

RCE Capital Bhd (RCE MK)

Up when others are down

BUY

Share Price MYR 1.81
 12m Price Target MYR 2.09 (+21%)
 Previous Price Target MYR 1.92

Maintain BUY with higher TP of MYR2.09 (+9%)

4QFY3/20 and FY3/20 earnings and dividends handily beat our expectations. More importantly, RCE's operations are relatively resistant to the COVID-19 pandemic. We raise our EPS estimates by 5-6% and DPS estimates by 9-10%. We also raise our target end-CY20 P/BV to 1.00x from 0.93x and raise our TP by 9% to MYR2.09. We continue to favour RCE for its relatively resilient business model, high dividend yields of >6% p.a. and tout it as a major beneficiary of falling cost of funds.

Both earnings and dividends beat our expectations

4QFY20 net profit of MYR28.3m (+19% YoY, -9% QoQ) brought FY20 net profit to MYR110.6m (+16% YoY), which was above our expectations at 108% of our FY estimate. The second interim DPS of 6sen brought FY20 total DPS to 11sen, which also outperformed our expectations at 110% of our FY estimate. The outperformance was due to lower-than-expected interest expense and allowances for impairment loss on receivables (credit cost) at 1.3% of gross loans and receivables (MKE forecast: 1.5%)

Relatively resistant to the COVID-19 pandemic

Despite the COVID-19 pandemic, gross financing still grew 5% YoY. The COVID-19 pandemic did have a negative impact as it is expected to result in a contraction of forecasted real GDP, a forward looking variable in expected credit loss models, leading to higher credit cost. Yet, FY20 credit cost ratio of 1.3% (9MFY20: 1.2%) was still ~20bps lower than we expected and at multi-year lows. Recall that RCE only provides financing to civil servants whose incomes have been relatively unaffected

Raise EPS/DPS estimates by 5-6%/9-10%

We maintain our FY21/FY22 credit cost ratio forecasts at 1.5%. That said, we lower our average cost of funds forecasts to raise our FY21/FY22 EPS estimates by 6%/5% (Fig. 2). Coupled with a higher DPR of 35% (33% previously), we raise our FY21/FY22 DPS estimates by 10%/9%. Our new FY23 EPS and DPS estimates imply 4% growth YoY. Reassured of our higher EPS and DPS estimates, we raise our target end-CY20 P/BV to 1.00x (+1 SD to 5-year mean 12M forward P/BV) from 0.93x (+0.5 SD to 5-year mean 12M forward P/BV) and raise our TP to MYR2.09 from MYR1.92.

FYE Mar (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Operating income	200	221	236	245	254
Pre-provision profit	155	172	185	192	199
Core net profit	96	111	116	121	126
Core FDEPS (MYR)	0.28	0.32	0.32	0.34	0.35
Core FDEPS growth(%)	7.6	13.5	2.2	4.2	4.1
Net DPS (MYR)	0.09	0.11	0.12	0.12	0.13
Core FD P/E (x)	5.8	4.7	5.6	5.4	5.1
P/BV (x)	1.0	0.8	0.8	0.8	0.7
Net dividend yield (%)	5.5	7.4	6.4	6.6	6.9
Book value (MYR)	1.71	1.92	2.14	2.37	2.60
ROAE (%)	17.3	17.6	16.4	15.4	14.5
ROAA (%)	4.7	4.7	4.7	4.6	4.6
Consensus net profit	-	-	112	118	na
MKE vs. Consensus (%)	-	-	4.1	3.2	na

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Company Description

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

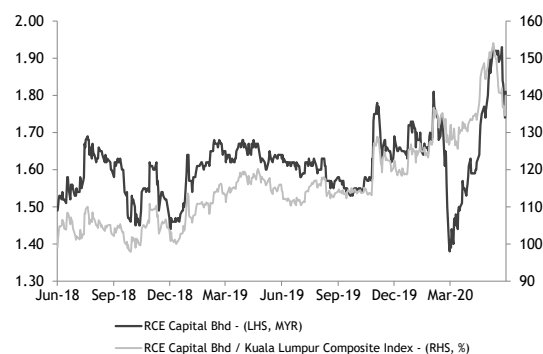
Statistics

52w high/low (MYR)	1.93/1.38
3m avg turnover (USDm)	0.2
Free float (%)	31.4
Issued shares (m)	376
Market capitalisation	MYR680.1M USD159M

