

## RCE Capital Bhd (RCE MK)

# Another record quarter with huge special DPS to boot

### Maintain HOLD with a higher TP of MYR1.67 (+1%)

After a poor 1QFY23, a record 2QFY23 brought 6MFY23 results within our expectation. More interestingly, the special and interim DPS declared were both above our expectation. The special DPS alone raises our ROE forecasts by c.200bps on a full year basis going forward. With scope for recurring DPS to outperform as well, we roll forward our valuation base year to end-CY23E from end-CY22E and raise our target P/BV to 1.4x from 1.3x deriving a higher TP by 2sen to MYR1.67. HOLD.

### Results were within our expectation

2QFY23 net profit of MYR37m (+16% YoY, +13% QoQ) brought 6MFY23 net profit to MYR69m (+3% YoY) which was within our expectations at 52% of our FY net profit. On closer inspection, 6MFY23 revenue of MYR159m (+8% YoY) and 6MFY23 credit cost of MYR15m (1.4% of gross financing receivables) were both higher than expected. The former was due to higher early settlement and fee income which we gather was driven by customers refinancing ahead of profit rate hikes. The latter was due to teachers and academic staff resigning.

### Financing growth accelerated

We note that financing growth accelerated to 3% QoQ (1QFY23: +1% QoQ). We gather that customers were borrowing more ahead of profit rate hikes and to cope with rising living costs. Anyhow, we maintain our estimates as we expect loans growth (MIBG forecast: +3% p.a.) and refinancing to normalise when profit rates stabilise and credit costs to normalise (MIBG forecast: 0.6% of gross financing receivables) as the wave of teachers and academic staff resigning ebb.

### Special AND interim DPS outperformed

On another note, we were pleasantly surprised that RCE declared an interim DPS of 5sen and a special DPS of 18sen. Needless to say, we did not expect the special DPS. The interim DPS of 5sen was also above our expectation of 3.8sen; it implied 53% DPR whereas we expected 42%. RCE did not want to commit to a higher DPR for the whole FY but said there is room for it to improve. We maintain our FY23E DPS at 7.5sen.

FYE Mar (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Operating income	232	239	238	242	248
Pre-provision profit	183	189	187	189	194
Core net profit	125	133	132	133	137
Core FDEPS (MYR)	0.18	0.18	0.18	0.18	0.18
Core FDEPS growth(%)	5.8	3.3	(3.4)	0.9	2.8
Net DPS (MYR)	0.07	0.11	0.26	0.08	0.08
Core FD P/E (x)	7.6	10.2	10.1	10.0	9.7
P/BV (x)	1.2	1.6	1.6	1.4	1.3
Net dividend yield (%)	5.1	5.8	14.4	4.4	4.5
Book value (MYR)	1.13	1.19	1.12	1.22	1.33
ROAE (%)	17.2	16.2	15.6	15.5	14.7
ROAA (%)	5.1	5.1	4.8	4.8	4.7
Consensus net profit	-	-	132	133	137
MKE vs. Consensus (%)	-	-	(0.0)	0.0	(0.0)

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# HOLD

Share Price	MYR 1.77
12m Price Target	MYR 1.67 (+9%)
Previous Price Target	MYR 1.65

### Company Description

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

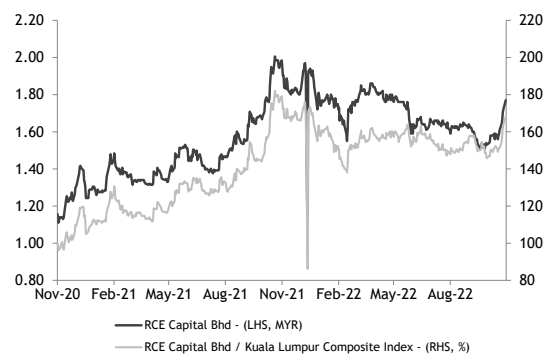
### Statistics

52w high/low (MYR)	1.98/0.97
3m avg turnover (USDm)	0.1
Free float (%)	30.7
Issued shares (m)	741
Market capitalisation	MYR1.3B USD286M

