RCE Capital Bhd (RCE MK)

Much room to grow

BUY

Share Price	MYR 1.21
12m Price Target	MYR 1.60 (+32%)

Initiating with a BUY, TP of MYR1.60

RCE Capital is principally involved in the provision of general financing services, the ultimate borrowers being government civil servants. With an estimated market share of the civil servant financing market of just about 1% currently, there is room to grow, especially amid sustained demand for personal loans. We find the shares attractively valued and initiate with a BUY and TP of MYR1.60 (+32% upside), based on a CY17F P/BV of 1.25x (ROAE: 14%).

Resuming its growth path

Having seen its loan book contract in FY11-14 due to increased competition and regulatory controls over personal financing, RCE Capital has spent the past few years restructuring, tightening credit controls, and improving its capital structure. Asset quality is greatly improved, and financially, the group is on a much sounder footing to resume its growth path. With demand for personal financing holding up, we estimate loan growth to average 14% over the next three years.

Healthy earnings growth, superior returns

We project a 3-year net profit CAGR of 19%, backed by robust loan growth and higher commission income, mitigated in part by narrower margins and higher credit cost assumptions. We project RCE Capital's ROE to rise to 14.5% in FY18 from 7.7% in FY16. This compares favourably against sub-10% earnings growth and ROEs of 10% for the banking sector.

Valuations are attractive

The stock trades at a CY17 P/E of just 6.9x - an 18% discount to AEON Credit and a 39% discount to the banks, despite a higher 3-year net profit CAGR of 19% vs AEON Credit's 9.5% (consensus) and the banking sector's 5%. Undoubtedly a discount to the banks is warranted given that its business is riskier but we expect this valuation gap to narrow as the market slowly recognizes RCE Capital's strengthened asset position, improved earnings quality, stronger growth prospects and better returns.

FYE Mar (MYR m)	FY15A	FY16A	FY17E	FY18E	FY19E
Operating income	107	121	140	166	186
Pre-provision profit	65	80	101	123	140
Core net profit	36	40	54	62	67
Core EPS (MYR)	0.09	0.12	0.16	0.18	0.20
Core EPS growth (%)	748.3	35.9	27.3	15.1	8.7
Net DPS (MYR)	0.06	0.46	0.04	0.05	0.05
Core P/E (x)	13.3	9.8	7.7	6.7	6.2
P/BV (x)	0.7	0.9	1.0	0.9	0.8
Net dividend yield (%)	5.0	37.6	3.3	3.7	4.1
Book value (MYR)	1.70	1.34	1.17	1.31	1.46
ROAE (%)	6.0	7.7	12.5	14.5	14.2
ROAA (%)	2.8	2.8	3.1	3.0	2.9
Consensus net profit	-	-	na	na	na
MKE vs. Consensus (%)	-	-	na	na	na

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Company Description

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

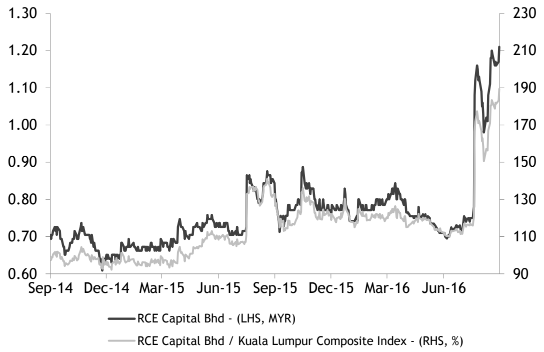
Statistics

52w high/low (MYR)	1.21/0.70
3m avg turnover (USDm)	0.5
Free float (%)	20.7
Issued shares (m)	347
Market capitalisation	MYR419.7M
	USD101M

Major shareholders:

Cempaka Empayar Sdn. Bhd.	60.2%
RCE Capital Bhd.	4.5%
Aras Kreatif Sdn. Bhd.	4.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	8	70	42
Relative to index (%)	10	69	43

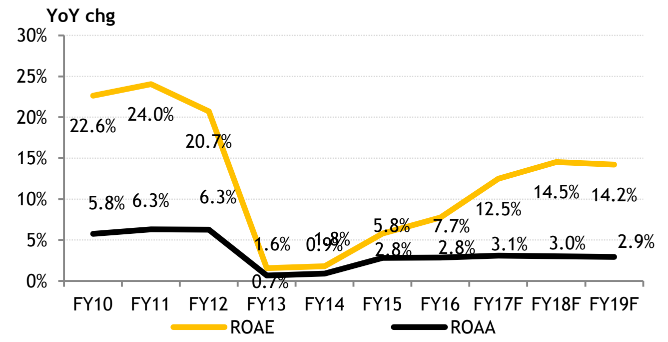
Source: FactSet

SEE PAGE 31 FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

Value Proposition

- RCE Capital is principally involved in the provision of personal financing, the ultimate borrowers being civil servants.
- With a loan portfolio of just MYR1.4b in size, its market share among its personal finance market peers is estimated to be just about 1%, providing much room for growth.
- With decent earnings growth, we forecast RCE Capital's ROEs will rise and surpass that of the average for the overall banking industry.

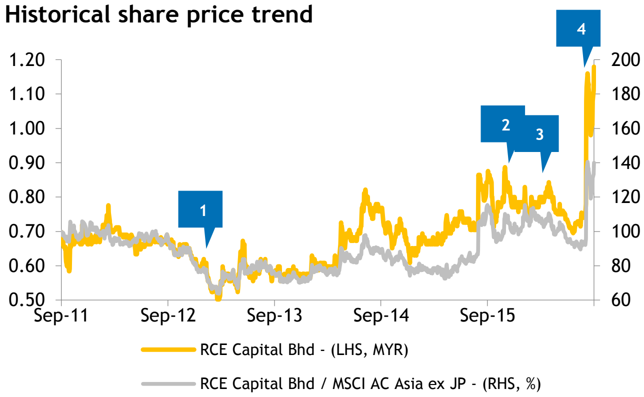
ROAE and ROAA trends



Source: Maybank KE

Price Drivers

Historical share price trend



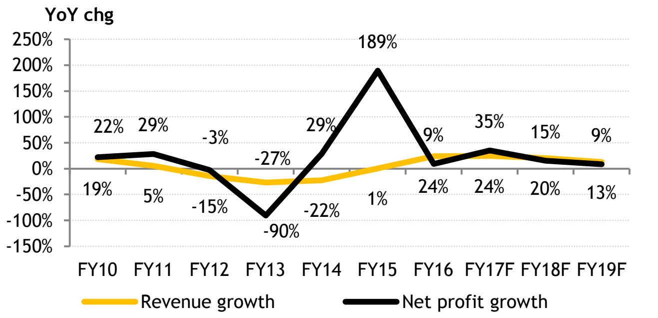
Source: Maybank KE

1. BNM imposed a 10-year tenure cap on personal financing and a debt service ratio of 60%.
2. Proposed a special interim DPS of 10.5sen.
3. Proposed a capital repayment of MYR0.075 for each ordinary share of MYR0.10 and a 4-into-1 share consolidation.
4. Strong 1QFY17 results – revenue rose 39% YoY, while net profit jumped 86% YoY.

Financial Metrics

- Having introduced a more comprehensive credit scoring model in 2013, the company is once again on a growth path, with loan growth expected to average 14% YoY over the next 3 years.
- With proper credit controls in place, asset quality is much stronger than before, with newer loans that are smaller in size and NPL ratios that are less than 2%.
- As it is not a deposit-taking institution, RCE Capital will have to leverage up to support business growth, but we do expect gearing levels to remain manageable.
- Looking forward, we project a 3-year revenue and net profit CAGR of 19% respectively.

Revenue and profit growth trends recovering from FY13



Source: Maybank KE

Swing Factors

Upside

- Growth in the Government workforce and ongoing financial support from the Government are factors that will continue to support personal loan demand.
- Competitors have eased off their lending activity, thus providing more room for RCE Capital to gain market share.
- Lower interest rates could enhance margins if funding costs can decrease.

Downside

- Rising household debt could crimp repayment ability.
- RCE Capital does not have access to CCRIS just yet, which makes the assessment of a borrower's total indebtedness difficult.
- MFRS9 takes effect from Jan 2018 and could result in higher credit cost moving forward.
- Asset-liability duration mismatch may be a funding concern if there is a liquidity crunch.
- Without deposit-taking capabilities, RCE Capital will have to leverage up for growth.

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Investment summary

Potential beneficiary of upcoming Budget

The size of the civil service has expanded at an annual rate of about 7% over the past four years to about 1.6 million currently, while the Federal Government's emoluments to the civil service have steadily grown at a CAGR of 10% over the past 15 years. Budget 2016 saw much financial support being provided to civil servants. With talks of an early General Election in 2017, Budget 2017 could be just as generous, and this could further spur civil service financing demand.

The potential to gain market share

Since the imposition in 2013 of tighter controls over personal financing by Bank Negara Malaysia (BNM) (e.g. a 10-year cap of loan tenures and a debt service ratio of 60%), key players in this market, such as Bank Rakyat, Bank Simpanan Nasional, and Malaysia Building Society (MBS MK, Not Rated) have seen loan growth taper off over the past 2-3 years. With a loan book of just MYR1.4b in size at end-Mar 2016, RCE Capital's market share of financing civil servants is estimated to be just about 1%. There is scope and room for the group to grow its market share, especially since some of its peers have shifted focus away from the personal financing space.

Learning from the past

RCE Capital has been profitable throughout the past 10 years, but earnings took a dive in FY13/14 when the imposition of tighter regulations forced it to make sizeable provisions against its loan book. But it was during this period that it also decided to strengthen asset quality with the introduction of a credit scoring system. Today, loans extended are more manageable in size and shorter in tenure, while asset quality has significantly improved. This clean-up has essentially put the group on a stronger footing for growth in the coming years.

Gearing levels are still manageable

Being a non-deposit taking institution, we expect RCE Capital to leverage up to support business growth. We project its net gearing to rise to about 2.9x as at end-Mar 2019 from 1.9x end-Mar 2016. This is still manageable, in our view, in contrast to AEON Credit's net gearing ratio of 4.6x at end-Feb 2016. That the group has started issuing long-term debt to finance its personal loans, which currently average about 7-8 years in tenure for new loans, is positive in terms of balancing the present asset-liability duration mismatch in its books.

