

# RCE Capital Bhd (RCE MK)

## Dividend yields of above 5%

# BUY

Share Price MYR 1.33  
 12m Price Target MYR 1.76 (+32%)  
 Previous Price Target MYR 1.95

### Valuations undemanding, yields attractive

Given prevailing concerns over a stagnating civil service workforce, we are cutting our TP to MYR1.76 from MYR1.95, by discounting further our CY19 P/BV peg to 1x from 1.1x (CY19 ROE: 15.8%). Nevertheless, one has to bear in mind that RCE commands a market share of just about 1% of loans to the civil service and thus there is still room for growth. Valuations are unjustified with the stock trading at a prospective FY19 PER of just 5.1x and prospective dividend yield of 5.6%. BUY maintained.

### Within expectations

RCE reported a 4QFY18 core net profit of MYR23m (+8% YoY, +1% QoQ) which took FY18 core net profit to MYR89m (+20% YoY). This was within our expectations. Loan grew 8% end-Mar 2018 and NIMs expanded further during the year. Into FY19, we have assumed loan growth of 7% and a conservative 35bps contraction in NIM, given the volatility in bond yields. Positively though, we estimate about 60% of the group's funding to be fixed rate in nature, thus providing some buffer.

### Asset quality improves

RCE's gross NPL ratio improved to 4.1% end-Mar 2018 from 4.2% a year ago, and loan loss coverage remained healthy at 178%. Credit cost was stable at 1.87%. Moving forward, we have conservatively assumed a rise in its NPL ratio to 4.25% in FY19 and a higher credit cost of 2.1%, with the implementation of MFRS9 from 1 Apr onwards. Our FY19 profit forecast is maintained but trimmed by 5% for FY20 and we introduce our forecast for FY21.

### A dividend payout ratio of 20-40%

Management has announced a final DPS of 4sen, which takes the total FY18 DPS to 7sen, this being a payout of 27%. Management has also announced that it will adopt a dividend payout ratio of 20-40% moving forward. We have assumed a DPS of 7.5-8.0sen for FY19-20, which is a payout ratio of 25-27%.

FYE Mar (MYR m)	FY17A	FY18A	FY19E	FY20E	FY21E
Operating income	167	188	202	214	226
Pre-provision profit	124	147	157	167	177
Core net profit	74	89	92	95	98
Core EPS (MYR)	0.24	0.26	0.26	0.27	0.28
Core EPS growth (%)	94.0	8.8	(0.6)	3.2	3.4
Net DPS (MYR)	0.03	0.07	0.07	0.07	0.07
Core P/E (x)	5.6	5.1	5.1	5.0	4.8
P/BV (x)	1.1	0.9	0.8	0.7	0.7
Net dividend yield (%)	2.3	5.3	5.3	5.3	5.3
Book value (MYR)	1.16	1.46	1.62	1.82	2.02
ROAE (%)	16.4	18.5	16.8	15.5	14.4
ROAA (%)	4.5	5.0	4.8	4.6	4.5
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.

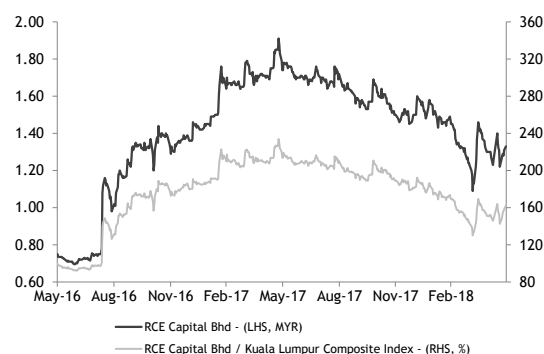
### Statistics

52w high/low (MYR)	1.79/1.09
3m avg turnover (USDm)	0.1
Free float (%)	28.7
Issued shares (m)	355
Market capitalisation	MYR472.7M USD119M

