

# RCE Capital Bhd (RCE MK)

## 1QFY19 within expectations

### Valuations still undemanding

The MFRS9 impact to RCE (effective 1 Apr 2018 onwards) has been mild, with credit costs coming in better than expected. With this uncertainty out of the way, we maintain our forecasts but raise our TP to MYR1.95 from MYR1.76, on a higher P/BV peg of 1.1x from 1x (CY19E ROE: 15.8%). Even at our new TP, the stock would trade at a prospective CY19 PER of just 7.1x (against a historical mean of 9.7x), with a yield of 3.6%. BUY.

### Within expectations

RCE reported a 1QFY19 core net profit of MYR23m (+11% YoY, +1% QoQ). This was within our expectations at 25% of our full-year forecast. Loan growth moderated to 6% YoY end-Jun 2018 from 8% YoY end-Mar 2018, while NIM contracted about 18bps QoQ, by our estimates, as a result of bond yield volatility. Loan growth is currently a tad slower than our forecast of 7% but this is compensated by a lower NIM contraction thus far, versus our estimate of -35bps for FY19.

### Credit cost lower than forecast

With the implementation of MFRS9, RCE's gross NPL ratio rose marginally to 4.19% end-Jun 2018 from 4.06% end-Mar 2018. Nevertheless, credit cost came in lower at 1.65% in 1QFY19 versus 2.04% in 1QFY18. Loan loss coverage was a healthy 185%. As it stands, we had already factored in a rise in RCE's NPL ratio to 4.25% in FY19 and a higher credit cost of 2.1%, with the implementation of MFRS9, which we maintain for now.

### Room for upside dividend surprise

FY18 saw a dividend payout ratio of 27% and management had announced that it would adopt a dividend payout ratio of 20-40% moving forward. We have assumed a DPS of 7.0 sen for FY19 which is a payout ratio of 27%. There is, as such, room for dividends to surprise on the upside.

FYE Mar (MYR m)	FY17A	FY18A	FY19E	FY20E	FY21E
Operating income	167	188	202	214	226
Pre-provision profit	124	147	157	167	177
Core net profit	74	89	92	95	98
Core EPS (MYR)	0.24	0.26	0.27	0.28	0.29
Core EPS growth (%)	94.0	8.8	3.5	3.2	3.4
Net DPS (MYR)	0.03	0.07	0.07	0.07	0.07
Core P/E (x)	4.8	6.2	6.1	5.9	5.7
P/BV (x)	1.0	1.1	1.0	0.9	0.8
Net dividend yield (%)	2.6	4.4	4.3	4.3	4.3
Book value (MYR)	1.16	1.46	1.62	1.82	2.02
ROAE (%)	16.4	18.5	16.8	15.5	14.4
ROAA (%)	4.5	5.0	4.8	4.6	4.5
Consensus net profit	-	-	91	95	98
MKE vs. Consensus (%)	-	-	0.9	0.0	(0.0)

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## BUY

Share Price	MYR 1.63
12m Price Target	MYR 1.95 (+20%)
Previous Price Target	MYR 1.76

### Company Description

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

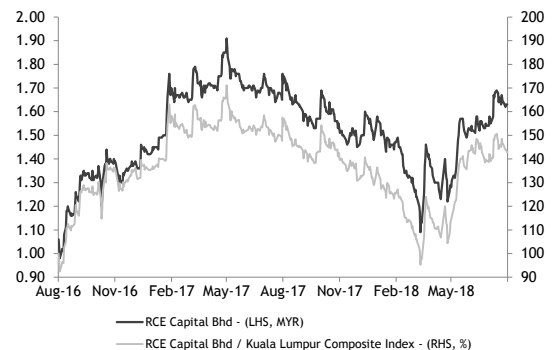
### Statistics

52w high/low (MYR)	1.75/1.09
3m avg turnover (USDm)	0.2
Free float (%)	28.7
Issued shares (m)	355
Market capitalisation	MYR579.3M
	USD141M

