Maybank IB Research

RCE Capital Bhd (RCE MK)

Faster loan growth in 3QFY18

BUY and MYR1.95 TP maintained

3QFY3/18 results were above expectations and our FY18-20 earnings forecasts are raised by 3-4%. Rolling forward valuations, we maintain our MYR1.95 TP on a lower PBV peg of 1.1x (1.3x previously) on a lower CY19E ROE of 15.9% (16.6% for CY18E before). BUY maintained - at our TP of MYR1.95, RCE would trade at an undemanding CY19 PER of just 7.5x while FY18E dividend yield of 4.1% provides support.

9M core profits up 25% YoY

RCE reported a 3QFY18 core net profit of MYR22.9m (+39% YoY, +5% QoQ) which took 9MFY18 core net profit to MYR65.7m (+25% YoY). This was above expectations at 78% of our FY18 net profit forecast, predominantly due to faster loan growth and ongoing NIM expansion. Annualized loan growth was a faster 8% end-Dec 2017 vs. 6% end-Sep 2017, as loan processing normalized following clarity that a proposed 60% debt service ratio on civil servant lending would not be strictly enforced. By our estimates, NIM expanded 10bps QoQ with support from new higher yielding loans, which more than offset an increase in credit costs.

Factoring in a 25bps increase in interest rates

We have raised borrowing costs to factor in the recent 25bp hike in the OPR in Jan 2018. Positively though, fixed rate Al Dzahab sukuk now makes up 48% of total borrowings, thus buffering the overall impact, as would the ongoing addition of newer, higher yielding loans to the portfolio, following a lending rate hike in 2015. As such, we estimate just a marginal 5bps contraction in FY19 NIM (FY18E: +20bps).

Slightly faster loan growth

We have raised our FY18/FY19 loan growth forecast to 8%/7% from 6.5%/6.0% previously. Our credit cost estimates are trimmed but we still assume a 30bps YoY rise in FY19 credit costs with the implementation of MFRS9. Asset quality thus far has been stable, with a gradual decline in the NPL ratio to 4.1% end-Dec 2017 from 4.2% end-Mar 2017, while loan loss coverage remains healthy at 179%. Taking these factors into consideration, our FY18-20 net profit forecasts are raised by 3-4%.

FYE Mar (MYR m) FY16A FY17A FY18E FY19E FY20E Operating income 121 167 188 204 225 Pre-provision profit 80 124 141 154 172 Core net profit 40 74 87 92 100 Core EPS (MYR) 0.12 0.24 0.23 0.24 0.26 Core EPS growth (%) 35.9 94.0 (4.2) 5.8 8.7 Net DPS (MYR) 0.46 0.03 0.06 0.07 0.07 Core P/E (x) 11.9 6.1 6.4 6.1 5.6 P/BV (x) 1.1 1.3 1.1 0.9 0.8 Net dividend yield (%) 31.0 2.0 4.1 4.4 4.8 Book value (MYR) 1.34 1.16 1.36 1.57 1.75
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ROAE (%) 7.7 16.4 18.2 16.6 15.7
ROAA (%) 2.8 4.5 4.9 4.8 4.8
Consensus net profit 84 90 97
MKE vs. Consensus (%) 4.4 2.3 3.3

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BUY

Share Price MYR 1.47

12m Price Target MYR 1.95 (+33%)

Previous Price Target MYR 1.95

Company Description

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

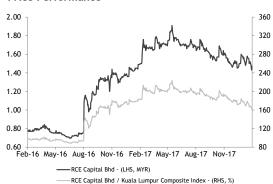
Statistics

52w high/low (MYR)	1.91/1.43
3m avg turnover (USDm)	0.1
Free float (%)	28.7
Issued shares (m)	355
Market capitalisation	MYR522.4M
	USD133M

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	(7)	(9)	(1)
Relative to index (%)	(7)	(13)	(9)

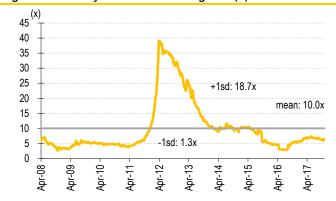
Source: FactSet

Fig 1: Results summary

		(Quarterly			(Cumulative	
Year end: Mar (MYR'm)	3Q18	3Q17	% YoY	2Q18	% QoQ	9MFY18	9MFY17	% YoY
Revenue	64.0	58.0	10.4	61.6	4.0	182.7	166.1	10.0
Other income	1.7	2.3	(26.3)	- 4.1	(59.7)	8.7	7.6	13.6
Interest expense	(17.2)	(15.7)	9.5	(16.9)	1.3	(51.4)	(49.1)	4.7
Personnel costs	(5.0)	(5.8)	(14.2)	(7.4)	(33.1)	(16.5)	(14.4)	14.8
Depreciation	(0.9)	(0.9)	(8.0)	(1.2)	(25.6)	(2.9)	(2.8)	4.6
Other expenses	(12.7)	(14.2)	(10.4)	(10.3)	23.8	(33.1)	(34.8)	(4.7)
Finance costs	(0.0)	(0.0)	62.5	(0.0)	-	(0.0)	(0.0)	116.7
Pretax profit	30.0	23.7	26.5	29.9	0.2	87.3	72.6	20.2
Tax	(7.1)	(1.9)	266.8	(8.1)	(12.9)	(21.6)	(14.9)	44.9
Net profit	22.9	21.8	5.2	21.8	5.0	65.7	57.7	13.8
Core net profit	22.9	16.5	39.0	21.8	5.0	65.7	52.4	25.3
Tax rate	24%	8%		27%		25%	21%	
Basic EPS (sen)	6.7	6.5	2.9	6.4	4.8	19.3	17.5	10.0
Net DPS (sen)	-	-	nm	3.0	nm	3.0	-	nm
Net loans & receivables	1,496.0	1,386.1	7.9	1,455.2	2.8	1,496.0	1,386.1	7.9
Total borrowings	1,240.3	1,121.9	10.5	1,199.7	3.4	1,240.3	1,121.9	10.5
Net gearing (x)	2.2	2.5		2.2		2.2	2.5	

