21 August 2019

Buy

Price
RM1.60

Target Price
RM1.98

Bloomberg code
RCE MK

Equity | Malaysia | Non-Bank Financials

Flashnote

RCE Capital

1Q20 results in line

Financial Highlights

FYE to March (RMm)	2017	2018	2019	2020F	2021F
Operating income	126.4	188.3	200.0	206.6	221.0
Net profit	39.6	88.7	95.5	98.4	106.3
EPS (sen)	11.0	26.0	28.0	28.9	31.2
EPS growth (%)	9.3	12.3	7.7	3.0	8.1
Net DPS (sen)	14.0	7.0	9.0	9.3	10.0
Net yield (%)	8.5	4.4	5.6	5.8	6.3
PER (x)	15.0	6.2	5.7	5.5	5.1
PB (x)	1.3	1.1	0.9	0.8	0.8
ROE (%)	7.7	18.5	17.3	16.0	15.4

Source: Company, KAF

- We reiterate our Buy recommendation on RCE Capital (RCE) with an unchanged target price of RM1.98 based on our GGM valuation.
- RCE recorded a net profit of RM24m in 1Q20, +4% yoy, making up 25% (consensus: 24%) of our full-year net profit forecast of RM98m for FY20F. We maintain our full-year net profit forecast of RM98m for FY20F.
- No dividend declared in 1Q20. RCE has a dividend policy with the payout ratio in the range of 20-40% of its net profit. We estimate DPS to be 9.3 sen for FY20F as we assume the same payout ratio of 32% in FY19.
- The group reported 6% yoy operating income growth in 1Q20, which in line with full-year growth in FY19. 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 (6% 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 c.5% in FY20-21F.
- RCE's annualised lending yield stood at 16.6% (1Q19: 16.5%) while its annualised funding cost stood at 5.3% (1Q19: 5.4%). Consequently, its annualised lending spread stood at 11.3% (1Q19: 11.1%). The slight improvement in its lending spread is as per our expectation, on the back of lower funding costs from the new sukuk programme.
- The previous sukuk programme under Al Dzahab Assets was issued with an effective yield of c.5.5%. Overall, at the group level, its average funding cost was c.5.4% in FY19. As for the new sukuk programme, the expected effective yield is c.5.0%. Based on the utilisation of its previous Al Dzahab sukuk, we expect the new sukuk facilities to support its funding activities for c.5 years. Therefore, with the lower effective yield, we expect its overall average funding cost to improve by 10bps every year. We estimate its funding cost to be in the range of 5.3-5.2% in FY20-21F.
- RCE's average cost-to-income (CTI) ratio stood at 26.5%, +4ppts yoy. Higher average CTI was a result of the increment in staff cost by 49% yoy.
- RCE is trading at PBR 0.8x FY20F, which is below its 3-year average PBR 1.1x. Currently the banks are, on average, trading at around 1.2-1.4x PBR. We think the valuation is attractive considering that it is trading below its 3-year average PBR and at a discount to the banks. Our TP of RM1.98 (based on GGM) implies a PBR of 1.1x. Maintain Buy.

Analyst

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

Table 1: Quarterly trends

Year to 31 March	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	% chg		Cumulative			KAF	
RM m	**4Q18**	**1Q19**	**2Q19**	**3Q19**	**4Q19**	**1Q20**	**qoq**	**yoy**	**3M19**	**3M20**	**% chg**	**2020F**	**3M/F**
Interest and fee income	63	63	65	67	67	67	-1%	6%	63	67	6%	276	24%
Interest expense	(18)	(19)	(19)	(20)	-20	(20)	1%	10%	(19)	(20)	10%	(85)	24%
Net interest and fee income	**45**	**45**	**46**	**47**	**47**	**47**	**-2%**	**4%**	**45**	**47**	**4%**	**190**	**24%**
Non-interest income	3	4	4	4	4	5	25%	33%	4	5	33%	16	30%
Operating income	**48**	**48**	**49**	**51**	**51**	**51**	**0%**	**6%**	**48**	**51**	**6%**	**207**	**25%**
Operating expenses	(11)	(11)	(11)	(12)	(12)	(14)	16%	24%	(11)	(14)	24%	(47)	29%
Underlying profit	**38**	**37**	**39**	**39**	**39**	**38**	**-4%**	**1%**	**37**	**38**	**1%**	**160**	**24%**
Provisions	(8)	(6)	(7)	(4)	(6)	(5)	-27%	-28%	(6)	(5)	-28%	(25)	18%
Exceptional	0	0	0	0	0	0	nm	nm	0	0	na	na	na
Pre-tax profit	**30**	**31**	**31**	**35**	**33**	**33**	**0%**	**7%**	**31**	**33**	**7%**	**135**	**25%**
Taxation	(7)	(8)	(8)	(10)	(10)	(9)	-4%	16%	(8)	(9)	16%	(37)	25%
Net profit	**23**	**23**	**23**	**25**	**24**	**24**	**2%**	**4%**	**23**	**24**	**4%**	**98**	**25%**

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