Maybank IB Research

RCE Capital Bhd (RCE MK)

Still faring relatively well, in our view

Maintain BUY call and MYR2.09 TP

Earnings disappointed largely due to the Movement Control Order (MCO) (18 Mar to 3 May 2020). That said, we maintain our earnings estimates as we understand that business is beginning to normalise. Other operating parameters also appear fine, in our view. We maintain our MYR2.09 TP which is based on target end-CY20E P/BV of 1.0x. We continue to favour RCE for its relatively resilient business model, high dividend yields of ~6% p.a. and tout it as a major beneficiary of falling cost of funds.

Earnings came in below our expectations...

1QFY21 net profit of MYR22.8m (-5% YoY, -19% QoQ) accounted for 20% of our FY estimate. The shortfall was due to lower fee and early settlement income (-MYR3.7m YoY) and gross financing and loans receivables easing 2% QoQ. The MCO lengthened the time to process new customers. This resulted in less fee income and financing and loans disbursed. We gather the MCO also prevented many customers from settling their financing and loans early. This resulted in less early settlement income.

... but we are maintaining our earnings estimates

As the current Recovery Movement Control Order does not restrict the movement of most individuals, we understand that the time to process new customers is normalising and customers can now settle their financing and loans early. Thus, we expect fee income, early settlement income and financing and loans disbursement to normalise going forward. Thus, we leave our earnings estimates which are based on 3% gross financing and loans receivables growth going forward unchanged.

Other operating parameters appear fine

Though 1QFY21 net allowance for impairment loss on receivables (credit cost) jumped 59% YoY, 1QFY21 credit cost as a percentage of gross financing and loans receivables remained relatively well controlled vis-àvis our expectations at 1.6% (MKE forecast: 1.5%). Gross NPF ratio and financing & loans loss coverage ratio also remained relatively unchanged at ~4% and ~170% respectively. Thus, we remain comfortable with our BUY call on RCE.

FYE Mar (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Operating income	200	221	236	245	254
Pre-provision profit	155	172	185	192	199
Core net profit	96	111	116	121	126
Core FDEPS (MYR)	0.28	0.32	0.32	0.34	0.35
Core FDEPS growth(%)	7.6	13.5	2.2	4.2	4.1
Net DPS (MYR)	0.09	0.11	0.12	0.12	0.13
Core FD P/E (x)	5.8	4.7	6.0	5.8	5.5
P/BV (x)	1.0	0.8	0.9	0.8	0.7
Net dividend yield (%)	5.5	7.4	5.9	6.2	6.4
Book value (MYR)	1.71	1.92	2.14	2.37	2.60
ROAE (%)	17.3	17.6	16.4	15.4	14.5
ROAA (%)	4.7	4.7	4.7	4.6	4.6
Consensus net profit	-	-	113	120	127
MKE vs. Consensus (%)	-	-	3.1	1.1	(0.7)

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BUY

Share Price MYR 1.95
12m Price Target MYR 2.09 (+13%)
Previous Price Target MYR 2.09

Company Description

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

Statistics

52w high/low (MYR)	2.10/1.38
3m avg turnover (USDm)	0.2
Free float (%)	31.4
Issued shares (m)	379
Market capitalisation	MYR738.4M
	USD177 <i>M</i>

Major shareholders:

52.1%
6.1%
2.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	0	8	22
Relative to index (%)	2	(2)	25

Source: FactSet

Figure 1: Summary Results Table

FY Mar (MYRm)	1QFY3/21	1QFY3/20	% YoY	4QFY3/20	% QoQ
Interest/profit income	61.4	61.6	(0.2)	66.8	(8.1)
Other revenue	3.3	5.4	(38.5)	6.2	(46.5)
Revenue	64.7	66.9	(3.3)	73.0	(11.3)
Other income	5.6	4.8	16.2	5.2	7.3
Interest/profit expense applicable to revenue	-21.0	-20.4	3.1	-20.8	1.0
Directors' remuneration and staff costs	-5.7	-7.5	(24.4)	-5.6	0.9
Allowances for impairment loss on receivables, net	-7.2	-4.5	<i>58.7</i>	-8.2	(12.8)
Depreciation of plant and equipment & right-of-use asset	-0.8	-0.4	85.1	-0.7	3.4
Other expenses	-5.1	-5.7	(10.7)	-4.9	3.1
Finance costs	-0.1	-0.0	461.5	-0.1	(13.1)
Profit before tax	30.6	33.3	(8.1)	37.8	(19.2)
Taxation	-7.8	-9.2	(15.3)	-9.5	(18.5)
Net profit	22.8	24.1	(5.4)	28.3	(19.4)
FD EPS (sen)	6.5	7.0	(7.4)	8.1	(19.5)
Net DPS (sen)	-	-	N/M	6.0	(100.0)
Financing & loans receivables, gross	1,788.2	1,752.6	2.0	1,820.1	(1.8)
(Allowance for impairment)	-131.8	-130.1	1.2	-130.2	1.2
Financing & loans receivables, net	1,656.5	1,622.5	2.1	1,689.9	(2.0)
	1QFY3/21	1QFY3/20	+/- ppt	4QFY3/20	+/- ppt
Tax rate (%)	25.4	27.5	(2.2)	25.2	0.2
Gross NPF ratio (%)	4.4	4.4	(0.0)	4.1	0.2
Financing & loans loss coverage ratio (%)	168.5	168.3	0. 1	173.0	(4.5)
Net gearing (%)	157.2	181.0	(23.8)	163.4	(6.2)

