

# Stock Digest

Sunday, 19 Feb, 2023

## Rexit Bhd

### Increased software customisation services drive growth

#### Summary

- Rexit Bhd (REXIT) 2Q23 core net profit climbed 10.0% YoY to RM2.7m, bringing the 1H23 core net profit to RM5.0m. The net profit was largely in line with ours and consensus estimates of 48.2% and 52.6%, respectively.
- 2Q23 core net profit grew 10% YoY and 13% QoQ, in line with the growth in revenue, primarily driven by increased contribution from software sales and services, especially from the software customisation services for existing customers. The contribution from customisation services differs for each individual customer as it depends on the amount of work performed.
- We continue to like REXIT's business model leveraging on its core competencies such as its 24x7 secured e-Cover infrastructure, experienced management team, and solid relationship with clients which will ensure a stream of recurring income. Meanwhile, the group is in negotiation with potential new clients for FY24 who will bring new source of revenue for the business in both transactions and subscription basis.
- In view of REXIT's effort to expand the e-Cover services to financial services and other sectors of e-commerce, we expect a gradual increase in cost of sales especially the salaries and related costs of the software development staff in line with the growth in revenue from software sales and services.
- Asset wise, REXIT does not expect any significant capital expenditure at least in the next three years following the migration to Tier 3 certified data centre at TM One, Brickfields in FY22. Geographically, the group remains focus on expanding its business offerings in markets it operates in, mainly Malaysia, and Hong Kong, China.
- Moving forward, the operating environment may remain challenging for REXIT as World Bank forecasted Malaysia's economic growth to be moderate at 4.0%, due to risks emanating from the global front such as higher-than-expected inflation and a prolonged war in Ukraine. Over the longer term, however, REXIT's growth is expected to be underpinned by the increasing Malaysia general insurance industry's gross written premium. According to GlobalData, the market is expected to achieve a CAGR of more than 4.0% during 2021-2026.

#### Results Note – 3QFY23

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#### BUY

Share price	RM0.765
Target price	RM0.83
Previous TP	RM0.83
Capital upside	8.5%
Dividend return	5.1%
Total return	13.6%

#### Company profile

Principally focuses on delivering solutions and services to the General Insurance and Financial services industry.

#### Stock information

Bursa Code	0106
Bloomberg ticker	REXI MK
Listing market	ACE
Share issued (m)	173.2
Market Cap (m)	132.5
52W High/Low	0.865 / 0.72
Est. Free float	19.5
Beta	0.6
3-mth avg vol ('000)	49.9
Shariah compliant	No

#### Major shareholders

	%
Rexit Venture Sdn Bhd	41.2
Global Hartabumi Sdn Bhd	11.9
Kuah Hun Liang	10.7

#### Share price vs. KLCI (%)

	1M	3M	12M
Hist. return	-1.9	2.0	-11.0
Absolute	-0.4	0.1	-3.4
Relative			

#### Earnings snapshot

FYE (Dec)	FY22	FY23f	FY24f
PATMI (m)	10.2	10.4	11.3
EPS (sen)	5.8	6.0	6.5
P/E (x)	13.1	12.8	11.8

#### Relative performance chart



Quarterly performance FYE Jun (RM m)	2QFY22	1QFY23	2QFY23	QoQ (%)	YoY (%)	6MFY22	6MFY23	YoY (%)
Revenue	5.9	6.5	6.8	4.7	15.6	12.0	13.4	11.2
EBITDA	3.6	3.5	3.9	9.9	7.2	7.4	7.4	1.2
PBT	3.3	3.3	3.6	11.6	8.9	6.8	6.9	1.6
PAT	2.4	2.3	2.7	13.0	10.0	5.0	5.0	(0.7)
Core PATMI	2.4	2.3	2.7	13.0	10.0	5.0	5.0	(0.7)
Reported PATMI	2.5	2.4	2.7	12.1	8.4	5.1	5.2	0.3
Core EPS (sen)	1.4	1.4	1.6	12.1	8.4	3.0	3.0	0.3
EBITDA margin (%)	61.4	54.2	56.9			61.1	55.6	
PBT margin (%)	56.5	49.9	53.2			56.5	51.6	
Core PATMI margin (%)	40.7	35.9	38.7			41.9	37.4	

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## Valuation & Recommendation

- As the core net profit was largely in line with our expectations, we maintain our forecasted earnings at RM10.4m, RM11.3m and RM11.9m for FY23f, FY24f, and FY25f respectively. The forecasted earnings take into account the recurring contributions from existing customers, as well as the new source of revenue from the customers who are expected to be on board in FY24.
- We retained our **BUY** recommendation on REXIT, with an unchanged target price at RM0.83. The target price is derived by ascribing a P/E of 14.0x to FY23f EPS of 6.0 sen. Whilst the group does not have a fixed dividend policy, we assumed a payout of 3.9-4.4 sen per share over the next three years based on historical trend, representing a payout ratio of 65.0% of its distributable income from FY23f to FY25f.
- Risks to our recommendation include possible non-renewal of mySalam Outsourcing Services Agreement which commenced on 1<sup>st</sup> January 2019 until 31<sup>st</sup> December 2023. In the event of a non-renewal of the agreement, it will cause a negative impact on the group's revenue. Besides, REXIT is vulnerable to the risks of security risks and system disruptions such as computer viruses, fraud, and blackouts, which may affect the group's ability to deliver its products and services.