Major shareholders:

Cempaka Empayar Sdn. Bhd.	52.1%
RCE Capital Bhd.	6.1%
Employees Provident Fund	2.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	3	29	10
Relative to index (%)	(4)	10	21

Source: FactSet

Figure 1: Summary Results Table

FY Mar (MYRm)	4QFY3/20	4QFY3/19	% YoY	3QFY3/20	% QoQ	FY3/20	FY3/19	% YoY
Interest income	66.8	60.2	11.0	65.2	2.4	256.8	234.3	9.6
Other revenue	6.2	7.2	(14.1)	7.3	(14.9)	25.8	28.3	(8.8)
Revenue	73.0	67.4	8.3	72.5	0.7	282.6	262.6	7.6
Other income	5.2	3.9	35.4	5.2	1.6	20.4	15.5	31.7
Interest expense applicable to revenue	-20.8	-20.1	3.6	-20.3	2.3	-81.7	-78.0	4.7
Directors' remuneration and staff costs	-5.6	-5.0	13.1	-5.4	4.7	-24.2	-21.4	13.1
Allowances for impairment loss on receivables, net	-8.2	-6.2	32.8	-4.7	74.9	-23.1	-23.7	(2.7)
Depreciation of plant and equipment & right-of-use asset	-0.7	-0.5	57.2	-0.5	42.4	-2.1	-2.6	(19.3)
Other expenses	-4.9	-6.3	(22.0)	-5.7	(14.4)	-22.9	-21.2	8.1
Finance costs	-0.1	-0.0	N/M	-0.0	250.0	-0.1	-0.1	137.5
Profit before tax	37.8	33.2	13.8	41.0	(7.6)	148.9	131.1	13.6
Taxation	-9.5	-9.5	-	-10.0	(4.7)	-38.3	-35.6	7.8
Net profit	28.3	23.7	19.4	31.0	(8.6)	110.6	95.5	15.8
FD EPS (sen)	8.1	6.9	16.5	8.8	(8.9)	31.7	28.0	13.5
Net DPS (sen)	6.0	5.0	20.0	-	N/M	11.0	9.0	22.2
Financing & receivables, gross	1,820.1	1,729.1	5.3	1,807.4	2.6	1,820.1	1,729.1	5.3
(Allowance for impairment)	-130.2	-130.4	(0.1)	-129.9	2.6	-130.2	-130.4	(0.1)
Financing & receivables, net	1,689.9	1,598.7	5.7	1,677.5	2.6	1,689.9	1,598.7	5.7
	4QFY3/20	4QFY3/19	+/- ppt	3QFY3/20	+/- ppt	FY3/20	FY3/19	+/- ppt
Tax rate (%)	25.2	28.6	(3.5)	24.4	0.8	25.7	27.1	(1.4)
Gross NPF ratio (%)	4.1	4.4	(0.2)	4.3	(0.2)	4.1	4.4	(0.2)
Financing loss coverage ratio (%)	173.0	172.1	0.9	167.4	5.5	173.0	172.1	0.9
Net gearing (%)	163.4	190.8	(27.5)	177.1	(13.8)	163.4	190.8	(27.5)