Decent earnings growth, robust returns

We project a 3-year (FY16-19) revenue and net profit CAGR of 19% respectively, backed by robust loan growth and higher commission income, mitigated in part by higher credit cost assumptions. We project RCE Capital's ROEs to rise to 14.2% in FY19 from 7.7% in FY16, with average ROAs of 3%. This compares favourably against the sub-10% earnings growth and estimated ROEs/ROAs of just 10% and 1%, respectively for the banking industry.

Several risk factors to consider

One of the key risks is that RCE Capital does not have access to CCRIS and cannot therefore fully assess the total indebtedness level of its borrowers. The other risk is the rise in living costs and household debt, which could crimp borrowers' repayment capabilities and contribute to asset quality issues.

Background and group structure

RCE Capital was incorporated as Leong Tian Tin Mines Ltd on 18 Dec 1953. Its name was changed to Rediffusion Bhd on 25 Sept 1993, and to RCE Capital on 9 Oct 2003. It was listed on the Second Board of Bursa Securities on 20 Sept 1994, and was subsequently transferred to the Main Board on 23 Aug 2006.

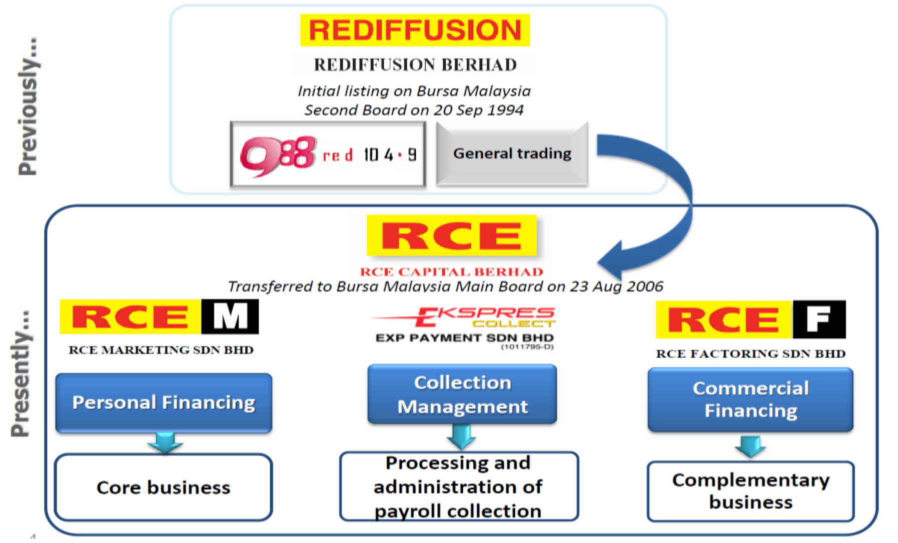
In early-2007, RCE Capital acquired AMDB Factoring (renamed RCE Factoring), which provides credit factoring solutions. In Oct 2014, it acquired a 100% stake in Strategy Interaksi for MYR20,000. Strategy Interaksi fully owns EXP Payment Sdn Bhd, which is involved in the processing and administration of payroll collections.

As such, the group's principal activities today are generated out of three wholly-owned subsidiaries. These are: RCE Marketing Sdn Bhd (RCEM), which is involved in the provision of personal financing; EXP Payment Sdn Bhd, which is involved in the processing and administration of payroll collections; and RCE Factoring Sdn Bhd, which provides credit factoring solutions to commercial businesses.

Through EXP Payment, RCE Capital has started venturing into the field of salary collection, with its collection management system, which provides an alternative payment solution to Biro Perkhidmatan ANGKASA (ANGKASA's Service Bureau).

RCEM is the primary contributor to group earnings. EXP Payment is in its infancy stage while RCE Factoring made a small net loss of MYR1.8m in FY16 (against a group net profit of MYR39.6m).

Group structure

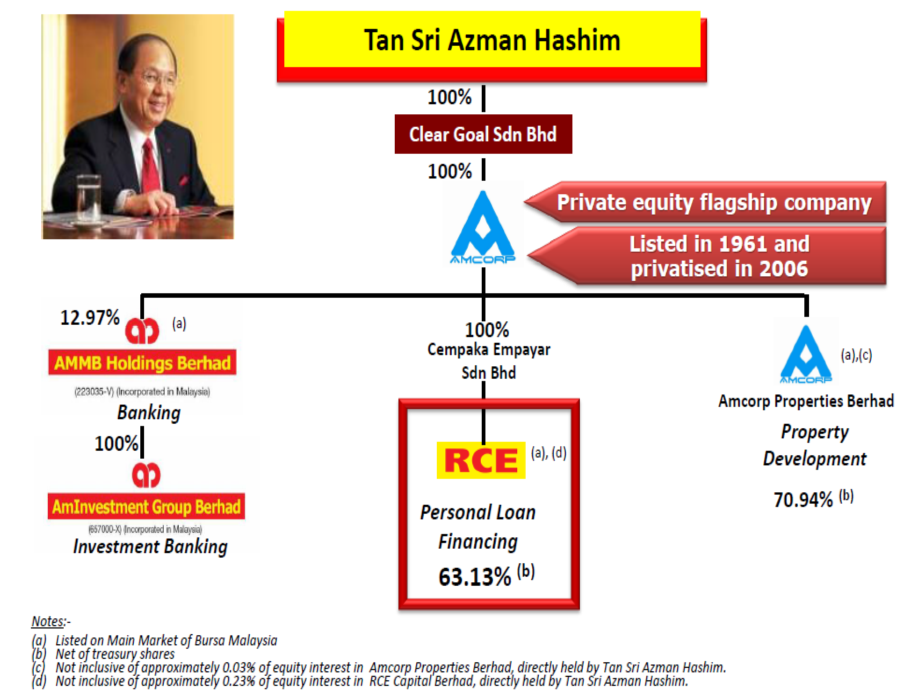


Source: Company

Shareholding structure

RCE Capital's ultimate shareholder is Tan Sri Azman Hashim, who holds an effective 63.13% stake (as at 31 Aug 2016) in the group via Cempaka Empayar, which in turn is 100% owned by Amcorp Group. Amcorp Group is his private equity flagship company that was listed in 1961, but privatised in 2006. Amcorp Group also holds a 12.97% stake in AMMB Holdings (AMM MK, HOLD) and a 70.94% stake in Amcorp Property Bhd, a property development company.

Group structure



Source: Company

The Board of Directors

RCE Capital's Board of Directors comprises seven members, including three Non-Independent Non-Executive Directors (including the Chairman) and four Independent Directors. The high proportion of Independent Directors, which make up more than half the Board, reflects the Board's commitment to maintain strong representation of Independent Directors to ensure that the interests of minority shareholders, and not only the interest of a particular fraction or group, are taken into account.

RCE Capital's Chairman is En Shahman Azman, aged 41, who is also Tan Sri Azman Hashim's son. After graduating from Chapman University, U.S.A. with a Bachelor of Communications, En Shahman joined Amcorp Group in 1996 and held various positions within the group before he was appointed to the RCE Board on 2 June 2008, and was later designated Non-Independent, Non-Executive Chairman on 1 Apr 2015.

RCE Capital's CEO is Mr Loh Kam Chuin, age 49, who was appointed to the position on 1 Mar 2010. Mr Loh holds a Bachelor of Business-Banking and Finance from the University of South Australia. Upon graduation in 1989, he joined Southern Bank Berhad in the Personal Banking Division. In 1995, he joined Fulcrum Capital, a wholly-owned subsidiary of Amcorp Group, as Manager, and was promoted to Senior Manager and later Associate Director of FCSB prior to joining RCE. In 2001, he was appointed Director of RCE Marketing, and since 2006, held the post of Executive Director, Corporate Affairs prior to his current appointment.

RCE Capital's business model

RCE Capital is principally involved in the provision of general financing services through RCEM and its business partners, and the ultimate borrowers are government civil servants.

Unlike typical financing arrangements, RCEM employs a unique distribution and collection mechanism. Under non-contractual arrangements that RCE has with various cooperatives and foundations, loans are channelled to these organizations for the purpose of lending to their end-borrowers who are government employees, via a personal loan scheme with direct salary deduction.

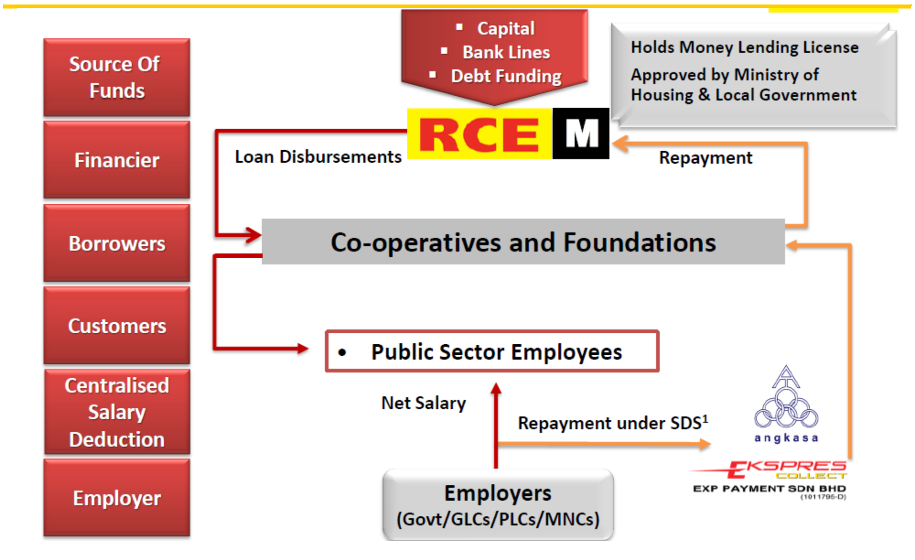
A point to note is that RCEM does not fall directly under the purview of Bank Negara Malaysia (BNM). It holds a money lending license under the Moneylenders Act, 1951, which is granted by the Ministry of Housing and Local Government. Under the new Financial Services Act, however, BNM's powers are wide-reaching and it could regulate RCEM, if need be. As it stands, RCEM does provide quarterly reports to BNM.

RCEM's business partners

Prior to 2011, RCEM had non-contractual arrangements with three main cooperatives, namely Koperasi Belia Nasional Bhd (KOBENA), Koperasi Sejati Bhd (KSB), and Koperasi Wawasan Pekerja-Pekerja Bhd (KOWAJA) to provide financing services to their members who are in the civil service.