Source: Company

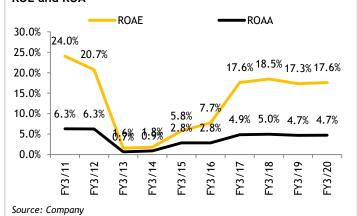
Results analysis

- 1QFY21 net profit eased 5% YoY largely due to (i) lower fee and early settlement income as business was disrupted by the MCO; and (ii) additional allowances for impairment loss on receivables.
- The additional allowances are due to contraction in forecasted real GDP, a forward looking variable in expected credit loss models.
- In turn, the contraction in forecasted real GDP is due to the negative impact the COVID-19 pandemic is having on the Malaysian economy.
- Similarly, 1QFY21 net profit fell 19% QoQ due to lower fee and early settlement income as business was disrupted by the MCO.

Value Proposition

- RCE Capital provides personal financing, the ultimate customers being civil servants.
- With a gross financing balance of just MYR1.8b, we estimate that its market share is only 2%.
- Non-performing financing kept in check thanks to nondiscretionary direct salary deductions.
- Competitive advantage lies in fast financing processing turnaround time of 48 hours.
- ROE generation surpasses that of the average for the overall banking industry.

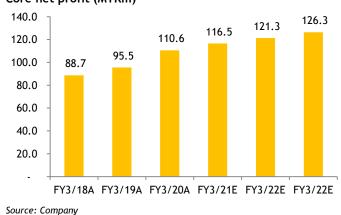
ROE and ROA



Financial Metrics

- Introduced a better credit scoring model in 2013. Forecast gross financing growth of 3% p.a. over the next three years.
- Average financing yields may be peaking at 14-15% but average cost of funds is falling.
- Asset quality better than before. New financing are smaller in size (<MYR20k) and their NPF ratios are low (<2%).
- Forecast stable three-year forward core net profit CAGR of 5% p.a.
- There is room for dividends to surprise to the upside as its DPR policy is only 20-40%.

Core net profit (MYRm)



Price Drivers

Historical share price trend



Source: Company, Maybank Kim Eng

- 1. Proposed special interim DPS of 10.5 sen. Still paid a final DPS of 3.5sen.
- Proposed capital repayment of MYR0.075/shr and 4-into-1 share consolidation.
- 3. 1QFY17 net profit surged 86% YoY as FY17 revenue grew 39% YoY.
- FY17 net profit surged 98% YoY as FY17 revenue grew 38% YoY.
- 5. Concerns arise that the government may reduce the size of the civil service.

Swing Factors

Upside

- Easing competition competitors have been reducing their exposure to personal financing.
- Lower cost of funds we estimate that every 25bps reduction in cost of funds will accrete 3% to earnings.
- Access to CCRIS if RCE Capital gains access to CCRIS, it can better assess customers' total indebtedness.

Downside

- High household debt Household debt to GDP is elevated at >80% and may crimp customers' repayment ability.
- Need to leverage RCE Capital cannot take deposits and thus, has to assume debt to finance its financing.
- Asset-liability duration mismatch customers' repayment may not match RCE Capital's debt repayment.