Source: Company

Results analysis

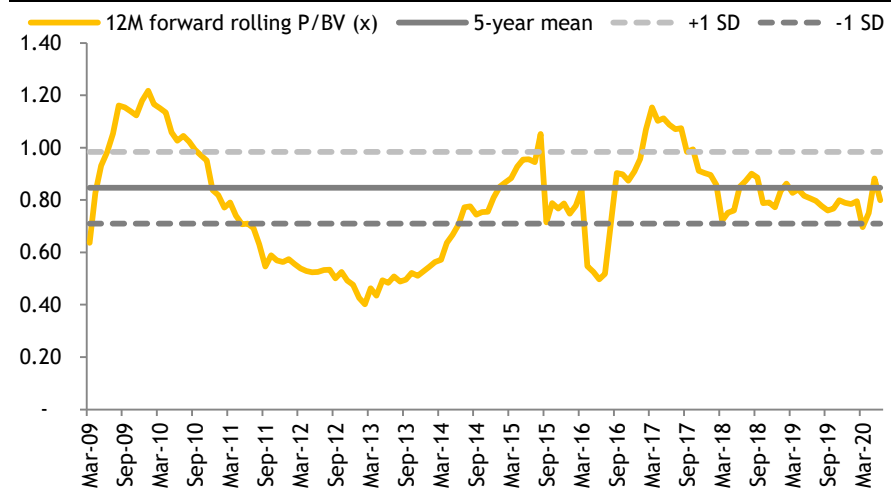
- 4QFY20 net profit grew 19% YoY largely driven by gross financing growth of 5% YoY and average financing yields expanding -80bps YoY to 14.7%.
- 4QFY20 net profit eased 9% QoQ largely due to additional allowances for impairment loss on receivables.
- The additional allowances are due to contraction in forecasted real GDP, a forward looking variable in expected credit loss models.
- In turn, the contraction in forecasted real GDP is due to the negative impact the COVID-19 pandemic is having on the Malaysian economy.

Figure 2: Major assumptions

	FY3/18A	FY3/19A	FY3/20A	FY3/21E	FY3/22E	FY3/23E
Revised average cost of funds	5.5%	5.4%	4.9%	4.8%	4.7%	4.6%
Previous average cost of funds	5.5%	5.4%	4.9%	5.2%	5.2%	5.2%

Source: Company, Maybank Kim Eng

Figure 3: RCE 12M forward rolling P/BV (x)

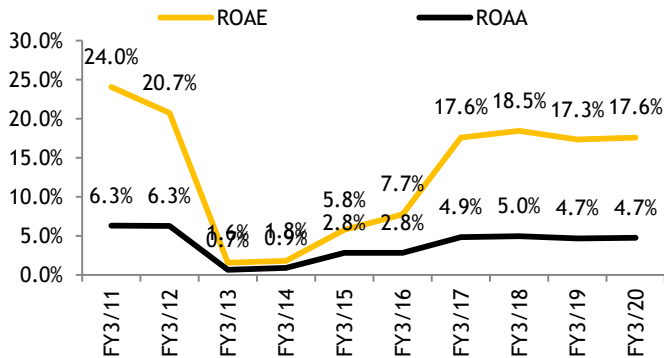


Source: Company, Maybank Kim Eng, Bloomberg

Value Proposition

- RCE Capital provides personal financing, the ultimate customers being civil servants.
- With a gross financing balance of just MYR1.8b, we estimate that its market share is only 2%.
- Non-performing financing kept in check thanks to non-discretionary 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

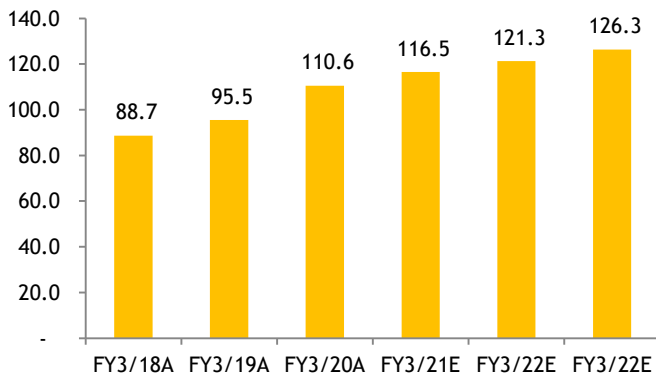


Source: Company

Financial Metrics

- Introduced a better credit scoring model in 2013. Forecast gross financing growth of 3% p.a. over the next three years.
- Average financing yields may be peaking at 14-15% but average cost of funds is falling.
- Asset quality better than before. New financing are smaller in size (<MYR20k) and their NPF ratios are low (<2%).
- Forecast stable three-year forward core net profit CAGR of 5% p.a.
- There is room for dividends to surprise to the upside as its DPR policy is only 20-40%.

