

Stock Digest

Tuesday, 22 Nov, 2022

Rexit Bhd

Steady revenue stream from existing customers

Summary

- Rexit Bhd (REXIT) 1Q23 core net profit fell 10.6% YoY to RM2.3m. The results came in slightly below expectations, amounting to 22.6% of our full year forecast at RM10.4m. Key deviations were mainly due to a lower-than-expected other income in the current quarter. An interim dividend of 4.0 sen per share, payable on 23rd December 2022 was declared.
- Core net profit decreased YoY despite generating higher revenue, primarily due to the absence of gains from the maturity of long-term investment in quoted funds that were redeemed in the previous corresponding quarter. QoQ, core net profit however climbed 12.8%, attributed to an increase in software sales and services, especially in the software customisation services.
- The provision of customised software development services includes the process of designing, deploying, and maintaining customised software for customers to fulfil the requirements in various industries, such as the accounting standards. Revenue generated from the provision of customised software development include both the upfront payment and subsequent recurring income.
- REXIT remained committed to grow its customer base in e-Cover, InfoGuardian, and e-PPA. The group is in negotiation with various potential customers, targeting to bring two new customers on board in FY24. The revenue generated from the two new customers is expected to be in both transactions and subscription basis. Meanwhile, the group has been continuously refreshing its e-Cover portal and engaging existing customers for the implementation of additional products and services.
- We do not expect any significant upgrade of existing data centre at least in the next three years following the migration to Tier 3 certified data centre at TM One. Cost wise, we anticipate an increase in software development staff cost to bring the two new customers on board upon successful negotiation. Talent retention remained as one of the key concerns for the industry.
- Moving forward, operating environment may remain challenging for the group as factors such as rising inflation and interest rates, volatile currency exchange, and the softer economic recovery; the Malaysian economy in 2023 is projected to grow at a slower pace with World Bank revising its growth projection to 4.2% from 4.5%.

Quarterly performance								
FYE Jun (RM m)	1QFY22	4QFY22	1QFY23	QoQ (%)	YoY (%)	3MFY22	3MFY23	YoY (%)
Revenue	6.1	6.3	6.5	4.5	7.0	6.1	6.5	7.0
EBITDA	3.7	3.1	3.5	13.2	(4.8)	3.7	3.5	(4.8)
PBT	3.5	2.7	3.3	19.9	(5.4)	3.5	3.3	(5.4)
PAT	2.6	2.1	2.3	12.8	(10.6)	2.6	2.3	(10.6)
Core PATMI	2.6	2.1	2.3	12.8	(10.6)	2.6	2.3	(10.6)
Reported PATMI	2.6	2.4	2.4	(0.7)	(7.5)	2.6	2.4	(7.5)
Core EPS (sen)	1.5	1.4	1.4	(0.7)	(7.5)	1.5	1.4	(7.5)
EBITDA margin (%)	60.9	50.1	54.2			60.9	54.2	
PBT margin (%)	56.5	43.5	49.9			56.5	49.9	
Core PATMI margin (%)	43.0	33.3	35.9			43.0	35.9	

Results Note – 1QFY23

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BUY

Share price	RM0.745
Target price	RM0.83
Previous TP	RM0.83
Capital upside	11.4%
Dividend return	5.2%
Total return	16.6%

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)	129.0
52W High/Low	0.97 / 0.73
Est. Free float	19.5
Beta	0.3
3-mth avg vol ('000)	8.5
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 (%)

Hist. return	1M	3M	12M
Absolute	-2.0	-2.0	-21.6
Relative	-2.1	0.7	-17.3

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)	12.7	12.5	11.5

Relative performance chart



Valuation & Recommendation

- Although the core net profit came in slightly below 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 contributions from the two new customers upon onboarding.
- 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 1st January 2019 until 31st December 2023. In the event of a non-renewal of the agreement, it will negatively impact the group's revenue. Besides, REXIT is vulnerable to the risks of security risks and system disruptions such as computer viruses, fraud, and blackouts.

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)	13.0	12.7	12.5	11.5	10.9
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	5.4%	5.4%	5.2%	5.7%	6.0%
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)	2.9	2.9	2.7	2.5	2.3
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						