

RCE Capital Bhd (RCE MK)

Another record quarter with value emerging

Maintain MYR2.38 TP but upgrade to BUY from HOLD

Albeit marginal, the 1QFY3/24 results beat our expectations and set another record. It is also good to know that NPF ratios continue to ease after surging last year. This gives us comfort that RCE's high forecasted dividend yields of >6.0% p.a. will continue going forward. We maintain our earnings estimates and MYR2.38 TP based on 2.1x end-CY23E target P/BV. With >10% upside potential currently, we upgrade RCE to BUY from HOLD.

Outperformed a tad on low interest/profit expense

1QFY24 net profit of MYR36.9m (+14% YoY, +6% QoQ) was marginally above our expectations at 27% of our FY estimate. The outperformance was due to interest/profit expense of MYR24.9m (+23% YoY, -2% QoQ) coming in at only 23% of our FY estimate despite financing liabilities and debt securities growing 5% QoQ. No dividend was declared but this was expected as RCE traditionally declares dividends in the 2QFY and 4QFY.

Slowing financing growth expected, NPFs improving

Gross financing receivables growth decelerated to 1% QoQ in 1QFY24 from 2% QoQ in 4QFY23. That said, this was expected as there were no marked increase in the salaries of civil servants in the current quarter. Gross NPF ratio continues to improve by easing to 3.7% or down 22bps YoY and 7bps QoQ. Recall that this time last year, gross NPF ratios and allowance for impairment loss on receivables spiked due to more civil servants in the academic and healthcare sectors resigning.

Maintain earnings estimates and TP

Overall, we rate RCE's prospects as stable. RCE flagged the enactment of the Consumer Credit Act (CCA). Yet, we understand that the CCA is meant to target the unregulated 'buy now pay later' segment and not RCE which is regulated by the Ministry of Housing and Local Government and voluntarily reporting to Bank Negara Malaysia. Given that the earnings outperformance was marginal, we maintain our earnings estimates and MYR2.38 TP for now.

FYE Mar (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Operating income	239	261	249	259	270
Pre-provision profit	189	213	199	208	217
Core net profit	133	139	135	141	147
Core FDEPS (MYR)	0.18	0.19	0.18	0.19	0.20
Core FDEPS growth(%)	3.3	3.7	(3.3)	4.3	4.3
Net DPS (MYR)	0.11	0.30	0.14	0.15	0.15
Core FD P/E (x)	10.2	9.7	12.2	11.7	11.2
P/BV (x)	1.6	1.7	2.0	1.9	1.8
Net dividend yield (%)	5.8	16.5	6.3	6.5	6.7
Book value (MYR)	1.19	1.10	1.14	1.19	1.24
ROAE (%)	16.2	16.5	16.4	16.4	16.5
ROAA (%)	5.1	4.9	4.5	4.5	4.5
Consensus net profit	-	-	141	149	156
MIBG vs. Consensus (%)	-	-	(4.4)	(5.6)	(6.0)

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BUY

[Prior:HOLD]

Share Price MYR 2.23
12m Price Target MYR 2.38 (+13%)
Previous Price Target MYR 2.38

Company Description

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

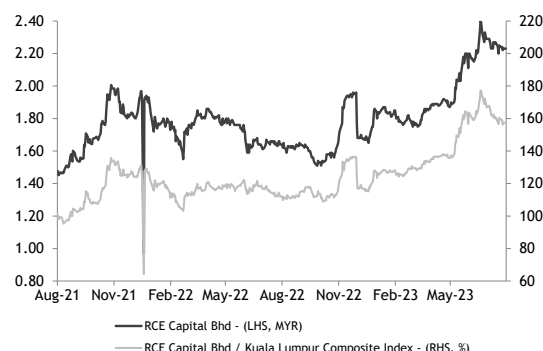
Statistics

52w high/low (MYR) 2.40/1.51
3m avg turnover (USDm) 0.3
Free float (%) 30.6
Issued shares (m) 741
Market capitalisation MYR1.7B
USD358M

Major shareholders:

Cempaka Empayar Sdn. Bhd. 57.9%
RCE Capital Berhad 1.1%
Azman Hashim 0.2%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(3)	19	36
Relative to index (%)	(6)	16	41

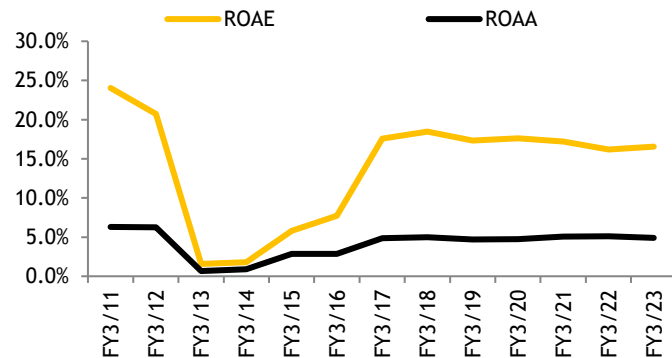
Source: FactSet

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Tear Sheet Insert

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.

