

RCE Capital hopes to continue giving good dividend yield

- **The** company tries to strike a balance between managing its funds and rewarding its shareholders
- **Consistent** profit and stable cash flow are essential to maintain an uninterrupted streak of dividend payout track record

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BEST UNDER BILLION AWARDS 2017



by
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RCE Capital Bhd does not have a formal dividend policy but this has not deterred the company from paying good dividends to its shareholders.

In fact, the company recently topped the Best Dividend Yield category among companies with a market capitalisation of between RM500 mil and RM950 mil in *FocusM's* Best Under Billion Award 2017.

Notably, RCE Capital has been consistently paying dividends since its financial year ended March 31, 2007.

In FY16, the loan and financing services provider posted a dividend yield of 12.3% based on a share price of RM1.14 at the end of the fiscal period. The double-digit yield was primarily due to a one-off special dividend worth 10.5 sen per share dished out to shareholders. On top of that, it paid another 3.5 sen final dividend to shareholders.

"It was totally unexpected. We are pleasantly surprised that we won this award. We thought there are other candidates who are more suitable," its CEO Loh Kam Chuin tells *FocusM*. RCE Capital is a subsidiary of Amcorp Group Bhd.

"I hope shareholders are happy with what we have given. We also expect more dividends to come, probably not like the special dividend but more towards what we have been paying for the last 10 years.

"We do not have a dividend policy, but we are consistent in the way we have been paying dividends. Going forward, we owe it to our shareholders, investors and perhaps to our bankers/financiers to have some dividend guidance, so that everybody can expect the range of dividends that we will be paying," he adds.

It paid a final dividend of 1.5 sen per share for three straight years before FY16. RCE Capital distributed a final dividend of three sen, amounting to RM10.1 mil to shareholders in the subsequent year.

While public-listed company's initiatives to reward shareholders

are laudable, the decision to pay dividends boils down to its profitability and cash flow.

Loh says it is a delicate balancing act between managing its funds and rewarding its shareholders, who expect a certain quantum of returns on their investment. "We have to always try to strike a balance and ensure that we are in the position to declare dividends on a periodic basis," he says.

Loh strongly believes that good dividend payouts will eventually be reflected in its share price. "Share price is not within our control but good dividends will reflect a favourable movement in our share price. We aim to strike a balance between preserving funds for business use and also rewarding shareholders."

"Our target is to be comparable, if not higher than the rates offered by banks. If you look at the track record you will know that we have been consistent in how much we pay. Dividend yield is something that we will continue to look into," he adds.

Loh says consistent profit and stable cash flow are essential in maintaining an uninterrupted streak of dividend payout track record.

Robust FY17 result

The company has always been striving to reach a balance between bank borrowings and profits generated from the business.

RCE Capital is in the business of providing consumer financing schemes. It enters into agreements with cooperatives and foundations to provide unsecured Islamic financing products to civil servants. Repayments are then received in the form of monthly instalments via direct salary deductions.

For FY17, RCE Capital achieved a commendable 11.6% loan growth in the consumer



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financing segment, which is the largest contributor to the company's pre-tax profit of RM101.5 mil.

Revenue expanded by 37.53% to RM223.33 mil – a result of higher interest income derived from a larger loan base in the consumer financing segment and fee income arising from an improvement in business terms.

In addition, the introduction of a new product that matches borrowers' risk profile better has also fuelled its growth. As a result, its net profit almost doubled to RM78.95 mil in FY17 from RM39.57 mil the year before.

All the collective effort has translated into a compounded annual growth rate (CAGR) of 84.79% in net profit for the financial period between FY14 and FY17. Loh has attributed this high CAGR to cost control.

Due to the non-bank status of RCE Capital, it is not allowed to collect deposits from the public

to fund its lending business. Thus it is crucial to monitor the borrowings cost closely which is correlated to the expanding loan base.

In FY17, RCE Capital's total loan base expanded 11.6% year-on-year to RM1.5 bil. Correspondingly, net borrowings increased from RM900 mil to RM1.1 bil, causing a spike of 28.2% in interest expense, amidst improving overall cost of funds arising from more favourable financing terms.

"We have to manage the top line and cost to achieve good bottom line numbers. We are very careful on the cost to income ratio, on how we manage the borrowing costs and overheads, these are to ensure we operate optimally," he says.

Loh is optimistic that the demand for loans will continue to surge as Malaysia moves towards becoming a high-income nation. He also sees more impetus for growth from the civil servant segment, especially as the general election is looming.

"No doubt we have to be mindful of the high household debt (which is also a concern of Bank Negara Malaysia) at this particular point. On our side, we have to be responsible to ensure that we are giving out loans to people who meet the requirements," he adds.

Gross impaired ratio of RCE Capital has further improved to 7.2% in FY17 from 7.8% in the year before.

At the end of the day, quality loans are important for quality growth. Only then will RCE Capital be able to maintain a steady dividend payout in years to come.

RCE Capital Bhd

FINANCE

KEY BOARD MEMBERS AND MANAGEMENT

Shahman Azman (chairman)
Loh Kam Chuin (CEO)
Tan Sri Mohd Zaman Khan (director)

MAJOR SHAREHOLDERS

Cempaka Empayar Sdn Bhd

60.82%

MARKET CAP (Jan 18)

RM506.2m

Share price (Jan 18)

RM1.48

52-week high (May 24, 2017)

RM1.92

52-week low (Jan 19, 2017)

RM1.40

FINANCIAL RESULTS

(Six months ended Sept 30, 2017)

Revenue

RM118.66m

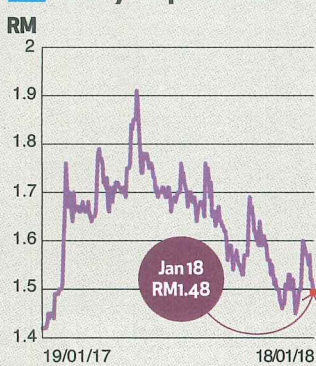
Net profit

RM42.74m

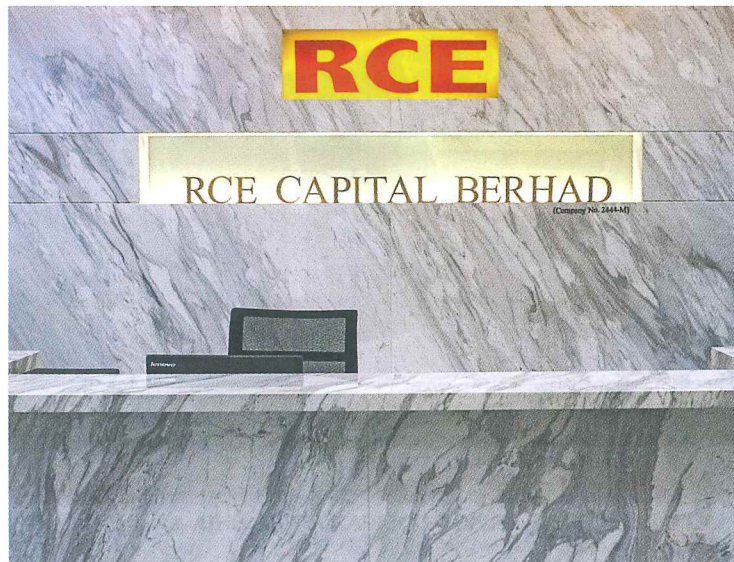
ANALYST CALL

Maybank Investment Bank Research retained a buy call on the company with a target price of RM1.95

One-year price chart



Source: Bloomberg



For FY17, RCE Capital made a pre-tax profit of RM101.5 mil

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