

RCE Capital Bhd (RCE MK)

Interim dividend surprise

Valuations are attractive, still a BUY

While we have trimmed FY19/20 earnings by 3-4%, valuations are still attractive with RCE trading at a prospective 2018 PER of just 6.8x. Moreover, having raised our DPS assumption, the FY18E yield of 3.8% is decent. The slowdown in loan growth to a 5-6% pace is healthier in the long run, and what would be a positive is if NIMs hold up better than expected. Our TP is lowered to MYR1.95 (-15sen) on a lower CY18 PBV of 1.3x (vs 1.4x previously), supported by a prospective ROE of 16.6% (17.2% previously). At our TP, RCE would trade at a CY18 PER of just 8.4x.

Results within expectations

RCE's 2QFYE3/18 net profit of MYR21.8m (+19% YoY, +4% QoQ) took 6MFY18 net profit to MYR43m (+19% YoY), making up 51% of our full-year forecast. What surprised on the downside was the slowdown in loan growth to an annualized pace of 6% from 11.6% in FY17 but this was more than compensated for by better NIMs, from lower funding cost. Asset quality was stable with an NPL ratio of 4.2%, while loan loss coverage was more than comfortable at 173%.

Slower loan growth

The issue of strictly enforcing a 60% debt service ratio (DSR) on existing borrowers affected industry-wide disbursements for about 3 months up to Jul 2017, contributing to the slowdown in loan growth. Since then, the situation has somewhat normalized with clarification that the 60% DSR would be enforced only on new borrowers. Even so, we do think that approval rates are likely to be lower going forward and we have cut our loan growth assumption to 5-6.5% from FY18-FY20 from 6-8% previously. Our FY18 net profit forecast is maintained but trimmed by 3%/4% for FY19/20.

Maiden interim dividend surprise

Management pleasantly surprised with a maiden interim DPS of 3sen. Our 3.5sen DPS for FY18 is raised to 6sen on the assumption that there will be a final DPS of similar magnitude, which would represent a payout ratio of just 14%.

FYE Mar (MYR m)	FY16A	FY17A	FY18E	FY19E	FY20E
· · ·					
Operating income	121	167	183	197	212
Pre-provision profit	80	124	135	145	157
Core net profit	40	74	84	90	96
Core EPS (MYR)	0.12	0.24	0.22	0.24	0.25
Core EPS growth (%)	35.9	94.0	(7.7)	6.7	7.1
Net DPS (MYR)	0.46	0.03	0.06	0.07	0.07
Core P/E (x)	12.9	6.6	7.2	6.7	6.3
P/BV (x)	1.2	1.4	1.2	1.0	0.9
Net dividend yield (%)	28.6	1.9	3.8	4.1	4.4
Book value (MYR)	1.34	1.16	1.35	1.55	1.76
ROAE (%)	7.7	16.4	17.6	16.2	15.2
ROAA (%)	2.8	4.5	4.7	4.6	4.6
Consensus net profit	-	-	84	92	100
MKE vs. Consensus (%)	-	-	(0.1)	(2.5)	(3.9)

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BUY

Share Price MYR 1.59

12m Price Target MYR 1.95 (+23%)

Previous Price Target MYR 2.10

Company Description

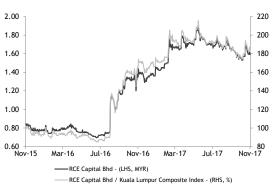
RCE Capital is principally involved in the provision of general loan financing services.

Statistics

52w high/low (MYR)	1.91/1.29
3m avg turnover (USDm)	0.2
Free float (%)	28.7
Issued shares (m)	355
Market capitalisation	MYR565.1M
	USD134M

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	2	(6)	18
Relative to index (%)	3	(4)	11

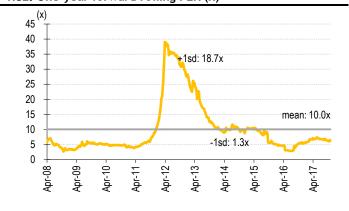
Source: FactSet

Results summary

		(Quarterly			(Cumulative	
Year end: Mar (MYR'm)	2Q18	2Q17	% YoY	1Q18	% QoQ	6MFY18	6MFY17	% YoY
Revenue	61.6	56.2	9.6	57.1	7.8	118.7	108.1	9.8
Other income	4.1	2.3	78.0	2.9	44.5	7.0	5.4	30.4
Interest expense	(16.9)	(16.3)	3.8	(17.3)	(2.3)	(34.3)	(33.4)	2.5
Personnel costs	(7.4)	(4.4)	69.5	(4.1)	79.3	(11.6)	(8.6)	34.2
Depreciation	(1.2)	(0.9)	22.7	(0.9)	25.1	(2.1)	(1.9)	11.0
Other expenses	(10.3)	(11.3)	(9.6)	(10.2)	0.7	(20.4)	(20.6)	(0.9)
Finance costs	(0.0)	(0.0)	116.7	(0.0)	-	(0.0)	(0.0)	160.0
Pretax profit	29.9	25.5	17.4	27.4	9.3	57.3	48.9	17.1
Tax	(8.1)	(7.1)	14.3	(6.5)	25.8	(14.6)	(13.0)	12.1
Net profit	21.8	18.4	18.5	20.9	4.2	42.7	35.9	19.0
Core net profit	21.8	18.4	18.5	20.9	4.2	42.7	35.9	19.0
Tax rate	27%	28%		24%		25%	27%	
Basic EPS (sen)	6.4	5.6	13.9	6.2	3.6	12.6	11.0	14.2
Net DPS (sen)	3.0	-	nm	-	nm	3.0	-	nm
Net loans & receivables	1,455.2	1,354.1	<i>7</i> .5	1,427.4	1.9	1,455.2	1,354.1	7.5
Total borrowings	1,199.7	1,190.8	0.7	1,280.7	(6.3)	1,199.7	1,190.8	0.7
Net gearing (x)	2.2	2.6		2.3		2.2	2.6	

