RCE Capital Bhd (RCE MK)

Higher interim DPS

Valuations are undemanding

The highlight of RCE's 1HFY19 results is that loan growth picked up momentum to 8.4% YoY and that the interim DPS of 4sen was above expectations. We maintain our earnings forecasts and our TP of MYR1.95, which pegs on a CY19 P/BV of 1.1x (CY19E ROE: 16%). Our FY19 DPS estimate is raised to 8sen and this is an attractive yield of 5.2%. Even at our TP, the stock would trade at a prospective CY19 PER of just 7.1x (against a historical mean of 9.7x), with a still decent dividend yield of 4.1%. BUY.

Faster loan growth

RCE reported a 2QFY19 core net profit of MYR23.5m (+8% YoY, +1% QoQ). 1HFY19 net profit of MYR47m (+9% YoY) was within expectations at 51% of our full-year forecast. Loan growth was a higher 8.4% YoY vs 6% YoY end-Jun 2018. This is faster than our FY19 forecast of 7%. NIM contracted about 21bps QoQ by our estimates, but the 1HFY19 NIM contraction todate of about 23bps is still smaller than our full-year estimate of a 31bps contraction.

Marginally higher NPL ratio

RCE's gross NPL ratio rose marginally to 4.25% end-Sep 2018 from 4.19% end-Jun 2018 and 4.06% end-Mar 2018. Credit cost in 2QFY19 was 190bps vs 197bps in 2QFY18 and 165bps in 1QFY19. Loan loss coverage was nevertheless a healthy 183%. As it stands, we have already factored in a rise in RCE's NPL ratio to 4.25% in FY19 and a higher credit cost of 210bps.

Higher interim dividend

Management announced an interim DPS of 4sen, which is higher than the interim DPS of 3sen in 1HFY18. Maintaining a final DPS estimate of 4sen, we now raise our full-year FY19 DPS estimate to 8sen from 7sen previously. At the current price of MYR1.55, this translates into an attractive dividend yield of 5.2%.

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	0.08	0.08	0.08
Core P/E (x)	7.4	4.7	5.7	5.5	5.4
P/BV (x)	1.5	0.8	1.0	0.9	0.8
Net dividend yield (%)	1.7	5.7	5.2	5.2	5.2
Book value (MYR)	1.16	1.46	1.61	1.80	1.99
ROAE (%)	16.4	18.5	16.9	15.7	14.6
ROAA (%)	4.5	5.0	4.8	4.6	4.5
Consensus net profit	-	-	91	95	98
MKE vs. Consensus (%)	-	-	0.9	0.1	(0.0)

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BUY

Share Price	MYR 1.54
12m Price Target	MYR 1.95 (+27%)
Previous Price Target	MYR 1.95

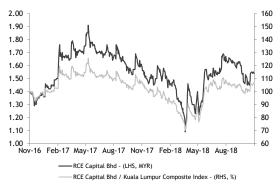
Company Description

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	MYR547.3M
	USD130M
Major shareholders:	
Cempaka Empayar Sdn. Bhd.	58.3%
RCE Capital Bhd.	3.9%
Bank Negara Malaysia	1.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	5	(8)	(3)
Relative to index (%)	7	(3)	(1)
Source: FactSet			

