

RCE Capital Berhad

Simple but Effective

By The Kenanga Research Team | research@kenanga.com.my

	Rating	Fair Value
Last Price	-	RM1.31
Kenanga	Trading Buy	RM1.50
Consensus	Buy	RM1.60

INVESTMENT MERIT

RCE Capital a wholly-owned subsidiary of AMCORP and its primary business is involved in personal financing via salary deductions from civil servants. Both its net earnings margins and financing growth have been seeing double-digit since 2015. Although we are projecting a conservative FY17E-FY18E earnings forecasts of RM45.6m (+15.2%) - RM49.8m (+9.3%), we find the stock undervalued and recommend a TRADING BUY with a Target Price of RM1.50 (+14% upside) based on a 10.0x FY18E PER.

RCE Capital Berhad (RCECAP) is a wholly-owned subsidiary of AMCORP via Cempaka Empayar Sdn. Bhd. with the ultimate shareholder being Tan Sri Azman Hashim with a 63.1% stake in the group via Cempaka Empayar. Currently, its main operations are personal financing (core business), collection management and commercial financing. Personal financing business is catered to public sector employees only via salary deduction.

A simple business model; loans are channelled via its subsidiary RCE Marketing Sdn Bhd which are then disbursed to various Co-Operatives & Foundations which in turn lend to their end-borrowers (government employees) via personal loan scheme with direct salary deduction. Salary deduction collections are made via Angkasa (Angkatan Koperasi Kebangsaan Malaysia) and RCECAP's wholly owned subsidiary EXP Payment Sdn. Bhd., which provides an alternative solution as a centralized collections agency.

Funding issue addressed with longer-term debts. Funding for its loans is via the debt capital market which since 2007 have been addressed with longer tenure debts. In June 2016, RCECAP issued a 10-year Sukuk (a multiple-tranche issue) of RM900m with a tenure of 10 years (as personal financing has been limited to 10 years) and a semi-annual payment of 5%-7% (for Tranche 1). Tranche 1 consists of RM156m with Tranche 2 (RM181m) expected to be issued by Oct 2016.

Spectacular profitability. Average net earnings margins of 22% (2012-2016) on the back of high NIMs of 9% and low CIR of 22%. However, earnings CAGR (2012-2016) has been in negative territory (-21%) due to high credit charge ratio (average 12%) and declining financing growth from 2012-2014 (-9%/-6%/-1%) attributed to temporary ceasing of disbursement of loans from one of its borrowers and tighter restriction of borrowings imposed by Bank Negara Malaysia (BNM) on personal financing. Since 2015, financing growth has returned back in mid-teens (with credit charge averaging 7.5%) translated into a 3-year earnings CAGR of almost 60%, as competitors shifting focus from personal financing coupled with RCECAP's marketing flexibility & fast approval, which saw loans growing by double digits for FY15/FY16 (+15%/+17%).

TRADING BUY; Target Price of RM1.50. We are projecting RM45.4m/RM49.3m net profits for FY17E/FY18E with key earnings assumptions being; (i) three-year loans CAGR of 12% anchored by a ceiling limit of loans at 4X total equity (or 25% of CAR of AEONCR) which theoretically speaking allows RCE to take up loan of up to RM1.8bn (vs RM1.26bn in FY16), (ii) NIMs of 8.5%/8.4% (FY16: 8.9%), (iii) CIR of 23%/22% (FY16: 24%), and (iv) credit charge of 7% for both FY17/FY18 (vs. FY16: 8%). Even conservative in our forecasts, we believe its valuation is still cheap. The stock is traded at 9.0x/8.2x to FY17E/FY18E EPS. Besides, assuming a 40% pay-out ratio, the stock will generate 4.1%/4.5% dividend yield for FY17E/FY18E. As the ROE is expected to improve from <8% in FY13-FY16 to ~10% in the next 2-3 years, we believe the stock should be re-rated. Pegging to a 10x PER against FY18E EPS, **the stock should be valued at RM1.50 vs. current price of RM1.33 (3%-13% upside) and consensus target price of RM1.60.**

Stock Information

Shariah Compliant	No
Stock Name	RCE CAPITAL BHD
CAT Code	9296
Industry	Specialty Finance
Industry Sub-sector	Consumer Finance
YTD stock price chg	3.3%
Market Cap (RM m)	416.95
Issued shares (m)	330.91
52-week range (Hi)	1.27
52-week range (Lw)	0.69
3-mth avg daily vol:	2,147,518.0
Free Float	35.6%
Beta	0.8
Altman's Z-score	0.2