### Major shareholders:

Cempaka Empayar Sdn. Bhd.	53.2%
Rockwills International Group Bhd	4.5%
Khai Yoon Woo	2.2%

### Price Performance



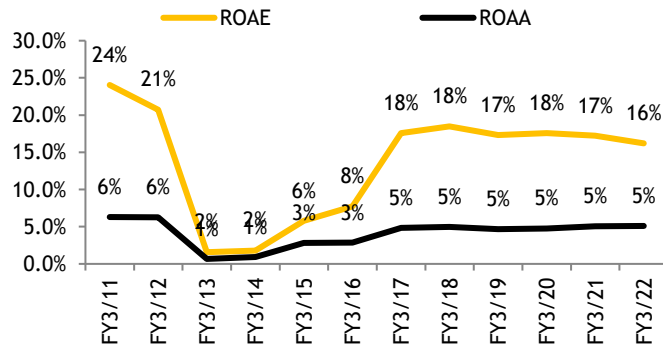
	-1M	-3M	-12M
Absolute (%)	16	9	(10)
Relative to index (%)	15	13	(5)

Source: FactSet

## Value Proposition

- RCE Capital provides personal financing, the ultimate customers being civil servants.
- With a gross financing balance of just MYR2.0b, 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.

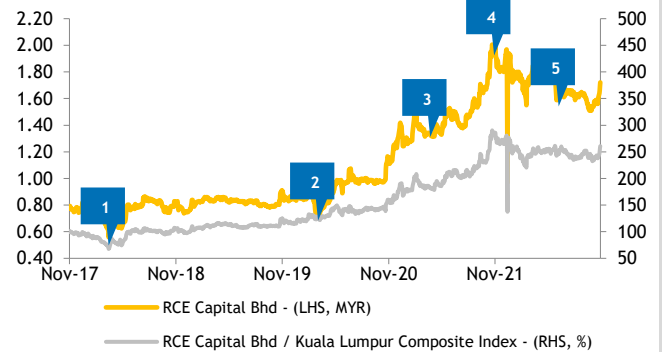
### ROE and ROA



Source: Company

## Price Drivers

### Historical share price trend



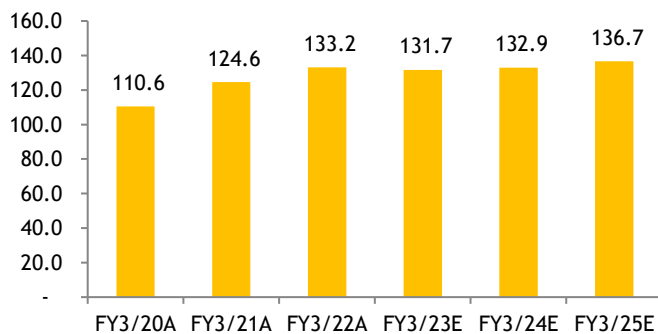
Source: Company, Maybank IBG Research

1. Concerns arise that the government may reduce the size of the civil service.
2. Movement Control Order lengthened time to process new customers applications, resulting in less financing disbursed.
3. 2QFY3/21 net profit grew 21% YoY to a record high of MYR33.0m.
4. Announced share DPS of 1 treasury share for 20 shares held and bonus issue of 19 shares for 21 shares held.
5. Bank Negara Malaysia raised Overnight Policy Rate by 25bps for the first time since Jul 2020.

