Investment Idea

RCE Capital Bhd

Steady and attractive

***By Yong Jun Ting** | jt.yong@rakutentrade.my*

Stamp Duty Exempted

BUY

Price:	**RM1.54**
Target price:	**RM1.95**

RCE Capital Bhd ("RCE") is a provider of personal loans predominantly to civil servants which has achieved a steady 5-year CAGR loan growth of 10%. RCE's valuation is deemed attractive given its current P/BV ratio of 0.9x and dividend yield of 5.8%. BUY with a target price of RM1.95 based on 1.1x FY20 P/BV as per its 3-year average, implying a 6.7x of FY20 PER.

RCE is 59.5% owned by Cempaka Empayar Sdn Bhd, a wholly owned subsidiary of Amcorp Group ("Amcorp"). Amcorp is a private flagship company owned by Tan Sri Azman Hashim and has a 13% stake in AMMB Holdings Bhd. To date, RCE serves close to 80,000 customers and loan repayments from the civil servants are done via a salary deduction scheme. We believe there is still ample room to grow its customer base as RCE's market share is only 5% of the 1.6m civil servants in Malaysia. At present, average loan size is approximately RM16,600 with maximum loan tenure of 10 years.

Notwithstanding RCE's fast disbursement of within 48 hours, its priority on quality loans growth is evidenced by its asset quality improvement. Gross Impaired Loans ratio improved from 13.7% in FY13 to 7.4% in FY19 while Non-Performing Loans ratio is at a healthy rate of ~4%. Loan loss coverage of 168% is higher than the banking industry's average of 127%, demonstrating stringent credit risk management. Notably, RCE also enjoys net interest margin of ~8%, higher than its industry peers.

RCE has over the years managed to consistently enhance its borrowing mix towards cheaper cost of funds. Recently, the group established a new RM2bn Sukuk programme with the first tranche (RM265m) and second tranche (RM108m) issued at weighted average profit rate ("WAPR") of 4.92% and 4.54% respectively, which is much lower than the previous RM900m Sukuk programme's WAPR of 5.4%.

RCE has a stable dividend payout ratio ranging from 20%-40%. Gearing ratio of 1.8x is manageable and lower than its closest peers' average of 4.1x. Trading at a discount to industry P/BV of 1.1x, RCE's prevailing valuation is undemanding backed by an anticipated dividend yield of ~6% offers defensiveness amid the challenging market scenario.

Technically Speaking

Resistance level	RM1.60
Support level	RM1.45

Source: Thomson Reuters

KLCI	1570.0
YTD KLCI change	-7.1%
YTD stock price change	+4.8%

Stock Information

Market Cap (RM'm)	537.0
Issued Shares (m)	348.7
52-week range (H)	1.72
52-week range (L)	1.41

Major Shareholders

Cempaka Empayar Sdn Bhd	59.5%
Employee Provident Fund Board	2.5%

Summary Earnings Table

FY Mar (RM'm)	2018A	2019A	2020F	2021F
Revenue	245.9	262.6	278.3	297.8
Net interest income	144.2	156.2	166.1	179.8
Pretax profit	117.4	131.1	136.4	145.9
Net profit	**88.7**	**95.5**	**101.3**	**107.8**
Consensus	-	-	100.1	106.7
EPS (sen)	26.0	28.0	29.1	30.9
EPS growth (%)	8.8	7.6	3.7	6.4
DPS (sen)	7.0	9.0	9.0	9.5
PER (x)	5.9	5.5	5.3	5.0
BV/Share (RM)	1.5	1.7	1.8	1.9
ROE (%)	17.1	18.4	17.4	16.0
Div. Yield (%)	4.5	5.8	5.8	6.2

Sources: Company, Rakuten Trade Research

COMPANY	Definition
Buy	The stock return is expected to exceed the KLCI benchmark by more than 10% over the next 6-12 months.
Trading Buy	Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 10% over the next 3-6 months. Trading Buy is generally for investors who are willing to take on higher risks.
Take profit	The stock return previously recommended has gained by >10%
Hold	The stock return is expected to be in line with the KLCI benchmark (+/- 5%) over the next 6-12 months.
Sell	The stock return is expected to underperform the KLCI benchmark by more than 10% over the next 6-12 months.
SECTOR	
Overweight	Industry expected to outperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Neutral	Industry expected to perform in-line with the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Underweight	Industry expected to underperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.

Published:

RAKUTEN TRADE SDN BHD (266701-P)
Level 7, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2110 7188 Website: www.rakutentrade.my

Kenny Yee Shen Pin
Head of Research