

RCE Capital Bhd (RCE MK)

FY19 results in-line

Decent yields of >5%

RCE's FY19 results were decent, with net profit up 8% YoY - in line with expectations. Our forecasts are maintained. While we remain positive on RCE's medium-term potential, Malaysia's possible removal from FTSE Russell's World Government Bond Index could weigh on near-term sentiment. We maintain a HOLD call with an unchanged TP of MYR1.80 on a FY20E PBV peg of 1x. Yields of >5% provide support.

Within expectations

RCE reported a 4QFY19 net profit of MYR24m (+3% YoY, -6% QoQ). FY19 net profit of MYR96m (+8% YoY) was in line with our full-year forecast. Loan growth moderated to 5.2% YoY from 8.0% YoY in FY18, amid more cautious consumer sentiment. A final DPS of 5sen was declared, taking the FY19 DPS to 9sen from 7sen in FY18.

Slight deterioration in asset quality

RCE's gross NPL ratio rose to 4.38% end-Mar 2019 from 4.06% end-Mar 2018. Credit cost was nevertheless lower at 141bps in FY19 versus 187bps in FY18 and loan loss coverage was still healthy at 172%.

Forecasts maintained

Our forecasts are maintained and they assume loan growth of 5% in FY20 and FY21 respectively. We have assumed also NIM compression of about 50bps in FY20 in anticipation of possible higher borrowing costs ahead, amid potential volatility in the bond market. Positively, though, RCE's net gearing has improved to 1.9x end-Mar 2019 from 2.1x end-Mar 2018 and this provides some buffer against NIM compression.

FYE Mar (MYR m)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating income	188	200	209	219	231
Pre-provision profit	147	155	161	169	179
Core net profit	89	96	101	106	112
Core EPS (MYR)	0.26	0.28	0.29	0.30	0.31
Core EPS growth (%)	8.8	7.6	3.7	3.7	4.4
Net DPS (MYR)	0.07	0.09	0.09	0.09	0.09
Core P/E (x)	4.7	5.8	5.6	5.4	5.2
P/BV (x)	0.8	1.0	1.1	0.9	0.9
Net dividend yield (%)	5.7	5.5	5.5	5.5	5.5
Book value (MYR)	1.46	1.62	1.55	1.72	1.91
ROAE (%)	18.5	17.3	17.6	17.6	16.6
ROAA (%)	5.0	4.7	4.5	4.5	4.5
Consensus net profit	-	-	103	106	na
MKE vs. Consensus (%)	-	-	(1.8)	0.2	na

Desmond Ch'ng, ACA
 desmond.chng@maybank-ib.com
 (603) 2297 8680

HOLD

Share Price	MYR 1.63
12m Price Target	MYR 1.80 (+10%)
Previous Price Target	MYR 1.80

Company Description

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

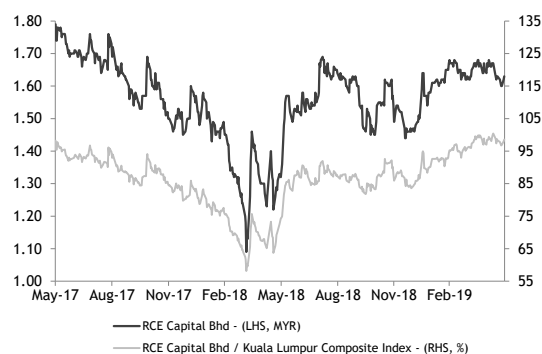
Statistics

52w high/low (MYR)	1.69/1.32
3m avg turnover (USDm)	0.1
Free float (%)	27.6
Issued shares (m)	363
Market capitalisation	MYR591.6M USD141M

Major shareholders:

Cempaka Empayar Sdn. Bhd.	57.5%
RCE Capital Bhd.	5.4%
Employees Provident Fund	2.7%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	(3)	23
Relative to index (%)	1	3	36

