15 November 2018

Buy

Price
RM1.54

Target Price
RM1.85

Bloomberg code
RCE MK

Equity | Malaysia | Non-Bank Financials

Flashnote

RCE Capital Bhd

2Q19 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 (%)	9.1	2.0	4.3	4.4	4.6
PER (x)	14.0	7.0	6.2	6.1	5.8
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 RM47m in 6M19, +9% yoy, making up 52% of our full-year net profit forecast of RM91m for FY19F. We maintain our full-year net profit forecast of RM91m for FY19F.
- A dividend per share of 4.0 sen (29% of payout) was declared in 2Q19. 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 7% yoy operating income growth in 6M18, which trails 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 in line with the growth in its receivables (8% yoy). Management has stated that it would remain committed to maintaining its fast turnaround time in processing applications, assisted by innovative technologies, and streamlining its internal processes. However, its main focus is still ensuring quality growth in its loans and receivables. 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 16.7% (2Q19: 17.1%) while its annualised funding cost stood at 5.4% (2Q18: 5.5%). Consequently, its annualised lending spread stood at 11.2% (2Q18: 11.6%). The slight contraction in its lending yield is as per our expectation, partially due to higher funding costs from the overnight policy rate (OPR) hike earlier this year.
- RCE's NPL ratio stood at 4.3%. This is slightly higher against the previous quarter where the NPL ratio was at 4.2%. The slight uptick in the NPL ratio is due the slight declined in asset quality. Its NPL grew c.4% QoQ while its receivables only grew c.2% QoQ.
- RCE's average cost-to-income (CTI) ratio stood at 21.9%, -2ppts yoy. Lower average CTI was a result of lower OPEX by 8% yoy, while NIM only improved by 2% yoy.
- RCE's coverage ratio stood at 183%. This is higher by c.5ppts as compared with its latest FY. 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 96% in September 2018. We believe that its high coverage ratio is justified as consumer financing is unsecured in nature with no collateral.

Analyst

Izzul Hakim Abdul Molob
(603) 2171 0502
izzul@kaf.com.my

Table 1: Quarterly trends

Year to 31 March	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	% chg		Cumulative			KAF	
RM m	**1Q18**	**2Q18**	**3Q18**	**4Q18**	**1Q19**	**2Q19**	**qoq**	**yoy**	**6M18**	**6M19**	**% chg**	**2019F**	**6M/F**
Interest and fee income	57	62	64	63	63	65	3%	6%	119	128	8%	268	48%
Interest expense	(17)	(17)	(17)	(18)	(19)	(19)	5%	15%	(34)	(38)	11%	(78)	48%
Net interest and fee income	**40**	**45**	**47**	**45**	**45**	**46**	**2%**	**2%**	**84**	**90**	**7%**	**190**	**48%**
Non-interest income	3	4	2	3	4	4	6%	-6%	7	8	7%	12	60%
Operating income	**43**	**49**	**49**	**48**	**48**	**49**	**2%**	**1%**	**91**	**98**	**7%**	**202**	**48%**
Operating expenses	(9)	(12)	(10)	(11)	(11)	(11)	-1%	-8%	(21)	(22)	6%	(44)	49%
Underlying profit	**34**	**37**	**38**	**38**	**37**	**39**	**3%**	**4%**	**71**	**76**	**7%**	**158**	**48%**
Provisions	(6)	(7)	(8)	(8)	(6)	(7)	17%	4%	(14)	(14)	1%	(38)	36%
Exceptionals	0	0	0	0	0	0	nm	nm	0	0	na	na	na
Pre-tax profit	**27**	**30**	**30**	**30**	**31**	**31**	**0%**	**4%**	**57**	**62**	**9%**	**120**	**52%**
Taxation	(6)	(8)	(7)	(7)	(8)	(8)	-1%	-4%	(15)	(16)	8%	(29)	54%
Net profit	**21**	**22**	**23**	**23**	**23**	**23**	**1%**	**8%**	**43**	**47**	**9%**	**91**	**52%**

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.

Disclaimer

Dato' Ahmad Bin Kadis
Managing Director
KAF-Seagroatt & Campbell Securities Sdn Bhd (134631-U)

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.

Disclaimer

The information and opinions contained in this report have been compiled and arrived at based on information obtained from sources believed to be reliable and made in good faith. Such information has not been independently verified and no guarantee, representation or warranty, express or implied, is made by KAF-Seagroatt & Campbell Securities Sdn Bhd as to the accuracy, completeness or correctness of such information and opinion.

Any recommendations referred to herein may involve significant risk and may not be suitable for all investors, who are expected to make their own investment decisions at their own risk. Descriptions of any company or companies or their securities are not intended to be complete and this report is not, and should not, be construed as an offer, or a solicitation of an offer, to buy or sell any securities or any other financial instruments. KAF-Seagroatt & Campbell Securities Sdn Bhd, their Directors, Representatives or Officers may have positions or an interest in any of the securities or any other financial instruments mentioned in this report. All opinions are solely of the author, and subject to change without notice.

Dato' Ahmad Bin Kadis
Managing Director
KAF-Seagroatt & Campbell Securities Sdn Bhd (134631-U)