Investment Idea

RCE Capital Bhd

All is GOOD…

★★★★☆ **BUY**

Price:	**RM1.89**
Target price:	**RM2.39**

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We remain positive on RCE Capital Bhd ("RCE") as a defensive play with anticipated dividend yield of ~6% supported by decent asset quality. RCE stands at an attractive position as it is benefiting from the low interest rate environment towards cheaper cost of funding. We continue to recommend BUY with a higher target price of RM2.39 based on 1.0x FY21 P/BV, as per 3-year average valuation, implying a 6.8x FY21 PER.

Loans application and submission are back to pre-Movement Control Order level and thus we expect earnings and loans disbursement to normalise moving forward. Meanwhile, the loan moratorium has a minimal impact on RCE given its position as Nonbank Financial institution and less than 0.6% of the accounts are under the moratorium. The moratorium is on voluntary basis and subject to approval.

Looking ahead, RCE has successfully converted from conventional to Syariah financing in May 2020. The group is in the midst applying for the inclusion into KLSE Shariah counter by end-2021. If successful, it will further attract buying interest especially from the institutional funds as there are presently only three Shariah-Compliant stocks under the category of financial services.

The group has issued the fourth tranche (RM127m) of the total RM2bn Sukuk programme in Sept 2020 and fifth tranche of RM106m will be issued on Nov 2020 tentatively at much lower rate. Note that the weighted average rate has been on a declining mode from 4.9% in the first tranche to below 3.4% in the fourth tranche for the RM2bn Sukuk programme.

Asset quality remains sound with non-performing loans at a healthy rate of ~4% as the salary deduction scheme for loan repayment ensures minimal default risk. Notably, net interest margin of ~8% is much higher than the average within the banking industry which is below 2% presently. Cost-to-income ratio of 23% is much lower than the industry average while high loan loss coverage of 168.5% demonstrates stringent credit risk management.

RCE has a stable dividend payout ratio ranging from 20%-40%, giving an expected dividend yield of 6.3% in FY21. We see potential growth on RCE to expand its market share on the back of proven track record and its respectable yield offers an interesting value proposition.

Technically Speaking

Resistance level	RM2.05
Support level	RM1.83

Source: Thomson Reuters

KLCI	1489.6
YTD KLCI change	-6.2%
YTD stock price change	+14.6%

Stock Information

Market Cap (RM'm)	674.8
Issued Shares (m)	357.1
52-week range (H)	2.13
52-week range (L)	1.22

Major Shareholders

Cempaka Empayar Sdn Bhd	54.4%
Rockwills Trustee Berhad	4.8%

Summary Earnings Table

FY Mar (RM'm)	2019A	2020A	2021F	2022F
Revenue	262.6	282.6	299.6	317.5
Net interest income	156.2	175.1	185.7	196.9
Pretax profit	131.1	148.9	152.8	161.9
Net profit	**95.5**	**110.6**	**113.8**	**123.8**
Consensus	-	-	112.3	119.7
EPS (sen)	28.0	31.8	31.9	34.7
EPS growth (%)	7.6	13.5	0.2	8.8
DPS (sen)	9.0	11.0	12.0	12.0
PER (x)	6.7	5.9	5.9	5.4
BV/Share (RM)	1.7	1.9	2.1	2.4
ROE (%)	18.4	18.9	15.2	15.5
Div. Yield (%)	4.8	5.8	6.3	6.3

Sources: Company, Rakuten Trade Research

COMPANY	Definition
Buy	The stock return is expected to exceed the KLCI benchmark by more than 10% over the next 6-12 months.
Trading Buy	Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 10% over the next 3-6 months. Trading Buy is generally for investors who are willing to take on higher risks.
Take profit	The stock return previously recommended has gained by >10%
Hold	The stock return is expected to be in line with the KLCI benchmark (+/- 5%) over the next 6-12 months.
Sell	The stock return is expected to underperform the KLCI benchmark by more than 10% over the next 6-12 months.
SECTOR	
Overweight	Industry expected to outperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Neutral	Industry expected to perform in-line with the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Underweight	Industry expected to underperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.

Scoring model:
The in-house scoring model is derived from Rakuten Trade Research valuation matrix based on earnings growth, earnings visibility, business model, valuation, balance sheet, technical analysis, and shareholder value creation. Each parameter is given a specific weighting.

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