## Financial Metrics

- Introduced a better credit scoring model in 2013. We 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 RCE's NPF ratios are low (<2%).
- Forecast stable three-year forward core net profit CAGR of 1% 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 (historicals), Maybank IBG Research (forecasts)

## 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's debt repayment.

Figure 1: Summary Results Table

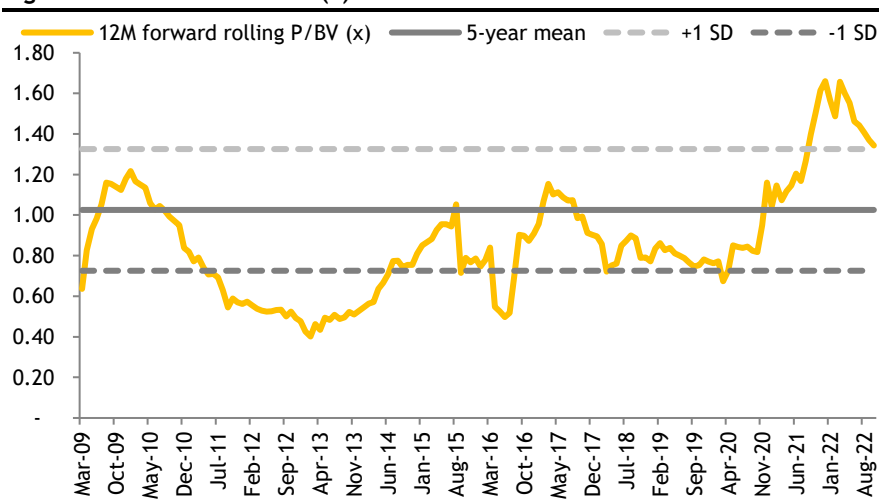
FY Mar (MYRm)	2QFY3/23	2QFY3/22	% YoY	1QFY3/23	% QoQ	6MFY3/23	6MFY3/22	% YoY
Interest/profit income	71.0	63.7	11.4	69.2	2.5	140.2	135.3	3.6
Other revenue	10.8	6.1	76.5	8.4	28.1	19.2	12.6	52.8
<b>Revenue</b>	<b>81.8</b>	<b>69.8</b>	<b>17.1</b>	<b>77.7</b>	<b>5.3</b>	<b>159.4</b>	<b>147.9</b>	<b>7.8</b>
Other income	6.3	4.6	39.1	5.6	13.2	12.0	9.2	30.6
Interest/profit expense applicable to revenue	-21.6	-20.4	5.8	-20.3	6.1	-41.9	-40.2	4.2
Directors' remuneration and staff costs	-5.7	-5.5	2.7	-6.1	(7.0)	-11.7	-11.6	1.1
Allowances for impairment loss on receivables, net	-6.9	-0.7	N/M	-8.2	(16.2)	-15.1	-3.8	294.1
Depreciation of plant and equipment and right-of-use asset	-0.9	-0.9	2.8	-0.8	5.9	-1.7	-1.7	2.4
Other expenses	-4.5	-4.6	(2.2)	-4.9	(7.7)	-9.4	-10.1	(6.9)
Finance costs	-0.1	-0.1	(17.6)	-0.1	(1.8)	-0.1	-0.1	(17.5)
<b>Profit before tax</b>	<b>48.6</b>	<b>42.2</b>	<b>15.1</b>	<b>42.9</b>	<b>13.2</b>	<b>91.5</b>	<b>89.5</b>	<b>2.2</b>
Taxation	-12.0	-10.7	12.8	-10.7	12.8	-22.7	-22.5	0.7
<b>Net profit</b>	<b>36.5</b>	<b>31.5</b>	<b>15.8</b>	<b>32.2</b>	<b>13.4</b>	<b>68.8</b>	<b>66.9</b>	<b>2.7</b>
<b>Financing &amp; loans receivables, gross</b>	<b>1,957.6</b>	<b>1,852.1</b>	<b>5.7</b>	<b>1,904.7</b>	<b>2.8</b>	<b>1,957.6</b>	<b>1,852.1</b>	<b>5.7</b>
(Allowance for impairment)	-120.2	-120.3	(0.1)	-118.3	1.6	-120.2	-120.3	(0.1)
<b>Financing &amp; loans receivables, net</b>	<b>1,837.4</b>	<b>1,731.8</b>	<b>6.1</b>	<b>1,786.4</b>	<b>2.9</b>	<b>1,837.4</b>	<b>1,731.8</b>	<b>6.1</b>
	<b>2QFY3/23</b>	<b>2QFY3/22</b>	<b>+/- ppt</b>	<b>1QFY3/23</b>	<b>+/- ppt</b>	<b>6MFY3/23</b>	<b>6MFY3/20</b>	<b>+/- ppt</b>
Tax rate (%)	24.8	25.3	(0.5)	24.9	(0.1)	24.8	25.2	(0.4)
Gross NPF ratio (%)	4.0	4.0	(0.0)	4.0	0.0	4.0	4.0	(0.0)
Financing & loans loss coverage ratio (%)	154.0	161.0	(7.0)	157.1	(3.0)	154.0	161.0	(7.0)
Net gearing (%)	114.1	125.7	(11.6)	117.7	(3.6)	114.1	125.7	(11.6)