In 2011, it ceased doing new business with the cooperatives and embarked on a new relationship with two new business partners (i.e. Yayasan Ihsan Rakyat (YIR) and Yayasan Dewan Perniagaan Melayu Perlis or YYP). In fact, collections over the past five years have mainly originated through YIR and YYP, which is still the case today.

RCEM's business model



Source: Company

Two main collection agents

Loans to the civil servants are typically repaid through non-discretionary monthly salary deductions, and these are processed by two main collection agents (i.e. Angkatan Koperasi Kebangsaan Malaysia (ANGKASA) and the Accountant General's Department or AG). Collections by ANGKASA/AG are deposited directly into trust accounts, to which RCEM has direct assignment over the money.

About ANGKASA

ANGKASA (National Co-operative Organisation of Malaysia), is the apex organisation for cooperatives in Malaysia. Its Board includes a representative from the Ministry of Entrepreneur and Co-operative Development and the Ministry of Finance.

In addition to fulfilling its specific objectives in the development of member co-operatives, ANGKASA also provides salary deduction services for its co-operative members, who are government employees, to pay their loans and to make other payments (e.g. insurance premiums and monthly subscriptions to their respective co-operatives).

The salary deduction scheme is done by: 1) liaising with employers of the members (i.e. the various government departments and agencies); 2) making monthly pay deductions from members' salaries; and 3) crediting these deductions to the co-operatives' accounts.

Source: www.angkasa.coop

Cooperatives in Malaysia

All cooperatives are legislated under the Cooperatives Act, 1993, and fall under the purview of Suruhanjaya Koperasi Malaysia (Cooperatives Commission Malaysia). There are various cooperative types – finance, housing, consumer, transport, farming, industrial, construction and services. The finance related cooperatives provide loans, mortgages, investment and insurance services to members, mainly salaried employees in the civil and private sectors.

As at June 2015, there were 12,493 cooperatives in Malaysia with a total membership of 7.42m of which 598 cooperatives with a total membership of 1.35m were involved in financing activities.

Source: Suruhanjaya Koperasi Malaysia

The underwriting process

The cooperatives and foundations employ marketing representatives who are tasked with sourcing for new borrowers among the civil servants. RCEM is responsible for hiring these marketing representatives and receives a fee from the cooperatives and foundations for services such as these. It was in May 2013 that RCEM introduced a more comprehensive credit assessment system. Coupled with more stringent lending criteria, RCEM's default experience has since improved significantly. Preliminary assessments of loan applications are conducted with an expected turnaround time of 48 hours.

However, **one major limitation at this stage is that RCEM does not have access to BNM's Central Credit Reference Information System (CCRIS)**, a database system that contains credit information of about nine million borrowers in Malaysia. This system, which is made available to financial institutions, is the most comprehensive database in the country of a borrower's total indebtedness. RCEM's application for access to BNM's CCRIS is in progress, but it does mean that at this point in time, the company cannot assess the full extent of a borrower's outstanding liabilities, especially if they have borrowings from other financial institutions in the country.

RCEM's main competitors

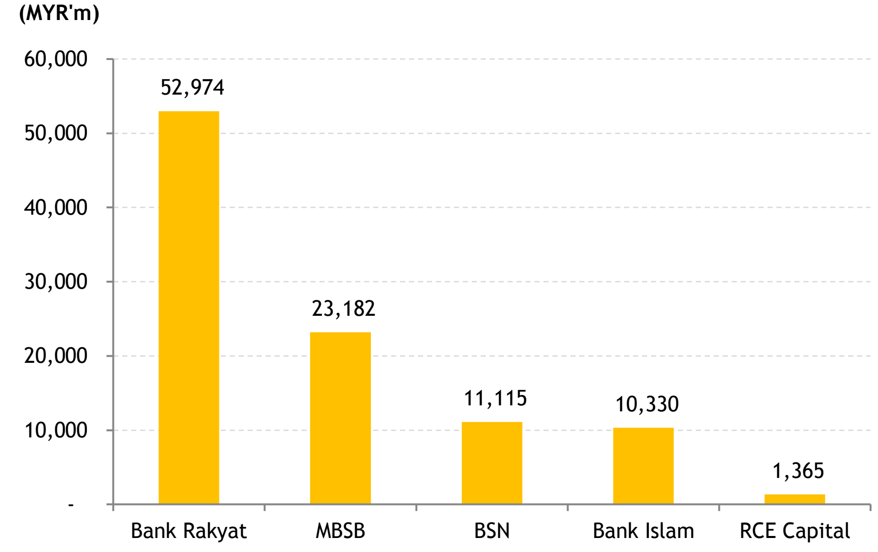
RCEM's main competitors in the personal lending to government civil servants space would be the Non-Bank Financial Institutions (NBFIs), such as Bank Kerjasama Rakyat Malaysia Bhd (Bank Rakyat), Malaysia Building Society (MBSB; MBS MK, Not Rated), Bank Simpanan Nasional (BSN) and Bank Islam (100%-owned by BIMB Holdings; BIMB MK, BUY). AEON Credit (ACRS MK, Not Rated), is a competitor too, but we estimate that civil servants make up just about 25% of its borrowers.

Other competitors would include some of the commercial banks as well as other cooperatives, such as Koperasi Wawasan Malaysia, Koperasi Pendidikan Usahawan and Koperasi Pendidikan Islam Malaysia, among others.

The likes of Bank Rakyat, MBSB, BSN and the cooperatives hold either the ANGKASA or AG code, and can therefore extend loans directly to civil servants. Commercial banks, meanwhile, may only, as in RCEM's case, provide financing to the cooperatives/foundations, which would then on-lend to civil servants.

The largest players in this space would be Bank Rakyat, MBSB, BSN and Bank Islam. As the chart below indicates, Bank Rakyat is by far the dominant player in the industry, with a total personal loan portfolio of MYR53b as at end-Dec 2015. Put into perspective, RCEM's total loans outstanding of MYR1.4b as at end-Mar 2016 is but a drop in the ocean, making up just 1.4% of the total personal loans extended by these five entities of MYR99b.

Personal loans outstanding (end-2015)

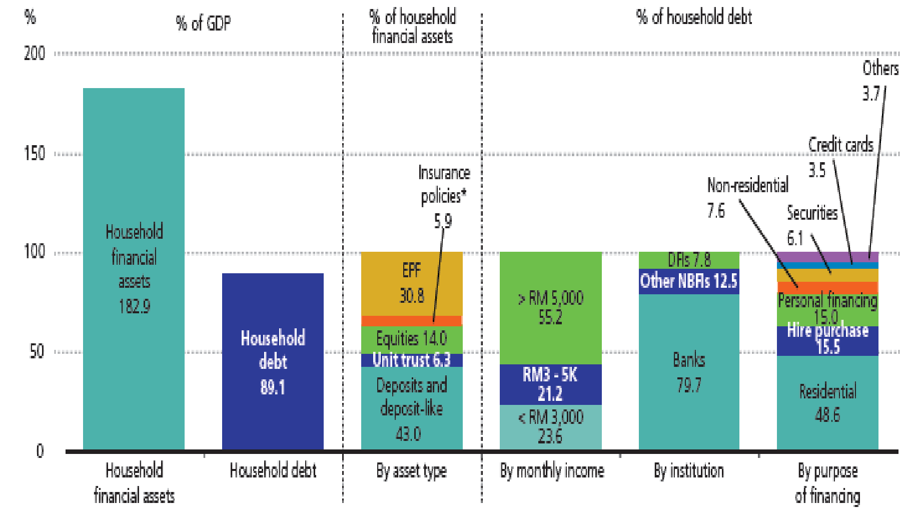


Source: Companies
Note: End-2014 for BSN, end-Mar 2016 for RCE Capital

Personal debt in Malaysia

Malaysia's household (HH) debt has been rising over time and amounted to MYR1.03tn as at end-2015. Breaking this down into its components, residential property loans accounted for the bulk at 48.6% of total HH debt, followed by hire purchase financing (15.5%) and personal financing (15%). This implies that personal financing totalled about MYR154b as at end-2015.

Household sector: Profile of borrowings and financial assets



Source: BNM Financial Stability & Payment Systems Report 2015

In a best effort basis to break personal lending down according to the primary lenders, the table below shows that the NBFIs account for the lion's share, with the banking system making up just 34.5% of total personal loans in the industry. Bank Rakyat's market share alone (34.3%), is almost as large as that of the entire banking industry's. In fact, RCEM would account for just about 0.9% of total personal household loans.

Personal financing by lender (as estimated by Maybank KE Research)

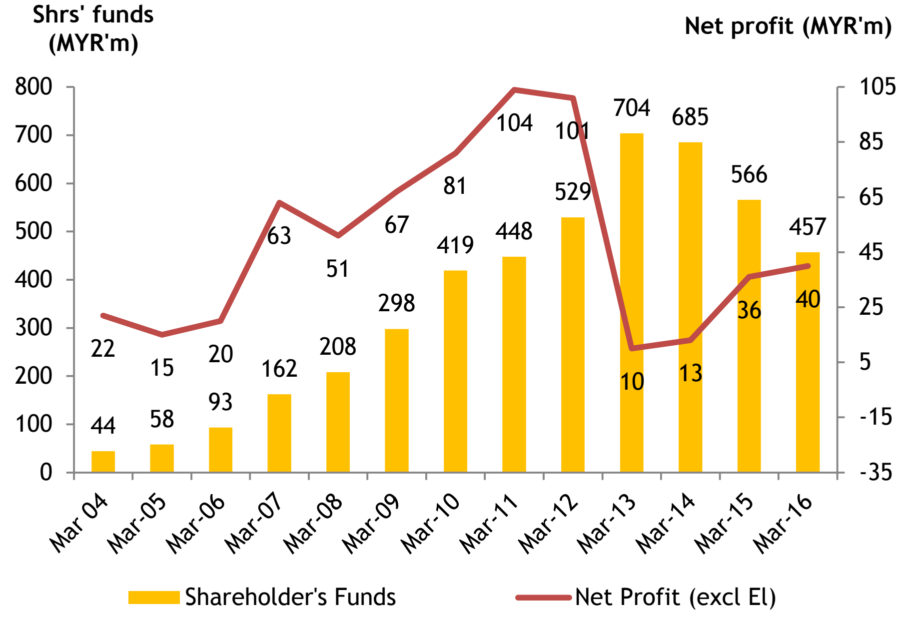
Entity	(MYR'm)	% of total	As at
Bkg sys ex Bk Islam	53,372	34.5%	31.12.15
Bank Rakyat	52,974	34.3%	31.12.15
MBSB	23,182	15.0%	31.12.15
BSN	11,115	7.2%	31.12.14
Bank Islam	10,330	6.7%	31.12.15
RCE	1,365	0.9%	31.3.16
AEON Credit	1,195	0.8%	28.2.16
Others	1,058	0.7%	
Total	**154,590**	**100%**	

Source: BNM, Companies, Maybank KE

RCE Capital's profit track record

Up to FY11, RCE Capital's earnings had expanded at a robust pace, with a 7-year CAGR (FY04-FY11) of 25%. This uptrend was halted in FY12 when its largest borrower, KOWAJA, had to temporarily cease the disbursement of loans. But the biggest negative impact stemmed from the imposition of personal lending caps in July 2013 by BNM. Coupled with having to set aside additional provisions against its loan book, RCE Capital's net profit plunged to just MYR10m in FY13 from MYR101m in FY12. It has been clawing its way back up the profitability ladder since then.