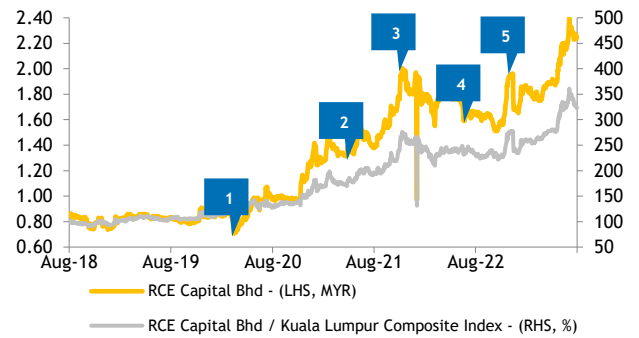
ROE and ROA



Source: Company

Price Drivers

Historical share price trend



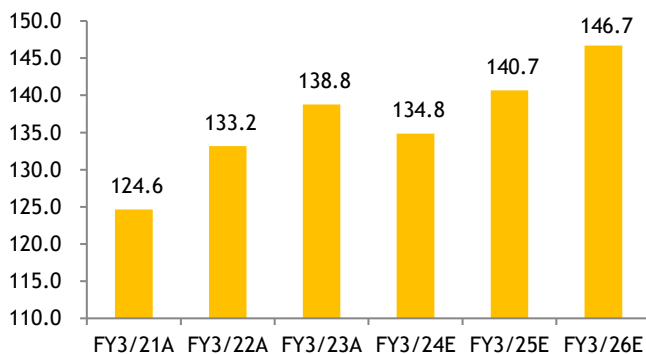
Source: Company, Maybank IBG Research

1. Movement Control Order lengthened time to process new customers applications, resulting in less financing disbursed.
2. 2QFY21 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.

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)

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.

Figure 1: Summary Results Table

FY Mar (MYR m)	1QFY3/24	1QFY3/23	% YoY	4QFY3/23	% QoQ
Interest/profit income	71.1	69.2	2.7	70.5	0.9
Other revenue	12.9	8.4	52.8	12.2	5.9
Revenue	84.0	77.7	8.1	82.6	1.6
Other income	8.5	5.6	51.9	8.8	(2.8)
Interest/profit expense applicable to revenue	(24.9)	(20.3)	22.5	(25.4)	(1.7)
Directors' remuneration and staff costs	(7.1)	(6.1)	16.7	(6.0)	18.7
Allowances for impairment loss on receivables, net	(4.7)	(8.2)	(42.5)	(8.2)	(42.1)
Depreciation of plant and equipment and right-of-use asset	(0.9)	(0.8)	8.0	(0.9)	-
Other expenses	(5.8)	(4.9)	19.2	(4.5)	28.4
Finance costs	(0.1)	(0.1)	(7.0)	(0.1)	(10.2)
Profit before tax	49.0	42.9	14.2	46.4	5.5
Taxation	(12.1)	(10.7)	13.6	(11.6)	4.4
Net profit	36.9	32.2	14.4	34.8	5.8
Financing & loans receivables, gross	2,045.4	1,904.7	7.4	2,020.9	1.2
(Allowance for impairment)	(119.9)	(118.3)	1.4	(121.5)	(1.3)
Financing & loans receivables, net	1,925.5	1,786.4	7.8	1,899.4	1.4
	1QFY3/24	1QFY3/23	+/- ppt	4QFY3/23	+/- ppt
Tax rate (%)	24.7	24.9	(0.1)	25.0	(0.3)
Gross NPF ratio (%)	3.7	4.0	(0.2)	3.8	(0.1)
Financing & loans loss coverage ratio (%)	156.9	157.1	(0.2)	157.8	(0.9)
Net gearing (%)	160.8	117.7	43.1	151.0	9.8

Source: Company

Results analysis

- 1QFY24 net profit was up 14% YoY largely due to:- (i) higher profit and fee income driven by more financing extended; and (ii) lower allowances for impairment loss on receivables; but moderated by (iii) higher interest/profit expense driven by more borrowings and higher profit rates.
- 1QFY24 net profit was up 6% QoQ largely due to lower allowances for impairment loss on receivables. The lower allowances for impairment loss on receivables was due to imputation of a higher real GDP growth forecast into its Expected Credit Loss model.