Major Shareholders

CEMPAKA EMPAYAR SDN	62.6%
CHEAM HENG MING	1.1%
YAP PHAIK KWAI	0.8%

Financials

FYE Mar (RM'm)	2016A	2017E	2018E
Revenue	162.39	190.00	214.56
EBIT	85.05	92.62	102.13
Net Profit (NP)	39.57	45.58	49.83
EPS (sen)	12.17	14.75	15.03
BV/Share (RM)	1.40	1.46	1.55
PER	10.2	9.0	8.2
Price/BV (x)	0.9	0.8	0.8
Net Gearing (x)	0.56	0.57	0.57
NDPS (sen)	13.98	5.50	6.01
Dividend Yield (%)	11.3%	4.4%	4.8%

Quarterly Financial Data

	3Q16	4Q16	1Q17
Revenue	41.55	44.30	51.94
Rev Growth (QoQ)	6.4%	6.6%	17.2%
EBIT	16.84	11.10	23.43
OP Margin	40.5%	25.1%	45.1%
Net Profit (NP)	13.00	6.92	17.53
EPS* (sen)	1.01	0.53	5.40
EPS Growth (QoQ)	26.3%	-47.5%	918.9%

Peers Comparisons

	PER (fwd)	Div. Yld (%)	Mkt Cap (RM'm)
AEON CREDIT SER	8.7	4.08	2099.5
FBMSC	7.1	3.3	87.8b
* Index Level			

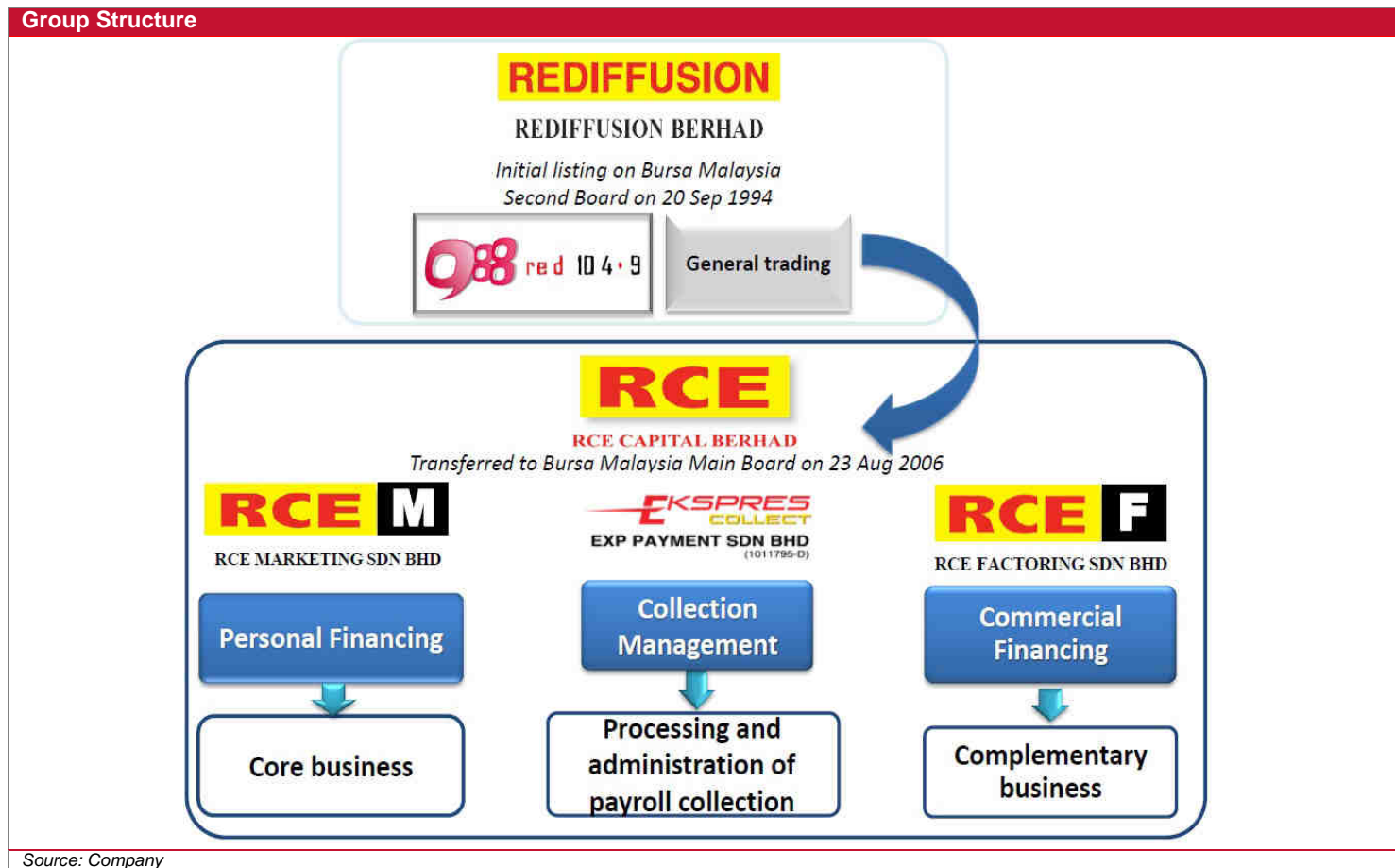
Other salient points:

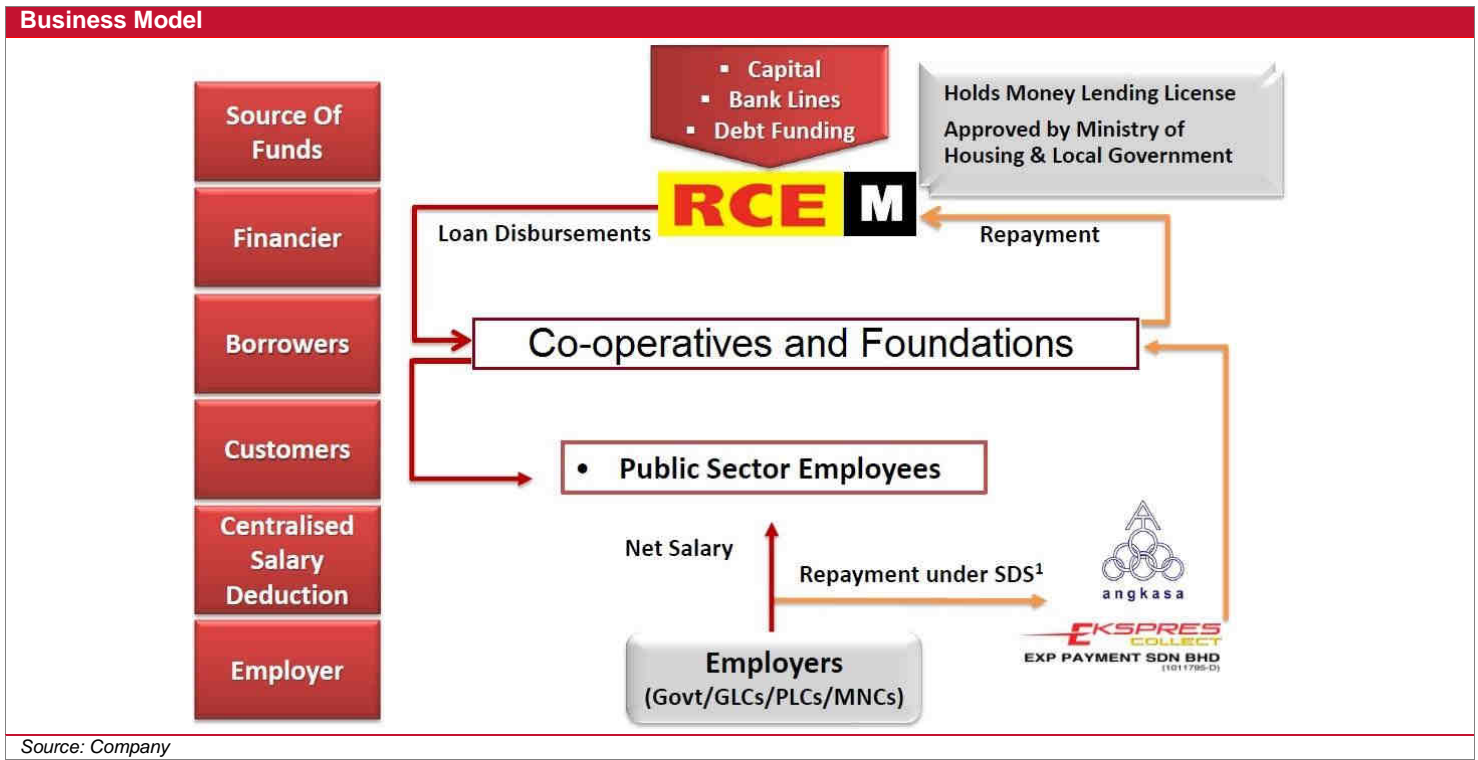
Four Cooperatives and Foundations for loan disbursements. RCECAP are in partners with; (i) Koperasi Belia Nasional Berhad (KOBANA), (ii) Koperasi Sejati Berhad (KSB), (iii) Yayasan Ihsan Rakyat (IHSAN), and (iv) Yayasan Dewan Perniagaan Melayu Perlis which provide financing services to their members who are in the civil service.

