

# RCE Capital Bhd (RCE MK)

## Decent quarter

### Maintain HOLD with a lower TP of MYR1.67

Results were within our expectations. Our estimates are unchanged. Financing and loans growth have been tepid and cost of funds is rising, which leave less room for positive earnings surprises going forward. We cut our TP to MYR1.67 on 1.3x end-FY22E P/BV (+2SD to 5-year mean) from MYR1.93 (MYR3.67 pre-share DPS and bonus issue) on 1.5x end-FY22E P/BV (+3SD). HOLD for decent dividend yields of >4.0% p.a. and potential award of digital banking license next month.

### Earnings within our expectations

3QFY3/22 net profit of MYR34.7m (flat YoY, +10% QoQ) brought 9M net profit to MYR101.6m (+12% YoY), at 74% of our FY estimate. 9M revenue of MYR224.8m was also in-line at 75% of our FY estimate. No DPS was declared but this was expected as RCE traditionally declares DPS during 2QFY and 4QFY. Note that RCE's share price has gone ex- for (i) 1 treasury share for 20 shares held dividend; and (ii) 19-for-21 bonus issue.

### Operating metrics a mixed bag

3Q gross financing and loans receivables was still flattish QoQ (+0.5%) although the upliftment of the Full Movement Control Order restored the movement of marketing agents. RCE stated that it will encourage its marketing agents to be a tad more aggressive going forward. To be fair, NPF ratio eased 23bps QoQ to a new low of 3.8% as asset quality improved and net gearing also eased 3ppts QoQ to another low of 123%.

### Less room for +ve earnings surprises

Though we forecast gross financing and loans receivables growth of 3% p.a. (unchanged), our earnings estimates are unchanged. Earnings are more sensitive to net interest margins (NIM) instead. Cost of funds (COF) is also rising. RCE issued a Sukuk tranche with a 3.9% profit rate in Jul 2021 which was 54bps higher than the previous one. Yet, the increase in average COF will be measured as Sukuk tranches are gradually replaced by the higher profit rate ones. Also, RCE will introduce higher profit rate products to maintain NIMs.

FYE Mar (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Operating income	221	232	242	252	262
Pre-provision profit	172	183	192	201	209
Core net profit	111	125	136	142	148
Core FDEPS (MYR)	0.17	0.18	0.18	0.19	0.20
Core FDEPS growth(%)	13.5	10.4	(0.2)	4.3	4.3
Net DPS (MYR)	0.06	0.07	0.10	0.07	0.07
Core FD P/E (x)	4.6	7.2	9.2	8.8	8.5
P/BV (x)	0.8	1.2	1.4	1.3	1.2
Net dividend yield (%)	7.6	5.1	6.0	4.1	4.3
Book value (MYR)	1.01	1.13	1.19	1.32	1.45
ROAE (%)	17.6	17.2	16.6	15.5	14.7
ROAA (%)	4.7	5.1	5.3	5.3	5.2
Consensus net profit	-	-	na	na	na
MKE vs. Consensus (%)	-	-	na	na	na

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# HOLD

Share Price	MYR 1.69
12m Price Target	MYR 1.67 (+3%)
Previous Price Target	MYR 1.93

### Company Description

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

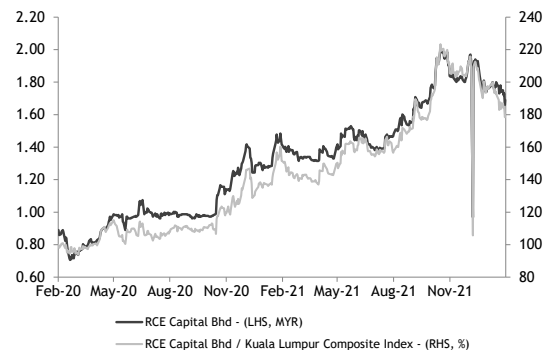
### Statistics

52w high/low (MYR)	2.01/0.97
3m avg turnover (USDm)	0.2
Free float (%)	31.1
Issued shares (m)	740
Market capitalisation	MYR1.3B USD298M

