

Rexit Bhd

Eyeing new client's onboarding

Summary

- Rexit Bhd (REXIT) 3Q23 core net profit climbed 5.9% YoY to RM2.2m, bringing the 9MFY23 core net profit to RM7.3m. The core net profit was below our estimates (70.2%) due to later-than-expected client's onboarding, but largely in line with consensus estimates (76.8%).
- 3Q23 core net profit expanded 5.9% YoY despite a decline in revenue, due primarily to the higher margin resulted from increase in other income, coupled with the lower administrative expenses. QoQ, core net profit declined 20.0% in line with the lower revenue, mainly attributed to the lower contribution from software customisation services.
- We remain optimistic about REXIT's current negotiations with prospective new clients. Once a successful agreement is reached, the client is anticipated to come on board during 4Q23, initially contributing through motor e-Cover service, and subsequently expanding into non-motor transactions in 1Q24. We like the introduction of the new revenue stream from the client through subscription-based services, which will generate a steady and recurring income.
- Asset wise, we expect the acquisition of servers and other computer equipment in FY22 will adequately support the needs of the new client. Hence, we do not expect a significant capital expenditure following the client's onboarding. However, we do foresee a rise in labour cost as additional manpower will be required to tailor the system according to the new client's requirement. Nevertheless, the expected increase in labour costs is projected to be relatively minor in comparison to the overall costs involved.
- Meanwhile, the group is engaged in discussions with another potential client, aiming to onboard them by FY24. As for the mySalam Outsourcing Services Agreement, which began on 1st January 2019 and is set to expire on 31st December 2023, there have been no updates regarding its renewal at this time.
- Moving forward, REXIT will remain committed to expand the e-Cover services to the financial services sector and other segments of e-commerce. Additionally, the group will persist in marketing its services to the regional market. However, outlook of the group may remain challenging due to the global economic uncertainties.

Quarterly performance								
FYE Jun (RM m)	3QFY22	2QFY23	3QFY23	QoQ (%)	YoY (%)	9MFY22	9MFY23	YoY (%)
Revenue	6.6	6.8	6.1	(10.2)	(6.9)	18.6	19.5	4.8
EBITDA	3.2	4.0	3.2	(19.7)	(0.3)	10.6	10.7	1.5
PBT	2.9	3.7	3.0	(18.7)	3.2	9.7	10.0	2.9
PAT	2.1	2.7	2.2	(20.0)	5.9	7.1	7.3	2.3
Core PATMI	2.1	2.7	2.2	(20.0)	5.9	7.1	7.3	2.3
Reported PATMI	1.9	2.7	2.2	(19.7)	17.1	7.0	7.3	4.8
Core EPS (sen)	1.1	1.6	1.3	(19.7)	17.1	4.0	4.2	4.8
EBITDA margin (%)	48.5	58.1	52.0			56.7	54.9	
PBT margin (%)	44.4	54.4	49.3			52.2	51.3	
Core PATMI margin (%)	31.3	39.9	35.6			38.1	37.2	

Results Note – 3QFY23

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BUY

Share price	RM0.755
Target price	RM0.83
Previous TP	RM0.83
Capital upside	9.9%
Dividend return	5.1%
Total return	15.0%

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)	130.8
52W High/Low	0.835 / 0.72
Est. Free float	19.5
Beta	0.5
3-mth avg vol ('000)	11.7
Shariah compliant	No

Major shareholders %

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

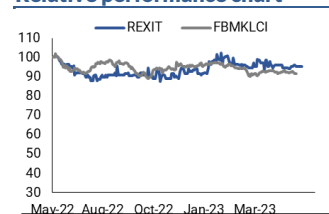
Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-0.7	-1.3	-9.6
Relative	1.5	2.5	-0.6

Earnings snapshot

FYE (Dec)	FY22	FY23f	FY24f
PATMI (m)	10.2	9.9	10.3
EPS (sen)	5.9	5.7	5.9
P/E (x)	12.8	13.2	12.7