Source: Company

## Results analysis

- 2QFY23 net profit was up 16% YoY due to higher early settlement and fee income moderated by more allowances for impairment loss on receivables (i.e. credit cost).
- 2QFY23 net profit was up 13% QoQ due to higher early settlement and fee income and lower credit cost QoQ.
- 6MFY23 net profit was only a tad 3% higher YoY as higher early settlement and fee income was moderated by higher credit cost.

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



Source: Company, Bloomberg, Maybank IBG Research

FYE 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Metrics</b>					
Core P/E (x)	7.5	10.1	9.8	9.7	9.5
Core FD P/E (x)	7.6	10.2	10.1	10.0	9.7
P/BV (x)	1.2	1.6	1.6	1.4	1.3
P/NTA (x)	1.3	1.6	1.7	1.5	1.4
Net dividend yield (%)	5.1	5.8	14.4	4.4	4.5
<b>INCOME STATEMENT (MYR m)</b>					
Islamic banking income	204.4	206.4	202.5	205.5	212.0
Other income	27.4	33.0	35.8	36.1	36.3
<b>Total non-interest income</b>	<b>231.8</b>	<b>239.4</b>	<b>238.3</b>	<b>241.6</b>	<b>248.3</b>
<b>Operating income</b>	<b>231.8</b>	<b>239.4</b>	<b>238.3</b>	<b>241.6</b>	<b>248.3</b>
Staff costs	(26.3)	(26.6)	(27.0)	(27.7)	(28.5)
Other operating expenses	(22.7)	(24.0)	(24.2)	(24.8)	(25.4)
<b>Operating expenses</b>	<b>(49.0)</b>	<b>(50.6)</b>	<b>(51.2)</b>	<b>(52.5)</b>	<b>(53.8)</b>
<b>Pre-provision profit</b>	<b>182.8</b>	<b>188.8</b>	<b>187.1</b>	<b>189.1</b>	<b>194.5</b>
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
<b>Pretax profit</b>	<b>167.2</b>	<b>177.2</b>	<b>175.3</b>	<b>176.9</b>	<b>181.9</b>
Income tax	(42.6)	(44.1)	(43.6)	(44.0)	(45.2)
<b>Reported net profit</b>	<b>124.6</b>	<b>133.2</b>	<b>131.7</b>	<b>132.9</b>	<b>136.7</b>
<b>Core net profit</b>	<b>124.6</b>	<b>133.2</b>	<b>131.7</b>	<b>132.9</b>	<b>136.7</b>
<b>BALANCE SHEET (MYR m)</b>					
Cash & deposits with banks	597.9	800.5	745.7	822.3	901.3
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
<b>Total assets</b>	<b>2,490.7</b>	<b>2,725.3</b>	<b>2,723.3</b>	<b>2,854.3</b>	<b>2,989.4</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	1,187.4	1,310.0	1,310.0	1,310.0	1,310.0
Other borrowings	252.9	342.0	395.1	449.8	506.5
Other liabilities	276.3	201.2	201.1	201.2	201.4
<b>Total liabilities</b>	<b>1,716.7</b>	<b>1,853.2</b>	<b>1,906.1</b>	<b>1,960.9</b>	<b>2,017.9</b>
Share capital	188.0	200.7	200.7	200.7	200.7
Reserves	586.0	671.4	616.5	692.7	770.8
Shareholders' funds	774.0	872.1	817.2	893.4	971.5
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	0.0	0.0	0.0	0.0	0.0
Total equity	774.0	872.1	817.2	893.4	971.5
<b>Total liabilities &amp; equity</b>	<b>2,490.7</b>	<b>2,725.3</b>	<b>2,723.3</b>	<b>2,854.3</b>	<b>2,989.4</b>

