

31 May 2022

Financial Services | Banks

RCE Capital (RCE MK)

Buy (Maintained)

Still a Consistent Performer; Keep BUY

Target Price (Return): MYR2.00 (13.6%)
Price (Market Cap): MYR1.76 (USD295m)
ESG score: 3.10 (out of 4)
Avg Daily Turnover (MYR/USD) 0.61m/0.14m

- **Maintain BUY, higher MYR2.00 TP from MYR1.90, 14% upside and c.4% yield.** Results were broadly in line with expectations, at 102-103% of our and Street's estimates. A second interim DPS of 4 sen was declared, bringing FY22 (Mar) total DPS to 11 sen, or a 41.2% dividend payout ratio. We understand that funding cost is actively managed through the utilisation of revolving credits as a comparatively cheaper cost of funds, and there is no immediate need for *sukuk* issuance. We continue to like its resilient asset quality, consistent earnings, and dividend deliveries.
- **FY22 results in line.** RCE Capital reported 4QFY22 net earnings of MYR31.5m (-9% QoQ, -7% YoY), bringing FY22 net earnings to MYR133.2m (+6.8% YoY). The QoQ weakness is mainly from higher allowance for impairment on financing booked in 4QFY22. We deem these results in line with our and Street's estimates at 102-103%. A second interim DPS of 4 sen was declared, bringing FY22 total dividends to 11 sen, representing a 41.2% dividend payout ratio.
- **Operational highlights.** 4QFY22 PIOP was flattish (-1.9% QoQ, +1.8% YoY). Operating income declined 3.3% QoQ (+1.9% YoY) on lower fee income (due to less favourable product mix) while CIR improved to 21.6% from 22.7% on absence of ESOS charges – which were seasonally recorded in 3QFY22 – leading to lower overheads. That said, the YoY and QoQ weakness in 4QFY22 bottomline mainly came from the normalisation of allowance for impairment on financing. 4QFY22 saw a higher MYR5.9m impairment (3QFY22: MYR1.9m, 4QFY21: MYR0.6m), with credit cost rising to 125bps. With that, ROE declined 2ppts sequentially to 14.7% from 16.7%.
- **Receivables and asset quality.** Sequentially, gross financing grew at a faster pace of 0.9% QoQ (+1.8% YoY) vs +0.5% in 3QFY22. We understand that collection remains robust despite the festive period. Asset quality remains solid, with the NPL ratio at 3.8% (flat QoQ) and LLC at 163%.
- **We lift FY23-24F by 4% and 1%,** mainly on balance sheet changes as we updated the latest financials, while keeping our FY23-24F loan growth assumption unchanged at 4%/5%. As a result, our GGM-derived TP is revised higher to MYR2.00 from MYR1.90. Our TP incorporates a 2% premium to our intrinsic value for its 3.10 ESG score, based on our proprietary methodology.
- **Downside risks** to our call include: i) Higher-than-expected credit cost and ii) weaker-than-expected financing growth and net financing margins.

Analysts

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(11.1)	(2.2)	5.4	(9.1)	23.7
Relative	(9.5)	1.4	9.5	(11.0)	26.9
52-wk Price low/high (MYR)				1.41	– 2.06

RCE Capital Ordinary (RCE MK)



Source: Bloomberg

Forecasts and Valuation	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Reported net profit (MYRm)	125	133	136	139	147
Net profit growth (%)	12.7	6.9	2.3	2.0	5.6
Recurring net profit (MYRm)	125	133	136	139	147
Recurring EPS (MYR)	0.35	0.18	0.19	0.19	0.20
BVPS (MYR)	2.15	1.19	1.17	1.13	1.09
DPS (MYR)	0.13	0.07	0.08	0.08	0.08
Recurring P/E (x)	5.08	9.67	9.31	9.12	8.64
P/B (x)	0.82	1.48	1.50	1.55	1.61
Dividend Yield (%)	7.3	4.3	4.4	4.3	4.3
Return on average equity (%)	17.2	16.2	15.9	16.7	18.3

Source: Company data, RHB

Overall ESG Score: 3.10 (out of 4)

E: GOOD

Some green initiatives undertaken by RCE include a lockprint policy that has been implemented to limit and reduce paper wastage. As a result, a 20% reduction in paper utilisation per headcount was recorded in FY20. Electricity consumption per sq ft also dropped due to the extensive use of energy saving lights.

