

RCE Capital Bhd (RCE MK)

Third consecutive year of >MYR100m net profit

HOLD

Share Price MYR 1.76
12m Price Target MYR 1.66 (-1%)
Previous Price Target MYR 1.67

Maintain HOLD call; lower TP a tad to MYR1.66 (-0%)

Earnings were within our expectations but dividends outperformed our expectations on higher-than-expected DPR. Gross financing and loans receivables growth picked up pace a tad post-Full Movement Control Order. We trim EPS estimates by 3-5% on minor housekeeping but raise DPS estimates by 7% on higher DPR. Ascribing an unchanged 1.3x end-CY22E P/BV (+1.5 SD above 5-year mean 12M forward P/BV), we trim our TP by 1sen to MYR1.66 from MYR1.67. Maintain HOLD call.

Earnings in-line but dividends +ve ly surprised

4QFY3/22 net profit of MYR31.5m brought FY3/22 net profit to MYR133.2m (+7% YoY) which was within our expectations at 98% of our FY estimate. As a secondary check, FY3/22 revenue of MYR299.5m (+2% YoY) was also within our expectations at 100% of our FY estimate. That said, the second cash DPS of 4sen brought FY cash DPS to 7.7sen which was above our expectation of 7.2sen (ex-share DPS of 3.0sen). The outperformance was because RCE employed 41% DPR (MIBG: 38%) which is above its' hitherto DPR policy of 20-40%.

Financing growth picked up pace a tad

NPF ratio maintained at a record low of 3.8% as asset quality improved and net gearing also eased 7ppts QoQ to another low of 116%. 4QFY3/22 gross financing and loans receivables growth picked up pace a tad (+0.9% QoQ) thanks to the lifting of the Full Movement Control Order which restored the mobility of marketing agents. Post-4QFY3/22, we understand that gross financing and loans receivables growth further picked up pace ostensibly ahead of the Hari Raya Aidilfitri.

Trim EPS estimates but raise DPS estimates

Investors are understandably concerned on rising cost of funds (Fig. 2). That said, RCE explained that rather than issuing sukuks which are being priced at higher profit rates (latest issued in Mar 2022 at 4.3%, penultimate issued in Jul 2021 at 3.9%), it can tap its revolving credit facilities which are priced at c.3.0%. Thus, we trim FY23E/FY24E EPS by 3%/5% on minor housekeeping, but raise FY23E/FY24E DPS by 7%/7% to reflect 40% DPR (36% previously). We also introduce FY25E EPS and DPS.

FYE Mar (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Operating income	232	239	247	254	261
Pre-provision profit	183	189	195	201	206
Core net profit	125	133	138	142	146
Core FDEPS (MYR)	0.18	0.18	0.18	0.19	0.20
Core FDEPS growth(%)	5.8	3.3	1.7	2.8	2.8
Net DPS (MYR)	0.07	0.11	0.08	0.08	0.08
Core FD P/E (x)	7.6	10.2	9.5	9.3	9.0
P/BV (x)	1.2	1.6	1.3	1.2	1.1
Net dividend yield (%)	5.1	5.8	4.3	4.4	4.5
Book value (MYR)	1.13	1.19	1.30	1.42	1.54
ROAE (%)	17.2	16.2	15.1	14.2	13.4
ROAA (%)	5.1	5.1	4.9	4.8	4.7
Consensus net profit	-	-	139	143	na
MKE vs. Consensus (%)	-	-	(1.1)	(0.9)	na

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Company Description

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

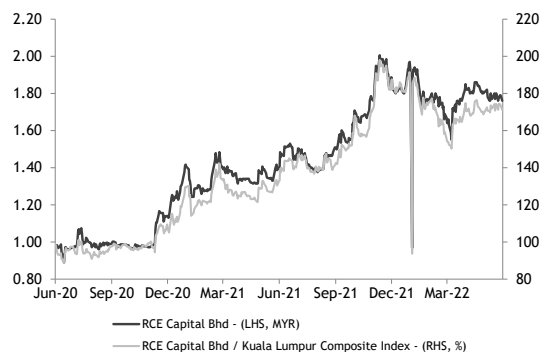
Statistics

52w high/low (MYR)	2.01/0.97
3m avg turnover (USDm)	0.1
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



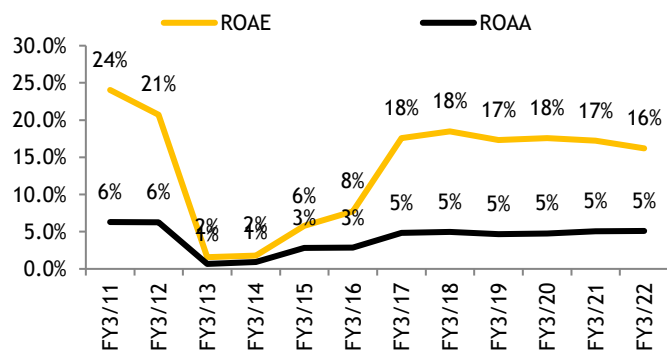
	-1M	-3M	-12M
Absolute (%)	(2)	5	27
Relative to index (%)	1	10	31

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.

