

RCE Capital Bhd (RCE MK)

A gift that keeps on giving

Upgrade to BUY with a higher TP of MYR2.07 (+18%)

While earnings were within our expectations, RCE positively surprised by raising its DPR policy to 60-80% from 20-40%. We raise DPS estimates by 2sen p.a. to reflect a higher DPR of 65% (54% previously). Seeing that we raised our DPS estimate by 20%, we think it reasonable to also raise our end-CY23E target P/BV by a similar 20% to 1.8x from 1.5x and lift our TP to MYR2.07 from MYR1.75. Coupled with dividend yields of $\geq 6.3\%$ p.a., we upgrade RCE to BUY from HOLD.

Earnings in-line but dividends positively surprised

4QFY3/23 net profit of MYR34.8m (+10% YoY, -1% QoQ) brought FY23 net profit to MYR138.8m (+4% YoY) which was within our expectations at 101% of our FY estimate. As a secondary check, FY23 revenue of MYR323.6m (+8% YoY) was also in-line at 98% of our FY estimate. That said, the final DPS of 7sen brought FY23 DPS to 30sen (incl. 18sen special DPS) which was 2sen more than we expected. The FY23 recurring DPS of 12sen translated into 63% DPR or 9ppts more than we expected.

Earnings outlook stable, in our view...

Operations continue to be stable:- (i) FY financing growth came in within our expectations at 8%; (ii) gross NPF ratio also eased 12 bps QoQ to 3.8%; and (iii) financing & loans loss coverage ratio improved 4ppts QoQ to 157.8%. While cost of funds is on an uptrend, RCE has managed to pass it on to new customers via higher profit rates. Thus, we expect earnings to be stable going forward. On that note, our FY24E/FY25E earnings are little changed (-1%/+0%) and we introduce FY26E earnings (+4% YoY).

... and more dividends coming

In a separate announcement, RCE announced that it will raise its DPR policy from 20-40% to 60-80% effective FY24 which goes without saying is very much welcomed by investors. On that note, we raise DPS estimates by 2sen p.a. which is premised on 65% DPR vs. 54% previously. At its last share price, RCE offers dividend yields of $\geq 6.3\%$ p.a. or a generous 60% premium to the 10-year Malaysian Government Securities yield of 3.9%.

| FYE Mar (MYR m) | FY22A | FY23A | FY24E | FY25E | FY26E |
|------------------------|-------|-------|-------|-------|-------|
| Operating income | 239 | 261 | 250 | 260 | 271 |
| Pre-provision profit | 189 | 213 | 201 | 209 | 218 |
| Core net profit | 133 | 139 | 136 | 142 | 148 |
| Core FDEPS (MYR) | 0.18 | 0.19 | 0.18 | 0.19 | 0.20 |
| Core FDEPS growth(%) | 3.3 | 3.7 | (4.0) | 4.3 | 4.2 |
| Net DPS (MYR) | 0.11 | 0.30 | 0.12 | 0.13 | 0.13 |
| Core FD P/E (x) | 10.2 | 9.7 | 10.6 | 10.2 | 9.8 |
| P/BV (x) | 1.6 | 1.7 | 1.6 | 1.6 | 1.5 |
| Net dividend yield (%) | 5.8 | 16.5 | 6.3 | 6.5 | 6.8 |
| Book value (MYR) | 1.19 | 1.10 | 1.16 | 1.23 | 1.30 |
| ROAE (%) | 16.2 | 16.5 | 16.4 | 16.1 | 15.9 |
| ROAA (%) | 5.1 | 4.9 | 4.5 | 4.5 | 4.5 |
| Consensus net profit | - | - | 139 | 148 | na |
| MIBG vs. Consensus (%) | - | - | (2.2) | (4.3) | na |

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BUY

[Prior:HOLD]

Share Price MYR 1.92
12m Price Target MYR 2.07 (+14%)
Previous Price Target MYR 1.75