S: GOOD

RCE practices responsible lending by ensuring customers are aware of their obligations and commitments when financing is obtained. It is also imperative that they use the financing for legitimate purposes. The product features are clearly disclosed to the borrowers for their consideration. Financing will only be disbursed after obtaining their unambiguous acceptance of the offer.

G: EXCELLENT

RCE's board comprised nine members, entirely of non executive directors. Four are non-independent directors (including the Chairman) and five are independent directors.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

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Financial Services | Banks

Financial Exhibits

Asia	Financial summary (MYR)	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Malaysia	EPS	0.35	0.18	0.19	0.19	0.20
Financial Services	Recurring EPS	0.35	0.18	0.19	0.19	0.20
RCE Capital	DPS	0.13	0.07	0.08	0.08	0.08
RCE MK	BVPS	2.15	1.19	1.17	1.13	1.09
Buy						
Valuation basis	Valuation metrics	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Our GGM assumptions are:	Recurring P/E (x)	5.08	9.67	9.31	9.12	8.64
i. CoE of 11.6%;	P/B (x)	0.8	1.5	1.5	1.6	1.6
ii. ROE of 17.0%; and	Dividend Yield (%)	7.3	4.3	4.4	4.3	4.3
iii. 3.5% long-term growth rate						
Key drivers	Income statement (MYRm)	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Our FY23 forecasts are most sensitive to changes in:	Interest income	273	275	288	294	309
i. Financing margins;	Interest expense	(81)	(80)	(88)	(91)	(95)
ii. Impairment allowances; and	Net interest income	192	194	200	203	215
iii. Growth in receivables.	Non interest income	39	45	52	55	57
	Total operating income	232	239	252	258	272
	Overheads	(49)	(51)	(53)	(55)	(57)
	Pre-provision operating profit	183	189	200	203	215
	Loan impairment allowances	(16)	(12)	(17)	(17)	(18)
	Pre-tax profit	167	177	183	187	197
	Taxation	(43)	(44)	(47)	(48)	(50)
	Reported net profit	125	133	136	139	147
	Recurring net profit	125	133	136	139	147
Key risks	Profitability ratios	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
The downside risks include:	Return on average assets (%)	5.1	5.1	5.0	5.0	5.3
i. Higher-than-expected credit cost;	Return on average equity (%)	17.2	16.2	15.9	16.7	18.3
ii. Weaker-than-expected financing growth; and	Return on IEAs (%)	11.7	10.9	11.2	11.2	11.3
iii. Weaker-than-expect net financing margin.	Cost of funds (%)	4.8	4.6	4.8	4.8	4.9
iv. The converse represents upside risk.	Net interest spread (%)	7.0	6.2	6.4	6.4	6.4
	Net interest margin (%)	8.3	7.7	7.8	7.8	7.8
	Non-interest income / total income (%)	17.0	18.9	20.6	21.2	21.0
	Cost to income ratio (%)	21.1	21.1	20.9	21.3	21.0
	Credit cost (bps)	85.1	62.0	87.7	82.6	84.1
Company Profile	Balance sheet (MYRm)	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
RCE provides general financing services to civil servants - repayments are done via direct salary deductions. Its wholly-owned EXP Payment unit offers payroll collection management services for government departments under the purview of the Accountant General's Department.	Total gross loans	1,845	1,879	1,954	2,052	2,155
	Other interest earning assets	625	702	604	631	660
	Total gross IEAs	2,471	2,581	2,558	2,684	2,815
	Total provisions	(124)	(115)	(120)	(125)	(131)
	Net loans to customers	1,721	1,764	1,834	1,927	2,023
	Total net IEAs	2,346	2,466	2,438	2,558	2,684
	Total non-IEAs	144	260	315	221	125
	Total assets	2,491	2,725	2,753	2,780	2,809
	Other interest-bearing liabilities	1,671	1,804	1,858	1,914	1,971
	Total IBLs	1,671	1,804	1,858	1,914	1,971
	Total non-IBLs	46	49	49	50	50
	Total liabilities	1,717	1,853	1,907	1,963	2,022
	Share capital	188	201	213	226	239
	Shareholders' equity	774	872	846	817	787
	Asset quality and capital	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
	Reported NPLs / gross cust loans (%)	4.0	3.8	3.8	3.8	3.8
	Total provisions / reported NPLs (%)	168.4	162.8	161.7	160.5	160.4