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August 19, 2020

FYE 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
Core P/E (x)	5.8	4.7	5.9	5.6	5.4
Core FD P/E (x)	5.8	4.7	6.0	5.8	5.5
P/BV (x)	1.0	0.8	0.9	0.8	0.7
P/NTA (x)	1.0	0.8	1.0	0.9	0.8
Net dividend yield (%)	5.5	7.4	5.9	6.2	6.4
INCOME STATEMENT (MYR m)					
Islamic banking income	164.2	187.0	200.5	208.2	216.2
Other income	35.8	34.2	36.0	37.1	38.2
Total non-interest income	200.0	221.2	236.5	245.3	254.4
Operating income	200.0	221.2	236.5	245.3	254.4
Staff costs	(21.4)	(24.2)	(25.6)	(26.3)	(27.1)
Other operating expenses	(23.8)	(25.0)	(26.3)	(27.1)	(27.8)
Operating expenses	(45.2)	(49.2)	(51.9)	(53.4)	(54.9)
Pre-provision profit	154.8	172.0	184.6	191.9	199.5
Other allowances	(23.7)	(23.1)	(27.7)	(28.5)	(29.4)
Associates & JV income	0.0	0.0	0.0	0.0	0.0
Pretax profit	131.1	148.9	156.9	163.4	170.1
Income tax	(35.6)	(38.3)	(40.4)	(42.1)	(43.8)
Reported net profit	95.5	110.6	116.5	121.3	126.3
Core net profit	95.5	110.6	116.5	121.3	126.3
BALANCE SHEET (MYR m)					
Cash & deposits with banks	492.4	620.2	698.7	779.3	861.5
Sec. under resale agreements	0.0	0.0	0.0	0.0	0.0
Derivatives financial assets	0.0	0.0	0.0	0.0	0.0
Dealing securities	0.0	0.0	0.0	0.0	0.0
Available-for-sale securities	0.0	0.0	0.0	0.0	0.0
Investment securities	0.0	0.0	0.0	0.0	0.0
Financing and advances	1,602.4	1,692.9	1,740.6	1,790.9	1,844.5
Fixed assets	4.5	7.3	8.7	10.1	11.4
Intangible assets	47.3	47.3	47.3	47.3	47.3
Other assets	79.5	63.3	63.3	63.3	63.3
Total assets	2,226.1	2,431.0	2,558.6	2,690.8	2,828.0
Derivatives financial instruments	0.0	0.0	0.0	0.0	0.0
Subordinated debt	0.0	0.0	0.0	0.0	0.0
Other securities in issue	1,005.2	1,059.1	1,060.0	1,060.0	1,060.0
Other borrowings	280.8	429.1	479.3	532.0	586.4
Other liabilities	356.6	269.5	269.8	270.0	270.2
Total liabilities	1,642.6	1,757.7	1,809.0	1,861.9	1,916.6
Share capital	154.5	172.2	172.2	172.2	172.2
Reserves	429.1	501.1	577.3	656.6	739.2
Shareholders' funds	583.5	673.4	749.6	828.9	911.4
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	583.5	673.4	749.6	828.9	911.4
Total liabilities & equity	2.226.1	2,431.0	2,558.6	2,690.8	2,828.0

FYE 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth (%)					
Net interest income	na	na	na	na	na
Non-interest income	6.2	10.6	6.9	3.8	3.7
Operating expenses	9.4	8.9	5.5	2.9	2.9
Pre-provision profit	5.3	11.1	7.3	4.0	3.9
Core net profit	7.7	15.8	5.3	4.2	4.1
Gross loans	5.2	5.3	3.0	3.0	3.0
Customer deposits	na	na	na	na	na
Total assets	19.8	9.2	5.2	5.2	5.1
Profitability (%)					
Non-int. income/Total income	100.0	100.0	100.0	100.0	100.0
Cost/income	22.6	22.2	21.9	21.8	21.6
Liquidity (%)					
Loans/customer deposits	na	na	na	na	na
Asset quality (%)					
Gross NPL	4.4	4.1	4.3	4.4	4.4
Loan loss coverage	172.1	173.0	170.1	168.4	168.4
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	17.3	17.6	16.4	15.4	14.5
ROAA	4.7	4.7	4.7	4.6	4.6
Shareholders equity/assets	26.2	27.7	29.3	30.8	32.2

Source: Company; Maybank

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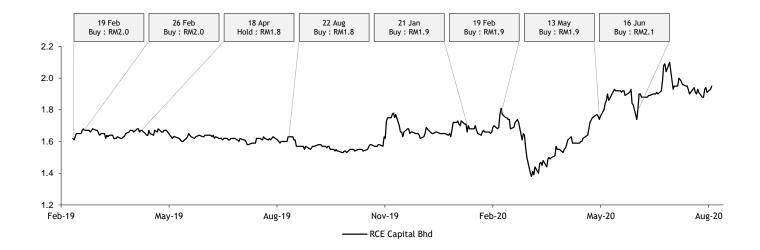
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August 19, 2020

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