

RCE Capital Bhd (RCE MK)

Keep calm and wait for Budget 2025

HOLD

Share Price MYR 3.11
12m Price Target MYR 3.00 (+2%)
Previous Price Target MYR 3.02

Maintain HOLD with slightly lower MYR3.00 TP (-1%)

Earnings and dividends came in at the lower range of our expectations. As we flagged earlier, RCE's operating environment has turned a tad more challenging. Having said that, we expect it to improve markedly come 1 Dec 2024 when the $\geq 13\%$ hike in civil servants' salaries take effect. Until more details are announced during Budget 2025, we trim our earnings and dividends estimates by 3-4% on minor housekeeping. We trim our TP to MYR3.00 from MYR3.02 on an unchanged 2.5x end-CY25E BVPS.

Results at the lower end of our expectations

4QFY24 net profit of MYR29.1m (-17% YoY, -16% QoQ) brought FY24 net profit to MYR138.8m (+0% YoY) which accounted for 97% of our FY estimate. The second interim DPS of 7sen (+0sen YoY, -1sen HoH) brought FY24 DPS to 15sen (-15sen YoY) which accounted for 94% of our FY estimate. We note that 4QFY24 other expenses of MYR9.6m was high-ish from non-recurring facility fee relating to new funding secured (c.MYR2m) and IT professional fees (c.MYR1m).

Operating metrics weakened but expected

To put things into perspective, 4QFY24 net profit was the lowest since 1QFY21. As we had alluded to earlier, 4QFY24 gross financing growth was flat QoQ (3QFY24: +1% QoQ) as RCE has been declining financing applications more frequently recently as the credit quality of new applicants has not been ideal due to higher cost of living. 4QFY24 non-performing financing (NPF) ratio also ticked up 13bps QoQ as customers either left the civil service or retired early.

Trim EPS and DPS estimates by 3-4%

The $\geq 13\%$ hike in civil servants' salaries will only take effect on 1 Dec 2024. Until then, we expect financing growth to be pedestrian. Our estimates are premised on civil servants' salaries growing 15% (average), reflected in RCE's financing receivables growing 5%/10% in FY25E/FY26E. Until more details are announced during Budget 2025 which is scheduled for 11 Oct 2024, we trim FY25E/FY26E EPS by 3%/4% and FY25E/FY26E DPS by 3%/3% on minor housekeeping and introduce FY27E EPS and DPS.

FYE Mar (MYR m)	FY23A	FY24A	FY25E	FY26E	FY27E
Operating income	261	281	294	317	333
Pre-provision profit	213	215	226	244	256
Core net profit	139	139	149	161	169
Core FDEPS (MYR)	0.19	0.19	0.20	0.22	0.23
Core FDEPS growth(%)	3.7	(0.0)	7.0	8.1	4.9
Net DPS (MYR)	0.30	0.15	0.17	0.18	0.19
Core FD P/E (x)	9.7	14.2	15.4	14.3	13.6
P/BV (x)	1.7	2.4	2.7	2.6	2.5
Net dividend yield (%)	16.5	5.6	5.3	5.8	6.1
Book value (MYR)	1.10	1.13	1.17	1.21	1.25
ROAE (%)	16.5	17.0	17.7	18.5	18.7
ROAA (%)	4.9	4.7	4.9	5.0	4.9
Consensus net profit	-	-	154	163	na
MIBG vs. Consensus (%)	-	-	(3.0)	(1.1)	na

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Company Description

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

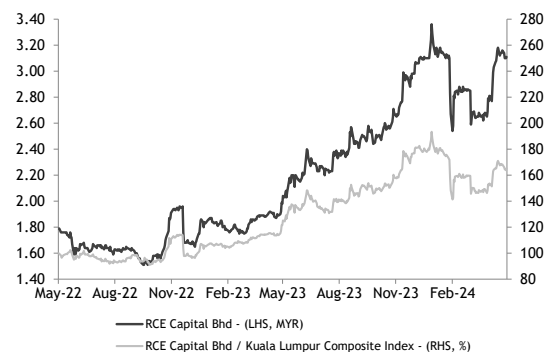
Statistics

52w high/low (MYR)	3.36/1.98
3m avg turnover (USDm)	0.6
Free float (%)	34.0
Issued shares (m)	741
Market capitalisation	MYR2.3B USD489M

Major shareholders:

Cempaka Empayar Sdn. Bhd.	57.9%
Khai Yoon Woo	1.5%
Employees Provident Fund	1.5%

Price Performance



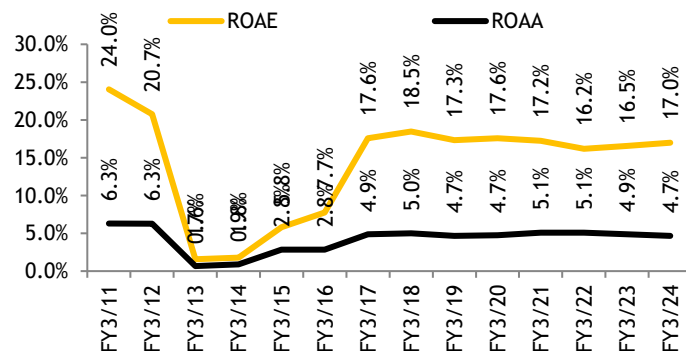
	-1M	-3M	-12M
Absolute (%)	11	16	56
Relative to index (%)	8	11	36

Source: FactSet

Value Proposition

- RCE Capital provides personal financing, the ultimate customers being civil servants.
- With a gross financing balance of just MYR2.1b, we estimate that its market share is only 2%.
- Non-performing financing kept in check thanks to nondiscretionary 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

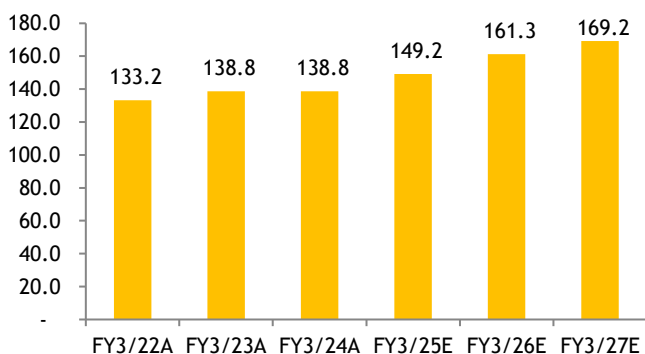


Source: Company

Financial Metrics

- Introduced better credit scoring model in 2013. We forecast gross financing CAGR of 6% p.a. over the next three years.
- Average cost of funds is rising but so is average financing yields.
- Asset quality better than before. New financings are smaller in size (<2%).
- Forecast stable three-year forward core net profit CAGR of 7% p.a.
- Recently raised DPR policy from 20-40% to 60-80%.

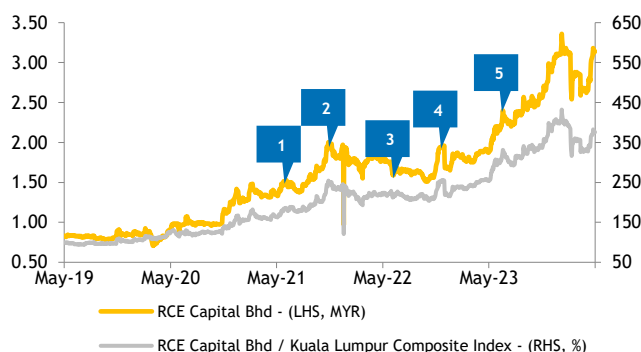
Core net profit (MYRm)



Source: Company (historicals), Maybank IBG Research (forecasts)

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

1. 2QFY21 net profit grew 21% YoY to a record high of MYR33.0m.
2. Announced share DPS of 1 treasury share for 20 shares held and bonus issue of 19 shares for 21 shares held.
3. Bank Negara Malaysia raised Overnight Policy Rate by 25bps for the first time since Jul 2020.
4. Announced a huge special DPS of 18sen and higher-than expected interim DPS of 5sen.
5. Announced that it raised its dividend policy from 20-40% DPR to 60-80% DPR.

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.

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Figure 1: Summary Results Table