### Major shareholders:

Cempaka Empayar Sdn. Bhd.	58.3%
RCE Capital Bhd.	3.9%
Bank Negara Malaysia	1.6%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	6	26	(7)
Relative to index (%)	3	27	(9)

Source: FactSet

## Results summary

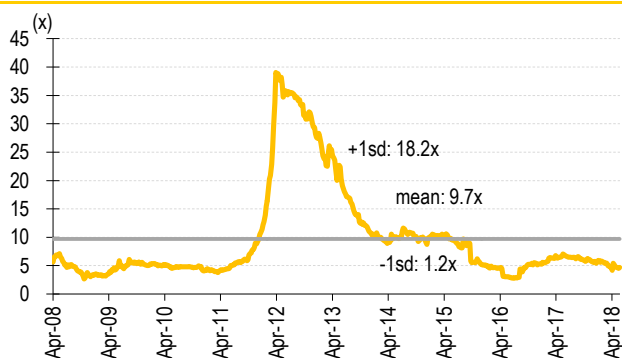
Year end: Mar (MYR'm)	Quarterly					Cumulative		
	1QFY19	1QFY18	% YoY	4QFY18	% QoQ	3MFY19	3MFY18	% YoY
Revenue	63.2	57.1	10.7	64.0	(1.2)	63.2	57.1	10.7
Other income	3.6	2.9	27.3	1.7	118.8	3.6	2.9	27.3
Interest expense	(18.5)	(17.3)	6.9	(17.2)	8.0	(18.5)	(17.3)	6.9
Personnel costs	(5.0)	(4.1)	21.9	(5.0)	1.6	(5.0)	(4.1)	21.9
Depreciation	(0.7)	(0.9)	(20.4)	(0.9)	(14.5)	(0.7)	(0.9)	(20.4)
Other expenses	(11.5)	(10.2)	12.5	(12.7)	(9.7)	(11.5)	(10.2)	12.5
Finance costs	(0.0)	(0.0)	7.7	(0.0)	7.7	(0.0)	(0.0)	7.7
Pretax profit	31.1	27.4	13.6	30.0	3.7	31.1	27.4	13.6
Tax	(7.9)	(6.5)	22.6	(7.1)	11.9	(7.9)	(6.5)	22.6
Net profit	23.2	20.9	10.9	22.9	1.2	23.2	20.9	10.9
Core net profit	23.2	20.9	10.9	22.9	1.2	23.2	20.9	10.9
Tax rate	25%	24%		24%		25%	24%	
Basic EPS (sen)	6.8	6.2	10.2	6.7	1.5	6.8	6.2	10.2
Net DPS (sen)	-	-	-	-	-	-	-	-
Net loans & receivables	1,536.0	1,427.4	7.6	1,496.0	2.7	1,536.0	1,427.4	7.6
Total borrowings	1,413.6	1,280.7	10.4	1,240.3	14.0	1,413.6	1,280.7	10.4

Source: Company

## Risk statement

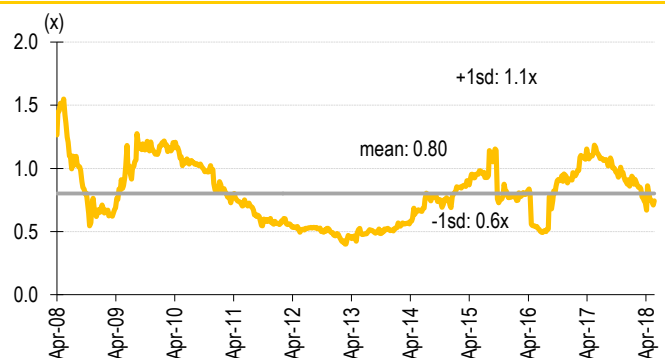
There are several risk factors for our earnings estimates, price target, and rating for RCE. Lending solely to Government civil servants, any move by the current Government to curb/reduce the size of the civil service would curtail RCE's business. RCE does not have access to CCRIS just yet and thus would not be able to comprehensively assess a borrower's outstanding debt position with domestic commercial banks.