### Major shareholders:

Cempaka Empayar Sdn. Bhd.	50.5%
Rockwills International Group Bhd	4.5%
Khai Yoon Woo	2.2%

### Price Performance



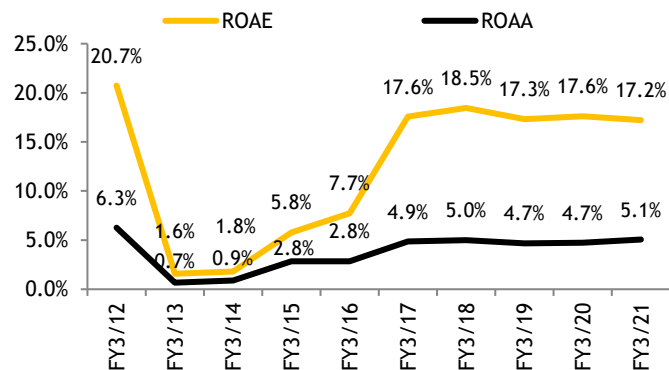
	-1M	-3M	-12M
Absolute (%)	(3)	(11)	19
Relative to index (%)	(8)	(15)	18

Source: FactSet

## 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 non-discretionary 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

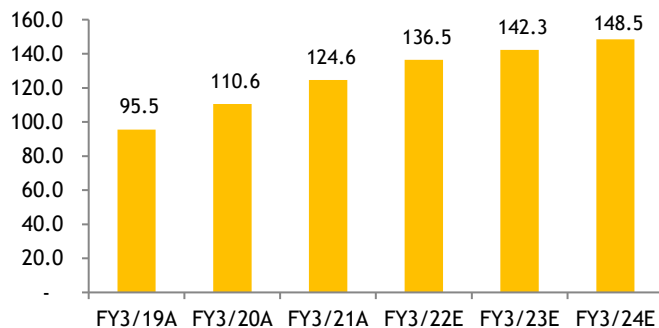


Source: Company

## 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 6% p.a.
- There is room for dividends to surprise to the upside as its DPR policy is only 20-40%.

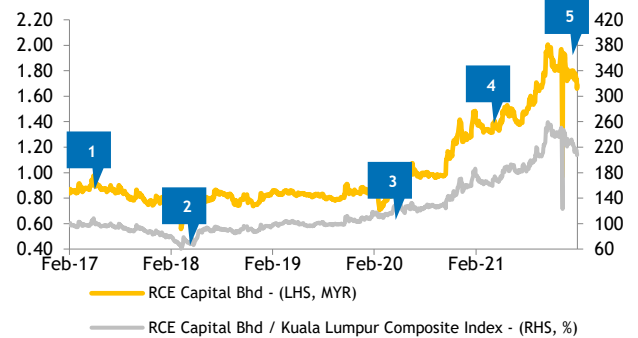
## Core net profit (MYRm)



Source: Company, Maybank IBG Research

## Price Drivers

### Historical share price trend



Source: Company, Maybank IBG Research

1. FY17 net profit surged 98% YoY as FY17 revenue grew 38% YoY.
2. Concerns arise that the government may reduce the size of the civil service.
3. Movement Control Order lengthened time to process new customers, resulting in less financing disbursed.
4. Q2FY3/21 net profit grew 21% YoY to a record high of MYR33.0m.
5. Announced share DPS of 1 treasury share: 20 shares held and bonus issue of 19 bonus shares: 21 shares held.

## 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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Figure 1: Summary Results Table

