

18 Aug 2020

Buy
Price
 RM1.95

Target Price
 RM2.30

Market Data

	RCE MK
Bloomberg Code	RCE MK
No. of shares (m)	353.2
Market cap (RMm)	688.7
52-week high/low (RM)	2.13 / 1.22
Avg daily turnover (RMm)	1.1
KLCI (pts)	1,577.8

Source: Bloomberg, KAF

Major Shareholder (%)

Cempaka Empayar	(55.0%)
EPF	(2.4%)
Cheam Heng Ming	(1.1%)
Free Float	121.2

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	8.3	15.4	21.9
Rel Market (%)	(3.6)	12.7	23.0

Source: Bloomberg, KAF

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RCE Capital

1Q21 results in line

We maintain our Buy rating on RCE Capital (RCE) with an unchanged target price at RM2.30, based on our GGM valuation. 1Q21 results are in line with expectations. Upcoming quarters would likely be stronger from post-MCO and seasonality effects. Despite of a potential contraction of broad economy this year, we expect RCE to be less impacted as majority of their customers are civil servants with auto salary deduction repayment mechanism in place. RCE trades at a PBR of 0.9x FY21F, which is below its five-year average PBR of 1.0x.

Financial Highlights

FYE Mar	2018	2019	2020	2021F	2022F
Operating income (RMm)	188.3	200.0	221.3	228.1	245.0
Net profit	88.7	95.5	110.6	110.0	119.4
EPS (sen)	25.1	27.0	31.3	31.1	33.8
EPS growth (%)	12.3	7.7	15.8	(0.5)	8.5
Net DPS (sen)	7.0	8.7	10.9	10.8	11.8
Net yield (%)	3.6	4.5	5.6	5.6	6.0
PER (x)	7.8	7.2	6.2	6.3	5.8
PB (x)	1.3	1.2	1.0	0.9	0.8
ROE (%)	18.5	17.3	17.6	15.2	14.6

Source: Company, KAF

1Q21 results in line. RCE recorded net profit of RM23m in FY21F, -5% yoy. This made up c.21% of our net profit forecast of RM110m in FY21F. The earnings contraction was due to lower early settlement profit as its customers were unable to refinance during the movement control order (MCO) period. This has led to a contraction in its operating income by 4% yoy.

Stronger quarters ahead. Post-MCO, we expect the group to register a stronger operating income from 1) more early settlement profit, 2) more loans (receivables) disbursement, and 3) seasonality effect in 2HFY21. Therefore, we maintain our earnings forecast for the year. We expect FY21F to be a flattish year as we only expect a 1% receivables growth target.

1% receivables growth target. RCE's receivables grew 2% yoy, which trails 5% full-year growth in FY20. Taking a cautious stance, we only expect the group to register a marginal receivables growth at 1% in FY21F. Minimal receivables growth along with higher provision, would likely translate into a flattish-year for the group.

A slight uptick in NPL but still within normal range. RCE's NPL ratio was 4.4% in 1Q21, a slight uptick than 4.1% in the previous quarter. This is mainly due a 2% qoq contraction in its receivables. However, the this is still within its normal range of c.4.1-4.4% in the past 5-years. RCE's coverage ratio remained high at 168% in 1Q21. This was expected as management has adopted stringent risk management and a prudent provisioning policy. We think this is justified as consumer financing is unsecured in nature.

Less vulnerable due to auto salary deduction mechanism. We believe RCE would be less impacted relative to other personal lenders as their customers are largely government's civil servants. As the government had been very supportive with its stimulus packages to protect the well-being of its citizen during Covid-19 pandemic, unlikely there would be major cutback from the government side. In addition, the auto salary deduction repayment mechanism is in place and applicable to all civil servants. This should cushion the impact of loan non-repayment.

Hefty distributable reserve. Despite of paying regular dividend, RCE has a hefty distributable reserve. This is made possible from its profitable and low-Capex business model. Within our forecast periods, we believe another special dividend is possible. Assuming that RCE is able to maintain its performance as per our forecasts, while maintaining its retention rate, we estimate that its reserves will replenish to its pre-special

dividend level by FY22F. Our DPS estimate for FY21F-22F of 11-12 sen excludes any special dividend.

No dividend declared. No dividend declared in 1Q21. Normally, the group would only declare a dividend in 2Q and 4Q. RCE has a dividend payout policy of 20-40% of net profit. We expect a DPS of 10.8 sen in FY21F. Our estimate is based on the same payout ratio as FY20, i.e., 35%. At the current price, this implies a 5-6% yield.