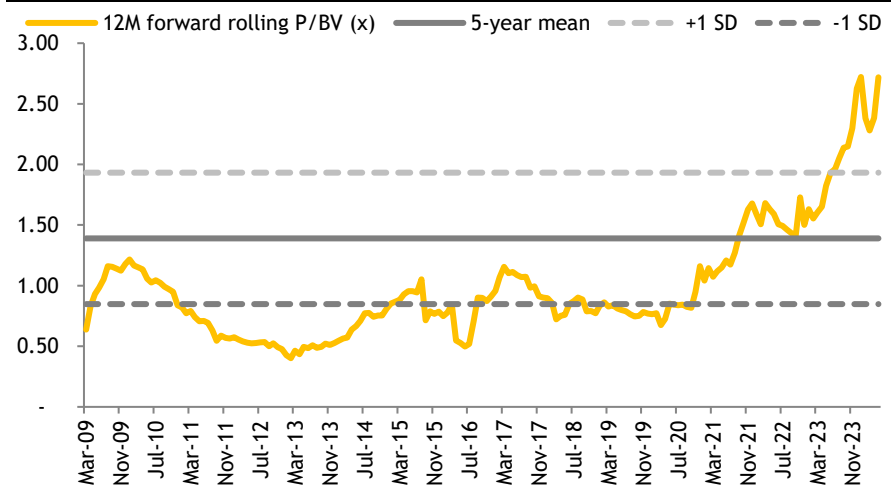
FY Mar (MYR m)	4QFY3/24	4QFY3/23	% YoY	3QFY3/24	% QoQ	FY3/24	FY3/23	% YoY
Interest/profit income	72.4	70.5	2.8	74.1	(2.2)	290.8	280.7	3.6
Other revenue	10.0	12.2	(17.6)	13.4	(24.9)	50.9	42.9	18.6
Revenue	82.5	82.6	(0.2)	87.4	(5.7)	341.7	323.6	5.6
Other income	9.6	8.8	10.0	10.0	(4.0)	37.9	28.0	35.3
Interest/profit expense applicable to revenue	(25.0)	(25.4)	(1.3)	(24.0)	4.4	(98.5)	(90.1)	9.4
Directors' remuneration and staff costs	(6.9)	(6.0)	14.9	(11.3)	(39.4)	(32.2)	(27.1)	18.9
Allowances for impairment loss on receivables, net	(10.3)	(8.2)	26.6	(8.3)	24.0	(30.2)	(28.7)	5.4
Depreciation	(1.0)	(0.9)	13.3	(1.0)	8.9	(3.8)	(3.6)	6.2
Other expenses	(9.6)	(4.5)	113.3	(6.9)	38.9	(29.8)	(18.1)	64.5
Finance costs	(0.1)	(0.1)	16.9	(0.1)	(15.9)	(0.3)	(0.2)	14.8
Profit before tax	39.1	46.4	(15.7)	45.8	(14.6)	184.8	183.9	0.5
Taxation	(10.1)	(11.6)	(13.2)	(11.3)	(10.7)	(46.1)	(45.2)	2.1
Net profit	29.1	34.8	(16.6)	34.6	(15.9)	138.8	138.8	(0.0)
Financing & loans receivables, gross	2,100.4	2,020.9	3.9	2,106.8	(0.3)	2,100.4	2,020.9	3.9
(Allowance for impairment)	(127.7)	(121.5)	5.1	(123.9)	3.0	(127.7)	(121.5)	5.1
Financing & loans receivables, net	1,972.7	1,899.4	3.9	1,982.8	(0.5)	1,972.7	1,899.4	3.9
	4QFY3/24	4QFY3/23	+/- ppt	3QFY3/24	+/- ppt	FY3/24	FY3/23	+/- ppt
Tax rate (%)	25.7	25.0	0.8	24.6	1.1	24.9	24.6	0.4
Gross NPF ratio (%)	4.0	3.8	0.2	3.8	0.1	4.0	3.8	0.2
Financing & loans loss coverage ratio (%)	153.3	157.8	(4.4)	153.4	(0.1)	153.3	157.8	(4.4)
Net gearing (%)	154.6	151.0	3.6	161.2	(6.6)	154.6	151.0	3.6

Source: Company

Results analysis

- 4QFY24 net profit of MYR29.1m was down 17% YoY and 16% QoQ largely due to:- (i) higher net allowances for impairment loss on receivables as NPF ratio ticked up 15bps YoY and 13bps QoQ to 4.0%; and (ii) higher operating expenses from facility fee relating to new funding secured, sales and marketing campaign expenses as well as financing recovery activities.
- FY24 net profit of MYR138.8m was flat YoY despite higher profit and fee income due to:- (i) higher profit expense from higher profit rates; (ii) higher directors' remuneration and staff costs; and (iii) higher operating expenses from facility fee relating to new funding secured, sales and marketing campaign expenses as well as financing recovery activities.