### Major shareholders:

Cempaka Empayar Sdn. Bhd.	58.3%
RCE Capital Bhd.	3.9%
Bank Negara Malaysia	1.6%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	2	(8)	(27)
Relative to index (%)	6	(5)	(28)

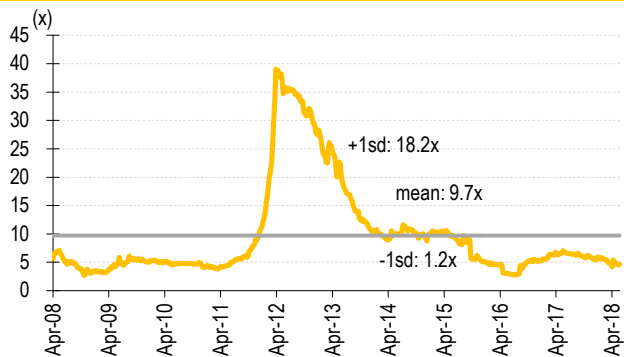
Source: FactSet

Fig 1: Results summary

Year end: Mar (MYR'm)	Quarterly					Cumulative		
	4Q18	4Q17	% YoY	3Q18	% QoQ	FY18	FY17	% YoY
Revenue	63.2	57.3	10.5	64.0	(1.2)	245.9	223.3	10.1
Other income	3.0	2.2	40.4	1.7	82.3	11.7	9.8	19.5
Interest expense	(17.9)	(12.4)	44.7	(17.2)	4.3	(69.3)	(61.4)	12.8
Personnel costs	(5.7)	(7.0)	(17.8)	(5.0)	15.5	(22.3)	(21.4)	4.2
Depreciation	(0.4)	(1.1)	(59.3)	(0.9)	(47.7)	(3.4)	(3.9)	(13.4)
Other expenses	(12.1)	(10.1)	19.8	(12.7)	(4.6)	(45.2)	(44.9)	0.8
Finance costs	(0.0)	(0.0)	8.2	(0.0)	23.1	(0.1)	(0.0)	67.8
<b>Pretax profit</b>	<b>30.1</b>	<b>28.9</b>	<b>4.2</b>	<b>30.0</b>	<b>0.3</b>	<b>117.4</b>	<b>101.5</b>	<b>15.6</b>
Tax	(7.1)	(7.6)	(7.3)	(7.1)	(0.3)	(28.7)	(22.5)	27.3
<b>Net profit</b>	<b>23.0</b>	<b>21.2</b>	<b>8.4</b>	<b>22.9</b>	<b>0.5</b>	<b>88.7</b>	<b>78.9</b>	<b>12.3</b>
<b>Core net profit</b>	<b>23.0</b>	<b>21.2</b>	<b>8.4</b>	<b>22.9</b>	<b>0.5</b>	<b>88.7</b>	<b>73.7</b>	<b>20.4</b>
Tax rate	23%	26%		24%		24%	22%	
Basic EPS (sen)	6.7	6.4	5.6	6.7	0.4	26.0	23.9	8.8
Net DPS (sen)	4.0	3.0	33.3	-	nm	7.0	3.0	133.3
Net loans & receivables	1,524.7	1,411.6	8.0	1,496.0	1.9	1,524.7	1,411.6	8.0
Total borrowings	1,299.8	1,214.7	7.0	1,240.3	4.8	1,299.8	1,214.7	7.0
Net gearing (x)	2.1	2.4		2.2		2.1	2.4	

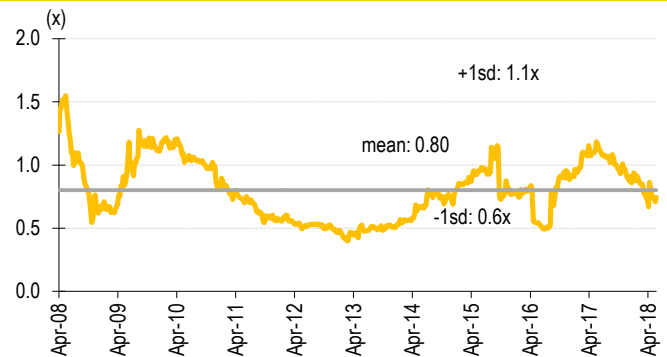
Source: Company

Fig 2: RCE: One-year forward rolling PER (x)