Source: FactSet

Results summary

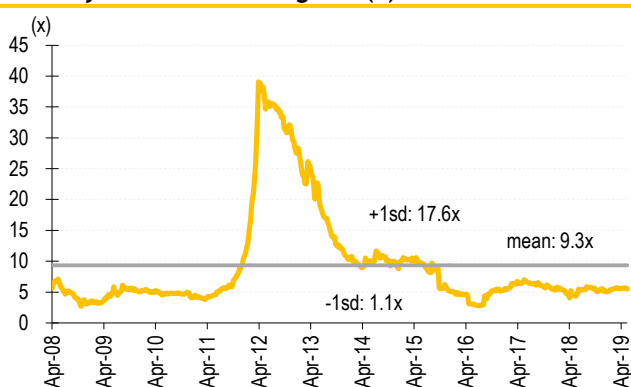
Year end: Mar (MYR'm)	Quarterly					Cumulative		
	4Q19	4Q18	% YoY	3Q19	% QoQ	FY19	FY18	% YoY
Revenue	67.4	63.2	6.6	67.0	0.6	262.6	245.9	6.8
Other income	3.9	3.0	27.2	4.1	(5.8)	15.5	11.7	32.2
Interest expense	(20.1)	(17.9)	12.1	(20.0)	0.2	(78.0)	(69.3)	12.6
Personnel costs	(5.0)	(5.9)	(15.1)	(5.5)	(10.0)	(21.4)	(22.4)	(4.6)
Depreciation	(0.5)	(0.4)	5.8	(0.7)	(30.1)	(2.6)	(3.4)	(22.1)
Other expenses	(12.5)	(12.0)	4.2	(9.3)	33.6	(44.9)	(45.1)	(0.4)
Finance costs	(0.0)	(0.0)	(18.8)	(0.0)	(7.1)	(0.1)	(0.1)	1.8
Pretax profit	33.2	30.1	10.6	35.5	(6.3)	131.1	117.4	11.7
Tax	(9.5)	(7.1)	35.0	(10.3)	(7.7)	(35.6)	(28.7)	23.9
Net profit	23.7	23.0	3.1	25.2	(5.7)	95.5	88.7	7.7
Core net profit	23.7	23.0	3.1	25.2	(5.7)	95.5	88.7	7.7
Tax rate	29%	23%		29%		27%	24%	
Basic EPS (sen)	6.9	6.7	3.0	7.4	(5.8)	28.0	26.0	7.6
Net DPS (sen)	5.0	4.0	25.0	-	nm	9.0	7.0	28.6
Net loans & receivables	1,598.7	1,524.7	4.9	1,591.9	0.4	1,598.7	1,524.7	4.9
Total borrowings	1,605.9	1,299.8	23.6	1,428.4	12.4	1,605.9	1,299.8	23.6
Net gearing (x)	1.9	2.1		2.0		1.9	2.1	

Source: Company

Risk statement

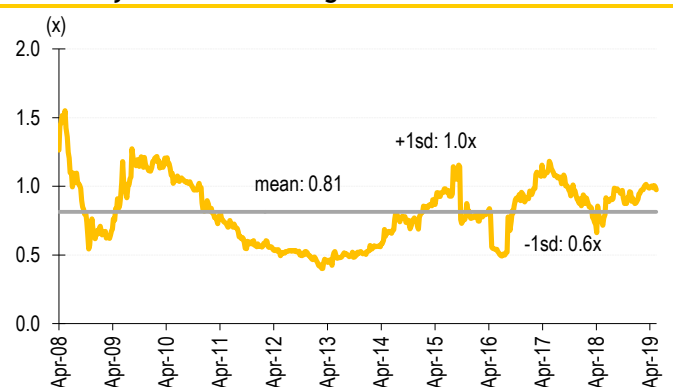
There are several risk factors for our earnings estimates, price target, and rating for RCE. Lending solely to Government civil servants, any move by the current Government to curb/reduce the size of the civil service would curtail RCE's business. RCE does not have access to CCRIS just yet and thus would not be able to comprehensively assess a borrower's outstanding debt position with domestic commercial banks.