FYE 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Ratios</b>					
<b>Growth (%)</b>					
Net interest income	na	na	na	na	na
Non-interest income	4.8	3.3	(0.4)	1.4	2.8
Operating expenses	(0.4)	3.3	1.2	2.5	2.5
Pre-provision profit	6.3	3.3	(0.9)	1.1	2.8
Core net profit	12.7	6.8	(1.1)	0.9	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	(0.1)	4.8	4.7
<b>Profitability (%)</b>					
Non-int. income/Total income	100.0	100.0	100.0	100.0	100.0
Cost/income	21.1	21.1	21.5	21.7	21.7
<b>Liquidity (%)</b>					
Loans/customer deposits	na	na	na	na	na
<b>Asset quality (%)</b>					
Gross NPF	4.0	3.8	3.8	3.8	3.8
<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	17.2	16.2	15.6	15.5	14.7
ROAA	5.1	5.1	4.8	4.8	4.7
Shareholders equity/assets	31.1	32.0	30.0	31.3	32.5

Source: Company; Maybank IBG Research

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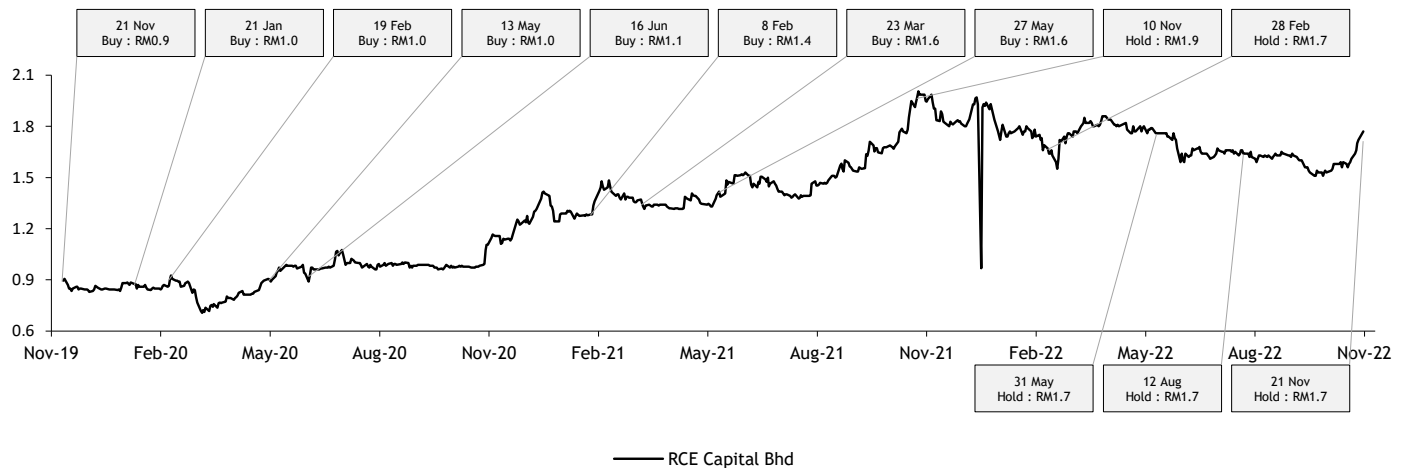
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