

# RCE Capital Bhd (RCE MK)

# BUY

Share Price MYR 1.67  
 12m Price Target MYR 2.10 (+26%)  
 Previous Price Target MYR 2.10

## 1Q results within expectations

### BUY maintained

RCE's 1QFY3/18 results were within expectations and while loan growth had moderated during the period, we do expect a pick-up in the subsequent quarters. The pipeline for loans remains healthy at this stage and asset quality remains stable. We maintain our earnings forecasts and our TP of MYR2.10, pegged to a CY18 P/BV of 1.4x (CY18E ROE: 17%). BUY - at our TP, RCE would trade at a CY18 PER of just 8.9x.

### Results within expectations

RCE's results were in-line, with its 1QFY18 net profit of MYR20.9m (+19% YoY, -1.5% QoQ) making up 25% of our full-year forecast. The YoY growth was supported by higher net loan growth and improved interest margins. On a QoQ basis, the dip in earnings was largely a function of slightly narrower margins, by our estimates.

### Loan pipeline still healthy

Net loan growth was 9.7% YoY in 1QFY18 versus 12% YoY in FY17. On a QoQ basis, however, loan growth was just 1.1%, or 4.5% on an annualized basis. This was largely due to an increase in prepayments and a temporary slowdown in disbursements during the quarter. RCE looks set to issue its fourth Sukuk tranche (about MYR150m) in Sept, which would imply a still stable loan pipeline and disbursements should pick up pace into the next few quarters. In any case, we have already imputed a loan growth estimate of just 7.8% for FY18, on expectations of slower demand ahead (+8.0% YoY in FY19).

### Credit costs still benign

By our estimates, credit cost on net loans improved to 1.8% in 1QFY18 from 2% in 4QFY17 and asset quality has been stable.

### Company Description

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

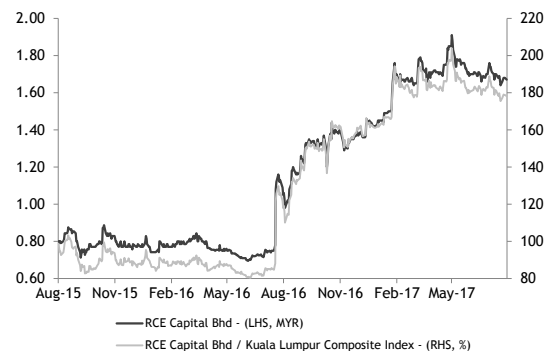
### Statistics

52w high/low (MYR) 1.91/0.98  
 3m avg turnover (USDm) 0.2  
 Free float (%) 20.7  
 Issued shares (m) 355  
 Market capitalisation MYR592.7M  
 USD138M

### Major shareholders:

Cempaka Empayar Sdn. Bhd. 60.2%  
 RCE Capital Bhd. 4.5%  
 Aras Kreatif Sdn. Bhd. 4.0%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(2)	(10)	49
Relative to index (%)	(2)	(10)	42

Source: FactSet

FYE Mar (MYR m)	FY16A	FY17A	FY18E	FY19E	FY20E
Operating income	121	172	192	214	236
Pre-provision profit	80	101	144	160	177
Core net profit	40	74	84	92	100
Core EPS (MYR)	0.12	0.24	0.22	0.24	0.26
Core EPS growth (%)	35.9	94.0	(7.7)	9.5	8.5
Net DPS (MYR)	0.46	0.03	0.04	0.04	0.05
Core P/E (x)	13.5	7.0	7.6	6.9	6.4
P/BV (x)	1.2	0.4	1.2	1.1	0.9
Net dividend yield (%)	27.2	1.8	2.1	2.4	2.7
Book value (MYR)	1.34	4.64	1.34	1.55	1.76
ROAE (%)	7.7	16.4	17.6	16.7	15.9
ROAA (%)	2.8	4.5	4.7	4.7	4.6
Consensus net profit	-	-	84	92	100
MKE vs. Consensus (%)	-	-	(0.0)	0.0	(0.0)