RCE Capital's net profit and shareholders' funds trend (FYE3/04 - FYE3/16)



Source: Company

Temporary setback in 2010....

Nov 2010 saw a temporary setback when KOWAJA, RCEM's largest borrower, announced that it had to momentarily cease the disbursement of loans from 1 Dec 2010, pending a complete endorsement from Suruhanjaya Koperasi Malaysia (SKM) that it was in full compliance with SKM's guidelines.

In June 2011, KOWAJA received approval from SKM to re-obtain funding from RCEM, subject to a limit of MYR300m. The approval, meanwhile, was subject to stringent operational and funding requirements, among others. The funding conditions comprised pricing caps, security/collateral restrictions and structuring limitations.

Given the seven-month hiatus, RCE Capital's loan portfolio contracted 10% in FY12 and 1% in FY13.

Tighter lending guidelines in 2013…

In 2009, MBSB burst aggressively into the personal financing space, with a 4-year CAGR (2008-2012) of 169%, and its personal loans portfolio ballooned from just MYR342m in 2008 to MYR17.8b by 2012. Competition among the players heated up and soon, institutions were extending personal loans of up to 20-25 years in tenure (as opposed to 5-7 years for loans extended by the commercial banks).

Concerned over the rise in household debt, which stood at 82.9% at end-Mar 2013, BNM announced several restrictions in July 2013 that included: 1) a maximum tenure of 10 years for personal financing and 35 years for residential and non-residential properties; and 2) prohibition of pre-approved personal financing products. We understand that it also encouraged banks and NBFIs to comply with a debt/service ratio (DSR) cap of 60% for urban borrowers with income of <MYR5k/month and sub-urban borrowers with income of <MYR3k/month. These curbs had the greatest impact on the businesses of the NBFIs, for with the DSR cap, a large segment of their would-be borrowers were no longer eligible for financing.

RCEM's loan book was marginally impacted, declining 2% in FY14, but the biggest impact was to its bottom line. A decision was made to revalue its receivables that were up to 25 years in duration, in light of the shorter tenure imposed by BNM. This resulted in higher provisions and a plunge in RCE Capital's net profit to just MYR10m in FY13 and MYR13m in FY14, from MYR101m in FY12.

RCE resumes growth path, others have seen a tapering

Since the imposition of the DSR and personal loan tenure caps in 2013, personal lending across the key players tapered off in the subsequent years. MBSB, for instance, saw its lending to this segment contract 1% YoY in 2015.

Bucking the trend is RCE. Not only has its loan portfolio expanded for the second consecutive year, after four consecutive years of contraction, but the pace has gathered momentum too, rising at a double-digit rate of 17% YoY in FY16 after the growth of 11% in FY15.

That RCE's loan base had contracted between FY11 and FY14 may be attributed in large part to (i) the aggressive refinancing of loans by borrowers, in favour of institutions that were offering much more attractive financing packages; as well as (ii) much lower financing activity post BNM's caps.

The resumption of growth at a double-digit pace is therefore a function of (i) RCEM's readiness to resume lending post the introduction of its credit scoring model, (ii) a lower loan base (total gross loans end-Mar 2016 of MYR1.36b was just 13% higher than RCE's end-Mar 2010 peak of MYR1.20b) and (iii) the shift away from personal financing by some of its competitors towards other areas such as home and commercial/corporate financing.

YoY personal loan growth since 2012 to 2015

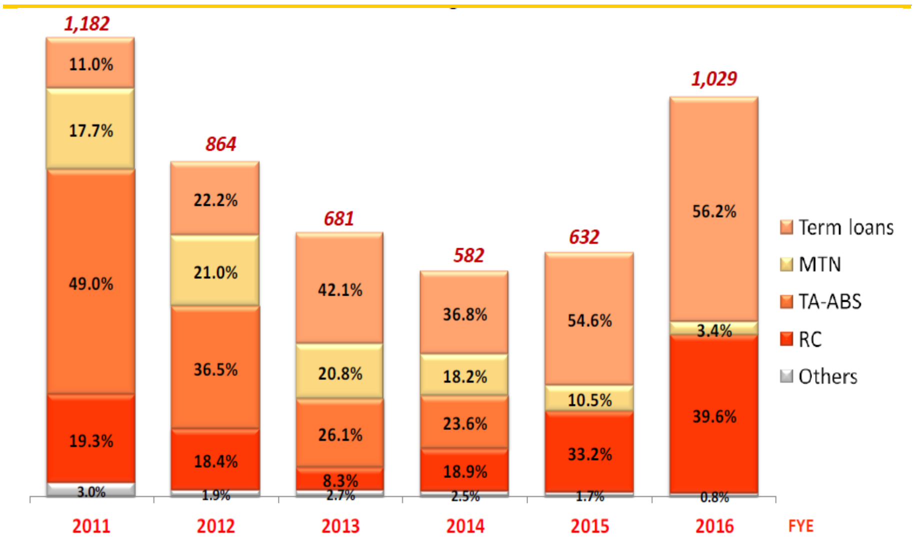
	Bk Rakyat	BSN	MBSB	Bk Islam	RCE
2012	15%	23%	104%	75%	-1%
2013	7%	17%	32%	26%	-2%
2014	8%	0%	0%	15%	11%
2015	5%	NA	-1%	8%	17%

Source: Companies; Data is from FYE3/09 to FYE3/16 for RCE

Relies on debt and equity for funding

RCE Capital is not a deposit-taking institution, which is why it does not fall directly under the ambit of BNM. It therefore relies heavily on the debt market for its funding needs, and borrowings have typically been in the form of Cagamas loans, term loans, and revolving credits.

Borrowings profile



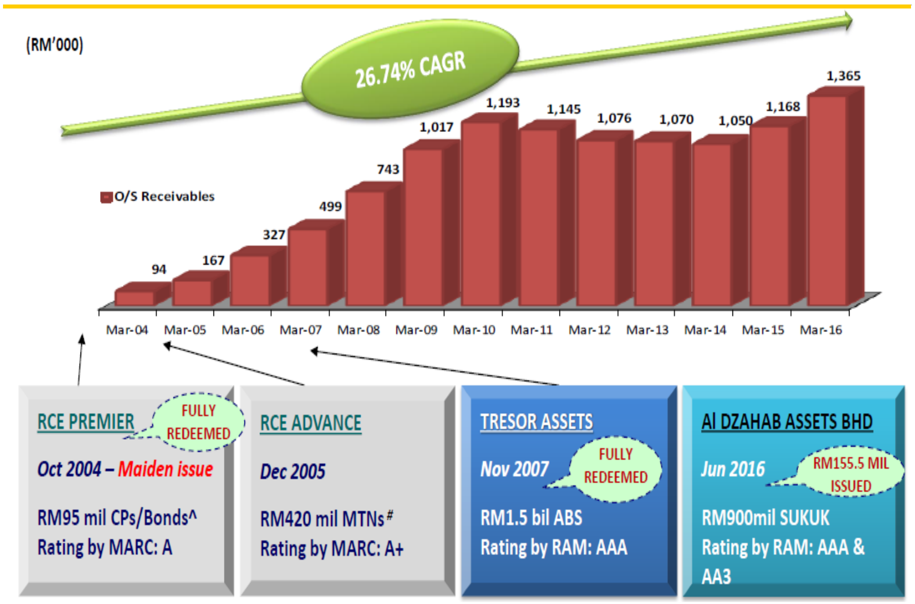
Source: Company

Issuing longer term papers

One of the issues with its funding profile is the short-term nature of debt that it had been taking on in the past which results in an asset-liability duration mismatch, especially since its entire personal loan portfolio averages about 17 years in duration. To remedy this in part, RCE Capital had issued asset-backed securities (known as Tresor Assets) back in 2007. These have since been fully redeemed and in June 2016, it launched its Sukuk Murabahah Asset-Backed Securitization Programme via Al Dzahab Assets Bhd.

The Al Dzahab facility is MYR900m in size and the first tranche of MYR156m, comprising a senior tranche (MYR120m) and sub-debt (MYR36m), was issued on 21 Jun 2016. The senior bonds are for a tenure of 8.5 years and have been rated AAA (Class A)/AA3 (Class B) by RAM Rating Services Bhd, reflecting the high over-collateralization level of the papers. The bonds are also ring-fenced against the loan receivables of the company and there is no recourse on the default of these loans back to RCE Capital. The profit rate of 5-7% is payable semi-annually. The second tranche of MYR181m is targeted to be issued by Oct 2016.

Issue of Tresor in 2007 and Al Dzahab in 2016



Source: Company

Rebalanced its equity

As part of its capital management strategy towards achieving a more efficient capital structure, while improving its ROEs, RCE Capital had:

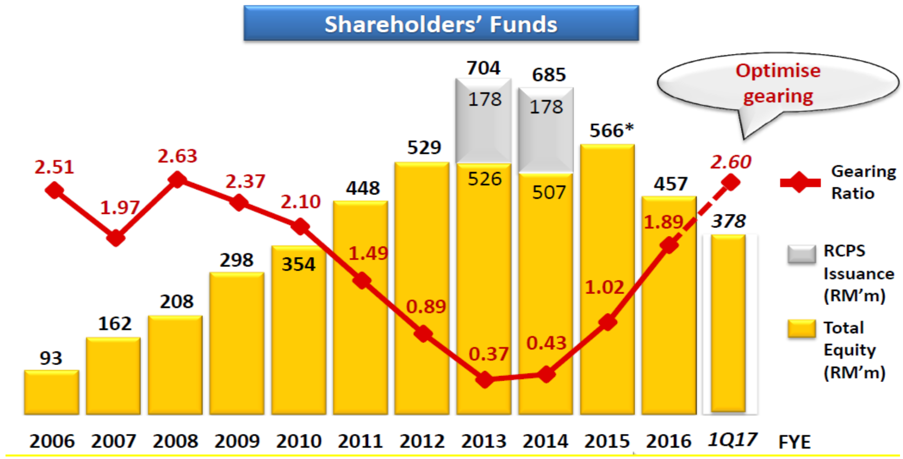
- As at end-2015, proposed a capital repayment of MYR0.075 for each ordinary share of MYR0.10 each, and a share consolidation of 4 shares of MYR0.025 each into 1 ordinary share of MYR0.10. The exercise was completed in May 2016;
- In FY16, proposed a special interim dividend of 10.5sen, alongside the final single-tier dividend of 3.5sen.

