

RCE Capital Bhd (RCE MK)

3QFY19 above expectations

Valuations attractive

Our FY19-21 net profit forecasts for RCE are raised by 4-8% to factor in lower credit cost and better NIMs, though loan growth is marginally trimmed. The stock trades at a prospective FY20 PER of just 5.6x and PBV of 0.9x despite attractive ROEs of 15-16% and a decent dividend yield of 4.8%. We raise our TP to MYR2.00 (+5sen), conservatively pegging it to a FY20 PBV of just 1.1x (unchanged).

Above expectations

RCE reported a 3QFY19 net profit of MYR25m (+10% YoY, +7% QoQ). 9MFY19 net profit of MYR72m (+9% YoY) was above expectations at 78% of our full-year forecast. The variance was primarily due to its net interest margin and credit cost coming in better than expected. On the flip side, loan growth moderated to 6.4% YoY end-Dec 2018 from 7.8% YoY end-Sep 2018, amid more cautious consumer sentiment.

Improving credit costs

RCE's gross NPL ratio improved to 4.14% end-Dec 2018 from 4.25% end-Sep 2018 and compares against 4.06% end-Mar 2018. Credit cost has improved over the past three quarters and averaged just 98bps in 3QFY19 versus 190bps in 2QFY19 and 202bps in FY18. This may be attributed to reduced new NPL formation and the improving underlying quality of the asset book. Loan loss coverage was comfortable at 180% end-Dec 2018.

Raising our forecasts

Our loan growth estimate is lowered to 6% and 5% for FY19 and FY20 respectively (from 7% and 6%) on more cautious consumer sentiment. However, we have raised our NIM and lowered our credit cost assumptions, which were rather too conservative previously. Correspondingly, our FY19/20/21 net profit forecasts are raised by 4%/6%/8% respectively.

FYE Mar (MYR m)	FY17A	FY18A	FY19E	FY20E	FY21E
Operating income	167	188	201	215	230
Pre-provision profit	124	147	158	170	182
Core net profit	74	89	95	101	106
Core EPS (MYR)	0.24	0.26	0.28	0.29	0.31
Core EPS growth (%)	94.0	8.8	7.3	5.3	5.3
Net DPS (MYR)	0.03	0.07	0.08	0.08	0.08
Core P/E (x)	7.4	4.7	5.9	5.6	5.3
P/BV (x)	1.5	0.8	1.0	0.9	0.8
Net dividend yield (%)	1.7	5.7	4.8	4.8	4.8
Book value (MYR)	1.16	1.46	1.61	1.81	2.03
ROAE (%)	16.4	18.5	17.5	16.5	15.5
ROAA (%)	4.5	5.0	5.0	5.0	4.9
Consensus net profit	-	-	na	na	na
MKE vs. Consensus (%)	-	-	na	na	na

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BUY

Share Price MYR 1.65
12m Price Target MYR 2.00 (+21%)
Previous Price Target MYR 1.95

Company Description

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

Statistics

52w high/low (MYR)	1.69/1.09
3m avg turnover (USDm)	0.1
Free float (%)	28.7
Issued shares (m)	355
Market capitalisation	MYR586.4M
	LISD144M

Major shareholders:

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

Price Performance



 -1M
 -3M
 -12M

 Absolute (%)
 4
 2
 11

 Relative to index (%)
 3
 1
 19

Source: FactSet

Results summary

		Quarterly				Cumulative		
Year end: Mar (MYR'm)	3QFY19	3Q18	% YoY	2Q19	% QoQ	9MFY19	9MFY18	% YoY
Revenue	67.0	64.0	4.7	65.0	3.1	195.2	182.7	6.8
Other income	4.1	1.7	145.9	3.9	5.8	11.6	8.7	34.0
Interest expense	(20.0)	(17.2)	16.8	(19.4)	3.3	(58.0)	(51.4)	12.7
Personnel costs	(5.5)	(5.0)	11.7	(5.8)	(4.4)	(16.4)	(16.5)	(0.9)
Depreciation	(0.7)	(0.9)	(20.9)	(0.7)	(9.0)	(2.2)	(2.9)	(26.4)
Other expenses	(9.3)	(12.7)	(26.5)	(11.6)	(19.8)	(32.4)	(33.1)	(2.1)
Finance costs	(0.0)	(0.0)	7.7	(0.0)	(6.7)	(0.0)	(0.0)	10.3
Pretax profit	35.5	30.0	18.3	31.3	13.5	97.8	87.3	12.1
Tax	(10.3)	(7.1)	45.9	(7.8)	32.2	(26.0)	(21.6)	20.3
Net profit	25.2	22.9	9.8	23.5	7.3	71.8	65.7	9.4
Core net profit	25.2	22.9	9.8	23.5	7.3	71.8	65.7	9.4
Tax rate	29%	24%		25%		27%	25%	
Basic EPS (sen)	7.4	6.7	9.8	6.9	6.8	21.0	19.2	9.3
Net DPS (sen)	-	-	nm	4.0	nm	4.0	3.0	33.3
Net loans & receivables	1,591.9	1,496.0	6.4	1,569.1	1.5	1,591.9	1,496.0	6.4
Total borrowings	1,428.4	1,240.3	15.2	1,397.7	2.2	1,428.4	1,240.3	15.2
Net gearing (x)	2.0	2.2		2.0		2.0	2.2	

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.