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## Results summary

Year end: Mar (MYR'm)	Quarterly					Cumulative		
	1Q18	1Q17	% YoY	4Q17	% QoQ	3MFY18	3MFY17	% YoY
Revenue	57.1	51.9	9.9	57.3	(0.3)	57.1	51.9	9.9
Other income	2.9	3.0	(6.0)	2.2	32.3	2.9	3.0	(6.0)
Interest expense	(17.3)	(17.1)	1.3	(12.4)	40.2	(17.3)	(17.1)	1.3
Personnel costs	(4.1)	(4.2)	(2.3)	(7.0)	(40.6)	(4.1)	(4.2)	(2.3)
Depreciation	(0.9)	(0.9)	(0.9)	(1.1)	(16.3)	(0.9)	(0.9)	(0.9)
Other expenses	(10.2)	(9.3)	9.8	(10.1)	0.7	(10.2)	(9.3)	9.8
Finance costs	(0.0)	(0.0)	225.0	(0.0)	(13.3)	(0.0)	(0.0)	225.0
Pretax profit	27.4	23.4	16.9	28.9	(5.1)	27.4	23.4	16.9
Tax	(6.5)	(5.9)	9.4	(7.6)	(15.2)	(6.5)	(5.9)	9.4
Net profit	20.9	17.5	19.4	21.2	(1.5)	20.9	17.5	19.4
Core net profit	20.9	17.5	19.4	21.2	(1.5)	20.9	17.5	19.4
Tax rate	24%	25%		26%		24%	25%	
Basic EPS (sen)	6.2	5.4	14.4	6.4	(3.1)	6.2	5.4	14.4
Net DPS (sen)	-	-	nm	-	nm	-	-	nm
Net loans & receivables	1,427.4	1,300.9	9.7	1,411.6	1.1	1,427.4	1,300.9	9.7
Total borrowings	1,280.7	1,084.4	18.1	1,214.7	5.4	1,280.7	1,084.4	18.1
Net gearing (x)	2.3	2.6		2.4		2.3	2.6	

Source: Company

FYE 31 Mar	FY16A	FY17A	FY18E	FY19E	FY20E
<b>Key Metrics</b>					
Core P/E (x)	13.5	7.0	7.6	6.9	6.4
Core FD P/E (x)	13.5	7.0	7.6	6.9	6.4
P/BV (x)	1.2	0.4	1.2	1.1	0.9
P/NTA (x)	1.4	0.4	1.4	1.2	1.0
Net dividend yield (%)	27.2	1.8	2.1	2.4	2.7

**INCOME STATEMENT (MYR m)**

Interest income	158.6	191.8	218.2	241.6	263.8
Interest expense	(47.9)	(61.5)	(71.6)	(81.1)	(89.8)
<b>Net interest income</b>	<b>110.7</b>	<b>130.3</b>	<b>146.6</b>	<b>160.5</b>	<b>174.0</b>
Islamic banking income	na	na	na	na	na
<b>Total non-interest income</b>	<b>10.2</b>	<b>41.4</b>	<b>45.8</b>	<b>53.2</b>	<b>62.0</b>
<b>Operating income</b>	<b>120.9</b>	<b>171.7</b>	<b>192.4</b>	<b>213.7</b>	<b>236.1</b>
Staff costs	(15.6)	(21.4)	(24.6)	(27.0)	(29.7)
Other operating expenses	(25.7)	(48.8)	(23.9)	(26.2)	(29.0)
<b>Operating expenses</b>	<b>(41.3)</b>	<b>(70.2)</b>	<b>(48.5)</b>	<b>(53.2)</b>	<b>(58.7)</b>
<b>Pre-provision profit</b>	<b>79.6</b>	<b>101.5</b>	<b>143.9</b>	<b>160.4</b>	<b>177.4</b>
Loan impairment allowances	(25.4)	0.0	(34.7)	(39.3)	(44.2)
<b>Pretax profit</b>	<b>54.2</b>	<b>101.5</b>	<b>109.2</b>	<b>121.1</b>	<b>133.1</b>
Income tax	(14.6)	(22.5)	(25.1)	(29.1)	(33.3)
<b>Reported net profit</b>	<b>39.6</b>	<b>78.9</b>	<b>84.1</b>	<b>92.0</b>	<b>99.9</b>
<b>Core net profit</b>	<b>39.6</b>	<b>73.7</b>	<b>84.1</b>	<b>92.0</b>	<b>99.9</b>
Preferred Dividends	0.0	0.0	0.0	0.0	0.0