Source: Company

Fig 2: RCE: One-year forward rolling PER (x)



Source: Company, Maybank KE

Fig 3: 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)	11.9	6.1	6.4	6.1	5.6
Core FD P/E (x)	11.9	6.1	6.4	6.1	5.6
P/BV (x)	1.1	1.3	1.1	0.9	0.8
P/NTA (x)	1.2	1.4	1.2	1.0	0.9
Net dividend yield (%)	31.0	2.0	4.1	4.4	4.8
INCOME STATEMENT (MYR m)					
Interest income	158.6	190.0	217.5	233.6	252.3
Interest expense	(47.9)	(61.4)	(73.2)	(77.7)	(81.5)
Net interest income	110.7	128.5	144.3	155.9	170.7
Islamic banking income	na	na	na	na	na
Total non-interest income	10.2	38.1	43.4	48.2	54.5
Operating income	120.9	166.7	187.6	204.1	225.2
Staff costs	(15.6)	(21.4)	(22.9)	(24.5)	(26.2)
Other operating expenses	(25.7)	(21.7)	(23.8)	(25.2)	(26.5)
Operating expenses	(41.3)	(43.1)	(46.7)	(49.7)	(52.7)
Pre-provision profit	79.6	123.6	141.0	154.4	172.5
Loan impairment allowances	(25.4)	(22.1)	(24.7)	(31.5)	(38.8)
Pretax profit	54.2	101.5	116.3	123.0	133.7
Income tax	(14.6)	(22.5)	(29.1)	(30.7)	(33.4)
Reported net profit	39.6	78.9	87.2	92.2	100.3
Core net profit	39.6	73.7	87.2	92.2	100.3
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET (MYR m)					
Cash & deposits with banks	167.6	159.3	168.8	228.7	295.3
Available-for-sale securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	1,260.4	1,411.6	1,524.1	1,628.2	1,724.0
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	1,829.9	1,997.5	2,164.0
Other liabilities	1,094.1	1,260.7	1,312.8	1,401.5	1,482.9
Total liabilities	1,094.1	1,260.7	1,312.8	1,401.5	1,482.9
Share capital	136.4	38.1	38.1	38.1	38.1
Reserves	320.2	403.3	479.1	558.0	643.0
Shareholders' funds	456.5	441.4	517.1	596.0	681.1
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	517.1	596.0	681.1
Total liabilities & equity	1,550.6	1,702.1	1,829.9	1,997.5	2,164.0

February 9, 2018

FYE 31 Mar	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth (%)					
Net interest income	12.9	16.1	12.3	8.0	9.5
Non-interest income	7.9	275.7	13.7	11.2	13.0
Operating expenses	(3.2)	4.2	8.4	6.5	6.1
Pre-provision profit	22.9	55.4	14.0	9.5	11.7
Core net profit	9.3	86.2	18.4	5.8	8.7
Gross loans	16.8	11.6	8.0	7.0	6.0
Customer deposits	na	na	na	na	na
Total assets	25.6	9.8	7.5	9.2	8.3
Profitability (%)					
Non-int. income/Total income	8.4	22.9	23.1	23.6	24.2
Cost/income	34.2	25.8	24.9	24.3	23.4
Liquidity (%)					
Loans/customer deposits	na	na	na	na	na
Asset quality (%)					
Gross NPL	4.3	4.2	4.1	4.3	4.4
Loan loss coverage	178.0	172.2	178.0	175.3	173.6
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	18.2	16.6	15.7
ROAA	2.8	4.5	4.9	4.8	4.8
Shareholders equity/assets	29.4	25.9	28.3	29.8	31.5

Source: Company; Maybank

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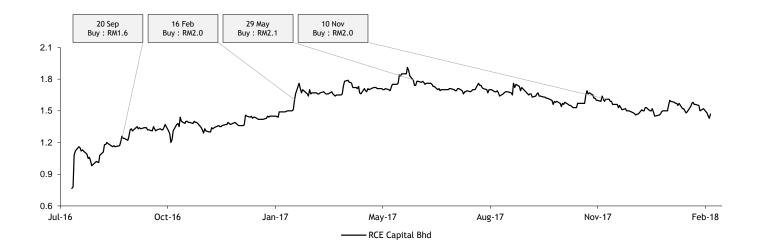
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