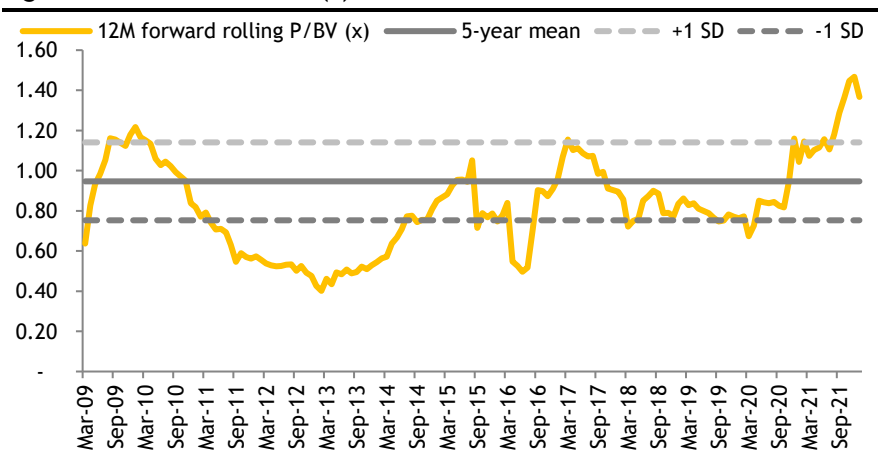
FY Mar (MYRm)	3QFY3/22	3QFY3/21	% YoY	2QFY3/22	% QoQ	9MFY3/22	9MFY3/21	% YoY
Interest/profit income	69.0	71.6	(3.7)	63.7	8.3	204.3	203.2	0.5
Other revenue	7.9	6.2	26.8	6.1	29.0	20.5	15.3	34.2
<b>Revenue</b>	<b>76.9</b>	<b>77.9</b>	<b>(1.2)</b>	<b>69.8</b>	<b>10.1</b>	<b>224.8</b>	<b>218.5</b>	<b>2.9</b>
Other income	5.5	4.3	26.9	4.6	20.9	14.7	14.8	(0.7)
Interest/profit expense applicable to revenue	-19.9	-19.9	0.4	-20.4	(2.2)	-60.2	-60.5	(0.5)
Directors' remuneration and staff costs	-9.9	-8.4	17.5	-5.5	79.0	-21.5	-19.3	10.9
Allowances for impairment loss on receivables, net	-1.9	-2.1	(10.3)	-0.7	150.7	-5.7	-14.9	(62.0)
Depreciation of plant and equipment and right-of-use asset	-0.9	-0.8	16.2	-0.9	5.2	-2.6	-2.4	11.0
Other expenses	-3.4	-4.3	(20.9)	-4.6	(25.6)	-13.5	-14.5	(7.1)
Finance costs	-0.1	-0.1	(12.0)	-0.1	(2.9)	-0.2	-0.2	(7.3)
<b>Profit before tax</b>	<b>46.4</b>	<b>46.7</b>	<b>(0.7)</b>	<b>42.2</b>	<b>9.8</b>	<b>135.8</b>	<b>121.4</b>	<b>11.8</b>
Taxation	-11.7	-11.9	(2.3)	-10.7	9.3	-34.2	-30.9	10.8
<b>Net profit</b>	<b>34.7</b>	<b>34.8</b>	<b>(0.2)</b>	<b>31.5</b>	<b>10.0</b>	<b>101.6</b>	<b>90.6</b>	<b>12.2</b>
<b>Financing &amp; loans receivables, gross</b>	<b>1,862.1</b>	<b>1,832.8</b>	<b>1.6</b>	<b>1,852.1</b>	<b>0.5</b>	<b>1,862.1</b>	<b>1,832.8</b>	<b>1.6</b>
(Allowance for impairment)	-115.2	-128.1	(10.1)	-120.3	(4.2)	-115.2	-128.1	(10.1)
<b>Financing &amp; loans receivables, net</b>	<b>1,747.0</b>	<b>1,704.7</b>	<b>2.5</b>	<b>1,731.8</b>	<b>0.9</b>	<b>1,747.0</b>	<b>1,704.7</b>	<b>2.5</b>
	<b>3QFY3/22</b>	<b>3QFY3/21</b>	<b>+/- ppt</b>	<b>2QFY3/22</b>	<b>+/- ppt</b>	<b>9MFY3/22</b>	<b>9MFY3/21</b>	<b>+/- ppt</b>
Tax rate (%)	25.1	25.5	(0.4)	25.3	(0.1)	25.2	25.4	(0.2)
Gross NPF ratio (%)	3.8	4.0	(0.2)	4.0	(0.2)	3.8	4.0	(0.2)
Financing & loans loss coverage ratio (%)	162.5	173.7	(11.2)	161.0	1.5	162.5	173.7	(11.2)
Net gearing (%)	122.8	153.6	(30.8)	125.7	(3.0)	122.8	153.6	(30.8)