Valuation. RCE trades at a PBR 0.9x FY21F – below its five-year average PBR of 1.0x, which we find attractive. RCE is trading at around the same level as the banks. Although RCE's assets quality is lower than the banks, this is offset by higher NIM (7-8%) and high coverage ratio (168%) to manage the risk. Our GGM-derived TP of RM2.30 implies a PBR of 1.1x. Maintain Buy.

Table 1: Quarterly trends

Year to 31 March	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	% chg		Cumulative			KAF	
RM m	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	qoq	yoy	3M20	3M21	% chg	2021F	3M/F
Interest and fee income	67	67	70	73	73	65	-11%	-3%	67	65	-3%	288	22%
Interest expense	-20	(20)	(20)	-20	(21)	(21)	1%	3%	(20)	(21)	3%	(81)	26%
Net interest and fee income	47	47	50	52	52	44	-16%	-6%	47	44	-6%	207	21%
Non-interest income	4	5	5	5	5	6	7%	16%	5	6	16%	21	27%
Operating income	51	51	55	57	57	49	-14%	-4%	51	49	-4%	228	22%
Operating expenses	(12)	(14)	(13)	-12	(11)	(12)	2%	-15%	(14)	(12)	-15%	(51)	23%
Underlying profit	39	38	42	46	46	38	-18%	0%	38	38	0%	177	21%
Provisions	(6)	(5)	(6)	-5	(8)	(7)	-13%	59%	(5)	(7)	59%	(30)	24%
Exceptional	0	0	0	0	0	0	nm	nm	0	0	na	na	na
Pre-tax profit	33	33	37	41	38	31	-19%	-8%	33	31	-8%	147	21%
Taxation	(10)	(9)	(10)	-10	(10)	(8)	-18%	-15%	(9)	(8)	-15%	(38)	20%
Net profit	24	24	27	31	28	23	-19%	-5%	24	23	-5%	110	21%

Source: Company, KAF

Exhibit 1: Income Statement

FYE March (RM m)	2018	2019	2020	2021F	2022F
Net interest income	149.2	156.2	175.1	181.0	195.6
Non-interest income	39.1	43.8	46.2	47.1	49.5
Total income	188.3	200.0	221.3	228.1	245.0
Operating costs	(41.3)	(45.2)	(49.3)	(50.8)	(54.6)
Pre-prov operating profit	147.0	154.8	172.0	177.3	190.4
Provision charges	(29.5)	(23.7)	(23.1)	(30.2)	(31.7)
Pre-tax profit	117.4	131.0	148.9	148.1	160.8
Taxation	(28.7)	(35.6)	(38.3)	(38.1)	(41.4)
Net Profit	88.7	95.5	110.6	110.0	119.4

Source: Company, KAF

Exhibit 2: Balance Sheet

FYE March (RM m)	2018	2019	2020	2021F	2022F
Consumer financing	1,689.9	1,598.7	1,689.9	1,723.7	1,809.9
Factoring and confirming	3.8	3.7	3.0	2.5	2.0
Deposits with financial institutions	169.6	275.8	360.7	360.0	384.2
Plant and equipment	6.2	4.5	13.1	13.1	14.0
Investment in properties	0.0	0.0	0.0	0.0	0.0
Goodwill on consolidation	47.3	47.3	47.3	47.2	50.4
Other investments	0.0	0.0	0.0	0.0	0.0
AFS financial assets	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	39.5	42.0	45.4	45.3	48.4
Other receivables and deposits	40.0	37.5	12.0	12.0	12.0
Asset held for sale	0.0	0.0	0.0	0.0	0.0
Cash and bank balances	27.6	216.6	259.5	222.2	268.2
Total Assets	2,024.0	2,226.1	2,431.0	2,426.1	2,589.1
Borrowings	1,298.5	1,604.9	1,714.4	1,637.5	1,719.4
Payables and accruals	33.0	27.0	31.0	30.9	33.0
Hire purchase	1.3	1.1	0.7	1.0	1.4
Deferred tax liabilities	0.3	0.0	5.2	5.2	5.5
Tax liabilities	6.4	9.7	6.4	6.4	6.8
Total Liabilities	1,339.5	1,642.6	1,757.7	1,681.0	1,766.1
Share capital	31.3	134.5	146.3	146.3	146.3
Redeemable convertible preference shares	0.0	0.0	0.0	0.0	0.0
Reserves	487.9	449.0	527.0	598.8	676.7
Total Shareholders' Equity	519.3	583.5	674.0	746.0	823.0
Total Liabilities & Equity	1,858.8	2,226.1	2,431.0	2,426.1	2,589.1

Source: Company, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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