Source: Company, Maybank KE

Fig 3: RCE: One-year forward rolling P/BV



Source: Company, Maybank KE

FYE 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Key Metrics</b>					
Core P/E (x)	5.6	5.1	5.1	5.0	4.8
Core FD P/E (x)	5.6	5.1	5.1	5.0	4.8
P/BV (x)	1.1	0.9	0.8	0.7	0.7
P/NTA (x)	1.3	1.0	0.9	0.8	0.7
Net dividend yield (%)	2.3	5.3	5.3	5.3	5.3

**INCOME STATEMENT (MYR m)**

Interest income	190.0	218.5	233.5	252.1	267.1
Interest expense	(61.4)	(69.3)	(78.9)	(89.1)	(94.3)
<b>Net interest income</b>	<b>128.5</b>	<b>149.2</b>	<b>154.6</b>	<b>163.1</b>	<b>172.8</b>
Islamic banking income	na	na	na	na	na
<b>Total non-interest income</b>	<b>38.1</b>	<b>39.1</b>	<b>47.3</b>	<b>50.7</b>	<b>53.6</b>
<b>Operating income</b>	<b>166.7</b>	<b>188.3</b>	<b>201.9</b>	<b>213.8</b>	<b>226.4</b>
Staff costs	(21.4)	(22.3)	(23.2)	(24.1)	(25.0)
Other operating expenses	(21.7)	(19.1)	(21.9)	(23.0)	(24.1)
<b>Operating expenses</b>	<b>(43.1)</b>	<b>(41.3)</b>	<b>(45.1)</b>	<b>(47.1)</b>	<b>(49.1)</b>
Pre-provision profit	123.6	147.0	156.9	166.7	177.3
Loan impairment allowances	(22.1)	(29.6)	(35.7)	(41.7)	(48.0)
<b>Pretax profit</b>	<b>101.5</b>	<b>117.4</b>	<b>121.1</b>	<b>125.0</b>	<b>129.3</b>
Income tax	(22.5)	(28.7)	(29.1)	(30.0)	(31.0)
<b>Reported net profit</b>	<b>78.9</b>	<b>88.7</b>	<b>92.1</b>	<b>95.0</b>	<b>98.3</b>
<b>Core net profit</b>	<b>73.7</b>	<b>88.7</b>	<b>92.1</b>	<b>95.0</b>	<b>98.3</b>
Preferred Dividends	0.0	0.0	0.0	0.0	0.0

**BALANCE SHEET (MYR m)**

Cash & deposits with banks	159.3	197.2	200.6	251.8	306.1
Available-for-sale securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	1,411.6	1,524.7	1,627.4	1,723.2	1,823.6
Fixed assets	9.3	6.2	5.2	4.2	3.2
Intangible assets	47.3	47.3	47.3	47.3	47.3
Other assets	74.6	83.3	92.7	98.2	104.2
<b>Total assets</b>	<b>1,702.1</b>	<b>1,858.8</b>	<b>1,973.3</b>	<b>2,124.8</b>	<b>2,284.4</b>
Other liabilities	1,260.7	1,339.5	1,395.9	1,477.3	1,563.5
<b>Total liabilities</b>	<b>1,260.7</b>	<b>1,339.5</b>	<b>1,395.9</b>	<b>1,477.3</b>	<b>1,563.5</b>
Share capital	38.1	44.7	35.6	35.6	35.6
Reserves	403.3	474.6	541.8	611.9	685.2
Shareholders' funds	441.4	519.3	577.4	647.5	720.8
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	441.4	519.3	577.4	647.5	720.8
<b>Total liabilities &amp; equity</b>	<b>1,702.1</b>	<b>1,858.8</b>	<b>1,973.3</b>	<b>2,124.8</b>	<b>2,284.4</b>