Company Description

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

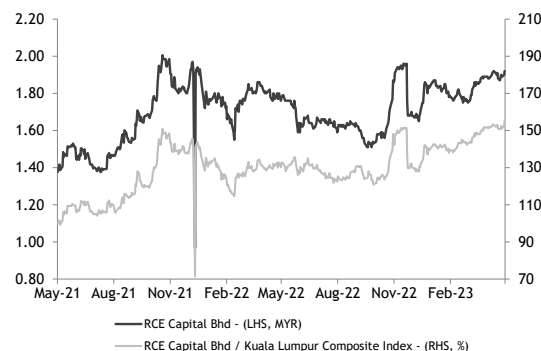
Statistics

| | |
|------------------------|--------------------|
| 52w high/low (MYR) | 1.96/1.51 |
| 3m avg turnover (USDm) | 0.1 |
| Free float (%) | 30.7 |
| Issued shares (m) | 741 |
| Market capitalisation | MYR1.4B USD311M |

Major shareholders:

| | |
|---------------------------|-------|
| Cempaka Empayar Sdn. Bhd. | 57.9% |
| RCE Capital Berhad | 1.1% |
| KAF Investment Funds Bhd. | 0.5% |

Price Performance



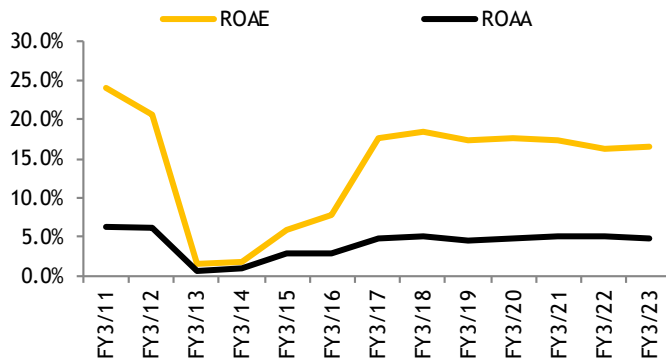
| | -1M | -3M | -12M |
|-----------------------|-----|-----|------|
| Absolute (%) | 2 | 8 | 9 |
| Relative to index (%) | 2 | 11 | 19 |

Source: FactSet

Value Proposition

- RCE Capital provides personal financing, the ultimate customers being civil servants.
- With a gross financing balance of just MYR2.0b, we estimate that its market share is only 2%.
- Non-performing financing kept in check thanks to nondiscretionary direct salary deductions.
- Competitive advantage lies in fast financing processing turnaround time of 48 hours.
- ROE generation surpasses that of the average for the overall banking industry.

ROE and ROA

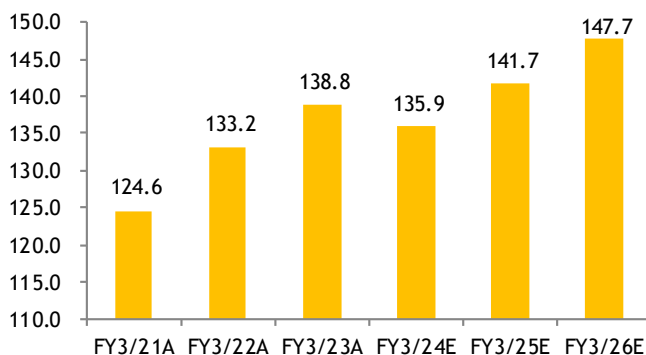


Source: Company

Financial Metrics

- Introduced better credit scoring model in 2013. We forecast gross financing CAGR of 5% p.a. over the next three years.
- Average cost of funds is rising but so is average financing yields.
- Asset quality better than before. New financing are smaller in size (<2%).
- Forecast stable three-year forward core net profit CAGR of 2% p.a.
- Recently raised DPR policy from 20-40% to 60-80%.

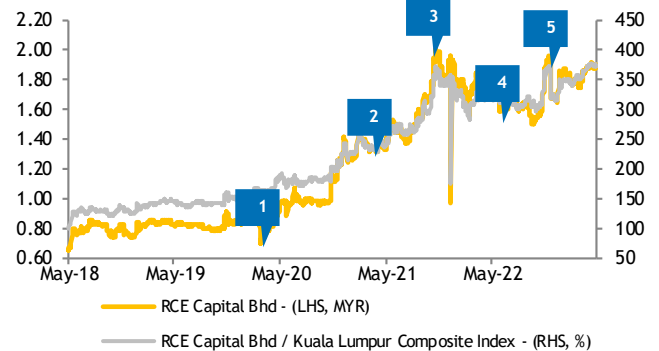
Core net profit (MYRm)