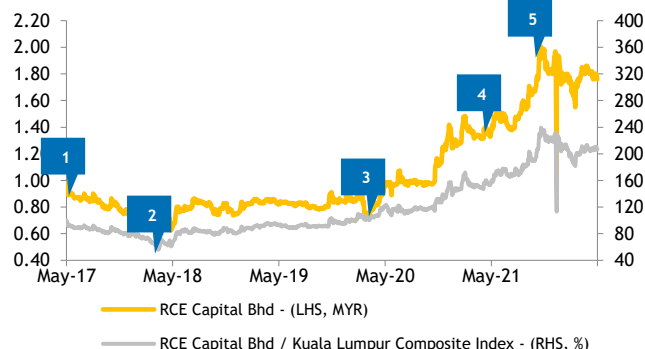
ROE and ROA



Source: Company

Price Drivers

Historical share price trend



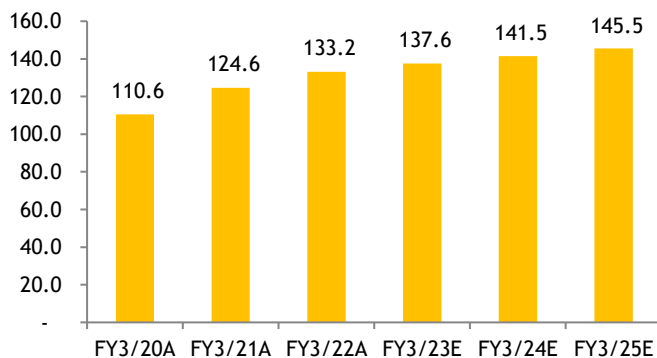
Source: Company, Maybank IBG Research

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. 2QFY3/21 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.

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 3% 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

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.

Figure 1: Summary Results Table

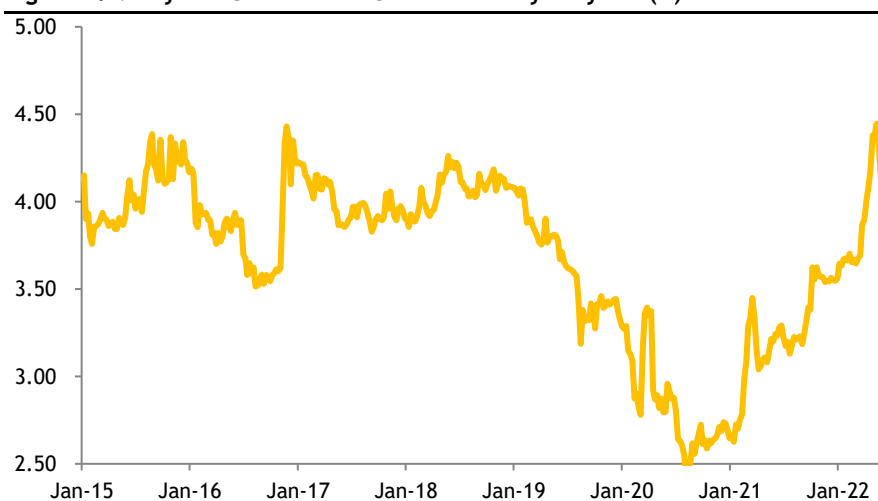
FY Mar (MYRm)	4QFY3/22	4QFY3/21	% YoY	3QFY3/22	% QoQ	FY3/22	FY3/21	% YoY
Interest/profit income	70.4	69.8	0.8	69.0	2.0	274.6	273.0	0.6
Other revenue	4.3	5.2	(16.2)	7.9	(45.1)	24.8	20.4	21.5
Revenue	74.7	75.0	(0.3)	76.9	(2.9)	299.5	293.5	2.0
Other income	5.7	4.3	34.5	5.5	4.1	20.4	19.0	7.2
Interest/profit expense applicable to revenue	-20.1	-19.9	0.6	-19.9	0.5	-80.2	-80.4	(0.2)
Directors' remuneration and staff costs	-5.2	-6.9	(25.1)	-9.9	(47.5)	-26.6	-26.3	1.4
Allowances for impairment loss on receivables, net	-5.9	-0.6	N/M	-1.9	214.5	-11.5	-15.6	(26.0)
Depreciation of plant and equipment and right-of-use asset	-1.0	-0.8	19.6	-0.9	3.6	-3.6	-3.2	13.2
Other expenses	-6.9	-5.1	36.4	-3.4	102.6	-20.4	-19.6	4.1
Finance costs	-0.1	-0.1	(16.7)	-0.1	(9.1)	-0.3	-0.3	(9.6)
Profit before tax	41.4	45.8	(9.5)	46.4	(10.6)	177.2	167.2	6.0
Taxation	-9.9	-11.7	(15.8)	-11.7	(15.1)	-44.1	-42.6	3.5
Net profit	31.5	34.1	(7.4)	34.7	(9.1)	133.2	124.6	6.8
	-	-		-		-	-	
Financing & loans receivables, gross	1,879.2	1,845.3	1.8	1,862.1	0.9	1,879.2	1,845.3	1.8
(Allowance for impairment)	-115.1	-124.1	(7.3)	-115.2	(0.1)	-115.1	-124.1	(7.3)
Financing & loans receivables, net	1,764.1	1,721.2	2.5	1,747.0	1.0	1,764.1	1,721.2	2.5
	4QFY3/22	4QFY3/21	+/- ppt	3QFY3/22	+/- ppt	FY3/22	FY3/21	+/- ppt
Tax rate (%)	23.9	25.6	(1.8)	25.1	(1.3)	24.9	25.5	(0.6)
Gross NPF ratio (%)	3.8	4.0	(0.2)	3.8	(0.0)	3.8	4.0	(0.2)
Financing & loans loss coverage ratio (%)	162.8	168.4	(5.7)	162.5	0.2	162.8	168.4	(5.7)
Net gearing (%)	115.6	139.2	(23.7)	122.8	(7.2)	115.6	139.2	(23.7)

