

RCE Capital Bhd (RCE MK)

Taking a breather for now

SELL

[Prior:HOLD]

Share Price MYR 1.73
 12m Price Target MYR 1.45 (-12%)
 Previous Price Target MYR 1.45

Maintain MYR1.45 TP but downgrade to SELL

Earnings were within our expectations but dividends missed a tad. Our earnings and dividends estimates are unchanged as we expect the 2HFY3/25 operating environment to be a lot better due to the civil service salary hike. That said, we also maintain our MYR1.45 TP based on 2.4x end-FY25E P/BV. With >10% downside risk, we downgrade RCE to SELL. In our view, the current share price has priced in most positives in anticipation of the upcoming civil service salary hike.

Earnings within but dividends below our expectations

2QFY25 net profit of MYR27.8m (-27% YoY, -8% QoQ) brought 6MFY25 net profit to MYR58.2m (-23% YoY) which accounted for 40% of our FY estimate. We deem the results within our expectations as 2QFY25 was suppressed by a MYR5.2m Employee Share Scheme (ESS) expense. Ex-ESS expense, 6MFY25 net profit would have come in at MYR63.4m or 43% of our FY estimate. Yet, the first interim DPS of 3sen (-1.0sen YoY, -0.5sen HoH) fell short as 76% DPR was employed (MIBG forecast: 80%).

Operating environment still challenging...

Less financings were disbursed as the credit quality of new applicants have been poor. In an industry wide trend, many accumulated massive debts through 'compressed' financing by borrowing from multiple financial institutions nearly simultaneously. Gross financing receivables eased another 1% QoQ to MYR2.06b and non-performing financing ratio inched up another 10bps QoQ to 4.3%. That said, the trailing 4 quarters credit cost ratio stabilised at 1.5% after 3 consecutive quarters of increases.

... but ought to improve with civil service salary hike

Future quarterly earnings ought to be higher as RCE stated that no more ESS expenses will be recognised for the remainder of the FY. Moreover, gross financing receivables growth ought to accelerate from 1 Dec 2024 due to the upcoming civil service salary hike. There is a strong correlation between government emoluments and RCE' gross financing receivables (Fig. 2). We forecast RCE's gross financing receivables to grow by 15% over 2 years from Dec 2024.

FYE Mar (MYR m)	FY23A	FY24A	FY25E	FY26E	FY27E
Operating income	261	281	296	319	335
Pre-provision profit	213	215	227	246	258
Core net profit	139	139	147	159	167
Core FDEPS (MYR)	0.09	0.09	0.10	0.11	0.11
Core FDEPS growth(%)	3.7	(0.0)	4.5	8.3	5.0
Net DPS (MYR)	0.15	0.08	0.08	0.09	0.09
Core FD P/E (x)	9.7	14.2	17.6	16.2	15.5
P/BV (x)	1.7	2.4	3.0	2.8	2.7
Net dividend yield (%)	16.5	5.6	4.6	4.9	5.2
Book value (MYR)	0.55	0.57	0.59	0.61	0.63
ROAE (%)	16.5	17.0	17.4	18.1	18.3
ROAA (%)	4.9	4.7	4.8	4.9	4.9
Consensus net profit	-	-	147	157	165
MIBG vs. Consensus (%)	-	-	(0.0)	1.3	1.2

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Company Description

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

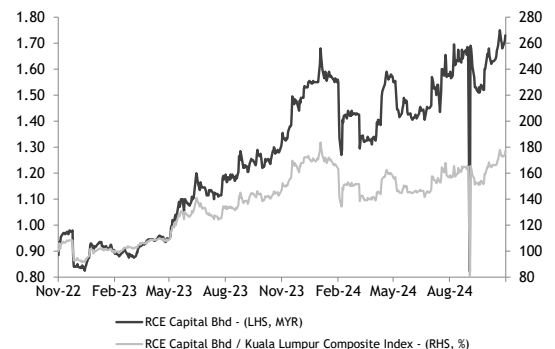
Statistics

52w high/low (MYR)	1.75/0.82
3m avg turnover (USDm)	0.3
Free float (%)	35.3
Issued shares (m)	1,482
Market capitalisation	MYR2.6B USD574M

Major shareholders:

