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The Malaysian Reserve : RCE Capital 9-month result beats expectations

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RCE Capital Bhd's financial performance for the nine months of financial year 2021 (9MFY21) has exceeded expectations with its earnings rising by 10% year-on-year (YoY).

RHB Invesment Bank Bhd (RHB Research) in a report noted that the finance company's result has surpassed its (82%) and the street's (79%) full-year estimates.

RCE Capital's pre-provision operating profit (PIOP) grew 8% YoY as income grew 5%, but its operating expenditure (opex) fell 4%. Its cost-to-income ratio was maintained at 21% in 9MFY20.

Due to the lower leverage ratio, RCE Capital's annualised return on equity decreased to 17.2%.

"Patami grew 5% quarter-on-quarter (QoQ), or 12% YoY, to RM34.8 million, which is a record for the lender. PIOP fell 2% QoQ (but rose 7% YoY) despite its operating income increasing 2% — lifted mainly by net interest income, which ticked up by 2% QoQ," RHB Research analysts Liew Wai Hoong and Fiona Leong noted.

RCE Capital's early settlement income has increased which is supported by a result of a rise in refinancing activities, while its opex rose 20% QoQ due to one-off expenses relating to employee share options.

Unfortunately, its credit cost was lower at 46 basis points (bps) (2QFY21: 127bps) as a result of changes in the macroeconomic variable, while its 9MFY21 credit cost dropped by 3bps YoY to 109bps.

“Management, being more prepared for the second Movement Control Order (MCO 2.0), has not seen any major adverse impact on operations. Applications, disbursement and collection remain healthy. We increase FY2021-FY2023F earnings by 5%-6%. We value the stock at 1.2 times FY22F price to book value (P/BV) (above +1 standard deviation [SD]), and believe it deserves a rerating, given its consistent delivery in both earnings and dividend payment,” they explained.

The analysts have also recorded that RCE Capital’s gross financing expanded by 1.7% QoQ to RM1.83 billion whereas asset quality remained steady with the gross impaired loan ratio at 4% (2QFY21: 4.2%).

“We also learned RCE Capital has been using FTSE Russell’s scoring criteria in its environmental, social and governance (ESG)-related matters. A dedicated team would collect data, thereby ensuring RCE Capital’s ESG initiatives meet the FTSE4Good Index requirements,” the analysts noted.

RHB Research noted that RCE Capital’s credit cost could be QoQ higher in 4QFY21F as management has to refine the expected credit loss model to factor in a possibly weaker economy.

“While we do not expect the higher credit cost to result in asset quality slippages, we do anticipate FY22F credit cost to normalise on the vaccine precipitated recovery,” the analysts stated.

Liew and Leong have raised RCE Capital’s FY21-FY23F earnings by 5% to 6% based on lower credit cost and cost of fund assumptions.

“We believe our FY21F credit cost of 124bps (9MFY21:109bps) leaves sufficient room to cushion the potentially higher credit cost in 4QFY21, on the lower GDP growth outlook due to MCO 2.0.

“Our target price rises to RM3, implying 1.2 times FY22F P/BV, which is above +1SD from the mean,” they added.

As part of its green initiatives, RCE Capital has included a lockprint policy which limits and reduces paper wastage. A 20% reduction in paper utilisation per headcount was recorded in FY20.

Electricity consumption per sq ft has also been reduced which was resulted by the extensive use of energy-saving lights.

To ensure its customers are aware of their obligations and commitments when financing is obtained, RCE Capital practises responsible lending.