As a result, its shareholders funds declined to MYR378m end-Jun 2016 from MYR457m end-Mar 2016.

Gearing levels still manageable

As at the end-Jun 2016, RCE Capital's net gearing level was 2.6x, having risen from a low of 0.37x as at end—Mar 2013.

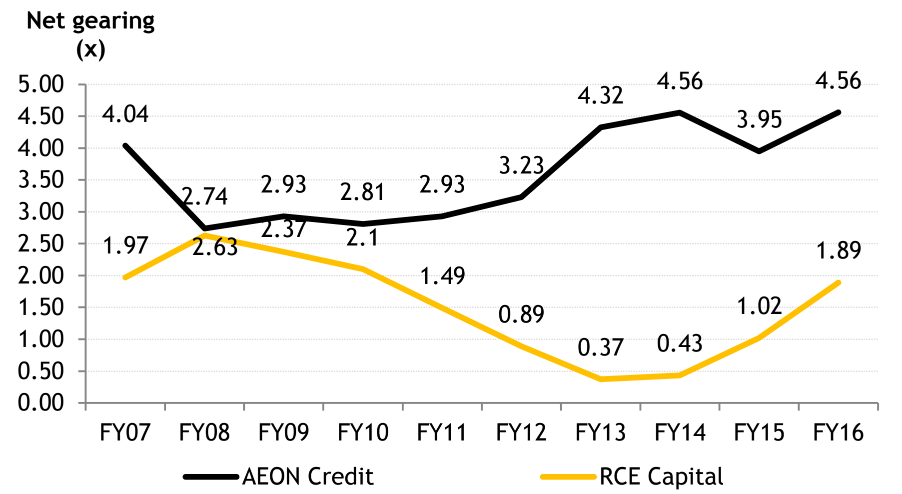
Net gearing ratio



Source: Company

Given that it has no access to deposits, gearing up comes as no surprise. In fact, this applies to the likes of AEON Credit as well, whose net gearing level as at end-Feb 2016 was 4.56x. There is, as such, room for RCE Capital to gear up further.

Net gearing ratio for AEON Credit and RCE Capital



Source: Maybank KE

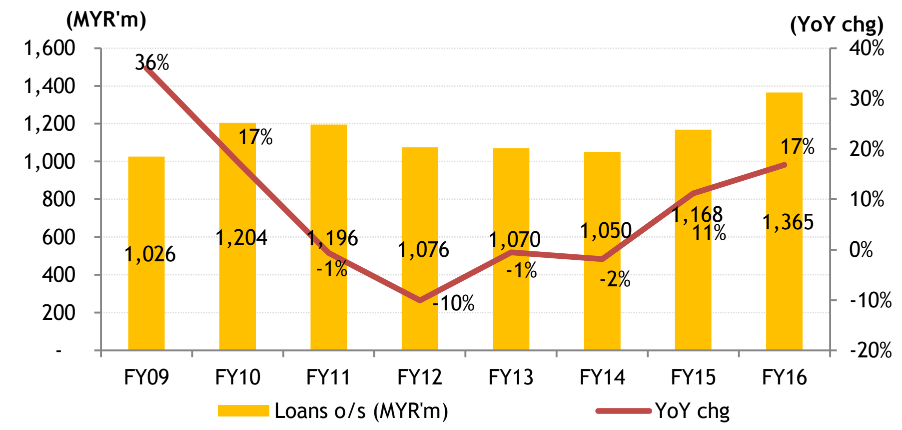
RCE Capital's loan profile

As mentioned earlier, RCEM's loan book, which contracted between FY11 and FY14, has started expanding again. The number of outstanding accounts, meanwhile, has expanded from 49.6k in FY13 to 82.4k in FY16, largely driven by ongoing demand for personal loans as well as the pullback by some of its competitors from this space, in their efforts to diversify their loan base.

Loans today are smaller in size and shorter in tenure

Loans disbursed prior to the imposition of personal lending caps by BNM in July 2013 were longer in tenure (15-17 years) and larger in size, averaging about MYR40k. Post July 2013, loan tenures now average just about 7-8 years and are smaller in ticket size at about MYR15k.

Outstanding loans and loan growth



Source: Company

Asset quality is also greatly improved…

As mentioned earlier, RCEM did not have a comprehensive credit assessment system in place prior to 2013. It was only in May 2013 that such a system was introduced, and coupled with more stringent lending criteria that adhere to the maximum tenure of 10 years and a DSR cap of 60%, asset quality has improved significantly ever since.

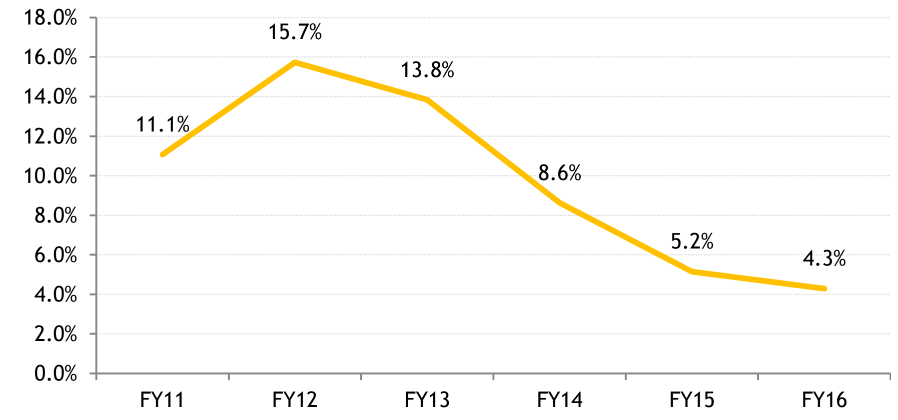
Although the salary deduction scheme provides much assurance of repayment, delinquency arises when a civil servant resigns, retires, transfers between agencies or is terminated.

A point to note is that it typically takes 2-3 months from loan disbursement for RCEM to receive the first salary deduction, due largely to the complexities of the Government machinery. It is thereafter that RCEM monitors the progress of such loans and classifies them as non-performing (NPLs) when they are three months in arrears, after taking into account the administrative delay. NPLs are assigned to licensed external debt collectors when RCEM exhausts all avenues of recovery.

RCEM's gross NPL ratio has improved over time and has since declined from 15.7% end-Mar 2012 to 4.3% end-Mar 2016. The ratio is skewed upwards by the pre-credit assessment book which carries an NPL ratio of 7-8%, but this book is gradually being wound down. The NPL ratio on loans post-credit assessment averages just under 2%.

According to RAM, RCEM's monthly collection rates in 2014 and 2015 averaged a healthy 99.57%, while the weighted average monthly net default rate is now just 0.11% of the original principal balance, against that of the Tresor Assets of 0.12%-0.23%.

Gross NPL ratio

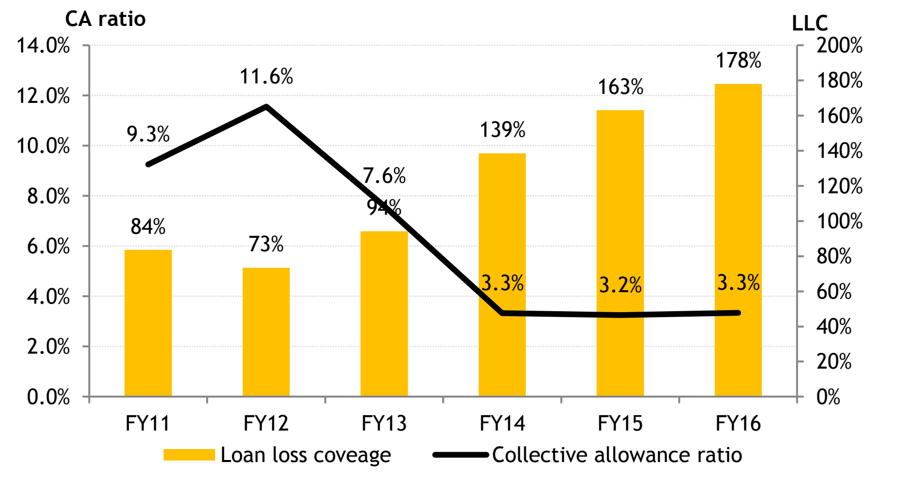


Source: Maybank KE

…while provision levels are comfortable

RCEM's collective allowance (CA) ratio currently averages about 3.3% and this compares against the minimum CA ratio of 1.2% set by BNM. Meanwhile, its loan loss coverage of 178% is healthy and compares favourably against the banking industry average of 89%.

Collective Allowance (CA) ratio and Loan Loss Coverage (LLC)



Source: Company

Key risk factors

Some of the key risk factors for RCE Capital are as follows:

High household debt

Household (HH) debt in Malaysia has been on the rise in the post-GFC period and as a percentage of GDP, the ratio has climbed from a low of 60.4% in 2008 to 89% in 2015. Amid higher living costs, there is concern that individuals, be they in the government or private sector, may be over-leveraged. As the younger members of the Government civil service search for alternative employment/ opportunities in hopes of higher salaries, the possibility of higher personal loan defaults increases.