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	FY18A	FY19A	FY20E	FY21E	FY22E
Key Metrics					
Core P/E (x)	4.7	5.8	5.6	5.4	5.2
Core FD P/E (x)	4.7	5.8	5.6	5.4	5.2
P/BV (x)	0.8	1.0	1.1	0.9	0.9
P/NTA (x)	0.9	1.1	1.2	1.0	0.9
Net dividend yield (%)	5.7	5.5	5.5	5.5	5.5
INCOME STATEMENT (MYR m)					
Interest income	213.5	234.3	249.3	265.1	281.2
Interest expense	(69.3)	(78.0)	(88.0)	(96.1)	(103.5)
Net interest income	144.2	156.2	161.3	168.9	177.7
Islamic banking income	na	na	na	na	na
Total non-interest income	44.1	43.8	47.6	50.4	53.2
Operating income	188.3	200.0	208.9	219.3	230.9
Staff costs	(22.4)	(21.4)	(22.2)	(23.1)	(24.0)
Other operating expenses	(18.9)	(23.9)	(25.6)	(26.8)	(28.0)
Operating expenses	(41.3)	(45.2)	(47.9)	(50.0)	(52.0)
Pre-provision profit	147.0	154.8	161.0	169.3	178.9
Loan impairment allowances	(29.6)	(23.7)	(26.6)	(27.9)	(29.2)
Pretax profit	117.4	131.1	134.4	141.4	149.7
Income tax	(28.7)	(35.6)	(33.6)	(35.4)	(37.4)
Reported net profit	88.7	95.5	100.8	106.1	112.3
Core net profit	88.7	95.5	100.8	106.1	112.3
BALANCE SHEET (MYR m)					
Cash & deposits with banks	197.2	492.4	434.6	506.3	584.1
Available-for-sale securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	1,524.7	1,598.7	1,676.5	1,756.5	1,822.8
Fixed assets	6.2	4.5	3.5	2.5	1.5
Intangible assets	47.3	47.3	47.3	47.3	47.3
Other assets	83.3	83.2	92.6	98.1	103.9
Total assets	1,858.8	2,226.1	2,254.5	2,410.7	2,559.6
Other liabilities	1,339.5	1,642.6	1,689.5	1,772.5	1,842.4
Total liabilities	1,339.5	1,642.6	1,689.5	1,772.5	1,842.4
Share capital	44.7	154.5	36.6	37.1	37.6
Reserves	474.6	429.1	528.4	601.1	679.6
Shareholders' funds	519.3	583.5	565.0	638.2	717.2
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	519.3	583.5	565.0	638.2	717.2
Total liabilities & equity	1,858.8	2,226.1	2,254.5	2,410.7	2,559.6

FYE 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth (%)					
Net interest income	12.2	8.3	3.2	4.7	5.2
Non-interest income	15.6	(0.7)	8.6	5.8	5.7
Operating expenses	(4.0)	9.4	5.8	4.4	4.2
Pre-provision profit	18.9	5.3	4.0	5.2	5.6
Core net profit	20.4	7.7	5.5	5.2	5.9
Gross loans	8.0	5.2	5.0	5.0	4.0
Customer deposits	na	na	na	na	na
Total assets	9.2	19.8	1.3	6.9	6.2
Profitability (%)					
Non-int. income/Total income	23.4	21.9	22.8	23.0	23.1
Cost/income	22.0	22.6	22.9	22.8	22.5
Liquidity (%)					
Loans/customer deposits	na	na	na	na	na
Asset quality (%)					
Gross NPL	4.1	4.4	4.5	4.7	4.9
Loan loss coverage	178.0	172.1	170.2	167.2	164.5
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	18.5	17.3	17.6	17.6	16.6
ROAA	5.0	4.7	4.5	4.5	4.5
Shareholders equity/assets	27.9	26.2	25.1	26.5	28.0

Source: Company; Maybank

Research Offices

REGIONAL

Sadiq CURRIMBHOY
Regional Head of Research & Economics
(65) 6231 5836
sadiq@maybank-ke.com.sg

WONG Chew Hann, CA
Regional Head of Institutional Research
(603) 2297 8686
wchewh@maybank-ib.com