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



Source: Company, Maybank IBG Research, Bloomberg

FYE 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
Key Metrics					
Core P/E (x)	9.6	14.2	15.3	14.1	13.5
Core FD P/E (x)	9.7	14.2	15.4	14.3	13.6
P/BV (x)	1.7	2.4	2.7	2.6	2.5
P/NTA (x)	1.8	2.5	2.8	2.7	2.6
Net dividend yield (%)	16.5	5.6	5.3	5.8	6.1
INCOME STATEMENT (MYR m)					
Islamic banking income	209.4	221.2	231.6	248.6	263.1
Other income	52.0	59.6	62.6	68.8	70.3
Total non-interest income	261.4	280.8	294.2	317.5	333.4
Operating income	261.4	280.8	294.2	317.5	333.4
Staff costs	(27.1)	(32.2)	(33.6)	(36.3)	(38.2)
Other operating expenses	(21.7)	(33.6)	(34.9)	(37.4)	(39.2)
Operating expenses	(48.8)	(65.8)	(68.6)	(73.7)	(77.4)
Pre-provision profit	212.6	215.1	225.6	243.8	256.0
Other allowances	(28.7)	(30.2)	(26.9)	(28.9)	(30.6)
Associates & JV income	0.0	0.0	0.0	0.0	0.0
Pretax profit	183.9	184.8	198.7	214.8	225.4
Income tax	(45.2)	(46.1)	(49.6)	(53.6)	(56.2)
Reported net profit	138.8	138.8	149.2	161.3	169.2
Core net profit	138.8	138.8	149.2	161.3	169.2
BALANCE SHEET (MYR m)					
Cash & deposits with banks	879.7	840.2	875.3	920.3	953.8
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	1,953.3	2,027.3	2,126.0	2,333.1	2,378.7
Fixed assets	7.2	7.3	7.0	6.6	6.3
Intangible assets	47.3	47.3	47.3	47.3	47.3
Other assets	59.3	73.5	73.5	73.5	73.5
Total assets	2,946.8	2,995.6	3,129.1	3,380.9	3,459.6
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	1,290.9	1,175.8	1,175.8	1,175.8	1,175.8
Other borrowings	434.3	552.9	657.6	879.4	927.7
Other liabilities	416.0	437.1	437.7	438.3	438.8
Total liabilities	2,141.2	2,165.8	2,271.1	2,493.6	2,542.3
Share capital	201.9	201.9	201.9	201.9	201.9
Reserves	603.7	627.9	656.1	685.4	715.4
Shareholders' funds	805.7	829.8	858.0	887.3	917.3
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	805.7	829.8	858.0	887.3	917.3
Total liabilities & equity	2,946.8	2,995.6	3,129.1	3,380.9	3,459.6

FYE 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
Key Ratios					
Growth (%)					
Net interest income	na	na	na	na	na
Non-interest income	9.2	7.4	4.8	7.9	5.0
Operating expenses	(3.6)	34.9	4.3	7.5	5.0
Pre-provision profit	12.6	1.2	4.9	8.1	5.0
Core net profit	4.2	(0.0)	7.5	8.1	4.9
Gross loans	7.5	3.9	5.0	10.0	2.0
Customer deposits	na	na	na	na	na
Total assets	8.1	1.7	4.5	8.0	2.3
Profitability (%)					
Non-int. income/Total income	100.0	100.0	100.0	100.0	100.0
Cost/income	18.7	23.4	23.3	23.2	23.2
Liquidity (%)					
Loans/customer deposits	na	na	na	na	na
Asset quality (%)					
Gross NPF	3.8	4.0	4.0	4.0	4.0
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	16.5	17.0	17.7	18.5	18.7
ROAA	4.9	4.7	4.9	5.0	4.9
Shareholders equity/assets	27.3	27.7	27.4	26.2	26.5

Source: Company; Maybank IBG Research

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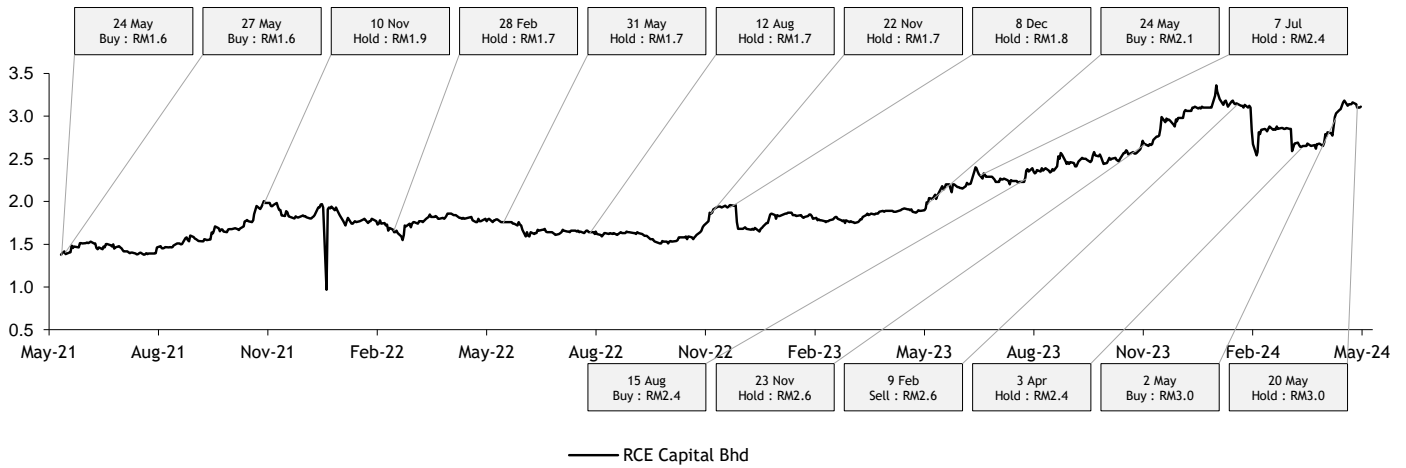
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