Source: Company, Maybank KE

RCE: One-year forward rolling P/BV



Source: Company, Maybank KE

February 26, 2019

FYE 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
Key Metrics					
Core P/E (x)	7.4	4.7	5.9	5.6	5.3
Core FD P/E (x)	7.4	4.7	5.9	5.6	5.3
P/BV (x)	1.5	0.8	1.0	0.9	0.8
P/NTA (x)	1.7	0.9	1.1	1.0	0.9
Net dividend yield (%)	1.7	5.7	4.8	4.8	4.8
INCOME STATEMENT (MYR m)					
Interest income	190.0	218.5	232.4	252.2	268.0
Interest expense	(61.4)	(69.3)	(78.5)	(87.8)	(92.1)
Net interest income	128.5	149.2	153.9	164.3	175.9
Islamic banking income	na	na	na	na	na
Total non-interest income	38.1	39.1	47.1	50.7	53.7
Operating income	166.7	188.3	201.1	215.0	229.7
Staff costs	(21.4)	(22.3)	(23.2)	(24.1)	(25.0)
Other operating expenses	(21.7)	(19.1)	(20.1)	(21.2)	(22.1)
Operating expenses	(43.1)	(41.3)	(43.3)	(45.2)	(47.2)
Pre-provision profit	123.6	147.0	157.8	169.8	182.5
Loan impairment allowances	(22.1)	(29.6)	(32.2)	(37.5)	(43.1)
Pretax profit	101.5	117.4	125.6	132.3	139.3
Income tax	(22.5)	(28.7)	(30.2)	(31.8)	(33.4)
Reported net profit	78.9	88.7	95.5	100.6	105.9
Core net profit	73.7	88.7	95.5	100.6	105.9
BALANCE SHEET (MYR m)					
Cash & deposits with banks	159.3	197.2	197.5	252.6	313.1
Available-for-sale securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	1,411.6	1,524.7	1,614.0	1,693.7	1,776.5
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
Total assets	1,702.1	1,858.8	1,956.7	2,096.1	2,244.3
Other liabilities	1,260.7	1,339.5	1,383.5	1,450.9	1,521.6
Total liabilities	1,260.7	1,339.5	1,383.5	1,450.9	1,521.6
Share capital	38.1	44.7	35.6	35.6	35.6
Reserves	403.3	474.6	537.6	609.6	687.1
Shareholders' funds	441.4	519.3	573.2	645.2	722.7
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	573.2	645.2	722.7
Total liabilities & equity	1,702.1	1,858.8	1,956.7	2,096.1	2,244.3

February 26, 2019

FYE 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
Key Ratios					
Growth (%)					
Net interest income	16.1	16.1	3.2	6.7	7.0
Non-interest income	275.7	2.4	20.6	7.6	6.0
Operating expenses	4.2	(4.0)	4.7	4.5	4.3
Pre-provision profit	55.4	18.9	7.4	7.6	7.5
Core net profit	86.2	20.4	7.7	5.3	5.3
Gross loans	11.6	8.0	6.0	5.0	5.0
Customer deposits	na	na	na	na	na
Total assets	9.8	9.2	5.3	7.1	7.1
Profitability (%)					
Non-int. income/Total income	22.9	20.7	23.4	23.6	23.4
Cost/income	25.8	22.0	21.5	21.0	20.5
Liquidity (%)					
Loans/customer deposits	na	na	na	na	na
Asset quality (%)					
Gross NPL	4.2	4.1	4.2	4.2	4.3
Loan loss coverage	172.2	178.0	177.1	176.2	174.4
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	16.4	18.5	17.5	16.5	15.5
ROAA	4.5	5.0	5.0	5.0	4.9
Shareholders equity/assets	25.9	27.9	29.3	30.8	32.2

Source: Company; Maybank

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Technical Analysis

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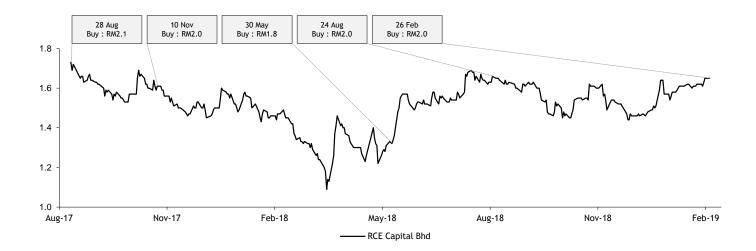
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Historical recommendations and target price: RCE Capital Bhd (RCE MK)



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