ONG Seng Yeow
Regional Head of Retail Research
(65) 6231 5839
ongsengyeow@maybank-ke.com.sg

ECONOMICS

Suhaimi ILIAS
Chief Economist
Malaysia | Philippines | China
(603) 2297 8682
suhaimi_ilias@maybank-ib.com

CHUA Hak Bin
Regional Thematic Macroeconomist
(65) 6231 5847
chuahb@maybank-ke.com.sg

LEE Ju Ye
Singapore | Thailand
(65) 6231 5844
leejuye@maybank-ke.com.sg

Linda LIU
Singapore | Vietnam
(65) 6231 5847
lindaliu@maybank-ke.com.sg

Dr Zamros DZULKAFLI
(603) 2082 6818
zamros.d@maybank-ib.com

Ramesh LANKANATHAN
(603) 2297 8685
ramesh@maybank-ib.com

FX

Saktiandi SUPAAT
Head of FX Research
(65) 6320 1379
saktiandi@maybank.com.sg

Christopher WONG
(65) 6320 1347
wongkl@maybank.com.sg

Leslie TANG
(65) 6320 1378
leslietang@maybank.com.sg

Fiona LIM
(65) 6320 1374
fionalim@maybank.com.sg

STRATEGY

Sadiq CURRIMBHOY
Global Strategist
(65) 6231 5836
sadiq@maybank-ke.com.sg

Willie CHAN
Hong Kong | Regional
(852) 2268 0631
williechan@kimeng.com.hk

FIXED INCOME

Winson PHOON, ACA
(65) 6812 8807
winsonphoon@maybank-ke.com.sg

Se Tho Mun Yi
(603) 2074 7606
munyi.st@maybank-ib.com

MALAYSIA

WONG Chew Hann, CA *Head of Research*
(603) 2297 8686 wchewh@maybank-ib.com
• Strategy

Desmond CH'NG, ACA
(603) 2297 8680
desmond.chng@maybank-ib.com
• Banking & Finance

LIAW Thong Jung
(603) 2297 8688 tjliaw@maybank-ib.com
• Oil & Gas Services- Regional

ONG Chee Ting, CA
(603) 2297 8678 ct.ong@maybank-ib.com
• Plantations - Regional

Mohshin AZIZ
(603) 2297 8692 mohshin.aziz@maybank-ib.com
• Aviation - Regional • Petrochem

YIN Shao Yang, CPA
(603) 2297 8916 samuel.y@maybank-ib.com
• Gaming - Regional • Media

TAN Chi Wei, CFA
(603) 2297 8690 chiwei.t@maybank-ib.com
• Power • Telcos

WONG Wei Sum, CFA
(603) 2297 8679 weisum@maybank-ib.com
• Property

LEE Yen Ling
(603) 2297 8691 lee.yl@maybank-ib.com
• Glove • Ports • Shipping • Healthcare

Ivan YAP
(603) 2297 8612 ivan.yap@maybank-ib.com
• Automotive • Semiconductor • Technology

Kevin WONG
(603) 2082 6824 kevin.wong@maybank-ib.com
• REITs • Consumer Discretionary

Adrian WONG, CFA
(603) 2297 8675 adrian.wkj@maybank-ib.com
• Constructions

Jade TAM
(603) 2297 8687 jade.tam@maybank-ib.com
• Consumer Staples

Mohd Hafiz HASSAN
(603) 2082 6819 mohdhafiz.ha@maybank-ib.com
• Building Materials • Small & Mid Caps

Amirah AZMI
(603) 2082 8769 amirah.azmi@maybank-ib.com
• Media • Plantations

TEE Sze Chiah *Head of Retail Research*
(603) 2082 6858 szechiah.t@maybank-ib.com

Nik Ihsan RAJA ABDULLAH, MSTA, CFTe
(603) 2297 8694
nikmohdihsan.ra@maybank-ib.com

SINGAPORE

Neel SINHA *Head of Research*
(65) 6231 5838 neelsinha@maybank-ke.com.sg
• Strategy • Industrials
• SMID Caps - Regional