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

Price Performance



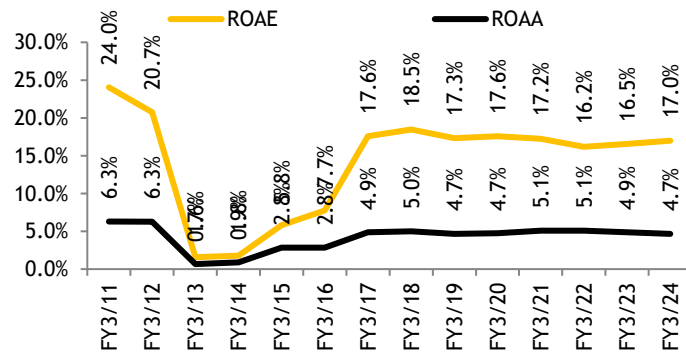
	-1M	-3M	-12M
Absolute (%)	8	10	33
Relative to index (%)	11	13	21

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

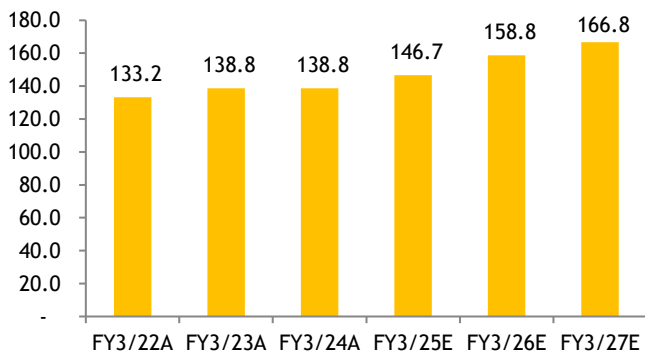


Source: Company

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 6% p.a.
- Recently raised DPR policy from 20-40% to 60-80%.

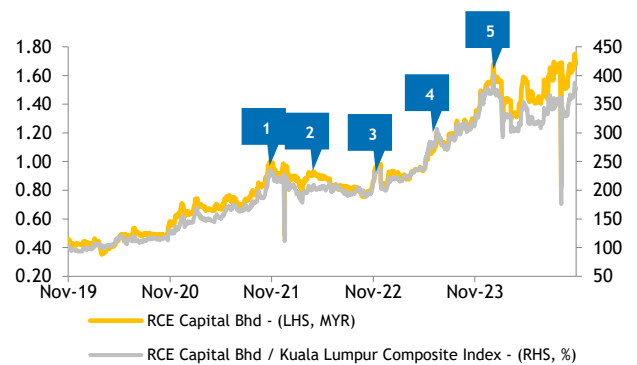
Core net profit (MYRm)



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.