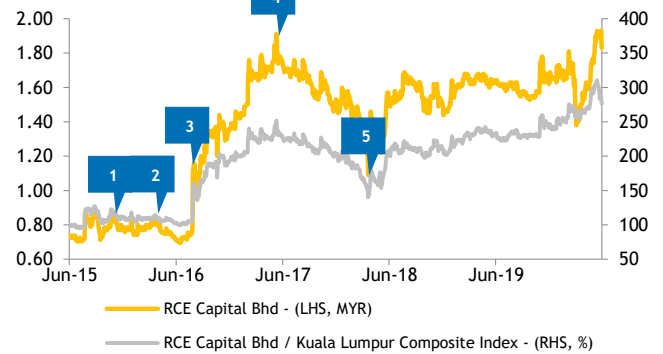
Core net profit (MYRm)



Source: Company, Maybank Kim Eng estimates

Price Drivers

Historical share price trend



Source: Company, Maybank Kim Eng

1. Proposed special interim DPS of 10.5 sen. Still paid a final DPS of 3.5sen.
2. Proposed capital repayment of MYR0.075/shr and 4-into-1 share consolidation.
3. 1QFY17 net profit surged 86% YoY as FY17 revenue grew 39% YoY.
4. FY17 net profit surged 98% YoY as FY17 revenue grew 38% YoY.
5. Concerns arise that the government may reduce the size of the civil service.

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 Capital's debt repayment.

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FYE 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
Core P/E (x)	5.8	4.7	5.4	5.2	5.0
Core FD P/E (x)	5.8	4.7	5.6	5.4	5.1
P/BV (x)	1.0	0.8	0.8	0.8	0.7
P/NTA (x)	1.0	0.8	0.9	0.8	0.7
Net dividend yield (%)	5.5	7.4	6.4	6.6	6.9
INCOME STATEMENT (MYR m)					
Islamic banking income	164.2	187.0	200.5	208.2	216.2
Other income	35.8	34.2	36.0	37.1	38.2
Total non-interest income	200.0	221.2	236.5	245.3	254.4
Operating income	200.0	221.2	236.5	245.3	254.4
Staff costs	(21.4)	(24.2)	(25.6)	(26.3)	(27.1)
Other operating expenses	(23.8)	(25.0)	(26.3)	(27.1)	(27.8)
Operating expenses	(45.2)	(49.2)	(51.9)	(53.4)	(54.9)
Pre-provision profit	154.8	172.0	184.6	191.9	199.5
Other allowances	(23.7)	(23.1)	(27.7)	(28.5)	(29.4)
Associates & JV income	0.0	0.0	0.0	0.0	0.0
Pretax profit	131.1	148.9	156.9	163.4	170.1
Income tax	(35.6)	(38.3)	(40.4)	(42.1)	(43.8)
Reported net profit	95.5	110.6	116.5	121.3	126.3
Core net profit	95.5	110.6	116.5	121.3	126.3
BALANCE SHEET (MYR m)					
Cash & deposits with banks	492.4	620.2	698.7	779.3	861.5
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	1,602.4	1,692.9	1,740.6	1,790.9	1,844.5
Fixed assets	4.5	7.3	8.7	10.1	11.4
Intangible assets	47.3	47.3	47.3	47.3	47.3
Other assets	79.5	63.3	63.3	63.3	63.3
Total assets	2,226.1	2,431.0	2,558.6	2,690.8	2,828.0
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	1,005.2	1,059.1	1,060.0	1,060.0	1,060.0
Other borrowings	280.8	429.1	479.3	532.0	586.4
Other liabilities	356.6	269.5	269.8	270.0	270.2
Total liabilities	1,642.6	1,757.7	1,809.0	1,861.9	1,916.6
Share capital	154.5	172.2	172.2	172.2	172.2
Reserves	429.1	501.1	577.3	656.6	739.2
Shareholders' funds	583.5	673.4	749.6	828.9	911.4
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	583.5	673.4	749.6	828.9	911.4
Total liabilities & equity	2,226.1	2,431.0	2,558.6	2,690.8	2,828.0