CHUA Su Tye
(65) 6231 5842 chuasutye@maybank-ke.com.sg
• REITs

Luis HILADO
(65) 6231 5848 luishilado@maybank-ke.com.sg
• Telcos • Transport

LAI Gene Lih, CFA
(65) 6231 5832 laigenelih@maybank-ke.com.sg
• Technology • Healthcare

Thilan WICKRAMASINGHE
(65) 6231 5840 thilanw@maybank-ke.com.sg
• Banks

SZE Jia Min
(65) 6231 5845 jiamin@maybank-ke.com.sg
• Consumer

INDIA

Jigar SHAH *Head of Research*
(91) 22 6623 2632 jigar@maybank-ke.co.in
• Strategy • Oil & Gas • Automobile • Cement

Neerav DALAL
(91) 22 6623 2606 neerav@maybank-ke.co.in
• Software Technology • Telcos

Vishal PERIWAL
(91) 22 6623 2605
vishalperiwal@maybank-ke.co.in
• Infrastructure

INDONESIA

Isnaputra ISKANDAR *Head of Research*
(62) 21 8066 8680
isnaputra.iskandar@maybank-ke.co.id
• Strategy • Metals & Mining • Cement

Rahmi MARINA
(62) 21 8066 8689
rahmi.marina@maybank-ke.co.id
• Banking & Finance

Aurellia SETIABUDI
(62) 21 8066 8691
aurellia.setiabudi@maybank-ke.co.id
• Property

Janni ASMAN
(62) 21 8066 8687
janni.asman@maybank-ke.co.id
• Cigarette • Healthcare • Retail

Luthfi RIDHO
(62) 21 8066 8690
luthfi.ridho@maybank-ke.co.id
• Economics

PHILIPPINES

Minda OLONAN *Head of Research*
(63) 2 849 8840
minda.olonan@maybank-atrke.com
• Strategy • Conglomerates

Katherine TAN
(63) 2 849 8843
kat_tan@maybank-atrke.com
• Banks • Conglomerates • Ports

Luis HILADO
(65) 6231 5848 luishilado@maybank-ke.com.sg
• Telcos

Romel LIBO-ON
(63) 2 849 8844
romel_libo-on@maybank-atrke.com
• Property

Kayzer LLANDA
(63) 2 849 8839
Kayzer_llanda@maybank-atrke.com
• Utilities

THAILAND

Maria LAPIZ *Head of Institutional Research*
Dir (66) 2257 0250 | (66) 2658 6300 ext 1399
Maria.L@maybank-ke.co.th
• Strategy • Consumer • Materials • Services

Teerapol Udomvej, CFA
(66) 2658 6300 ext 1394
teerapol.u@maybank-ke.co.th
• Healthcare

Ekachai TARAPORTNIP *Head of Retail Research*
(66) 2658 5000 ext 1530
Ekachai.t@maybank-ke.co.th

Sutthichai KUMWORACHAI *Deputy Head*
(66) 2658 5000 ext 1400
sutthichai.k@maybank-ke.co.th
• Energy • Petrochem

Surachai PRAMUALCHAROENKIT
(66) 2658 5000 ext 1470
Surachai.p@maybank-ke.co.th
• Auto • Conmat • Contractor • Steel

Suttatip PEERASUB
(66) 2658 5000 ext 1430
suttatip.p@maybank-ke.co.th
• Media • Commerce

Termporn TANTIVIVAT
(66) 2658 5000 ext 1520
termporn.t@maybank-ke.co.th
• Property

Jaroonpan WATTANAWONG
(66) 2658 5000 ext 1404
jaroonpan.w@maybank-ke.co.th
• Transportation • Small cap

Thanaphat SUKSRICHAVALIT
(66) 2658 5000 ext 1401
thanaphat.s@maybank-ke.co.th
• Media • Electronics

Sorabhol VIRAMETEEKUL
Head of Digital Research
(66) 2658 5000 ext 1550
sorabhol.v@maybank-ke.co.th
• Food, Transportation