Fig 1: Summary Results Table

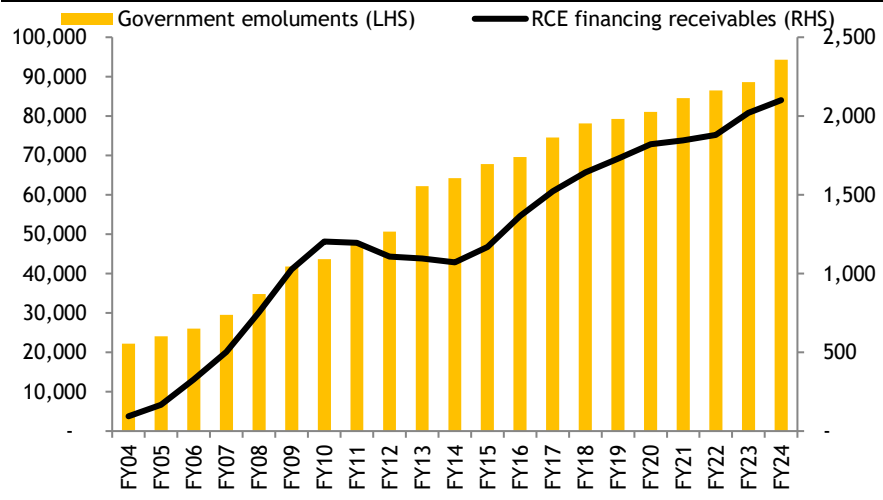
FY Mar (MYR m)	2QFY3/25	2QFY3/24	% YoY	1QFY3/25	% QoQ	6MFY3/25	6MFY3/24	% YoY
Interest/profit income	73.0	73.2	(0.4)	72.0	1.3	145.0	144.3	0.5
Other revenue	7.5	14.6	(48.9)	7.1	5.2	14.5	27.5	(47.1)
Revenue	80.4	87.8	(8.4)	79.1	1.6	159.5	171.8	(7.1)
Other income	10.5	9.7	7.4	8.8	18.5	19.3	18.3	5.5
Interest/profit expense applicable to revenue	(25.7)	(24.6)	4.5	(25.5)	0.6	(51.2)	(49.5)	3.5
Directors' remuneration and staff costs	(12.4)	(6.9)	79.9	(7.3)	69.6	(19.7)	(14.0)	40.9
Allowances for impairment loss on receivables, net	(6.4)	(6.9)	(7.4)	(7.7)	(17.9)	(14.1)	(11.6)	21.7
Depreciation	(1.0)	(0.9)	14.0	(1.1)	(2.7)	(2.1)	(1.8)	14.8
Other expenses	(7.3)	(7.4)	(0.8)	(5.8)	25.8	(13.2)	(13.2)	(0.3)
Finance costs	(0.1)	(0.1)	60.0	(0.0)	146.2	(0.1)	(0.1)	19.5
Profit before tax	38.0	50.9	(25.4)	40.4	(6.1)	78.4	99.9	(21.5)
Taxation	(10.2)	(12.6)	(19.7)	(10.1)	0.3	(20.3)	(24.8)	(18.1)
Net profit	27.8	38.2	(27.2)	30.3	(8.2)	58.2	75.1	(22.6)
Financing & loans receivables, gross	2,057.4	2,086.6	(1.4)	2,074.4	(0.8)	2,057.4	2,086.6	(1.4)
(Allowance for impairment)	(129.9)	(121.4)	7.0	(129.9)	(0.0)	(129.9)	(121.4)	7.0
Financing & loans receivables, net	1,927.5	1,965.3	(1.9)	1,944.4	(0.9)	1,927.5	1,965.3	(1.9)
	2QFY3/25	2QFY3/24	+/- ppt	1QFY3/25	+/- ppt	6MFY3/25	6MFY3/24	+/- ppt
Tax rate (%)	26.7	24.8	1.9	25.0	1.7	25.8	24.8	1.1
Gross NPF ratio (%)	4.3	3.7	0.6	4.2	0.1	4.3	3.7	0.6
Financing & loans loss coverage ratio (%)	147.2	155.8	(8.6)	149.6	(2.4)	147.2	155.8	(8.6)
Net gearing (%)	148.8	152.8	(4.0)	160.1	(11.3)	148.8	152.8	(4.0)

Source: Company

Results analysis

- 2QFY25 net profit was down 27% YoY mainly due to:- (i) lower fee income as fewer financing was disbursed YoY; and (ii) higher directors' remuneration and staff costs YoY dealt by a MYR5.2m Employee Share Scheme (ESS) expense (2QFY24: nil).
- 2QFY25 net profit was down 8% QoQ again largely due to higher directors' remuneration and staff costs QoQ dealt by a MYR5.2m ESS expense (1QFY25: nil). But for the ESS expense, 2QFY25 net profit would have come in at MYR33.0m or up 9% QoQ.
- 6MFY25 net profit was down 23% YoY mainly due to:- (i) lower fee income as fewer financing was disbursed YoY; (ii) higher directors' remuneration and staff costs YoY dealt by a MYR5.2m ESS expense (6MFY24: nil); and (iii) higher net allowances for impairment loss on receivables.