Relative performance chart



Valuation & Recommendation

- As the core net profit is below our expectations, we slashed our earnings forecast to RM9.9m, RM10.3m, and RM10.6m 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 FY23 and FY24.
- We retained our **BUY** recommendation on REXIT, with an unchanged target price at RM0.83 after we rolled over to FY24f earnings. The target price is derived by ascribing a P/E of 14.0x to FY24f EPS of 5.9 sen. Based on historical trend, we assumed a payout of 3.7-4.0 sen per share over the next three years, representing a payout ratio of 65.0% of its distributable income from FY23f to FY25f.
- Risks to our recommendation include the potential non-renewal of the mySalam Outsourcing Services Agreement. In the event of a non-renewal of the agreement, it could have a detrimental effect on the group's revenue. Besides, REXIT is vulnerable to the risks of security risks and system disruptions such as computer viruses, fraud, and power outages, which may potentially hinder 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	26.1	27.0	27.9	Cash	20.7	26.9	29.0	33.8	38.4
EBITDA	13.8	14.7	14.0	14.6	15.0	Receivables	1.4	3.6	3.6	3.3	3.4
EBIT	12.9	13.5	13.0	13.5	14.0	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	13.4
Profit before tax	12.9	13.4	13.0	13.5	14.0	Assets	49.1	49.6	52.6	56.3	60.1
Tax	(2.9)	(3.3)	(3.1)	(3.2)	(3.4)	Debits	-	-	-	-	-
Net profit	10.0	10.2	9.9	10.3	10.6	Payables	0.0	0.0	0.1	0.1	0.1
Minority interest	-	-	-	-	-	Others	4.5	4.9	4.4	4.5	4.6
Core earnings	10.0	10.2	9.9	10.3	10.6	Liabilities	4.5	5.0	4.4	4.6	4.7
Exceptional items	0.1	1.1	-	-	-	Shareholder's equity	44.6	44.6	48.1	51.7	55.4
Reported earnings	9.9	9.1	9.9	10.3	10.6	Minority interest	-	-	-	-	-
						Equity	44.6	44.6	48.1	51.7	55.4
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	13.0	13.5	14.0	Core EPS (sen)	5.8	5.9	5.7	5.9	6.1
Depreciation & amortisation	0.9	1.2	1.0	1.0	1.0	P/E (x)	13.1	12.8	13.2	12.7	12.3
Changes in working capital	4.8	(2.2)	0.1	0.3	(0.1)	DPS (sen)	4.0	4.0	3.7	3.9	4.0
Share of JV profits	-	-	-	-	-	Dividend yield	5.3%	5.3%	4.9%	5.1%	5.3%
Taxation	(2.9)	(3.3)	(3.1)	(3.2)	(3.4)	BVPS (RM)	0.26	0.26	0.28	0.30	0.32
Others	(1.0)	(1.9)	(0.5)	0.1	0.1	P/B (x)	2.9	2.9	2.7	2.5	2.4
Operating cash flow	14.7	7.4	10.5	11.7	11.7	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%	50.0%	50.0%	50.1%
Others	0.8	8.6	-	-	-	PBT margin	52.2%	54.1%	50.0%	50.0%	50.1%
Investing cash flow	(1.3)	7.6	(2.0)	(0.2)	(0.2)	PAT margin	40.5%	40.9%	38.0%	38.0%	38.1%
Changes in borrowings	-	-	-	-	-	Core PAT margin	40.5%	40.9%	38.0%	38.0%	38.1%
Issuance of shares	-	-	-	-	-	ROE	23.4%	22.8%	21.4%	20.6%	19.8%
Dividends paid	(7.0)	(7.0)	(6.4)	(6.7)	(6.9)	ROA	21.2%	20.6%	19.4%	18.9%	18.2%
Others	0.8	(0.5)	-	-	-	Net gearing	CASH	CASH	CASH	CASH	CASH
Financing cash flow	(6.1)	(7.5)	(6.4)	(6.7)	(6.9)						
Net cash flow	7.3	7.4	2.0	4.8	4.6						
Forex	(0.1)	(0.0)	-	-	-						
Others	(0.8)	(1.2)	-	-	-						
Beginning cash	14.3	20.7	26.9	29.0	33.8						
Ending cash	20.7	26.9	29.0	33.8	38.4						