Collection done via ANGKASA and EXP Payment Sdn Bhd. ANGKASA (Angkatan Koperasi Kebangsaan Malaysia Berhad) is a apex organization or centralized organization agency for Cooperatives in Malaysia and provides salary deduction services for Cooperatives members through its service bureau BPA (Biro Perkhidmatan Angkasa). EXP is a wholly-owned subsidiary of RCECAP providing an alternative and faster service as a centralised collections agency. Both ANGKASA and EXP process monthly loan repayments via Salary Deduction Scheme with salary deductions not exceeding 60% of the individual's gross salary plus fixed allowances. EXP currently interfaces with 34 accounting offices with additional 15 to be added by 2017. The expediency of EXP is due to the fact that collections are channelled directly to it while collection are via the various cooperatives/foundations before reaching ANGKASA.

Longer funding for a shorter lending tenure. RCECAP issued asset-backed securities amounting to RM1.5bn in 2007 which have been fully redeemed. In June 2016, RCECAP issued its SUKUK Murabahah Asset-Backed Securitization Programme via AL Dzahab Assets Bhd which is a 10-year Sukuk of RM900m in multiple tranches with a semi-annual payment of 5-7% (for Tranche 1). Tranche 1 consist of RM156m with Tranche 2 (RM181m) and is expected to be issued by Oct 2016. Since imposition by BNM in 2013, maximum tenure for personal financing is limited to under 10 years. RCECAP's loan tenure is around 7-8 years (vs. > 15 years prior to 2013).

Lower Risk through large customer base. Since 2015, average loans size have been around RM15k with an average yearly outstanding accounts of RM72m. Prior to that (2012-2015) outstanding accounts were in average of RM51m/yearly with loan size of RM30k.





Source: Company

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Daily Charting – RCE CAPITAL BERHAD



Comment: RCECAP is currently forming a 'Rising Wedge' chart pattern, as it set a higher high climb over the past 2-months. Supported by all its up trending key moving averages, the stock could look set to seek continue on its uptrend trajectory towards RM1.43 (R1) immediately after staging a breakout from its 'Rising Wedge' chart pattern. Further upside is expected towards RM1.52 (R2) and possibly RM1.60 (R3) next in the mid-term shall the R1 level is breached. Nonetheless, we do not discount any possibilities of a consolidation pullback given the overbought situation displayed by the RSI and Stochastic. Any technical breakdown below the RM1.22 (S2) level could see the stock declining towards RM1.15 (S1).

About the stock:

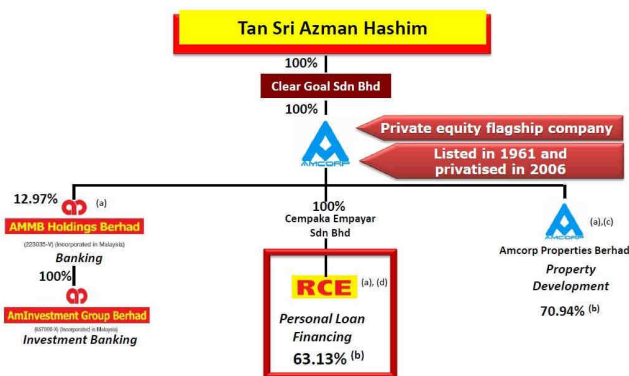
Name : RCE CAPITAL BERHAD
Bursa Code : RCECAP
CAT Code : 9296

Key Support & Resistance level

Resistance : RM1.43 (R1) RM1.52 (R2) RM1.60 (R3)
 Support : RM1.30 (S1) RM1.22 (S2) RM1.15 (S3)
 Outlook : Bullish

Source: Kenanga Research

CORPORATE STRUCTURE



BUSINESS OVERVIEW

- RCE Capital Berhad is an investment holding company with core activities involving the provision of personal loans carried through via its wholly owned subsidiary RCE Marketing Sdn Bhd. It holds money lending license approved by the Ministry of Housing. The other operations of RCE Cap includes collection management and commercial financing.

BUSINESS SEGMENTS

- RCE Marketing carries out its core business (personal financing) with an indirect wholly owned subsidiary EXP Payments Sdn Bhd acts as a processing & administration of payroll collection. Another wholly owned subsidiary RCE Factoring Sdn Bhd are involved in commercial financing.

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KENANGA INVESTMENT BANK BERHAD (15678-H)

8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: www.kenanga.com.my



Chan Ken Yew
Head of Research