Source: Company (historicals), Maybank IBG Research (forecasts)

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

1. Movement Control Order lengthened time to process new customers applications, resulting in less financing disbursed.
2. 2QFY3/21 net profit grew 21% YoY to a record high of MYR33.0m.
3. Announced share DPS of 1 treasury share for 20 shares held and bonus issue of 19 shares for 21 shares held.
4. Bank Negara Malaysia raised Overnight Policy Rate by 25bps for the first time since Jul 2020.
5. Announced a huge special DPS of 18sen and higher-than expected interim DPS of 5sen

Swing Factors

Upside

- Easing competition - competitors have been reducing their exposure to personal financing.
- Lower cost of funds - we estimate that every 25bps reduction in cost of funds will accrete 3% to earnings.
- Access to CCRIS - if RCE Capital gains access to CCRIS, it can better assess customers' total indebtedness

Downside

- High household debt - Household debt to GDP is elevated at >80% and may crimp customers' repayment ability.
- Need to leverage - RCE Capital cannot take deposits and thus, has to assume debt to finance its financing.
- Asset-liability duration mismatch - customers' repayment may not match RCE's debt repayment.

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Figure 1: Summary Results Table

| FY Mar (MYR m) | 4QFY3/23 | 4QFY3/22 | % YoY | 3QFY3/23 | % QoQ | FY3/23 | FY3/22 | % YoY |
|--|----------------|----------------|-------------|----------------|--------------|----------------|----------------|------------|
| Interest/profit income | 70.5 | 70.4 | 0.2 | 70.1 | 0.6 | 280.7 | 274.6 | 2.2 |
| Other revenue | 12.2 | 4.3 | 180.8 | 11.5 | 5.7 | 42.9 | 24.8 | 72.9 |
| Revenue | 82.6 | 74.7 | 10.6 | 81.6 | 1.3 | 323.6 | 299.5 | 8.1 |
| Other income | 8.8 | 5.7 | 52.8 | 7.3 | 19.9 | 28.0 | 20.4 | 37.4 |
| Interest/profit expense applicable to revenue | -25.4 | -20.1 | 26.5 | -22.8 | 11.3 | -90.1 | -80.2 | 12.2 |
| Directors' remuneration and staff costs | -6.0 | -5.2 | 15.5 | -9.4 | (36.2) | -27.1 | -26.6 | 1.7 |
| Allowances for impairment loss on receivables, net | -8.2 | -5.9 | 39.2 | -5.5 | 49.0 | -28.7 | -11.5 | 148.5 |
| Depreciation of plant and equipment and right-of-use asset | -0.9 | -1.0 | (3.8) | -0.9 | (1.2) | -3.6 | -3.6 | 0.3 |
| Other expenses | -4.5 | -6.9 | (34.7) | -4.2 | 7.2 | -18.1 | -20.4 | (11.3) |
| Finance costs | -0.1 | -0.1 | (1.7) | -0.1 | 1.7 | -0.2 | -0.3 | (12.5) |
| Profit before tax | 46.4 | 41.4 | 12.1 | 46.1 | 0.8 | 183.9 | 177.2 | 3.8 |
| Taxation | -11.6 | -9.9 | 17.3 | -10.9 | 6.6 | -45.2 | -44.1 | 2.5 |
| Net profit | 34.8 | 31.5 | 10.5 | 35.2 | (1.0) | 138.8 | 133.2 | 4.2 |
| Financing & loans receivables, gross | 2,020.9 | 1,879.2 | 7.5 | 1,978.5 | 2.1 | 2,020.9 | 1,879.2 | 7.5 |
| (Allowance for impairment) | -121.5 | -115.1 | 5.6 | -119.6 | 1.6 | -121.5 | -115.1 | 5.6 |
| Financing & loans receivables, net | 1,899.4 | 1,764.1 | 7.7 | 1,859.0 | 2.2 | 1,899.4 | 1,764.1 | 7.7 |
| | 4QFY3/23 | 4QFY3/22 | +/- ppt | 3QFY3/23 | +/- ppt | FY3/23 | FY3/22 | +/- ppt |
| Tax rate (%) | 25.0 | 23.9 | 1.1 | 23.6 | 1.4 | 24.6 | 24.9 | (0.3) |
| Gross NPF ratio (%) | 3.8 | 3.8 | 0.0 | 3.9 | (0.1) | 3.8 | 3.8 | 0.1 |
| Financing & loans loss coverage ratio (%) | 157.8 | 162.8 | (5.0) | 153.7 | 4.0 | 156.3 | 162.8 | (6.5) |
| Net gearing (%) | 151.0 | 115.6 | 35.4 | 156.5 | (5.5) | 151.0 | 115.6 | 35.4 |