Household debt ratios (%)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015p
HH debt (MYR'b)	395.5	422.9	465.2	510.8	594.2	694.2	782.3	877.6	960.2	1030.6
Chg in HH debt		*6.9%*	*10.0%*	*9.8%*	*16.3%*	*16.8%*	*12.7%*	*12.2%*	*9.4%*	*7.3%*
HH fin assets (MYR'b)	978	1160	1068	1226	1,400	1,520	1,712	1,905	2,018	2,116
HH debt/GDP	68.8	65.9	60.4	72.4	74.5	76.1	80.5	86.1	86.8	89.1
HH fin assets/HH debt	247.4	274.3	229.6	240.5	235.5	218.9	218.9	217.1	210.2	205.3
HH liquid fin assets/HH debt	151.7	175.3	141.5	168.1	166.9	154.7	156.3	155.7	147.9	142.0
Impaired loans ratio	7.1	5.3	4.1	3.1	2.3	1.8	1.5	1.3	1.2	1.1

Source: BNM Financial Stability & Payment Systems Report 2015; p = preliminary

No access to CCRIS just yet

As mentioned earlier, RCE Capital does not have access to CCRIS just yet. As such, estimates of a borrower's total debt obligations are currently on a best effort basis and the risk is that a borrower's repayment ability may be lower than initially computed. The safety net here, to some extent, is that there are automatic monthly deductions from the salaries of the borrowers. Positively, management is currently working with BNM to gain access to CCRIS by 2017.

MFRS9 to kick in from FY19 onwards

MFRS9 (Malaysian Financial Reporting Standards 9), which will replace the existing MFRS139 "Financial Instruments: Recognition and Measurement", necessitates companies/financial institutions to access credit risk on an "expected loss" rather than "incurred loss" basis, and kicks in from Jan 2018 onwards. The implication of this is that: a) there will be a one-time adjustment to reserves for increased impairment provisions; and b) credit costs from 2018 onwards are expected to be higher. In the case of RCE Capital, MFRS9 takes effect from FY19 but as it stands, we have factored in a 40bps increase in FY18 credit costs and another 20bps rise in FY19, pending guidance from management on the potential impact.

Asset-liability duration mismatch

Having relied principally on short-term borrowings to fund its assets (personal loans with a maximum duration of 10 years), there is an asset-liability duration mismatch. Management has moved to resolve this through its 10-year MYR900m Sukuk Murabahah programme and the move towards longer term funding is the trend ahead. What this implies is that funding costs are likely to move higher in the future. Notwithstanding that, COF will remain manageable especially if the Overnight Policy Rate is maintained.

Rising leverage

As we had highlighted earlier, RCE Capital's net gearing ratio of 2.6x end-Mar 2016 still compares favourably against AEON Credit's 4.56x end-Feb 2016. Since it cannot take deposits, RCE Capital will have to continue leveraging up to fund its business expansion plans and for now, there is still much room for growth, in our view. Nevertheless, this does mean that the company's debt/equity ratio will continue to rise over time. A point to note, however, is that debt issuances, such as its latest Al Dzahab Sukuk, are ring-fenced against the personal loans portfolio and there is no recourse on the default of these loans back to RCE. There is therefore comfort that leverage will not be an issue if this structure continues.

Quarterly results performance

Summary results table

Year end: Mar (MYR'm)	1Q17	1Q16	*% YoY*	4Q16	*% QoQ*
Revenue	51.9	37.5	*38.5*	44.3	*17.2*
Other income	3.0	1.9	57.6	2.7	12.9
Interest expense	(17.1)	(9.5)	*79.8*	(13.0)	*31.7*
Personnel costs	(4.2)	(4.4)	*(3.7)*	(3.4)	*26.2*
Depreciation	(0.9)	(1.0)	***(5.9)***	(1.0)	***(3.6)***
Other expenses	(9.3)	(12.1)	***(23.5)***	(18.6)	***(50.1)***
Finance costs	(0.0)	(0.0)	*33.3*	(0.0)	-
Pretax profit	**23.4**	**12.4**	***89.2***	**11.1**	***111.1***
Tax	(5.9)	(2.9)	*100.3*	(4.2)	*41.0*
Net profit	**17.5**	**9.4**	***85.7***	**6.9**	***153.4***
EPS (sen)	5.4	3.0	*82.4*	2.1	*154.7*
Net DPS (sen)	-	-	*nm*	3.5	*Nm*
Net loans & receivables	1,301	1,115	*16.7*	1,260	***3.2***

Source: Company

RCE Capital's latest 1QFY17 results performance was encouraging. Net loans rose at a healthy pace of 16.7% YoY, aided in part, we think, by festive season demand.

Interest income, as a component of revenue, correspondingly rose 17% YoY, but total revenue surged 39% driven largely by higher commission income derived from RCEM's business partners and an upward repricing of its products. This was negated in part by higher interest expense as total debt increased 54% YoY, taking into account the drawdown on the first tranche of the Al Dzahab sukuk.

Aided by lower impairment losses of MYR4.4m during the quarter versus MYR8.1m in 1QFY16, RCE Capital's 1QFY17 net profit jumped 85.7% YoY.

Looking forward

Income statement & key assumptions

YE: 31 Mar (MYR'm)	2015	2016	2017F	2018F	2019F
Revenue	131.2	162.4	201.9	242.6	273.4
Other income	11.5	11.9	14.2	19.4	21.6
Interest expense	(30.4)	(47.9)	(70.2)	(89.9)	(102.1)
Personnel costs	(17.4)	(15.6)	(16.4)	(17.2)	(18.1)
Depreciation	(3.1)	(3.9)	(3.9)	(3.9)	(3.9)
Other expenses	(46.1)	(52.6)	(54.2)	(68.8)	(81.6)
Pretax profit	**45.7**	**54.2**	**71.3**	**82.1**	**89.3**
Tax	(9.5)	(14.6)	(17.8)	(20.5)	(22.3)
Net profit	**36.2**	**39.6**	**53.5**	**61.6**	**67.0**
Core net profit	**36.2**	**39.6**	**53.5**	**61.6**	**67.0**
Tax rate	21%	27%	25%	25%	25%
Growth rates					
Revenue	1%	24%	24%	20%	13%
Pretax profit	221%	18%	32%	15%	9%
Net profit	189%	9%	35%	15%	9%
Core net profit	189%	9%	35%	15%	9%
ROAE & ROAA					
ROAE	5.8%	7.7%	12.5%	14.5%	14.2%
ROAA	2.8%	2.8%	3.1%	3.0%	2.9%
Yields & COF					
Gross loans (MYR'm)	1,168	1,365	1,584	1,801	2,032
Growth	11.2%	16.8%	16.1%	13.7%	12.8%
Total borrowings (MYR'm)	632	1,029	1,440	1,638	1,847
Net gearing (x)	1.02	1.89	2.80	2.86	2.91
Estd yield	11.0%	12.4%	12.3%	12.5%	12.4%
Estd COF	5.0%	5.8%	5.7%	5.8%	5.9%
Estd NIM	8.4%	8.7%	7.9%	7.7%	7.7%
Asset quality					
Gross NPL ratio	5.2%	4.3%	4.1%	4.0%	3.9%
Credit cost	2.2%	2.4%	2.4%	2.8%	3.0%
Collective allwce ratio	3.2%	3.3%	3.4%	3.4%	3.4%
Loan loss coverage	163%	178%	183%	185%	187%
Per share data					
Core EPS (sen)	9.1	12.3	15.7	18.1	19.6
Diluted core EPS (sen)	9.1	12.3	15.7	18.1	19.6
DPS (sen)	6.0	45.5	4.0	4.5	5.0
BVPS (MYR)	1.70	1.34	1.17	1.31	1.46
NTA per share (MYR)	1.55	1.20	1.04	1.17	1.32

Source: Maybank KE

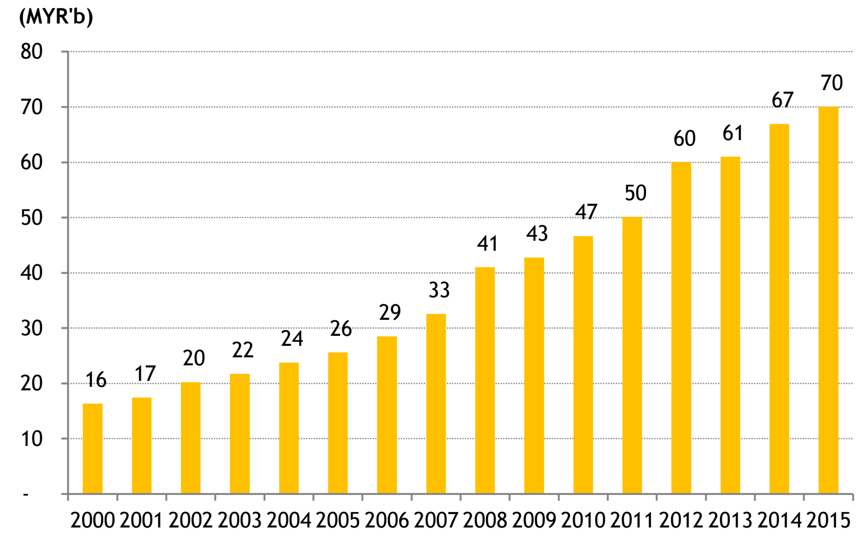
Demand-driven growth from civil servants

The Malaysian Government has generally looked after the welfare of its population of over 1.6 million servants, with wages and bonuses for the civil service being the single biggest expenditure in the federal budget. Budget 2016 was particularly generous to civil servants, with the following measures implemented with effect from 1 July 2016.

- A salary adjustment equivalent to one annual increment according to grade, which will benefit 1.6m civil servants, with an allocation of MYR1b.
- An upward revision in the minimum starting salary to MYR1,200 (from about MYR900) for 60,000 civil servants;
- A minimum pension amount of MYR950 for 50,000 pensioners with at least 25 years of service; and
- Permanent posts to contract service officers who have at least 15 years of service, which benefited 43,000 contract officers.

The Federal Government's emoluments to the civil service has steadily grown over the years and over the past 15 years, the compounded annual growth rate has been about 10%.