## Financial Highlights

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Jun (RM m)	FY21	FY22	FY23f	FY24f	FY25f	FYE Jun (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Revenue	24.6	24.9	27.1	29.4	30.9	Cash	20.7	26.9	29.1	34.4	39.4
EBITDA	13.8	14.7	14.6	15.8	16.6	Receivables	1.4	3.6	3.7	3.6	3.8
EBIT	12.9	13.5	13.6	14.8	15.6	Inventories	-	-	-	-	-
Net finance income/ (cost)	0.0	(0.0)	0.0	0.0	0.0	PPE	5.7	5.6	6.6	5.8	5.0
Associates & JV	-	-	-	-	-	Others	21.4	13.5	13.4	13.4	13.5
Profit before tax	12.9	13.4	13.6	14.8	15.6	Assets	49.1	49.6	52.9	57.2	61.6
Tax	(2.9)	(3.3)	(3.3)	(3.6)	(3.8)	Debts	-	-	-	-	-
Net profit	10.0	10.2	10.4	11.3	11.9	Payables	0.0	0.0	0.1	0.1	0.1
Minority interest	-	-	-	-	-	Others	4.5	4.9	4.5	4.9	5.1
Core earnings	10.0	10.2	10.4	11.3	11.9	Liabilities	4.5	5.0	4.6	5.0	5.2
Exceptional items	0.1	1.1	-	-	-	Shareholder's equity	44.6	44.6	48.3	52.2	56.4
Reported earnings	9.9	9.1	10.4	11.3	11.9	Minority interest	-	-	-	-	-
						Equity	44.6	44.6	48.3	52.2	56.4
Cash Flow Statement						Valuation & Ratios					
FYE Jun (RM m)	FY21	FY22	FY23f	FY24f	FY25f	FYE Jun (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Profit before taxation	12.9	13.4	13.6	14.8	15.6	Core EPS (sen)	5.7	5.8	6.0	6.5	6.8
Depreciation & amortisation	0.9	1.2	1.0	1.0	1.0	P/E (x)	13.3	13.1	12.8	11.8	11.2
Changes in working capital	4.8	(2.2)	(0.1)	0.1	(0.2)	DPS (sen)	4.0	4.0	3.9	4.2	4.4
Share of JV profits	-	-	-	-	-	Dividend yield	5.2%	5.2%	5.1%	5.5%	5.8%
Taxation	(2.9)	(3.3)	(3.3)	(3.6)	(3.8)	BVPS (RM)	0.26	0.26	0.28	0.30	0.32
Others	(1.0)	(1.9)	(0.3)	0.3	0.2	P/B (x)	3.0	3.0	2.8	2.6	2.4
Operating cash flow	14.7	7.4	11.0	12.7	13.0	EBITDA margin	56.0%	59.1%	53.8%	53.8%	53.8%
Net capex	(2.1)	(1.0)	(2.0)	(0.2)	(0.2)	EBIT margin	52.2%	54.1%	50.2%	50.3%	50.5%
Others	0.8	8.6	-	-	-	PBT margin	52.2%	54.1%	50.3%	50.5%	50.6%
Investing cash flow	(1.3)	7.6	(2.0)	(0.2)	(0.2)	PAT margin	40.5%	40.9%	38.2%	38.4%	38.5%
Changes in borrowings	-	-	-	-	-	Core PAT margin	40.5%	40.9%	38.2%	38.4%	38.5%
Issuance of shares	-	-	-	-	-	ROE	23.4%	22.8%	22.3%	22.4%	21.9%
Dividends paid	(7.0)	(7.0)	(6.7)	(7.3)	(7.7)	ROA	21.2%	20.6%	20.2%	20.5%	20.0%
Others	0.8	(0.5)	-	-	-	Net gearing	CASH	CASH	CASH	CASH	CASH
Financing cash flow	(6.1)	(7.5)	(6.7)	(7.3)	(7.7)						
Net cash flow	7.3	7.4	2.2	5.2	5.0						
Forex	(0.1)	(0.0)	-	-	-						
Others	(0.8)	(1.2)	-	-	-						
Beginning cash	14.3	20.7	26.9	29.1	34.4						
Ending cash	20.7	26.9	29.1	34.4	39.4						