Source: Company

Results analysis

- 4QFY23 net profit was up 10% YoY largely due to higher fee income and interest/profit income but moderated by higher interest/profit expense and allowances for impairment loss on receivables (credit cost).
- FY23 net profit was up 4% YoY largely due to higher early settlement income and interest/profit income but moderated by higher interest/profit expense and credit cost.

| FYE 31 Mar | FY22A | FY23A | FY24E | FY25E | FY26E |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Key Metrics | | | | | |
| Core P/E (x) | 10.1 | 9.6 | 10.4 | 9.9 | 9.5 |
| Core FD P/E (x) | 10.2 | 9.7 | 10.6 | 10.2 | 9.8 |
| P/BV (x) | 1.6 | 1.7 | 1.6 | 1.6 | 1.5 |
| P/NTA (x) | 1.6 | 1.8 | 1.7 | 1.6 | 1.5 |
| Net dividend yield (%) | 5.8 | 16.5 | 6.3 | 6.5 | 6.8 |
| INCOME STATEMENT (MYR m) | | | | | |
| Islamic banking income | 206.4 | 209.4 | 213.6 | 222.5 | 231.7 |
| Other income | 33.0 | 52.0 | 36.3 | 37.8 | 39.3 |
| Total non-interest income | 239.4 | 261.4 | 250.0 | 260.3 | 271.0 |
| Operating income | 239.4 | 261.4 | 250.0 | 260.3 | 271.0 |
| Staff costs | (26.6) | (27.1) | (27.4) | (28.5) | (29.6) |
| Other operating expenses | (24.0) | (21.7) | (21.9) | (22.6) | (23.4) |
| Operating expenses | (50.6) | (48.8) | (49.2) | (51.1) | (53.0) |
| Pre-provision profit | 188.8 | 212.6 | 200.7 | 209.2 | 218.0 |
| Other allowances | (11.5) | (28.7) | (20.6) | (21.4) | (22.3) |
| Associates & JV income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pretax profit | 177.2 | 183.9 | 180.1 | 187.8 | 195.7 |
| Income tax | (44.1) | (45.2) | (44.2) | (46.1) | (48.1) |
| Reported net profit | 133.2 | 138.8 | 135.9 | 141.7 | 147.7 |
| Core net profit | 133.2 | 138.8 | 135.9 | 141.7 | 147.7 |
| BALANCE SHEET (MYR m) | | | | | |
| Cash & deposits with banks | 800.5 | 879.7 | 933.9 | 991.7 | 1,052.1 |
| Sec. under resale agreements | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Derivatives financial assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dealing securities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Available-for-sale securities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Investment securities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing and advances | 1,818.0 | 1,953.3 | 2,029.3 | 2,108.3 | 2,190.5 |
| Fixed assets | 6.4 | 7.2 | 7.2 | 7.1 | 7.0 |
| Intangible assets | 47.3 | 47.3 | 47.3 | 47.3 | 47.3 |
| Other assets | 53.0 | 59.3 | 59.3 | 59.3 | 59.3 |
| Total assets | 2,725.3 | 2,946.8 | 3,077.0 | 3,213.7 | 3,356.2 |
| Derivatives financial instrument | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Subordinated debt | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other securities in issue | 1,310.0 | 1,290.9 | 1,290.9 | 1,290.9 | 1,290.9 |
| Other borrowings | 342.0 | 434.3 | 516.6 | 602.9 | 692.7 |
| Other liabilities | 201.2 | 416.0 | 415.9 | 416.2 | 416.5 |
| Total liabilities | 1,853.2 | 2,141.2 | 2,223.4 | 2,310.0 | 2,400.1 |
| Share capital | 200.7 | 201.9 | 201.9 | 201.9 | 201.9 |
| Reserves | 671.4 | 603.7 | 651.7 | 701.8 | 754.2 |
| Shareholders' funds | 872.1 | 805.7 | 853.6 | 903.7 | 956.1 |
| 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 | 872.1 | 805.7 | 853.6 | 903.7 | 956.1 |
| Total liabilities & equity | 2,725.3 | 2,946.8 | 3,077.0 | 3,213.7 | 3,356.2 |

