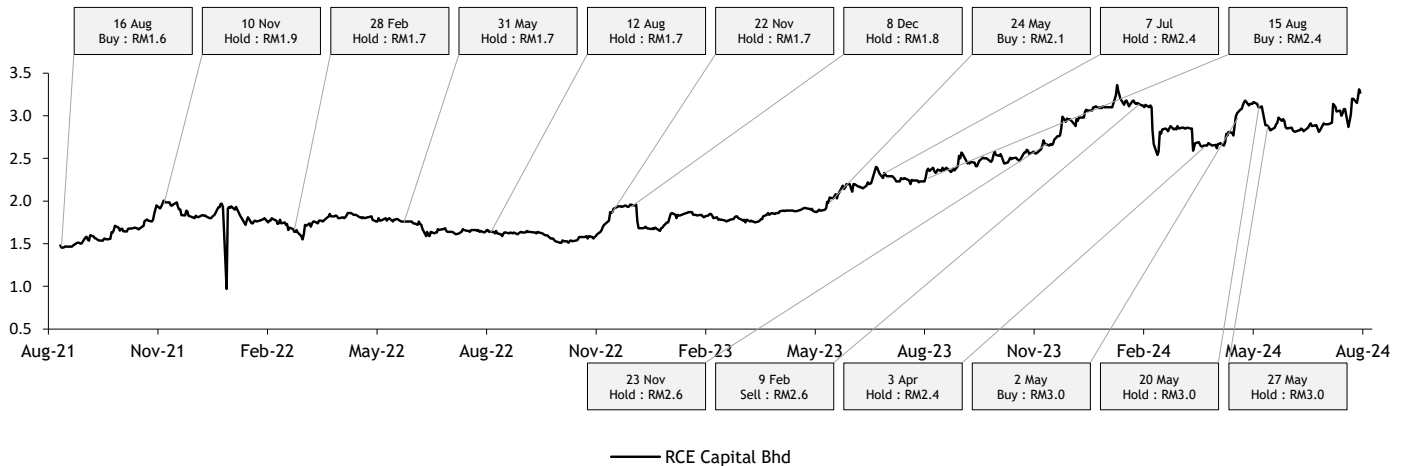
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