Source: Company

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	FY16A	FY17A	FY18E	FY19E	FY20E
Key Metrics					
Core P/E (x)	12.9	6.6	7.2	6.7	6.3
Core FD P/E (x)	12.9	6.6	7.2	6.7	6.3
P/BV (x)	1.2	1.4	1.2	1.0	0.9
P/NTA (x)	1.3	1.5	1.3	1.1	1.0
Net dividend yield (%)	28.6	1.9	3.8	4.1	4.4
INCOME STATEMENT (MYR m)					
Interest income	158.6	190.0	208.1	221.0	233.0
Interest expense	(47.9)	(61.4)	(67.3)	(70.4)	(72.5)
Net interest income	110.7	128.5	140.8	150.6	160.5
Islamic banking income	na	na	na	na	na
Total non-interest income	10.2	38.1	41.9	46.0	51.3
Operating income	120.9	166.7	182.7	196.6	211.7
Staff costs	(15.6)	(21.4)	(23.9)	(26.3)	(29.0)
Other operating expenses	(25.7)	(21.7)	(23.7)	(24.8)	(25.9)
Operating expenses	(41.3)	(43.1)	(47.6)	(51.2)	(54.9)
Pre-provision profit	79.6	123.6	135.1	145.4	156.8
Loan impairment allowances	(25.4)	(22.1)	(25.9)	(27.4)	(28.8)
Pretax profit	54.2	101.5	109.2	118.0	128.0
Income tax	(14.6)	(22.5)	(25.1)	(28.3)	(32.0)
Reported net profit	39.6	78.9	84.1	89.7	96.0
Core net profit	39.6	73.7	84.1	89.7	96.0
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET (MYR m)					
Cash & deposits with banks	167.6	159.3	218.8	281.1	349.2
Available-for-sale securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	1,260.4	1,411.6	1,502.9	1,591.4	1,669.2
Fixed assets	8.4	9.3	8.3	7.3	6.3
Intangible assets	47.3	47.3	47.3	47.3	47.3
Other assets	66.9	74.6	81.4	86.1	91.0
Total assets	1,550.6	1,702.1	1,858.8	2,013.2	2,163.1
Other liabilities	1,094.1	1,260.7	1,344.8	1,422.9	1,491.9
Total liabilities	1,094.1	1,260.7	1,344.8	1,422.9	1,491.9
Share capital	136.4	38.1	38.1	38.1	38.1
Reserves	320.2	403.3	475.9	552.3	633.1
Shareholders' funds	456.5	441.4	514.0	590.3	671.1
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	456.5	441.4	514.0	590.3	671.1
Total liabilities & equity	1,550.6	1,702.1	1,858.8	2,013.2	2,163.1

FYE 31 Mar	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth (%)					
Net interest income	12.9	16.1	9.5	7.0	6.6
Non-interest income	7.9	275.7	9.9	9.8	11.3
Operating expenses	(3.2)	4.2	10.5	7.5	7.3
Pre-provision profit	22.9	55.4	9.3	7.7	7.8
Core net profit	9.3	86.2	14.1	6.7	7.1
Gross loans	16.8	11.6	6.5	6.0	5.0
Customer deposits	na	na	na	na	na
Total assets	25.6	9.8	9.2	8.3	7.4
Profitability (%)					
Non-int. income/Total income	8.4	22.9	22.9	23.4	24.2
Cost/income	34.2	25.8	26.1	26.0	25.9
Liquidity (%)					
Loans/customer deposits	na	na	na	na	na
Asset quality (%)					
Gross NPL	4.3	4.2	4.3	4.4	4.5
Loan loss coverage	178.0	172.2	171.8	170.1	168.5
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	7.7	16.4	17.6	16.2	15.2
ROAA	2.8	4.5	4.7	4.6	4.6
Shareholders equity/assets	29.4	25.9	27.7	29.3	31.0

Source: Company; Maybank

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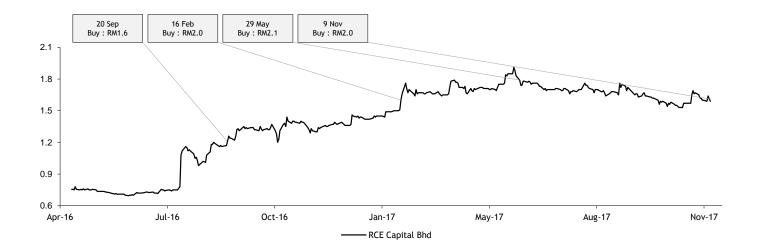
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November 9, 2017

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



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