08 Feb 2018

**Buy**

**Price**
RM1.47

Target Price
RM1.80

Bloomberg code
RCE MK

Equity | Malaysia | Non-Bank Financials

Flashnote

# RCE Capital Bhd

## 3Q18 results in line

**Financial Highlights**

| FYE to March (RMm) | 2016 | 2017 | 2018F | 2019F | 2020F |
|---|---|---|---|---|---|
| Operating income | 126.4 | 171.7 | 189.3 | 206.8 | 223.6 |
| Net profit | 39.6 | 78.9 | 83.0 | 90.7 | 98.1 |
| EPS (sen) | 11.6 | 23.1 | 24.3 | 26.5 | 28.7 |
| EPS growth (%) | 0.1 | 1.0 | 0.1 | 0.1 | 0.1 |
| Net DPS (sen) | 14.0 | 3.0 | 3.0 | 3.0 | 3.0 |
| Net yield (%) | 9.5 | 2.1 | 2.0 | 2.0 | 2.0 |
| PER (x) | 12.7 | 6.4 | 6.1 | 5.5 | 5.1 |
| PB (x) | 1.1 | 1.1 | 1.0 | 0.9 | 0.9 |
| ROE (%) | 7.7 | 17.6 | 17.9 | 17.8 | 17.8 |

Source: Company, KAF

- We reiterate our Buy recommendation on RCE Capital (RCE) with an unchanged target price of RM1.80 based on our GGM valuation.
- RCE recorded a net profit of RM23m in 3Q18, +5% yoy. Overall, RCE recorded a cumulative net profit of RM66m in 9M18, making up 79% of our full-year net profit forecast of RM83m for FY18F. We maintain our full-year net profit forecast of RM83m for FY18F.
- No dividend was declared in 3Q18. A dividend per share (DPS) of 3 sen that was declared in 2Q18, translates into 16% of dividend payout in 9M18 and 100% of our full-year DPS estimate.
- The group reported 9% yoy operating income growth in 9M18, which trails 36% full-year growth in FY17. The income growth is mainly due to income growth in the consumer financing (CF) segment.
- The growth of its operating income is consistent with the organic growth in its receivables (8% yoy). For FY18F, management expects a modest growth in its consumer financing segment following the adoption of a vigilant stance in the present competitive and dynamic market environment.
- RCE's annualised lending yield stood at 17.3% (3Q17: 16.9%) while its annualised funding cost stood at 5.6% (3Q17: 5.4%). Consequently, its annualised lending spread stood at 11.7% (3Q17: 11.5%). We expect the lending spread to experience a slight contraction, as it focuses on underwriting more prudent loans and better asset quality. In FY18F, we expect the average lending spread to be c.9.1%.
- RCE's NPL ratio stood at 4.1%. This is lower against the previous quarter where the NPL ratio was at 4.2%. The reduction in the NPL ratio is due the improved in asset quality. Its receivables grew c.3% QoQ while its NPL remained flattish.
- RCE's cost-to-income ratio stood at 20.99%, which is an improvement of c.6ppts yoy. Such improvement was achieved due to the reduction in operating expense in 3Q18, -15% yoy and the growth of its operating income by 11% yoy.
- RCE's coverage ratio stood at 178.7%. This is higher by c.6ppts as compared with the previous quarter. This is expected as the management practices stringent risk management and prudent provisioning policy. The coverage ratio is much higher compared with banks. Banks' coverage ratio stood at 83% in December 2017. We believe that its high coverage ratio is justified as consumer financing is unsecured in nature with no collateral.

**Analyst**

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**Table 1: Quarterly trends**

| Year to 31 March | Sep-16 | Dec-16 | Mar-17 | Jun-17 | Sep-17 | Dec-17 | % chg | | Cumulative | | | KAF | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **RM m** | **2Q17** | **3Q17** | **4Q17** | **1Q18** | **2Q18** | **3Q18** | **yoy** | **qoq** | **9M17** | **9M18** | **% chg** | **2018F** | **9M/F** |
| Interest income | 56 | 58 | 57 | 57 | 62 | 64 | 10% | 4% | 166 | 183 | 10% | 223 | 82% |
| Interest expense | (16) | (16) | (12) | (17) | (17) | (17) | 10% | 1% | (49) | (51) | 5% | (76) | 68% |
| **Net interest income** | **40** | **42** | **45** | **40** | **45** | **47** | **11%** | **5%** | **117** | **131** | **12%** | **147** | **89%** |
| Non-interest income | 2 | 2 | 2 | 3 | 4 | 2 | -26% | -60% | 8 | 9 | 14% | 42 | 21% |
| **Operating income** | **42** | **45** | **47** | **43** | **49** | **49** | **9%** | **-1%** | **125** | **140** | **12%** | **189** | **74%** |
| Operating expenses | (10) | (12) | (11) | (9) | (12) | (10) | -15% | -13% | (32) | (31) | -4% | (47) | 65% |
| **Underlying profit** | **32** | **33** | **36** | **34** | **37** | **38** | **17%** | **4%** | **93** | **109** | **18%** | **142** | **77%** |
| Provisions | (7) | (9) | (7) | (6) | (7) | (8) | -7% | 18% | (20) | (22) | 9% | (35) | 62% |
| Exceptionals | 0 | 0 | 0 | 0 | 0 | 0 | nm | nm | 0 | 0 | na | na | na |
| **Pretax profit** | **26** | **24** | **29** | **27** | **30** | **30** | **27%** | **0%** | **73** | **87** | **20%** | **107** | **82%** |
| Taxation | (7) | (2) | (8) | (6) | (8) | (7) | 267% | -13% | (15) | (22) | 45% | (24) | 91% |
| **Net profit** | **18** | **22** | **21** | **21** | **22** | **23** | **5%** | **5%** | **58** | **66** | **14%** | **83** | **79%** |

Source: Company, KAF

# Disclosure Appendix

## Recommendation structure

**Absolute performance, long term (fundamental) recommendation**: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

**Performance parameters and horizon:** Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

**Market or sector view:** This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

**Target price:** The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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