RCE: One-year forward rolling PER (x)



Source: Company, Maybank KE

RCE: One-year forward rolling P/BV



Source: Company, Maybank KE

FYE 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Key Metrics</b>					
Core P/E (x)	4.8	6.2	6.1	5.9	5.7
Core FD P/E (x)	4.8	6.2	6.1	5.9	5.7
P/BV (x)	1.0	1.1	1.0	0.9	0.8
P/NTA (x)	1.1	1.2	1.1	1.0	0.9
Net dividend yield (%)	2.6	4.4	4.3	4.3	4.3

**INCOME STATEMENT (MYR m)**

Interest income	190.0	218.5	233.5	252.1	267.1
Interest expense	(61.4)	(69.3)	(78.9)	(89.1)	(94.3)
<b>Net interest income</b>	<b>128.5</b>	<b>149.2</b>	<b>154.7</b>	<b>163.1</b>	<b>172.8</b>
Islamic banking income	na	na	na	na	na
<b>Total non-interest income</b>	<b>38.1</b>	<b>39.1</b>	<b>47.3</b>	<b>50.7</b>	<b>53.6</b>
<b>Operating income</b>	<b>166.7</b>	<b>188.3</b>	<b>202.0</b>	<b>213.8</b>	<b>226.4</b>
Staff costs	(21.4)	(22.3)	(23.2)	(24.1)	(25.0)
Other operating expenses	(21.7)	(19.1)	(21.9)	(23.0)	(24.1)
<b>Operating expenses</b>	<b>(43.1)</b>	<b>(41.3)</b>	<b>(45.1)</b>	<b>(47.1)</b>	<b>(49.1)</b>
<b>Pre-provision profit</b>	<b>123.6</b>	<b>147.0</b>	<b>156.9</b>	<b>166.7</b>	<b>177.3</b>
Loan impairment allowances	(22.1)	(29.6)	(35.7)	(41.7)	(48.0)
<b>Pretax profit</b>	<b>101.5</b>	<b>117.4</b>	<b>121.2</b>	<b>125.0</b>	<b>129.3</b>
Income tax	(22.5)	(28.7)	(29.1)	(30.0)	(31.0)
<b>Reported net profit</b>	<b>78.9</b>	<b>88.7</b>	<b>92.1</b>	<b>95.0</b>	<b>98.3</b>
<b>Core net profit</b>	<b>73.7</b>	<b>88.7</b>	<b>92.1</b>	<b>95.0</b>	<b>98.3</b>
Preferred Dividends	0.0	0.0	0.0	0.0	0.0

**BALANCE SHEET (MYR m)**

Cash & deposits with banks	159.3	197.2	200.7	251.8	306.1
Available-for-sale securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	1,411.6	1,524.7	1,627.4	1,723.2	1,823.6
Fixed assets	9.3	6.2	5.2	4.2	3.2
Intangible assets	47.3	47.3	47.3	47.3	47.3
Other assets	74.6	83.3	92.7	98.2	104.2
<b>Total assets</b>	<b>1,702.1</b>	<b>1,858.8</b>	<b>1,973.3</b>	<b>2,124.8</b>	<b>2,284.4</b>
Other liabilities	1,260.7	1,339.5	1,395.9	1,477.3	1,563.5
<b>Total liabilities</b>	<b>1,260.7</b>	<b>1,339.5</b>	<b>1,395.9</b>	<b>1,477.3</b>	<b>1,563.5</b>
Share capital	38.1	44.7	35.6	35.6	35.6
Reserves	403.3	474.6	541.8	611.9	685.2
Shareholders' funds	441.4	519.3	577.4	647.5	720.8
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	441.4	519.3	577.4	647.5	720.8
<b>Total liabilities &amp; equity</b>	<b>1,702.1</b>	<b>1,858.8</b>	<b>1,973.3</b>	<b>2,124.8</b>	<b>2,284.4</b>