Source: Company data, RHB

Results At a Glance

Figure 1: RCE – 4QFY22 and FY22 results summary

FYE Mar (MYRm)	4Q21	3Q22	4Q22	% QoQ	% YoY	FY21	FY22	% YoY	Comments
NII	49.8	49.0	50.3	2.6	0.9	192.3	194.1	0.9	
Interest income	69.8	69.0	70.4	2.0	0.8	273.0	274.6	0.6	
Interest expense	(20.0)	(20.0)	(20.1)	0.5	0.5	(80.7)	(80.5)	(0.2)	
Non-II	9.4	13.4	10.1	(24.9)	6.7	39.5	45.2	14.6	
Non-II/Total income (%)	15.9	21.5	16.7			17.0	18.9		
Operating income	59.2	62.4	60.3	(3.3)	1.9	231.8	239.4	3.3	
Overheads	(12.8)	(14.2)	(13.1)	(8.0)	2.1	(49.0)	(50.6)	3.3	
CIR (%)	21.6	22.7	21.6			21.1	21.1		CIR improved on the back of lower overheads due to absence of ESOS charges (3QFY22)
PIOP	46.4	48.2	47.3	(1.9)	1.8	182.8	188.8	3.3	
Impairment on financings	(0.6)	(1.9)	(5.9)	>100	>100	(15.6)	(11.5)	(26.0)	
Credit cost	14	40	125			86	62		Credit cost normalised upwards, but still below pre-pandemic levels
Pre-tax profit	45.8	46.4	41.4	(10.6)	(9.5)	167.2	177.2	6.0	
Tax	(11.7)	(11.7)	(9.9)			(42.6)	(44.1)		
ETR (%)	25.6	25.1	23.9			25.5	24.9		
Net earnings	34.1	34.7	31.5	(9.1)	(7.4)	124.6	133.2	6.8	In line with expectations
Gross financing	1,845.3	1,862.1	1,879.2	0.9	1.8				
Total borrowings	1,670.6	1,751.9	1,804.0	3.0	8.0				
Gross impaired financing	(124.1)	(115.2)	(115.1)	(0.1)	(7.3)				
Total assets	2,490.7	2,637.3	2,725.3	3.3	9.4				
Shareholders' funds	774.0	840.6	872.1	3.7	12.7				
ROAA	5.5%	5.3%	4.7%			5.1%	5.1%		
ROAE	18.1%	16.7%	14.7%			17.2%	16.2%		
GIL ratio	4.0%	3.8%	3.8%						

Source: Company data, RHB

Recommendation Chart

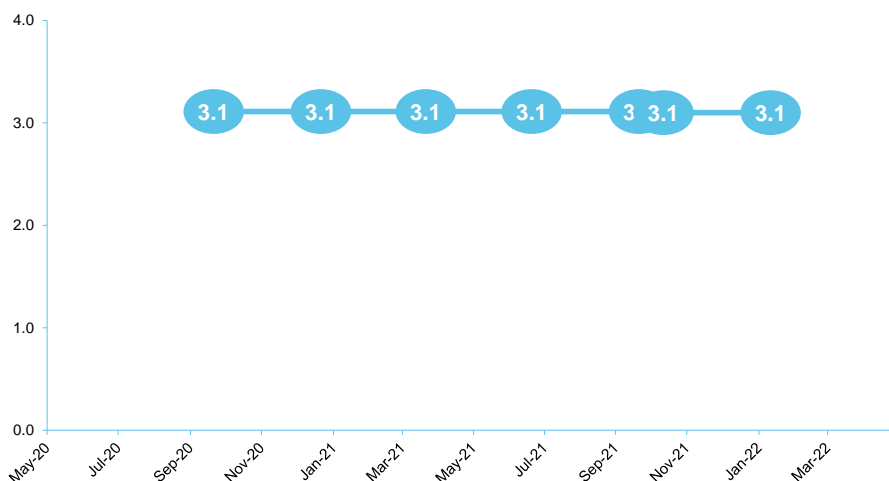


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-02-25	Buy	1.90	1.69
2021-11-10	Neutral	3.90	2.02
2021-05-26	Buy	3.20	1.43
2021-02-09	Buy	3.00	1.32
2020-12-08	Buy	2.80	1.29
2020-07-06	Buy	2.50	1.01
2020-06-16	Buy	2.20	0.95
2020-03-15	Buy	2.10	0.79
2020-02-19	Buy	2.20	0.93
2020-01-10	Buy	2.10	0.90
2019-08-16	Not Rated	na	0.84

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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