**BALANCE SHEET (MYR m)**

Cash & deposits with banks	167.6	159.3	221.1	276.5	336.7
Available-for-sale securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	1,260.4	1,411.6	1,521.7	1,643.7	1,770.6
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
<b>Total assets</b>	<b>1,550.6</b>	<b>1,702.1</b>	<b>1,879.9</b>	<b>2,060.9</b>	<b>2,251.9</b>
Other liabilities	1,094.1	1,260.7	1,368.5	1,472.8	1,581.0
<b>Total liabilities</b>	<b>1,094.1</b>	<b>1,260.7</b>	<b>1,368.5</b>	<b>1,472.8</b>	<b>1,581.0</b>
Share capital	136.4	38.1	38.1	38.1	38.1
Reserves	320.2	403.3	473.3	550.1	632.8
Shareholders' funds	456.5	441.4	511.4	588.2	670.9
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	511.4	588.2	670.9
<b>Total liabilities &amp; equity</b>	<b>1,550.6</b>	<b>1,702.1</b>	<b>1,879.9</b>	<b>2,060.9</b>	<b>2,251.9</b>

FYE 31 Mar	FY16A	FY17A	FY18E	FY19E	FY20E
<b>Key Ratios</b>					
<b>Growth (%)</b>					
Net interest income	12.9	17.7	12.5	9.5	8.4
Non-interest income	7.9	307.5	10.6	16.2	16.6
Operating expenses	(3.2)	69.8	(30.9)	9.8	10.2
Pre-provision profit	22.9	27.5	41.8	11.5	10.6
Core net profit	9.3	86.1	14.1	9.5	8.5
Gross loans	16.8	10.5	9.1	7.9	7.6
Customer deposits	na	na	na	na	na
Total assets	25.6	9.8	10.4	9.6	9.3
<b>Profitability (%)</b>					
Non-int. income/Total income	8.4	24.1	23.8	24.9	26.3
Cost/income	34.2	40.9	25.2	24.9	24.9
<b>Liquidity (%)</b>					
Loans/customer deposits	na	na	na	na	na
<b>Asset quality (%)</b>					
Gross NPL	4.3	4.2	4.1	4.0	3.9
Loan loss coverage	178.0	152.1	182.9	185.0	187.2
<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	7.7	16.4	17.6	16.7	15.9
ROAA	2.8	4.5	4.7	4.7	4.6
Shareholders equity/assets	29.4	25.9	27.2	28.5	29.8

Source: Company; Maybank

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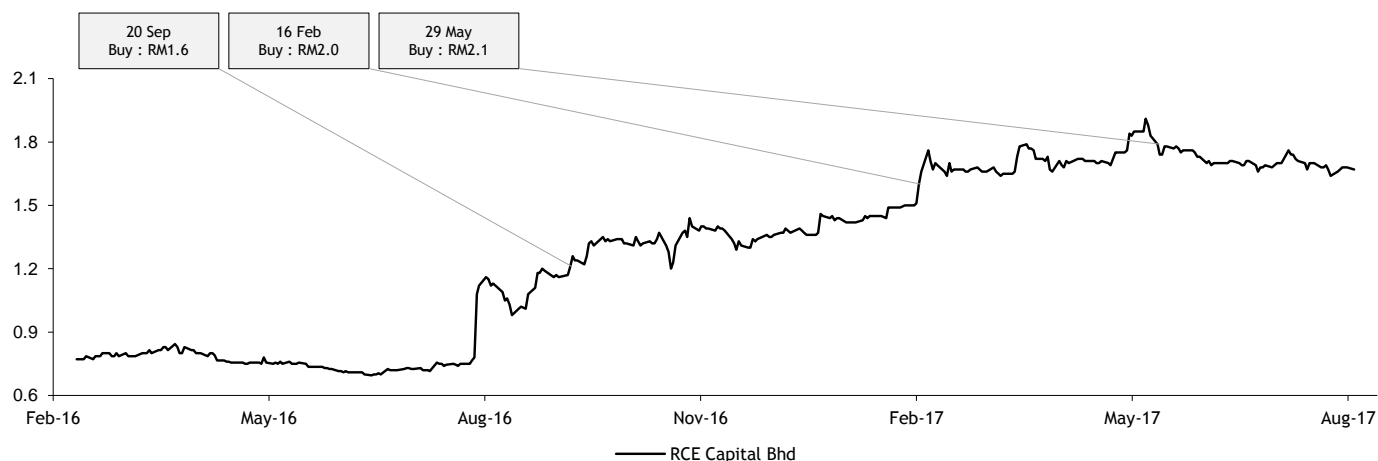
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## Historical recommendations and target price: RCE Capital Bhd (RCE MK)



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