Investment Idea

RCE Capital Bhd

Interesting value proposition

BUY

Price: **RM1.66**
Target price: **RM1.95**

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We continue to recommend RCE Capital Bhd ("RCE") as its valuation is deemed attractive coupled with its defensive nature with anticipated dividend yield of ~6%. Current P/BV ratio of 0.91x is below its 3-year average of P/BV 1.06x. Maintain BUY with target price of RM1.95, based on 1.06x FY20 P/BV, implying a 6.7x FY20 PER.

To recap, RCE is a provider of personal loans financing predominantly to civil servants. The group is ultimately owned by Tan Sri Azman Hashim from his interests in Cempaka Empayar Sdn Bhd. Loan repayments from the civil servants are done via a salary deduction scheme thereby minimising default rate. RCE serves close to 80,000 customers and we believe there is still ample room for growth as its market share is only 5% of the 1.6m civil servants in Malaysia.

Key competitive edge of RCE over its peers is swift disbursements within 48 hours, which is one of the fastest in the market supported by approximately 20 marketing representatives. Average loan size is approximately RM16,600 with maximum loan tenure of 10 years. Loans growth is steady with CAGR of 10% in the past 5 years.

Expansion of quality loans remains the priority of the group complemented by regular review of credit practices and credit scoring models. Asset quality enhancement can be shown by the improvement in Gross impaired loans ratio of 13.7% in FY13 compared with 7.4% in FY19. Non-performing loans ratio is at a healthy rate of ~4%. RCE enjoys a sturdy net interest margin of ~8% vis-à-vis the banking sector of 2.3%. Loan loss coverage of ~170% is much higher than the banking industry demonstrating stringent credit risk management.

RCE has over the years managed to consistently enhance its borrowing mix towards cheaper cost of funds. The newly established RM2bn Sukuk programme of which the first three tranches were issued at a lower weighted average profit rate compared with previous RM900m Sukuk programme.

RCE has a stable dividend payout ratio ranging from 20%-40%. Gearing ratio of 1.8x is manageable and lower than its closest peers' average of 4.3x. Trading at a discount to its 3-year P/BV plus decent dividend yield, RCE is indeed an interesting value proposition.

Technically Speaking

Resistance level	RM1.74
Support level	RM1.52

Source: Thomson Reuters

KLCI	1542.9
YTD KLCI change	-2.8%
YTD stock price change	+0.6%

Stock Information

Market Cap (RM'm)	581.4
Issued Shares (m)	350.3
52-week range (H)	1.81
52-week range (L)	1.52

Major Shareholders

Cempaka Empayar Sdn Bhd	54.4%
Employee Provident Fund Board	2.5%

Summary Earnings Table

FY Mar (RM'm)	2018A	2019A	2020F	2021F
Revenue	245.9	262.6	278.3	297.8
Net interest income	144.2	156.2	166.1	179.8
Pretax profit	117.4	131.1	136.4	145.9
Net profit	**88.7**	**95.5**	**101.3**	**107.8**
Consensus	-	-	99.0	107.7
EPS (sen)	26.0	28.0	29.1	30.9
EPS growth (%)	8.8	7.6	3.7	6.4
DPS (sen)	7.0	9.0	9.0	9.5
PER (x)	6.4	5.9	5.7	5.4
BV/Share (RM)	1.5	1.7	1.8	2.0
ROE (%)	17.1	18.4	17.4	16.0
Div. Yield (%)	4.2	5.4	5.4	5.7

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.

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