23 Aug 2018

Buy

Price
RM1.63

Target Price
RM1.85

Bloomberg code
RCE MK

Equity | Malaysia | Non-Bank Financials

Flashnote

RCE Capital Bhd

1Q19 results in line

Financial Highlights

FYE to March (RMm)	2016	2017	2018	2019F	2020F
Operating income	126.4	171.7	188.3	202.1	212.1
Net profit	39.6	79.0	88.7	90.5	94.9
EPS (sen)	11.6	23.1	25.9	26.5	27.8
EPS growth (%)	9.3	99.5	12.3	2.1	4.9
Net DPS (sen)	14.0	3.0	7.0	7.1	7.5
Net yield (%)	8.6	1.9	4.3	4.4	4.6
PER (x)	14.1	7.1	6.3	6.2	5.9
PB (x)	1.2	1.3	1.1	1.0	1.0
ROE (%)	7.7	17.6	18.5	16.9	16.8

Source: Company, KAF

- We reiterate our Buy recommendation on RCE Capital (RCE) with an unchanged target price of RM1.85 based on our GGM valuation.
- RCE recorded a net profit of RM23m in 1Q19, +11% yoy, making up 26% of our full-year net profit forecast of RM91m for FY19F. We maintain our full-year net profit forecast of RM91m for FY19F.
- No dividend was declared in 1Q18. RCE has a dividend policy with the payout ratio in the range of 20-40% of its net profit. We estimate DPS to be 7.1 sen for FY19F as we assume the same payout ratio of 27% in FY18.
- The group reported 13% yoy operating income growth in 3M18, exceeding 10% full-year growth in FY18. The income growth is mainly due to income growth in the consumer financing (CF) segment.
- The growth of its operating income is ahead of the organic growth in its receivables (8% yoy). The management has stated that it will maintain its cautious stance in the current environment of economic uncertainties and digital transformation. It is focusing on ensuring quality growth in its loans and receivables and believes RCE will be able to sustain or improve its financial performance in FY19. All things considered, we expect its receivables to grow in the range of 5-7% in FY19-20F.
- RCE's annualised lending yield stood at 16.5% (1Q18: 16.1%) while its annualised funding cost stood at 5.5% (1Q18: 5.6%). Consequently, its annualised lending spread stood at 11.0% (1Q18: 10.5%). Despite the improvement in its lending spread, we forecast the spread to contract going forward due to higher funding costs from the overnight policy rate (OPR) hike earlier this year.
- RCE's NPL ratio stood at 4.2%. This is slightly higher against the previous quarter where the NPL ratio was at 4.1%. The slight uptick in the NPL ratio is due the slight declined in asset quality. Its NPL grew c.4% QoQ while its receivables remained flattish.
- RCE's average cost-to-income (CTI) ratio stood at 22.6%, +2ppts yoy. Higher average CTI was a result of higher OPEX by 25% yoy, while the NIM only improved by 12% yoy.
- RCE's coverage ratio stood at 184.7%. This is higher by c.7ppts as compared with the previous quarter. This is expected as the management practices stringent risk management and prudent provisioning policy. The coverage ratio is much higher compared with banks. Banks' coverage ratio stood at 93.8% in June 2018. We believe that its high coverage ratio is justified as consumer financing is unsecured in nature with no collateral.

Analyst

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Table 1: Quarterly trends

Year to 31 March	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	% chg		Cumulative			KAF	
RM m	**4Q17**	**1Q18**	**2Q18**	**3Q18**	**4Q18**	**1Q19**	**qoq**	**yoy**	**3M18**	**3M19**	**% chg**	**2019F**	**3M/F**
Interest and fee income	57	57	62	64	63	63	0%	11%	57	63	11%	268	24%
Interest expense	(12)	(17)	(17)	(17)	(18)	(19)	4%	7%	(17)	(19)	7%	(78)	24%
Net interest and fee income	**45**	**40**	**45**	**47**	**45**	**45**	**-1%**	**12%**	**40**	**45**	**12%**	**190**	**24%**
Non-interest income	2	3	4	2	3	4	20%	27%	3	4	27%	12	29%
Operating income	**47**	**43**	**49**	**49**	**48**	**48**	**0%**	**13%**	**43**	**48**	**13%**	**202**	**24%**
Operating expenses	(11)	(9)	(12)	(10)	(11)	(11)	3%	25%	(9)	(11)	25%	(44)	25%
Underlying profit	**36**	**34**	**37**	**38**	**38**	**37**	**-1%**	**10%**	**34**	**37**	**10%**	**158**	**24%**
Provisions	(7)	(6)	(7)	(8)	(8)	(6)	-18%	-3%	(6)	(6)	-3%	(38)	17%
Exceptionals	0	0	0	0	0	0	nm	nm	0	0	na	na	na
Pre-tax profit	**29**	**27**	**30**	**30**	**30**	**31**	**3%**	**14%**	**27**	**31**	**14%**	**120**	**26%**
Taxation	(8)	(6)	(8)	(7)	(7)	(8)	12%	23%	(6)	(8)	23%	(29)	27%
Net profit	**21**	**21**	**22**	**23**	**23**	**23**	**1%**	**11%**	**21**	**23**	**11%**	**91**	**26%**

Source: Company, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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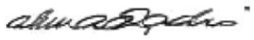

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