Wijit ARAYAPISIT
(66) 2658 5000 ext 1450
wijit.a@maybank-ke.co.th
• Strategist

Kritsapong PATAN
(66) 2658 5000 ext 1310
krisapong.p@maybank-ke.co.th
• Chartist

Apsit PATTARASAKOLKIAT
(66) 2658 5000 ext 1405
Apsit.p@maybank-ke.co.th
• Chartist

VIETNAM

LE Hong Lien, ACCA
Head of Institutional Research
(84 28) 44 555 888 x 8181
lien.le@maybank-kimeng.com.vn
• Strategy • Consumer • Diversified

THAI Quang Trung, CFA
Deputy Head of Institutional Research
(84 28) 44 555 888 x 8180
trung.thai@maybank-kimeng.com.vn
• Real Estate • Construction • Materials

LE Nguyen Nhat Chuyen
(84 28) 44 555 888 x 8082
chuyen.le@maybank-kimeng.com.vn
• Oil & Gas

QUAN Trong Thanh
(84 28) 44 555 888 x 8184
thanh.quan@maybank-kimeng.com.vn
• Banks

NGUYEN Thi Ngan Tuyen
Head of Retail Research
(84 28) 44 555 888 x 8081
tuyen.nguyen@maybank-kimeng.com.vn
• Food & Beverage • Oil&Gas • Banking

TRUONG Quang Binh
Deputy Head of Retail Research
(84 28) 44 555 888 x 8087
binh.truong@maybank-kimeng.com.vn
• Rubber Plantation • Tyres & Tubes • Oil & Gas

TRINH Thi Ngoc Diep
(84 28) 44 555 888 x 8208
diep.trinh@maybank-kimeng.com.vn
• Technology • Utilities • Construction

NGUYEN Thi Sony Tra Mi
(84 28) 44 555 888 x 8084
mi.nguyen@maybank-kimeng.com.vn
• Port Operation • Pharmaceutical
• Food & Beverage

NGUYEN Thanh Lam
(84 28) 44 555 888 x 8086
thanhlam.nguyen@maybank-kimeng.com.vn
• Technical Analysis

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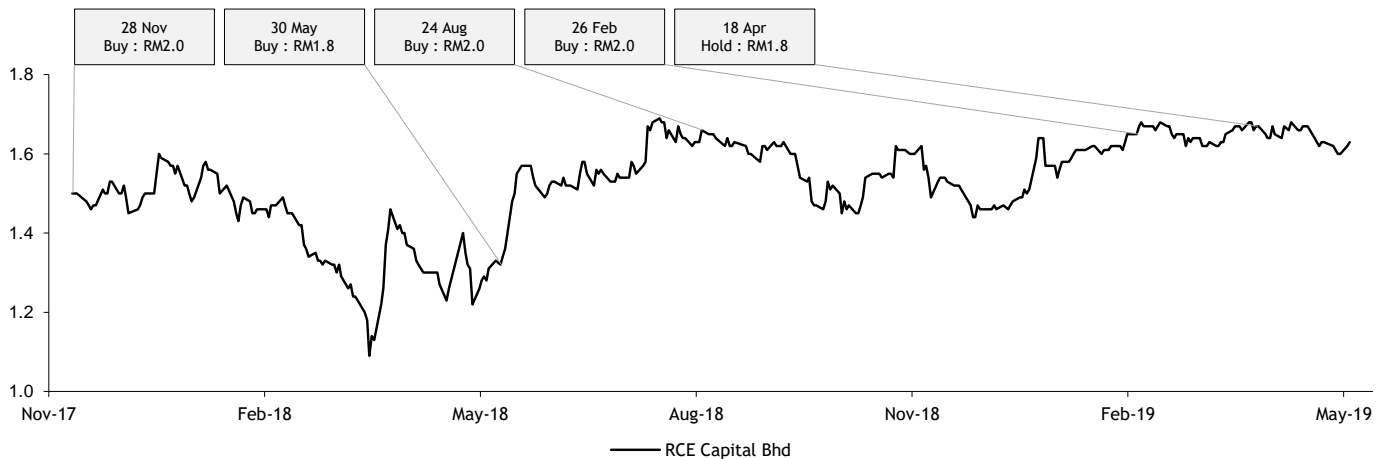
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Malaysia