FYE 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
Core P/E (x)	10.1	9.6	12.1	11.6	11.1
Core FD P/E (x)	10.2	9.7	12.2	11.7	11.2
P/BV (x)	1.6	1.7	2.0	1.9	1.8
P/NTA (x)	1.6	1.8	2.1	2.0	1.9
Net dividend yield (%)	5.8	16.5	6.3	6.5	6.7
INCOME STATEMENT (MYR m)					
Islamic banking income	206.4	209.4	210.0	218.8	228.0
Other income	33.0	52.0	38.8	40.3	41.9
Total non-interest income	239.4	261.4	248.8	259.1	269.9
Operating income	239.4	261.4	248.8	259.1	269.9
Staff costs	(26.6)	(27.1)	(27.5)	(28.6)	(29.7)
Other operating expenses	(24.0)	(21.7)	(22.0)	(22.7)	(23.5)
Operating expenses	(50.6)	(48.8)	(49.5)	(51.3)	(53.2)
Pre-provision profit	188.8	212.6	199.3	207.9	216.7
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	178.7	186.4	194.4
Income tax	(44.1)	(45.2)	(43.9)	(45.8)	(47.7)
Reported net profit	133.2	138.8	134.8	140.7	146.7
Core net profit	133.2	138.8	134.8	140.7	146.7
BALANCE SHEET (MYR m)					
Cash & deposits with banks	800.5	879.7	918.2	959.6	1,004.4
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	3,061.2	3,181.6	3,308.5
Derivatives financial instruments	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	602.3	692.1
Other liabilities	201.2	416.0	415.8	416.2	416.5
Total liabilities	1,853.2	2,141.2	2,223.3	2,309.3	2,399.5
Share capital	200.7	201.9	201.9	201.9	201.9
Reserves	671.4	603.7	636.0	670.4	707.1
Shareholders' funds	872.1	805.7	837.9	872.3	909.1
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	837.9	872.3	909.1
Total liabilities & equity	2,725.3	2,946.8	3,061.2	3,181.6	3,308.5

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	(4.8)	4.2	4.2
Operating expenses	3.3	(3.6)	1.4	3.7	3.7
Pre-provision profit	3.3	12.6	(6.3)	4.3	4.3
Core net profit	6.8	4.2	(2.8)	4.3	4.3
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	3.9	3.9	4.0
Profitability (%)					
Non-int. income/Total income	100.0	100.0	100.0	100.0	100.0
Cost/income	21.1	18.7	19.9	19.8	19.7
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	16.4	16.5
ROAA	5.1	4.9	4.5	4.5	4.5
Shareholders equity/assets	32.0	27.3	27.4	27.4	27.5

Source: Company; Maybank IBG Research

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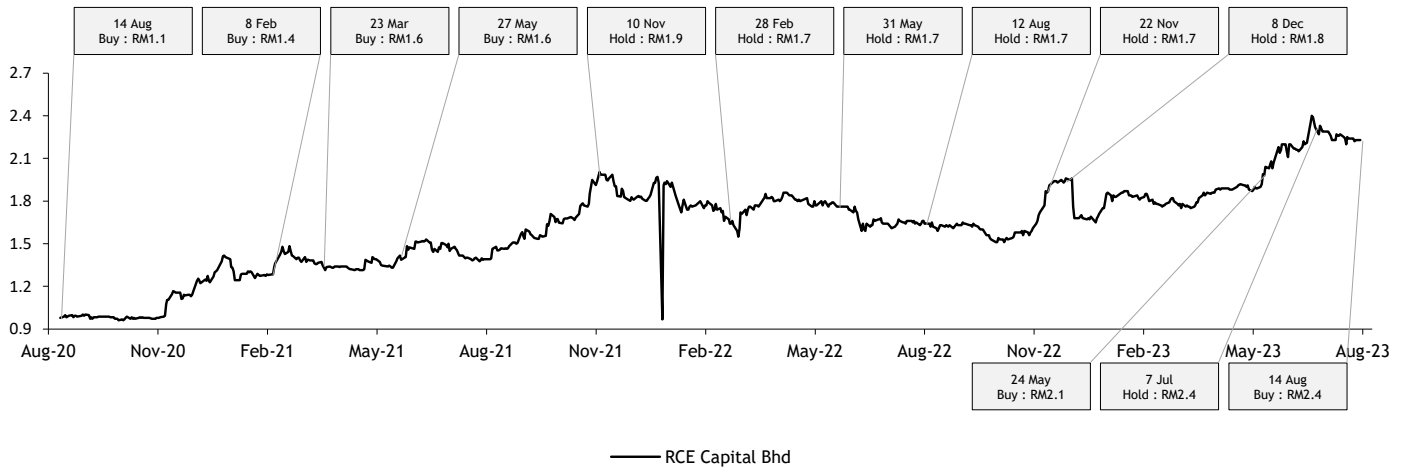
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