

Recommendation: **STRONG BUY**

Stock Code: 9296

Bloomberg: RCE MK

Price: MYR0.83

12-Month Target Price: MYR1.17

Date: September 21, 2007

Board: Main

Sector: Trading/Services

GICS: Financials/Consumer Finance

Market Value - Total: MYR536.5 mln

Summary: RCE Capital Bhd's (RCE) primary business is in the advancement of personal loans and consumer financial services targeted at customers in the public sector.

Analyst: Desmond Ch'ng, ACA



Recent Developments

- RCE recently entered into an MOU with Southern Bank Vietnam (SBV) to form a joint-venture company in which it will hold a 30% stake while SBV will hold an 11% stake. The JV company will apply for a finance company licence in Vietnam. SBV is the second largest joint stock commercial bank in Vietnam.
- While we view the geographical diversification of its financial business into Vietnam as potentially positive, details are lacking at the moment, for we understand that due diligence has just commenced, while strategic partners for the remaining stake have yet to be identified.
- Meanwhile, the company had also earlier announced the Securities Commission's approval for its proposed MYR1.5 bln asset-backed securities (ABS) program. The ABS is to be issued by Tresor Assets, a special-purpose vehicle, secured against tranches of RCE's loan receivables.
- We view this issue positively. Currently, RCE's funding cost averages 7%-8%, given that the company has to borrow from the money market to fund its activities. With this ABS issue, it should be able to reduce its funding cost by about 200 to 300 bps, and the savings would flow directly to its bottom-line.

Recommendation & Investment Risks

- We maintain both our Strong Buy and 12-month target price of MYR1.17. The recent salary hike for civil servants bodes well for increased financing opportunities for RCE.
- Our target price continues to be PER-based. We maintain a PER of 11.7x to our FY09 (Mar.) earnings forecast, this being a 20% discount to the present banking sector PER to reflect RCE's smaller size as well as higher funding costs.
- Risks to our recommendation and target price include: (i) possible changes to the company's arrangement with the cooperatives that are an essential distribution channel for its loans; (ii) heightened competition from existing and new competitors; and (iii) higher collection problems with rising bad debt.

Earnings Outlook

- Earning growth momentum is expected to remain strong, with a projected 2-year CAGR of 19%, while ROEs are expected to average 23%.

Key Stock Statistics

FY Mar.	2007	2008E
Reported EPS (sen)	10.0	8.3
PER (x)	8.3	9.9
Dividend/Share (sen)	1.0	1.0
NTA/Share (MYR)	0.21	0.29
Book Value/Share (MYR)	0.25	0.34
No. of Outstanding Shares (mln)	646.3	
52-week Share Price Range (MYR)	0.29 - 1.10	
Major Shareholders:	%	
AmCorp Group Bhd	41.5	

Per Share Data

FY Mar.	2005	2006	2007	2008E
Book Value (MYR)	0.11	0.15	0.25	0.34
Cash Flow (sen)	2.9	3.7	10.0	8.4
Reported Earnings (sen)	2.8	3.6	10.0	8.3
Dividend (sen)	0.0	0.0	1.0	1.0
Payout Ratio (%)	0.0	0.0	10.3	8.9
PER (x)	29.8	22.8	8.3	9.9
P/Cash Flow (x)	28.8	22.3	8.3	9.9
P/Book Value (x)	7.6	5.6	3.3	2.5
Dividend Yield (%)	0.0	0.0	1.2	1.2
ROE (%)	26.4	26.2	36.5	28.5
Net Gearing (%)	105.7	251.0	197.3	163.8

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Profit & Loss

FY Mar. / MYR mln	2006	2007	2008E	2009E
Reported Revenue	57.5	98.7	134.4	169.1
Reported Operating Profit	24.2	59.8	75.2	90.1
Depreciation & Amortization	-0.4	-0.4	-0.4	-0.5
Net Interest Income / (Expense)	NA	NA	NA	NA
Reported Pre-tax Profit	23.5	73.8	71.9	86.3
Effective Tax Rate (%)	5.1	14.1	25.0	25.0
Reported Net Profit	19.8	63.4	53.9	64.7
Reported Operating Margin (%)	42.2	60.6	56.0	53.3
Reported Pre-tax Margin (%)	40.9	74.8	53.5	51.0
Reported Net Margin (%)	34.4	64.2	40.1	38.3

Source: Company data, S&P Equity Research

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Strong Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

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Hold: Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

Strong Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

S&P 12 Month Target Price – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

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For residents of Malaysia. All queries in relation to this report should be referred to Alexander Chia, Desmond Ch'ng or Ching Wah Tam.

Recommendation and Target Price History

Date	Recommendation	Target Price
28-May-07	Strong Buy	1.17
22-May-07	Strong Buy	1.05
6-Mar-07	Strong Buy	0.62
30-Nov-06	Strong Buy	0.45
5-Sep-06	Buy	0.35
14-Aug-06	Buy	0.32
23-May-06	Buy	0.42
13-Sep-05	Buy	0.28