Source: Company

## Results analysis

- 3QFY3/22 net profit was flat YoY.
- 3QFY3/22 net profit was up 10% QoQ largely due to higher early settlement income. Early settlement of financing recommenced in mid-Sep 2021.
- In 2QFY3/22, there was less early settlement income as early settlement of financing was discouraged during the Full Movement Control Order.
- 9MFY3/22 net profit was up 12% YoY largely due to higher early settlement income and lower credit cost (-62% YoY).

Figure 2: 12M forward P/BV (x)



Source: Company, Bloomberg, Maybank IBG Research

FYE 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
Core P/E (x)	4.6	7.2	9.1	8.7	8.3
Core FD P/E (x)	4.6	7.2	9.2	8.8	8.5
P/BV (x)	0.8	1.2	1.4	1.3	1.2
P/NTA (x)	0.8	1.3	1.5	1.4	1.2
Net dividend yield (%)	7.6	5.1	6.0	4.1	4.3
<b>INCOME STATEMENT (MYR m)</b>					
Islamic banking income	187.0	204.4	207.8	216.3	225.2
Other income	34.2	27.4	34.4	35.4	36.5
<b>Total non-interest income</b>	<b>221.2</b>	<b>231.8</b>	<b>242.2</b>	<b>251.8</b>	<b>261.7</b>
<b>Operating income</b>	<b>221.2</b>	<b>231.8</b>	<b>242.2</b>	<b>251.8</b>	<b>261.7</b>
Staff costs	(24.2)	(26.3)	(26.7)	(27.5)	(28.3)
Other operating expenses	(25.0)	(22.7)	(23.1)	(23.7)	(24.3)
<b>Operating expenses</b>	<b>(49.2)</b>	<b>(49.0)</b>	<b>(49.7)</b>	<b>(51.1)</b>	<b>(52.6)</b>
<b>Pre-provision profit</b>	<b>172.0</b>	<b>182.8</b>	<b>192.5</b>	<b>200.6</b>	<b>209.1</b>
Other allowances	(23.1)	(15.6)	(9.4)	(9.6)	(9.9)
Associates & JV income	0.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>148.9</b>	<b>167.2</b>	<b>183.1</b>	<b>191.0</b>	<b>199.2</b>
Income tax	(38.3)	(42.6)	(46.6)	(48.6)	(50.7)
<b>Reported net profit</b>	<b>110.6</b>	<b>124.6</b>	<b>136.5</b>	<b>142.3</b>	<b>148.5</b>
<b>Core net profit</b>	<b>110.6</b>	<b>124.6</b>	<b>136.5</b>	<b>142.3</b>	<b>148.5</b>
<b>BALANCE SHEET (MYR m)</b>					
Cash & deposits with banks	620.2	597.9	693.7	782.4	875.5
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	1,692.9	1,775.4	1,827.0	1,880.2	1,935.0
Fixed assets	7.3	7.3	7.7	8.0	8.4
Intangible assets	47.3	47.3	47.3	47.3	47.3
Other assets	63.3	62.8	62.8	62.8	62.8
<b>Total assets</b>	<b>2,431.0</b>	<b>2,490.7</b>	<b>2,638.4</b>	<b>2,780.7</b>	<b>2,928.9</b>
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	1,059.1	1,187.4	1,180.0	1,180.0	1,180.0
Other borrowings	429.1	252.9	309.3	360.1	412.4
Other liabilities	269.5	276.3	277.2	277.6	278.0
<b>Total liabilities</b>	<b>1,757.7</b>	<b>1,716.7</b>	<b>1,766.5</b>	<b>1,817.6</b>	<b>1,870.4</b>
Share capital	172.2	188.0	200.7	200.7	200.7
Reserves	501.1	586.0	671.3	762.4	857.8
Shareholders' funds	673.4	774.0	872.0	963.1	1,058.5
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	0.0	0.0	0.0	0.0	0.0
<b>Total equity</b>	<b>673.4</b>	<b>774.0</b>	<b>872.0</b>	<b>963.1</b>	<b>1,058.5</b>
<b>Total liabilities &amp; equity</b>	<b>2,431.0</b>	<b>2,490.7</b>	<b>2,638.4</b>	<b>2,780.7</b>	<b>2,928.9</b>