| FYE 31 Mar | FY22A | FY23A | FY24E | FY25E | FY26E |
|------------------------------|-------|-------|-------|-------|-------|
| Key Ratios | | | | | |
| Growth (%) | | | | | |
| Net interest income | na | na | na | na | na |
| Non-interest income | 3.3 | 9.2 | (4.4) | 4.1 | 4.1 |
| Operating expenses | 3.3 | (3.6) | 1.0 | 3.7 | 3.7 |
| Pre-provision profit | 3.3 | 12.6 | (5.6) | 4.2 | 4.2 |
| Core net profit | 6.8 | 4.2 | (2.1) | 4.3 | 4.2 |
| Gross loans | 1.8 | 7.5 | 4.0 | 4.0 | 4.0 |
| Customer deposits | na | na | na | na | na |
| Total assets | 9.4 | 8.1 | 4.4 | 4.4 | 4.4 |
| Profitability (%) | | | | | |
| Non-int. income/Total income | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Cost/income | 21.1 | 18.7 | 19.7 | 19.6 | 19.5 |
| Liquidity (%) | | | | | |
| Loans/customer deposits | na | na | na | na | na |
| Asset quality (%) | | | | | |
| Gross NPF | 3.8 | 3.8 | 3.8 | 3.8 | 3.8 |
| 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 | 16.2 | 16.5 | 16.4 | 16.1 | 15.9 |
| ROAA | 5.1 | 4.9 | 4.5 | 4.5 | 4.5 |
| Shareholder's equity/assets | 32.0 | 27.3 | 27.7 | 28.1 | 28.5 |

Source: Company; Maybank IBG Research

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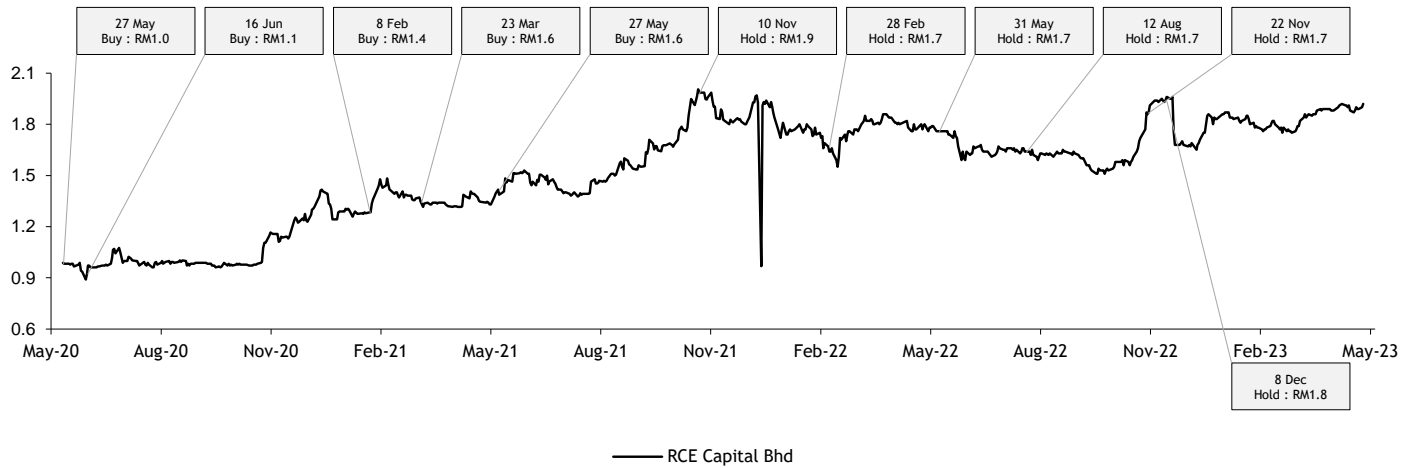
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