Federal Government's emoluments

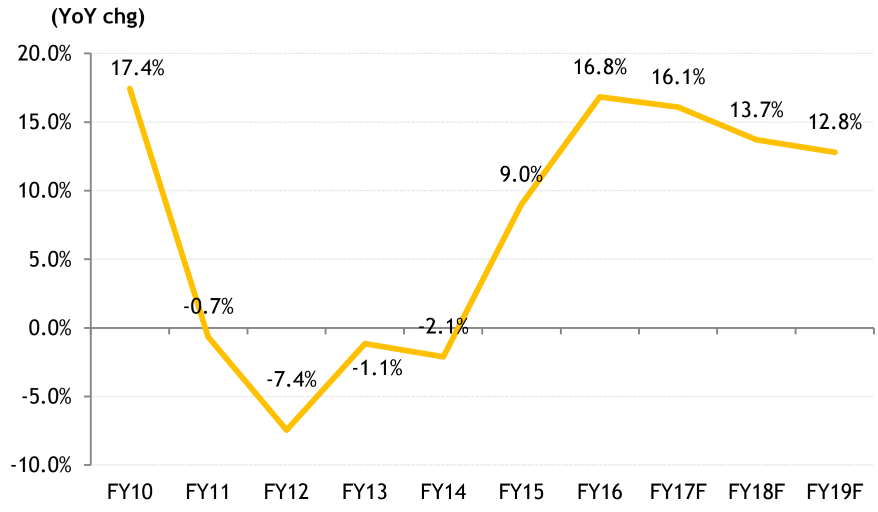


Source: CEIC

Growth in the civil service workforce coupled with ongoing financial support from the Government are factors that will continue to drive demand for RCEM's personal loans. As such, we are projecting loan growth to remain robust at about 16% for FY17, and 13%-14% for FY18/19.

A point to note is that despite these growth rates, we project RCEM's loan base to expand to just MYR1.8b by end-FY18, which is still significantly smaller than MBSB's current MYR23b personal loans portfolio.

Loan growth (FY10 – FY19F)



Source: Maybank KE

Sensitivity to higher funding costs

We estimate RCEM's net interest margins (NIMs) to narrow to about 7.9% in FY17 from 8.7% in FY16. Loan yields have benefited from an upward revision in lending rates towards end-2015, but this is expected to be offset by higher funding cost of 5-7% for its Al Dzahab Sukuk. Given that its loans are fixed rate in nature, RCEM is a beneficiary of cuts to the Overnight Policy Rate, if it can correspondingly reduce its cost of funds.

We estimate that every 25bp increase in funding costs would negatively impact the group's FY17 net profit by 4%.

Ongoing improvements in asset quality

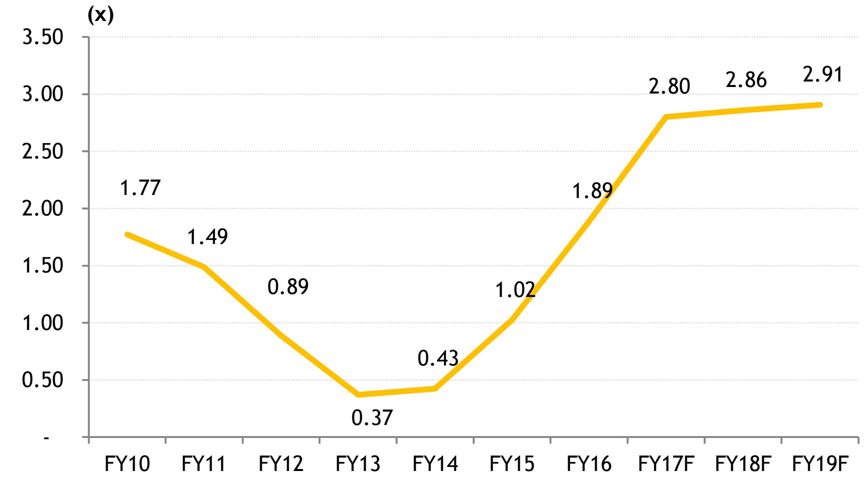
RCEM's pre-credit scoring loan book currently accounts for about 45% of total loans and this book is gradually being run down. As these loans are increasingly being replaced with newer ones that are of stronger asset quality, we expect its overall gross NPL ratio to continue trending down and project a gradual improvement in its gross NPL ratio to 3.9% in FY19 from 4.3% in FY16.

Credit costs averaged 2.44% in FY16 and we expect this to remain stable in FY17. While MFRS9 takes effect only from FY19 onwards for RCEM, we have nevertheless imputed a 40bps increase in FY18 credit costs to 2.8% and a further 20bps increase to 3% for FY19, pending further guidance from management. Correspondingly, we expect RCEM's loan loss coverage to improve to 187% by FY19 from 178% in FY16.

Gearing levels to rise

In tandem with its business expansion, we expect RCE Capital's leverage to increase and project a rise in net gearing levels to about 2.9x in FY19 from 1.9x in FY16. This assumes an average yearly increase of about 22% in total debt levels to MYR1.8b end-Mar 2019 from MYR1.0b end-Mar 2016. Positively though, we expect more stable long-term debt to account for 49% of total borrowings by end-Mar 2019, as compared to just 11% as at end-Jun 2016.

Net gearing (FY10 - FY19F)

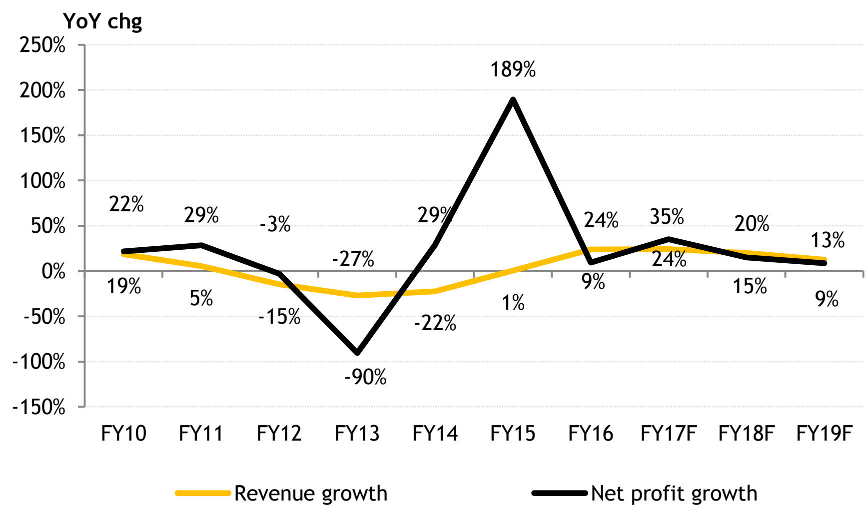


Source: Maybank KE

All in, 3-year net profit CAGR of 19%

Taking the assumptions and estimates above into consideration, we project a 3-year (FY16-FY19) revenue CAGR of 19% for RCE Capital, driven by loan growth and rising commission income from its business partners. Correspondingly, we estimate a 3-year net profit CAGR of 19% as well, with higher revenue growth mitigated in part by higher credit cost assumptions in FY18 and FY19.

Revenue and net profit growth (FY10 - FY19F)



Source: Maybank KE

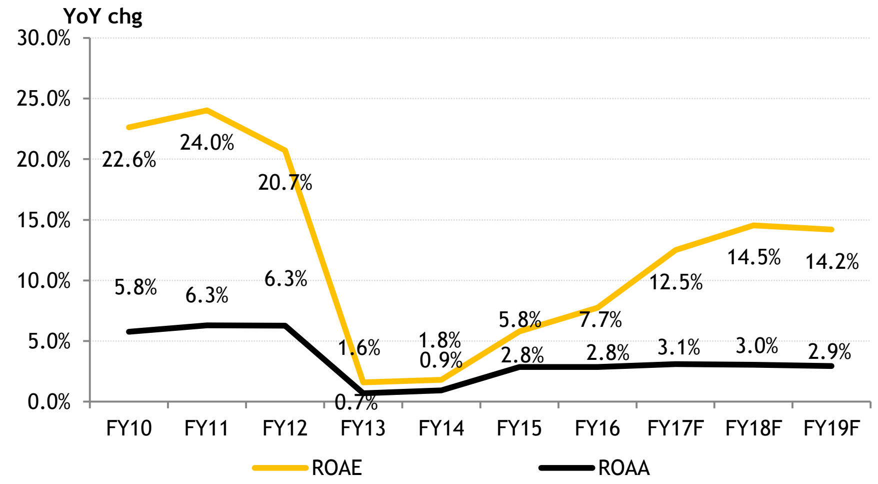
No dividend policy, but constant dividends

RCE Capital does not have a dividend policy, but it has consistently paid out dividends since 2007. FY16 was an exceptional year in that as part of its capital management programme, the company paid out a special interim DPS of 10.5sen, in addition to its final DPS of 3.5sen. Given that the company's share capital base has shrunk by one quarter since its recent capital repayment and 4-into-1 share consolidation exercise, the adjusted FY16 DPS works out to be 45.5sen on the reduced share capital base. We project a gradual increase in DPS from 3.5sen in FY16 to 5.0sen in FY19, which would translate to a payout ratio of about 25% of net profit over the next three years.

ROEs to expand

Amid increasing leverage and decent earnings growth, aided also by a reduced equity base from the capital consolidation exercise in FY16, we expect RCE Capital's return on average equity (ROAE) to improve to 12.5% in FY17 from 7.7% in FY16, rising further to 14.2% in FY19. As for its return on average assets (ROAA), we expect this to increase to 3.1% in FY17 from 2.8% in FY16 before tapering off slightly to 2.9% in FY19.

ROAE and ROAA (FY10 – FY19F)



Source: Maybank KE

In contrast, banks within our coverage are expected to generate average ROEs of just about 10.3% in 2017 and ROAs of just 1%. Undoubtedly the returns that RCE Capital is expected to generate would be superior to that of the banking sector.

ROAE forecasts (calendarized) – excluding exceptionals

	2013	2014	2015	2016F	2017F
Maybank	14.9%	13.6%	11.9%	9.6%	9.9%
CIMB	15.5%	9.3%	8.7%	8.6%	8.6%
Public Bk	21.1%	18.7%	17.1%	15.5%	14.6%
AMMB	14.1%	14.0%	10.1%	8.5%	8.5%
HL Bank	15.1%	14.8%	12.2%	10.0%	10.0%
RHB Cap	11.5%	11.5%	8.3%	9.6%	9.8%
AFG	13.8%	12.6%	11.5%	10.8%	10.4%
Average	**15.1%**	**13.5%**	**11.4%**	**10.4%**	**10.3%**

Source: Banks, Consensus for Maybank, Maybank KE

 # After stripping out exceptionals

ROAA forecasts (calendarized) - excluding exceptionals

	2013	2014	2015	2016F	2017F
Maybank	1.2%	1.1%	1.0%	0.8%	0.8%
CIMB	1.3%	0.8%	0.7%	0.8%	0.8%
Public Bk	1.4%	1.4%	1.4%	1.4%	1.3%
AMMB	1.4%	1.4%	1.1%	1.0%	1.0%
HL Bank	1.2%	1.3%	1.1%	1.1%	1.1%
RHB Cap	1.0%	1.0%	0.7%	0.8%	0.9%
AFG	1.2%	1.1%	1.0%	0.9%	0.9%
Average	**1.2%**	**1.2%**	**1.0%**	**1.0%**	**1.0%**

Source: Banks, Consensus for Maybank, Maybank KE

Initiating with a BUY, TP of MYR1.60

We initiate coverage on RCE Capital with a BUY for its decent growth prospects, improving fundamentals, and attractive ROEs.

