



Source: Bloomberg

Investment Merits

- Healthy earnings growth on better NIM and lower credit costs;
- Resilient asset quality with high LLC ratio;
- Undemanding valuation compared to peers.

Company Profile

RCE Capital is a provider of general financing services for consumers, as well as processing and administration of payroll collections. The majority of RCE's customers are civil servants.

Highlights

Measured loan growth in challenging times. RCE achieved a robust 3-year CAGR loan growth of 12% pa in FY15-18 (Mar), helped by healthy consumption spending and expansion in its customer base: from 48,000 to 75,000 over the same period. Management sees opportunity to further increase its customer numbers, given RCE's small c.5% market share of Malaysia's 1.6m civil servants. That said, loan growth has moderated to an annualised 6.2% for 9MFY19, as management focuses on asset quality in the current challenging economic environment. RCE expects loan growth to track system growth over the near term. Still, we believe an increase in its loans should continue to outpace the system, albeit slightly.

Asset quality resilient. RCE's asset quality has been resilient for the past few years, with NPL ratio at 4.3% in FY16 and 4.1% in Dec 2018. Its LLC has improved to 180% from 163% in FY15. We believe this can be attributed to the salary deduction scheme for civil servants. Its wholly-owned EXP Payment unit was granted the Accountant General's Department of Malaysia code for the salary deduction scheme in 2012. We believe asset quality will remain healthy, given management's measured growth in loan assets.

NIM expansion on improved funding mix. RCE's NIM has expanded to an estimated 9% in 9MFY19 from 8.5% in FY16 – helped by active debt and equity management. The issuance of *sukuk* since 2014 has raised long-term borrowings to 61.7% of total borrowings in Dec 2018 (Mar 2016: 56%) and lowered average borrowing costs. RCE established an MYR2bn *sukuk* programme in Mar 2019, with funding cost at a lower rate than the 5.51% for the MYR900m *sukuk* completed in Mar 2018.

Management also reduced RCE's net gearing ratio to 2.02x in Dec 2018 from a high of 2.39x in Mar 2017 – lower than AEON Credit Service (M)'s (ACSM MK, NEUTRAL, TP: MYR15.40) 3.56x and MBSB Bank's 4.23x.

Stock Profile

Bloomberg Ticker	RCE MK
Avg Turnover (MYR/USD)	0.49m/0.12m
Net Gearing (%)	212.3
Market Cap (MYRm)	557.3m
Beta (x)	0.99
BVPS (MYR)	1.56
52-wk Price low/high (MYR)	1.55 - 2.41
Free float (%)	30

Major Shareholders (%)

Cempaka Empayar SB	60.8
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Share Performance (%)

	1m	3m	6m	12m
Absolute	(2.4)	10.9	1.9	32.5
Relative	1.0	13.7	10.2	44.3

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Company Report Card

Latest results. For the nine months ended 31 Dec 2018, RCE achieved net profit of MYR71.8m. Earnings growth of 9.4% YoY was supported mainly by loan growth of 4.7% YTD (Dec 2018), or an annualised 6.2%, and 20% YoY decline in loan impairment charges with annualised credit cost at 114bps vs 187bps in FY18. We estimate that NIM expanded to 9% vs 8.73% in FY18.

Asset quality was stable, with NPL ratio at 4.1% while LLC stood at a higher 180.4% (Mar 2018: 178%). Net gearing improved slightly to 2.02% from 2.12% in Mar 2018.

Dividend. An interim DPS of MYR0.04 was paid in 2QFY19 (2QFY18: MYR0.03), up from MYR0.03 a year ago. Management guided for dividend payouts of 20-40% of net profit.

Management. RCE is 60.78% owned by Cempaka Empayar, which is wholly-owned by Tan Sri Azman Hashim. Two of Tan Sri's children sit on the board: Shah Azman (non-independent non-executive chairman – appointed on 1 Apr 2015) and Shalina Azman (non-independent non-executive director – appointed on 6 Jan 2000).

RCE is managed by professionals: chief executive officer Loh Kam Chuin was appointed on 1 Mar 2010, while chief financial officer Johnson Yap Choon Seng has been with the company since Feb 2005. Chief business officer Oon Hooi Khee joined RCE in Sep 2006.

Investment Case

Undemanding valuations. At current prices, RCE is trading at 1x P/BV (Dec 2018) and a mere 5.8x annualised 9MFY19 EPS of MYR0.28. We believe its valuation multiples are undemanding, given the company's annualised ROE of 17.7%. This is compared to AEON Credit's FY20 (Feb) P/BV of 2x against ROE of 18.9%. We believe the stock is worth MYR2.10-2.20 based on GGM-derived P/BVs of 1.16-1.22x.

We believe our view on RCE's valuation is shared by management, which has been buying back the company's shares at prices ranging between MYR1.40 and MYR1.64 over the past 12 months.

Key risks to our view are a sharper rise in loan impairment charges, unexpected NIM compression, and a sharper slowdown in loan growth.

Profit & Loss	Mar-16	Mar-17	Mar-18
Total turnover (MYRm)	126	172	188
Reported net profit (MYRm)	40	79	89
Recurring net profit (MYRm)	40	79	89
Recurring net profit growth (%)	9.3	99.5	12.3
Recurring EPS (MYR)	0.12	0.24	0.26
DPS (MYR)	0.14	0.03	0.07
Dividend Yield (%)	8.6	1.9	4.3
Recurring P/E (x)	13.1	6.8	6.2
Return on average assets (%)	2.8	4.9	5.0
Return on average equity (%)	7.7	17.6	18.5
P/B (x)	4.8	1.3	1.1

Source: Company data, RHB

Balance Sheet (MYRm)	Mar-16	Mar-17	Mar-18
Gross loans & financing	1,365	1,522	1,643
Total assets	1,551	1,702	1,859
Borrowings	1,029	1,214	1,298
Total other liabilities	65	47	41
Total liabilities	1,094	1,261	1,340
Shareholder's equity	457	441	519
Minority interest	0	0	0
Other equity	0	0	0
Total liabilities & equity	1,551	1,702	1,859

Source: Company data, RHB

Financial Ratios	Mar-16	Mar-17	Mar-18
NIM (%)	8.59	8.53	8.73
Cost-income ratio (%)	37.0	25.1	21.9
Net gearing ratio (x)	1.89	2.39	2.12
GL ratio (%)	7.80	7.20	7.10
NPL ratio (%)	4.29	4.23	4.06
Loan loss coverage ratio (%)	178.0	172.2	178.0
Credit cost (bps)	200	188	187

Source: Company data, RHB