Source: Company

Results analysis

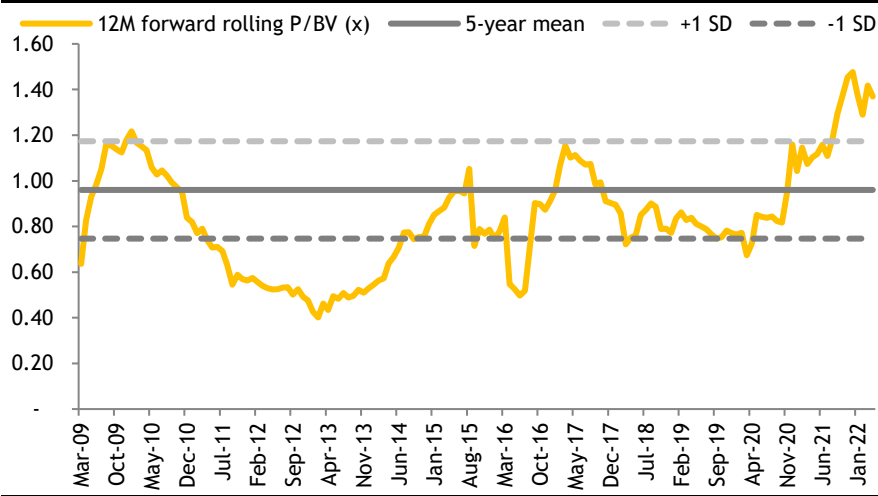
- 4QFY3/22 net profit was down 7% YoY due to more allowances for impairment loss on receivables (i.e. credit cost).
- 4QFY3/22 net profit was down 9% YoY due to less fee income coupled with higher credit cost.

Figure 2: Malaysian Government Securities 10-year yield (%)



Source: Bloomberg

Figure 3: 12M forward P/BV (x)