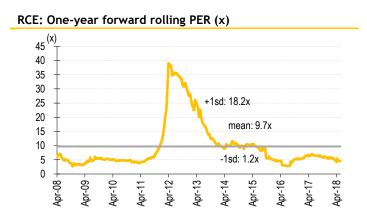
Results summary

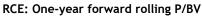
		Quarterly				Cumulative		
Year end: Mar (MYR'm)	2QFY19	2QFY18	% YoY	1Q19	% QoQ	6MFY19	6MFY18	% YoY
Revenue	65.0	61.6	5.5	63.2	2.7	128.2	118.7	8.0
Other income	3.9	4.1	(6.4)	3.6	6.2	7.5	7.0	7.4
Interest expense	(19.4)	(16.9)	14.5	(18.5)	4.7	(37.9)	(34.3)	10.7
Personnel costs	(5.8)	(7.4)	(21.9)	(5.0)	14.9	(10.8)	(11.6)	(6.2)
Depreciation	(0.7)	(1.2)	(35.3)	(0.7)	1.6	(1.5)	(2.1)	(28.7)
Other expenses	(11.6)	(10.3)	13.5	(11.5)	1.6	(23.1)	(20.4)	13.0
Finance costs	(0.0)	(0.0)	15.4	(0.0)	7.1	(0.0)	(0.0)	11.5
Pretax profit	31.3	29.9	4.4	31.1	0.5	62.4	57.3	8.8
Tax	(7.8)	(8.1)	(3.8)	(7.9)	(1.4)	(15.7)	(14.6)	7.9
Net profit	23.5	21.8	7.5	23.2	1.1	46.7	42.7	9.1
Core net profit	23.5	21.8	7.5	23.2	1.1	46.7	42.7	9.1
Tax rate	25%	27%		25%		25%	25%	
Basic EPS (sen)	6.9	6.4	7.8	6.8	1.3	13.7	12.6	9.0
Net DPS (sen)	4.0	3.0	33.3	-	nm	4.0	3.0	33.3
Net loans & receivables	1,569.1	1,455.2	7.8	1,536.0	2.2	1,569.1	1,455.2	7.8
Total borrowings	1,397.7	1,199.7	16.5	1,413.6	(1.1)	1,397.7	1,199.7	16.5

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

Source: Company, Maybank KE

FYE 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
Key Metrics					
Core P/E (x)	7.4	4.7	5.7	5.5	5.4
Core FD P/E (x)	7.4	4.7	5.7	5.5	5.4
P/BV (x)	1.5	0.8	1.0	0.9	0.8
P/NTA (x)	1.7	0.9	1.0	0.9	0.8
Net dividend yield (%)	1.7	5.7	5.2	5.2	5.2
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)
Net interest income	128.5	149.2	154.7	163.1	172.8
Islamic banking income	na	na	na	na	na
Total non-interest income	38.1	39.1	47.3	50.7	53.6
Operating income	166.7	188.3	202.0	213.8	226.4
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)
Operating expenses	(43.1)	(41.3)	(45.1)	(47.1)	(49.1)
Pre-provision profit	123.6	147.0	156.9	166.7	177.3
Loan impairment allowances	(22.1)	(29.6)	(35.7)	(41.7)	(48.0)
Pretax profit	101.5	117.4	121.2	125.0	129.3
Income tax	(22.5)	(28.7)	(29.1)	(30.0)	(31.0)
Reported net profit	78.9	88.7	92.1	95.0	98.3
Core net profit	73.7	88.7	92.1	95.0	98.3
BALANCE SHEET (MYR m)					
Cash & deposits with banks	159.3	197.2	197.1	244.7	295.4
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
Total assets	1,702.1	1,858.8	1,969.8	2,117.7	2,273.7
Other liabilities	1,260.7	1,339.5	1,395.9	1,477.3	1,563.5
Total liabilities	1,260.7	1,339.5	1,395.9	1,477.3	1,563.5
Share capital	38.1	44.7	35.6	35.6	35.6
Reserves	403.3	474.6	538.2	604.8	674.6
Shareholders' funds	441.4	519.3	573.8	640.4	710.2
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	573.8	640.4	710.2
Total liabilities & equity	1,702.1	1,858.8	1,969.8	2,117.7	2,273.7

FYE 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
Key Ratios					
Growth (%)					
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	6.0	7.5	7.4
Profitability (%)					
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
Liquidity (%)					
Loans/customer deposits	na	na	na	na	na
Asset quality (%)					
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
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	16.9	15.7	14.6
ROAA	4.5	5.0	4.8	4.6	4.5
Shareholders equity/assets	25.9	27.9	29.1	30.2	31.2
Source: Company: Maybank					

Source: Company; Maybank

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Malaysia

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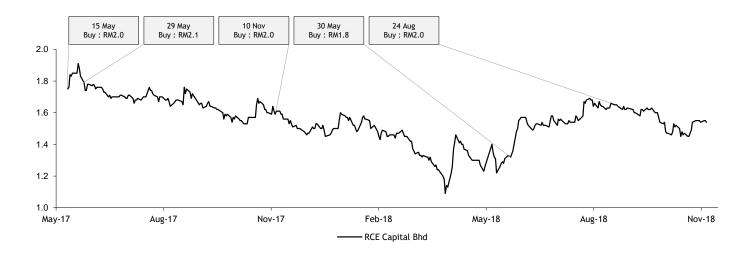
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