Fig 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	17.3	16.0	15.2
Core FD P/E (x)	9.7	14.2	17.6	16.2	15.5
P/BV (x)	1.7	2.4	3.0	2.8	2.7
P/NTA (x)	1.8	2.5	3.1	3.0	2.9
Net dividend yield (%)	16.5	5.6	4.6	4.9	5.2
INCOME STATEMENT (MYR m)					
Islamic banking income	209.4	221.2	233.0	250.5	265.3
Other income	52.0	59.6	62.6	68.7	70.1
Total non-interest income	261.4	280.8	295.5	319.2	335.4
Operating income	261.4	280.8	295.5	319.2	335.4
Staff costs	(27.1)	(32.2)	(33.6)	(36.3)	(38.2)
Other operating expenses	(21.7)	(33.6)	(34.9)	(37.4)	(39.1)
Operating expenses	(48.8)	(65.8)	(68.6)	(73.7)	(77.3)
Pre-provision profit	212.6	215.1	227.0	245.5	258.1
Other allowances	(28.7)	(30.2)	(31.6)	(34.0)	(35.9)
Associates & JV income	0.0	0.0	0.0	0.0	0.0
Pretax profit	183.9	184.8	195.4	211.6	222.2
Income tax	(45.2)	(46.1)	(48.7)	(52.8)	(55.4)
Reported net profit	138.8	138.8	146.7	158.8	166.8
Core net profit	138.8	138.8	146.7	158.8	166.8
BALANCE SHEET (MYR m)					
Cash & deposits with banks	879.7	840.2	876.3	925.5	964.2
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	3,130.1	3,386.1	3,470.0
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	878.7	927.3
Other liabilities	416.0	437.1	437.5	438.2	438.7
Total liabilities	2,141.2	2,165.8	2,270.9	2,492.7	2,541.8
Share capital	201.9	201.9	201.9	201.9	201.9
Reserves	603.7	627.9	657.3	691.5	726.3
Shareholders' funds	805.7	829.8	859.2	893.4	928.2
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	859.2	893.4	928.2
Total liabilities & equity	2,946.8	2,995.6	3,130.1	3,386.1	3,470.0

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	5.2	8.0	5.1
Operating expenses	(3.6)	34.9	4.3	7.5	5.0
Pre-provision profit	12.6	1.2	5.5	8.2	5.1
Core net profit	4.2	(0.0)	5.7	8.3	5.0
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	8.2	2.5
Profitability (%)					
Non-int. income/Total income	100.0	100.0	100.0	100.0	100.0
Cost/income	18.7	23.4	23.2	23.1	23.1
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	17.4	18.1	18.3
ROAA	4.9	4.7	4.8	4.9	4.9
Shareholders equity/assets	27.3	27.7	27.4	26.4	26.8

Source: Company; Maybank IBG Research

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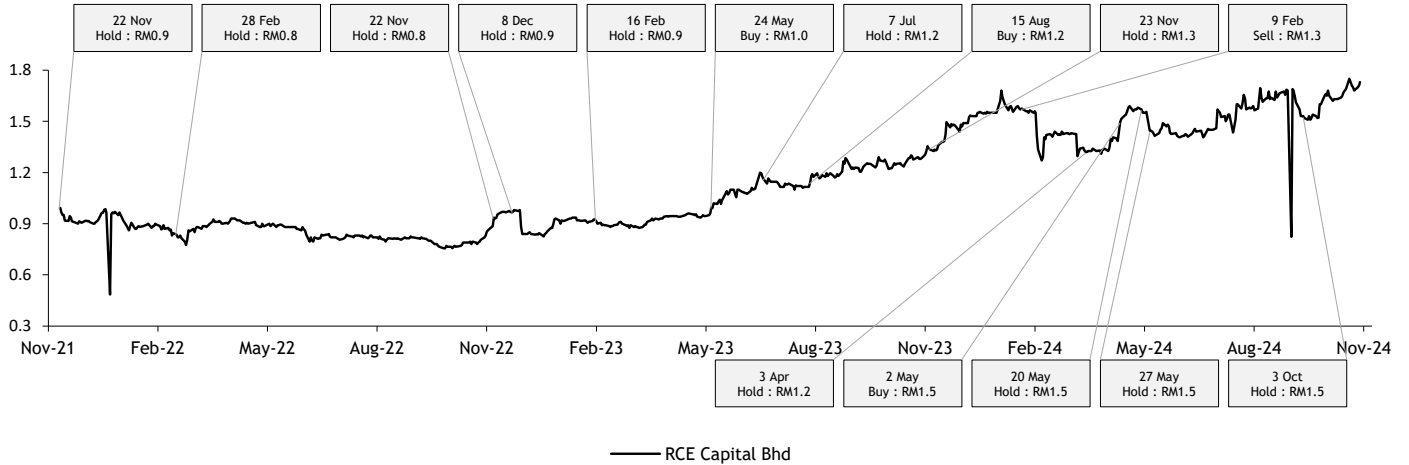
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