Source: Company, Bloomberg, Maybank IBG Research

FYE 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
Core P/E (x)	7.5	10.1	9.4	9.1	8.9
Core FD P/E (x)	7.6	10.2	9.5	9.3	9.0
P/BV (x)	1.2	1.6	1.3	1.2	1.1
P/NTA (x)	1.3	1.6	1.4	1.3	1.2
Net dividend yield (%)	5.1	5.8	4.3	4.4	4.5
INCOME STATEMENT (MYR m)					
Islamic banking income	204.4	206.4	210.9	217.4	224.2
Other income	27.4	33.0	35.8	36.1	36.3
Total non-interest income	231.8	239.4	246.7	253.5	260.6
Operating income	231.8	239.4	246.7	253.5	260.6
Staff costs	(26.3)	(26.6)	(27.3)	(28.0)	(28.8)
Other operating expenses	(22.7)	(24.0)	(24.4)	(25.0)	(25.6)
Operating expenses	(49.0)	(50.6)	(51.7)	(53.0)	(54.4)
Pre-provision profit	182.8	188.8	195.0	200.5	206.2
Other allowances	(15.6)	(11.5)	(11.8)	(12.2)	(12.5)
Associates & JV income	0.0	0.0	0.0	0.0	0.0
Pretax profit	167.2	177.2	183.2	188.3	193.7
Income tax	(42.6)	(44.1)	(45.5)	(46.8)	(48.1)
Reported net profit	124.6	133.2	137.6	141.5	145.5
Core net profit	124.6	133.2	137.6	141.5	145.5
BALANCE SHEET (MYR m)					
Cash & deposits with banks	597.9	800.5	883.8	968.2	1,056.7
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	1,775.4	1,818.0	1,871.0	1,925.5	1,981.6
Fixed assets	7.3	6.4	6.3	6.2	6.1
Intangible assets	47.3	47.3	47.3	47.3	47.3
Other assets	62.8	53.0	53.0	53.0	53.0
Total assets	2,490.7	2,725.3	2,861.4	3,000.2	3,144.9
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	1,187.4	1,310.0	1,360.0	1,410.0	1,460.0
Other borrowings	252.9	342.0	345.1	348.8	356.2
Other liabilities	276.3	201.2	201.5	201.8	202.1
Total liabilities	1,716.7	1,853.2	1,906.6	1,960.6	2,018.3
Share capital	188.0	200.7	200.7	200.7	200.7
Reserves	586.0	671.4	754.1	838.9	925.9
Shareholders' funds	774.0	872.1	954.8	1,039.6	1,126.6
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	774.0	872.1	954.8	1,039.6	1,126.6
Total liabilities & equity	2,490.7	2,725.3	2,861.4	3,000.2	3,144.9

FYE 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth (%)					
Net interest income	na	na	na	na	na
Non-interest income	4.8	3.3	3.1	2.8	2.8
Operating expenses	(0.4)	3.3	2.2	2.5	2.6
Pre-provision profit	6.3	3.3	3.3	2.8	2.8
Core net profit	12.7	6.8	3.3	2.8	2.8
Gross loans	1.4	1.8	3.0	3.0	3.0
Customer deposits	na	na	na	na	na
Total assets	2.5	9.4	5.0	4.9	4.8
Profitability (%)					
Non-int. income/Total income	100.0	100.0	100.0	100.0	100.0
Cost/income	21.1	21.1	21.0	20.9	20.9
Liquidity (%)					
Loans/customer deposits	na	na	na	na	na
Asset quality (%)					
Gross NPF	4.0	3.8	3.8	3.8	3.8
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	17.2	16.2	15.1	14.2	13.4
ROAA	5.1	5.1	4.9	4.8	4.7
Shareholders equity/assets	31.1	32.0	33.4	34.7	35.8

Source: Company; Maybank IBG Research

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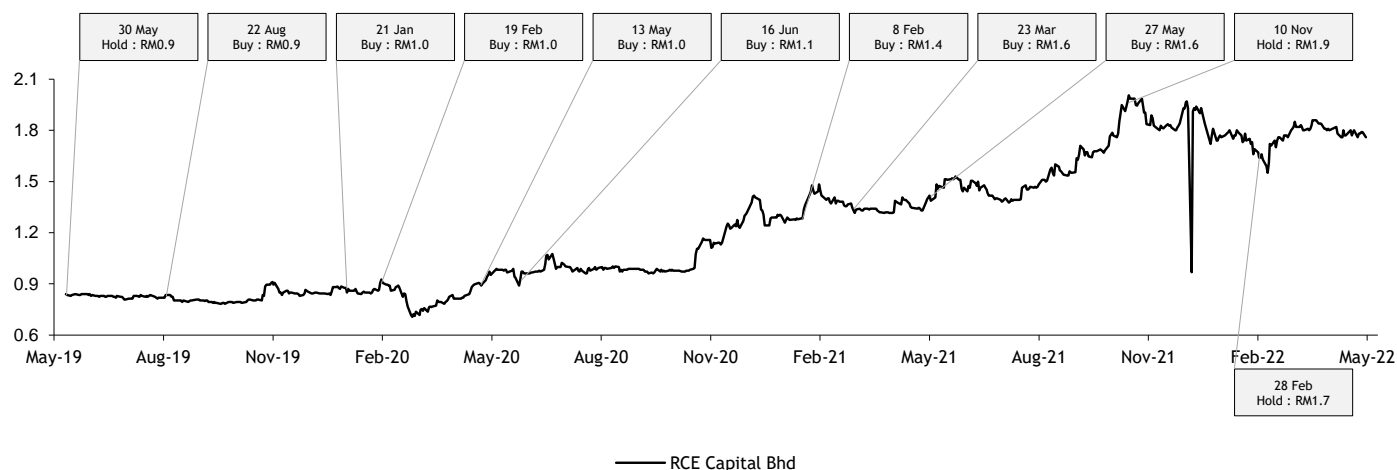
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