FYE 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth (%)</b>					
Net interest income	na	na	na	na	na
Non-interest income	10.6	4.8	4.5	3.9	4.0
Operating expenses	8.9	(0.4)	1.5	2.8	2.8
Pre-provision profit	11.1	6.3	5.3	4.2	4.2
Core net profit	15.8	12.7	9.5	4.3	4.3
Gross loans	5.3	1.4	3.0	3.0	3.0
Customer deposits	na	na	na	na	na
Total assets	9.2	2.5	5.9	5.4	5.3
<b>Profitability (%)</b>					
Non-int. income/Total income	100.0	100.0	100.0	100.0	100.0
Cost/income	22.2	21.1	20.5	20.3	20.1
<b>Liquidity (%)</b>					
Loans/customer deposits	na	na	na	na	na
<b>Asset quality (%)</b>					
Gross NPF	4.1	4.0	4.0	4.0	4.0
<b>Capital adequacy (%)</b>					
CET1	na	na	na	na	na
Tier 1 capital	na	na	na	na	na
Risk-weighted capital	na	na	na	na	na
<b>Returns (%)</b>					
ROAE	17.6	17.2	16.6	15.5	14.7
ROAA	4.7	5.1	5.3	5.3	5.2
Shareholders equity/assets	27.7	31.1	33.0	34.6	36.1

Source: Company; Maybank

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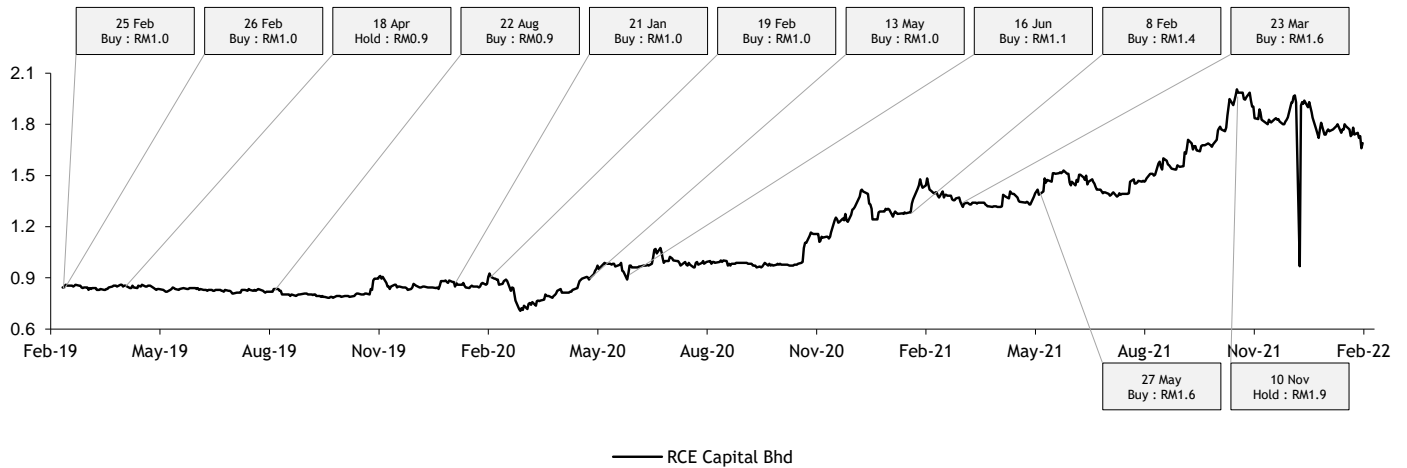
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