Maybank Investment Bank Berhad
(A Participating Organisation of
Bursa Malaysia Securities Berhad)
33rd Floor, Menara Maybank,
100 Jalan Tun Perak,
50050 Kuala Lumpur
Tel: (603) 2059 1888;
Fax: (603) 2078 4194

Stockbroking Business:
Level 8, Tower C, Dataran Maybank,
No.1, Jalan Maarof
59000 Kuala Lumpur
Tel: (603) 2297 8888
Fax: (603) 2282 5136


Singapore

Maybank Kim Eng Securities Pte Ltd
Maybank Kim Eng Research Pte Ltd
50 North Canal Road
Singapore 059304

Tel: (65) 6336 9090


Hong Kong

Kim Eng Securities (HK) Ltd
28/F, Lee Garden Three,
1 Sunning Road, Causeway Bay,
Hong Kong

Tel: (852) 2268 0800
Fax: (852) 2877 0104


London

Maybank Kim Eng Securities
(London) Ltd
PNB House
77 Queen Victoria Street
London EC4V 4AY, UK

Tel: (44) 20 7332 0221
Fax: (44) 20 7332 0302


Indonesia

PT Maybank Kim Eng Securities
Sentral Senayan III, 22nd Floor
Jl. Asia Afrika No. 8
Gelora Bung Karno, Senayan
Jakarta 10270, Indonesia

Tel: (62) 21 2557 1188
Fax: (62) 21 2557 1189


New York

Maybank Kim Eng Securities USA
Inc
400 Park Avenue, 11th Floor
New York, New York 10022,
U.S.A.

Tel: (212) 688 8886
Fax: (212) 688 3500


India

Kim Eng Securities India Pvt Ltd
2nd Floor, The International,
16, Maharishi Karve Road,
Churchgate Station,
Mumbai City - 400 020, India

Tel: (91) 22 6623 2600
Fax: (91) 22 6623 2604


Philippines

Maybank ATR Kim Eng Securities Inc.
17/F, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines 1200

Tel: (63) 2 849 8888
Fax: (63) 2 848 5738


Thailand

Maybank Kim Eng Securities
(Thailand) Public Company Limited
999/9 The Offices at Central World,
20th - 21st Floor,
Rama 1 Road Pathumwan,
Bangkok 10330, Thailand

Tel: (66) 2 658 6817 (sales)
Tel: (66) 2 658 6801 (research)


Vietnam

Maybank Kim Eng Securities Limited
4A-15+16 Floor Vincom Center Dong
Khoi, 72 Le Thanh Ton St. District 1
Ho Chi Minh City, Vietnam

Tel : (84) 844 555 888
Fax : (84) 8 38 271 030


Saudi Arabia

In association with
Anfaal Capital
Villa 47, Tujjar Jeddah
Prince Mohammed bin Abdulaziz
Street P.O. Box 126575
Jeddah 21352

Tel: (966) 2 6068686
Fax: (966) 26068787


South Asia Sales Trading

Kevin Foy
Regional Head Sales Trading
kevinfoy@maybank-ke.com.sg
Tel: (65) 6636-3620
US Toll Free: 1-866-406-7447

Indonesia

Iwan Atmadjaja
iatmadjaja2@bloomberg.net
(62) 21 8066 8555

New York

James Lynch
jlynch@maybank-keusa.com
Tel: (212) 688 8886

Philippines

Keith Roy
keith_roy@maybank-atrke.com
Tel: (63) 2 848-5288


North Asia Sales Trading

Andrew Lee
andrewlee@kimeng.com.hk
Tel: (852) 2268 0283
US Toll Free: 1 877 837 7635

London

Greg Smith
gsmith@maybank-ke.co.uk
Tel: (44) 207-332-0221

India

Sanjay Makhija
sanjaymakhija@maybank-ke.co.in
Tel: (91)-22-6623-2629