Attaching a CT17 P/BV of 1.25x

RCE Capital currently trades at a prospective CY17 P/BV of just 0.9x, which is unjustified, in our view, given that we expect the group to generate an ROE of 14% in CY17.

Based on consensus, MBSB trades at a CY17 P/BV of 0.7x but for ROEs of just 5%, while AEON Credit trades at a higher CY17 P/BV of 2.0x but generates higher ROEs of about 23.6%.

In contrast, the banking sector currently trades at a 2017 P/BV of 1.2x but is expected to generate average ROEs of just about 10.2% in 2017.

Our target price of MYR1.60 tags on a CY17 P/BV of 1.25x to the stock, which is derived from the Gordon Growth Model. Key assumptions are a cost of equity of 12%, average ROE of 13.7% and long-term sustainable growth of 5%.

P/Es are attractive

From a P/E perspective, the stock trades at a prospective CY17 P/E of just 6.9x, which is an 18% discount to AEON Credit's CY17 P/E of 8.4x (based on consensus estimates). Moreover, we expect RCE's net profit to expand at a faster 3-year CAGR of 19% versus AEON Credit's 9.5%, as per consensus.

The banking sector, meanwhile, trades at a prospective CY17 P/E of 11.4x and for which we estimate a 3-year net profit CAGR of 5%.

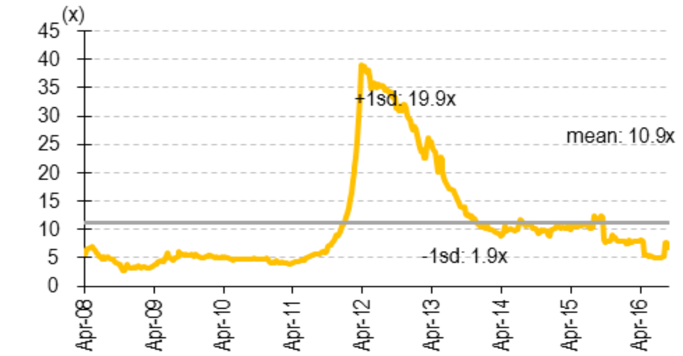
We acknowledge the fact that RCE Capital's business carries a much higher risk profile especially since it is not subject to capital requirements nor does it fall directly under the purview of BNM. Moreover, the fact that it does not have access to CCRIS at this juncture adds to this risk. Nevertheless, the discount to the banking sector is too steep, in our view, especially considering RCE Capital's stronger growth prospects and more attractive ROEs. At our TP of MYR1.60, RCE Capital would trade at a prospective CY17 P/E of 9.2x, or a 19% discount to the banking sector.

Banking Sector – Peer Valuation Summary

Stock	Rec	Shr px (MYR)	Mkt cap (MYR m)	TP (MYR)	PER (x) CY16E	PER (x) CY17E	P/B (x) CY16E	P/B (x) CY17E	ROAE (%) CY16E	ROAE (%) CY17E	Net yield CY16E	Net yield CY17E
RCE Cap	BUY	1.21	416	1.60	8.2	6.9	1.0	0.9	11.3	14.0	11.9	3.6
AEON Credit *	NR	14.84	2,137	NR	8.8	8.4	2.3	2.0	26.2	23.6	4.3	4.6
MBSB *	NR	0.86	4,987	NR	20.5	17.9	0.7	0.7	3.8	5.0	1.9	3.1
Banking sector												
AFG	BUY	3.93	5,993	4.60	11.3	11.1	1.2	1.1	10.8	10.4	3.9	4.0
AMMB	HOLD	4.19	12,629	4.40	9.5	9.2	0.8	0.8	8.5	8.5	4.1	4.4
CIMB	HOLD	4.65	40,589	4.70	11.1	10.5	0.9	0.9	8.6	8.6	3.9	4.1
HL Bank	BUY	12.90	26,473	15.00	12.3	12.3	1.3	1.2	10.0	10.0	3.2	3.3
Maybank *	NR	7.80	78,069	NR	12.7	12.6	1.3	1.2	9.6	9.9	6.1	6.1
Public Bank	HOLD	19.56	75,531	19.70	14.8	14.2	2.2	2.0	15.5	14.6	3.1	3.2
RHB Bank	HOLD	4.68	18,767	5.30	10.1	9.7	1.0	0.9	9.8	9.6	3.0	3.1
Simple avg			**258,051**		**11.7**	**11.4**	**1.2**	**1.2**	**10.4**	**10.2**	**3.9**	**4.0**
MC-wtd					**12.6**	**12.3**	**1.4**	**1.3**	**11.2**	**11.0**	**4.2**	**4.3**
BIMB	BUY	4.01	6,371	4.70	11.2	10.9	1.5	1.4	14.6	13.2	3.0	3.1
HLFG	HOLD	15.98	18,301	17.10	11.0	10.5	1.2	1.1	10.1	9.6	2.4	2.5

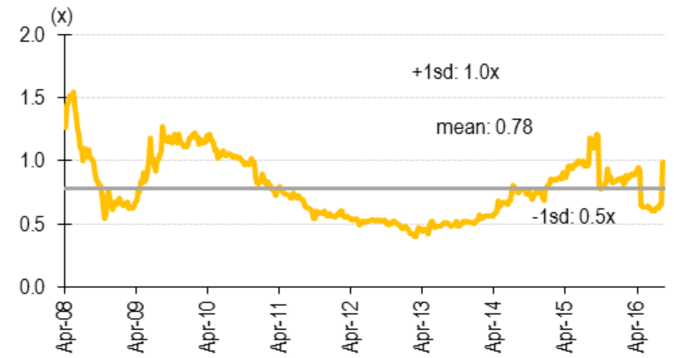
** Consensus estimates   Source: Maybank KE*

RCE Capital: One-year forward rolling PER (x)



Source: Company, Maybank KE

RCE Capital: One-year forward rolling P/BV



Source: Company, Maybank KE

FYE 31 Mar	FY15A	FY16A	FY17E	FY18E	FY19E
Key Metrics					
Core P/E (x)	13.3	9.8	7.7	6.7	6.2
Core FD P/E (x)	13.3	9.8	7.7	6.7	6.2
P/BV (x)	0.7	0.9	1.0	0.9	0.8
P/NTA (x)	0.8	1.0	1.2	1.0	0.9
Net dividend yield (%)	5.0	37.6	3.3	3.7	4.1
INCOME STATEMENT (MYR m)					
Interest income	128.4	158.6	197.5	237.5	267.5
Interest expense	(30.4)	(47.9)	(70.2)	(89.9)	(102.1)
Net interest income	**98.1**	**110.7**	**127.3**	**147.6**	**165.4**
Islamic banking income	na	na	na	na	na
Total non-interest income	**9.4**	**10.2**	**12.7**	**18.0**	**20.4**
Operating income	**107.5**	**120.9**	**140.0**	**165.6**	**185.8**
Staff costs	(17.4)	(15.6)	(16.4)	(17.2)	(18.1)
Other operating expenses	(25.3)	(25.7)	(22.7)	(25.3)	(28.0)
Operating expenses	**(42.7)**	**(41.3)**	**(39.1)**	**(42.6)**	**(46.1)**
Pre-provision profit	**64.8**	**79.6**	**100.9**	**123.1**	**139.7**
Loan impairment allowances	(19.0)	(25.4)	(29.5)	(40.9)	(50.4)
Pretax profit	**45.7**	**54.2**	**71.3**	**82.1**	**89.3**
Income tax	(9.5)	(14.6)	(17.8)	(20.5)	(22.3)
Reported net profit	**36.2**	**39.6**	**53.5**	**61.6**	**67.0**
Core net profit	**36.2**	**39.6**	**53.5**	**61.6**	**67.0**
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET (MYR m)					
Cash & deposits with banks	51.6	167.6	318.6	360.3	403.5
Available-for-sale securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	1,069.9	1,260.4	1,465.5	1,668.1	1,883.6
Fixed assets	13.4	8.4	7.4	6.4	5.4
Intangible assets	47.7	47.3	47.3	47.3	47.3
Other assets	52.4	66.9	69.2	73.0	77.2
Total assets	**1,234.9**	**1,550.6**	**1,907.9**	**2,155.1**	**2,416.9**
Other liabilities	668.7	1,094.1	1,507.6	1,708.4	1,920.4
Total liabilities	**668.7**	**1,094.1**	**1,507.6**	**1,708.4**	**1,920.4**
Share capital	133.4	136.4	34.1	34.1	34.1
Reserves	432.8	320.2	366.3	412.5	462.5
Shareholders' funds	566.2	456.5	400.4	446.6	496.6
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	566.2	456.5	400.4	446.6	496.6
Total liabilities & equity	**1,234.9**	**1,550.6**	**1,907.9**	**2,155.1**	**2,416.9**

FYE 31 Mar	FY15A	FY16A	FY17E	FY18E	FY19E
Key Ratios					
Growth (%)					
Net interest income	12.0	12.9	14.9	16.0	12.1
Non-interest income	(42.4)	7.9	25.3	41.7	12.9
Operating expenses	50.5	(3.2)	(5.4)	8.8	8.3
Pre-provision profit	(14.3)	22.9	26.8	22.0	13.5
Core net profit	189.3	9.3	35.2	15.1	8.7
Gross loans	11.2	16.8	16.1	13.7	12.8
Customer deposits	na	na	na	na	na
Total assets	(6.2)	25.6	23.0	13.0	12.2
Profitability (%)					
Non-int. income/Total income	8.8	8.4	9.1	10.9	11.0
Cost/income	39.7	34.2	27.9	25.7	24.8
Liquidity (%)					
Loans/customer deposits	na	na	na	na	na
Asset quality (%)					
Gross NPL	5.2	4.3	4.1	4.0	3.9
Loan loss coverage	163.0	178.0	182.9	185.0	187.2
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	6.0	7.7	12.5	14.5	14.2
ROAA	2.8	2.8	3.1	3.0	2.9
Shareholders equity/assets	45.8	29.4	21.0	20.7	20.5

Source: Company; Maybank

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