FYE 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Key Ratios</b>					
<b>Growth (%)</b>					
Net interest income	16.1	16.1	3.6	5.4	6.0
Non-interest income	275.7	2.4	21.1	7.2	5.7
Operating expenses	4.2	(4.0)	9.0	4.5	4.4
Pre-provision profit	55.4	18.9	6.8	6.2	6.4
Core net profit	86.2	20.4	3.9	3.2	3.4
Gross loans	11.6	8.0	7.0	6.0	6.0
Customer deposits	na	na	na	na	na
Total assets	9.8	9.2	6.2	7.7	7.5
<b>Profitability (%)</b>					
Non-int. income/Total income	22.9	20.7	23.4	23.7	23.7
Cost/income	25.8	22.0	22.3	22.0	21.7
<b>Liquidity (%)</b>					
Loans/customer deposits	na	na	na	na	na
<b>Asset quality (%)</b>					
Gross NPL	4.2	4.1	4.3	4.4	4.5
Loan loss coverage	172.2	178.0	175.3	173.6	171.1
<b>Capital adequacy (%)</b>					
CET1	na	na	na	na	na
Tier 1 capital	na	na	na	na	na
Risk-weighted capital	na	na	na	na	na
<b>Returns (%)</b>					
ROAE	16.4	18.5	16.8	15.5	14.4
ROAA	4.5	5.0	4.8	4.6	4.5
Shareholders equity/assets	25.9	27.9	29.3	30.5	31.6

Source: Company; Maybank

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## APPENDIX I: TERMS FOR PROVISION OF REPORT, DISCLAIMERS AND DISCLOSURES

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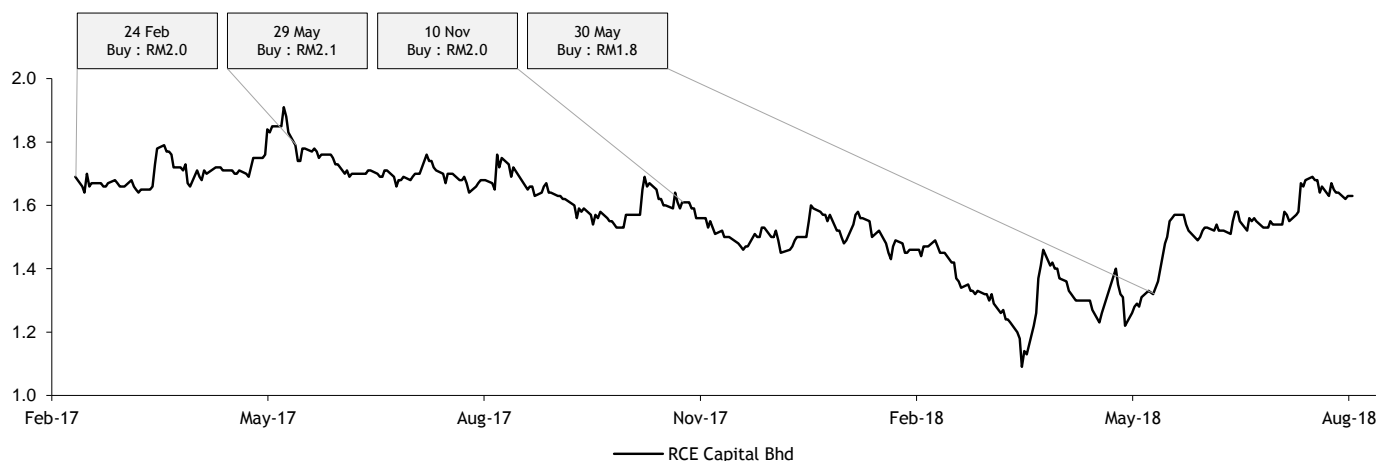
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