FYE 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Key Ratios</b>					
<b>Growth (%)</b>					
Net interest income	16.1	16.1	3.6	5.5	6.0
Non-interest income	275.7	2.4	21.1	7.2	5.7
Operating expenses	4.2	(4.0)	9.0	4.5	4.4
Pre-provision profit	55.4	18.9	6.7	6.3	6.4
Core net profit	86.2	20.4	3.8	3.2	3.4
Gross loans	11.6	8.0	7.0	6.0	6.0
Customer deposits	na	na	na	na	na
Total assets	9.8	9.2	6.2	7.7	7.5
<b>Profitability (%)</b>					
Non-int. income/Total income	22.9	20.7	23.4	23.7	23.7
Cost/income	25.8	22.0	22.3	22.0	21.7
<b>Liquidity (%)</b>					
Loans/customer deposits	na	na	na	na	na
<b>Asset quality (%)</b>					
Gross NPL	4.2	4.1	4.3	4.4	4.5
Loan loss coverage	172.2	178.0	175.3	173.6	171.1
<b>Capital adequacy (%)</b>					
CET1	na	na	na	na	na
Tier 1 capital	na	na	na	na	na
Risk-weighted capital	na	na	na	na	na
<b>Returns (%)</b>					
ROAE	16.4	18.5	16.8	15.5	14.4
ROAA	4.5	5.0	4.8	4.6	4.5
Shareholders equity/assets	25.9	27.9	29.3	30.5	31.6

Source: Company; Maybank

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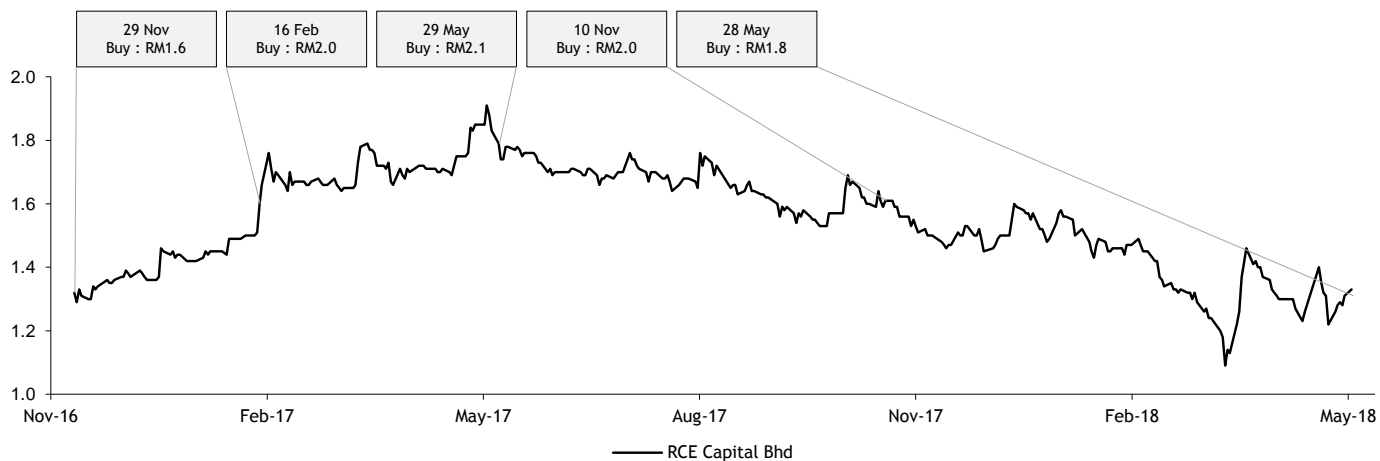
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## Historical recommendations and target price: RCE Capital Bhd (RCE MK)



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