FYE 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth (%)					
Net interest income	na	na	na	na	na
Non-interest income	6.2	10.6	6.9	3.8	3.7
Operating expenses	9.4	8.9	5.5	2.9	2.9
Pre-provision profit	5.3	11.1	7.3	4.0	3.9
Core net profit	7.7	15.8	5.3	4.2	4.1
Gross loans	5.2	5.3	3.0	3.0	3.0
Customer deposits	na	na	na	na	na
Total assets	19.8	9.2	5.2	5.2	5.1
Profitability (%)					
Non-int. income/Total income	100.0	100.0	100.0	100.0	100.0
Cost/income	22.6	22.2	21.9	21.8	21.6
Liquidity (%)					
Loans/customer deposits	na	na	na	na	na
Asset quality (%)					
Gross NPL	4.4	4.1	4.3	4.4	4.4
Loan loss coverage	172.1	173.0	170.1	168.4	168.4
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	17.3	17.6	16.4	15.4	14.5
ROAA	4.7	4.7	4.7	4.6	4.6
Shareholders equity/assets	26.2	27.7	29.3	30.8	32.2

Source: Company; Maybank

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• Technical Analysis

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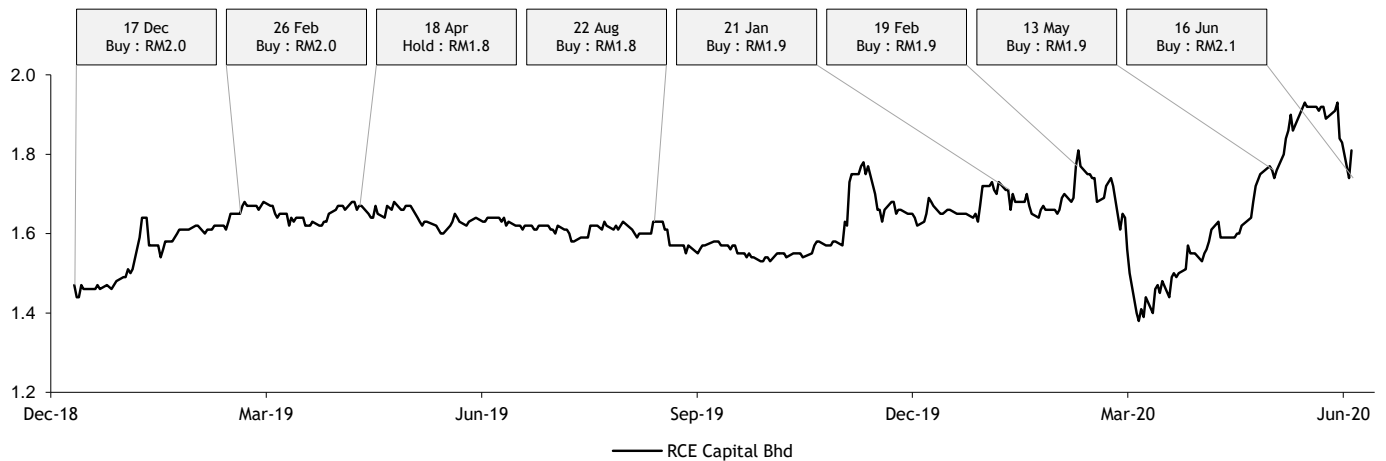
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