

9 February 2024

## Hold

**Price**  
RM3.14

**Target Price**  
RM2.95

### Market Data

Bloomberg Code	RCE MK
No. of shares (m)	741.1
Market cap (RMm)	1,094.9
52-week high/low (RM)	3.15 / 1.75
Avg daily turnover (RMm)	2.1
KLCI (pts)	1,487.3

Source: Bloomberg, KAF

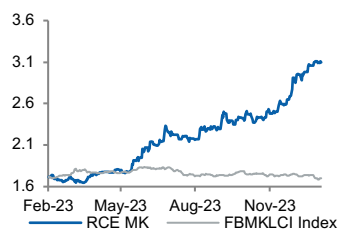
### Major Shareholder (%)

Cempaka Empayar	(55.0%)
EPF	(2.4%)
Cheam Heng Ming	(1.1%)
Free Float	121.2

Source: Bloomberg, KAF

### Performance

	3M	6M	12M
Absolute (%)	22.0	35.4	66.7
Rel Market (%)	18.5	28.5	67.5



Source: Bloomberg, KAF

### Analyst

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# RCE Capital

## Slow but Steady

RCE reported a net profit of RM34.6m (-1.7% YoY) in 3Q24 due to higher provision of impairment loss. For cumulative 9M24 results, RCE reported a net profit of RM109.7m, increasing +5.5% YoY on the back of higher profit income and fee on early settlement income. Overall, results were in line with our and consensus expectations, meeting 76.9% and 73.6% of FY24F. Our FY24-26 earnings estimates are kept unchanged. We changed our valuation method to the DDM (from GGM) to better reflect the Company's value generated by its dividends going forward in anticipation of sustained growth in the dividend distribution. We see an increasing dividend distribution following the upward revision in the Company's dividend policy with an average consistent growth of 5.1%. As such, our TP is adjusted to RM2.95. Maintain Hold.

### Financial Highlights

FYE Mar	2022	2023	2024F	2025F	2025F
Operating income	239.6	261.6	269.6	282.6	296.3
Net profit	133.2	138.8	142.7	149.5	157.5
EPS (sen)	18.0	18.7	19.2	20.2	21.2
EPS growth (%)	6.9	4.2	2.8	4.8	5.3
DPS (sen)	10.2	30.0	13.5	14.1	14.9
Div yield (%)	3.2	9.6	4.3	4.5	4.7
PER (x)	17.4	16.8	16.3	15.6	14.8
PBR (x)	2.7	2.9	2.7	2.6	2.5
ROE (%)	16.2	16.5	17.2	17.2	17.1

Source: Company, KAF

### 3Q24 results – within expectations

RCE reported a lower net profit of RM34.6m (-1.7% YoY) in 3Q24 due to a higher provision of impairment loss of 52.1% YoY. For cumulative 9M24 results, RCE reported a net profit of RM109.7m, increasing +5.5% YoY on the back of higher profit income (+3.9% YoY) and fee on early settlement income (+32.9% YoY). Overall, results were in line with our and consensus expectations, meeting 76.9% and 73.6% of full-year FY24 earnings estimates.

QoQ, 3Q24 net profit was lower by 9.6%, in combination with flattish profit income growth (-0.5%) and higher staff costs by 64.5% in relation to ESS expense incurred. Performance was further exacerbated by the higher impairment loss by 21.1%.

No dividends were declared in the current quarter as expected, the Group traditionally declared in 2Q and 4Q. We are projecting a DPS of 13.5sen for FY24, based on 70% payout.

### Impairments to stay elevated

Impairments have been on the rise since the 2Q24, primarily attributed to shifts in employment dynamics, including increased retirements and changes in employment statuses. Management anticipates that impairment levels will continue to remain elevated at the current levels, with no indication of an imminent uptrend at this juncture. However, it's noteworthy that impairments for the 9M24 were still 3% lower compared to the same period in FY23. Based on our conservative forecast, we expect impairment provisions totaling RM30.1m for the full-year FY24.

### Asset quality remains healthy

The non-performing financing for 9M24 was 4.9% higher at RM80.8m (FY23: RM77m). However, given the gross receivable has also growing by 4.2%, NPL ratio remains unchanged at 3.8%. It has also maintained a healthy coverage ratio of 153%. RCE's financing receivables growth meanwhile, expanded by 6.7% YoY in 3Q24 despite the higher

chargeable rates for its current financing product. This is understandable due to the current pressure on the cost of living.

### Earnings forecasts

While maintaining our earnings forecast for FY24-26, we made an adjustment to the DPS projection, increasing it to 13.5sen from the previous 11.5sen based on a 70% payout ratio, up from 60%.

### Maintain Hold, TP revised higher

Considering the Group's anticipated earnings growth to remain stable within the 3% - 5% range, buoyed by sustainable loan growth of approximately 5%, along with a consistent dividend policy targeting payouts ranging from 60% to 80%, we have opted to assess RCE's valuation using a Dividend Discount Model (DDM). This approach allows us to provide a more accurate reflection of the company's value generated by its dividends going forward in anticipation of sustained growth in the dividend distribution. As such, our TP is adjusted to RM2.95 based on a cost of equity of 10.1% and a growth rate of 5.1%. This translates to an implied PE of 14.6x. We opine the valuation applied is justifiable given its secure business model as it is protected by the auto-deduction payment scheme. Nevertheless, we view the current stock valuation is fully priced-in, hence maintaining our Hold recommendation.

**Table 1: Quarterly trends**

Year to 31 March	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	% chg		Cumulative			KAF	
RM m	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	QoQ	YoY	9M23	9M24	% chg	2024F	9M/F
Interest and fee income	81.8	81.6	82.6	84.0	87.8	87.4	-0.5%	7.2%	241.0	259.2	7.6%	337.3	76.9%
Interest expense	(21.6)	(22.8)	(25.4)	(24.9)	(24.6)	(24.0)	-2.3%	5.3%	(64.7)	(73.5)	13.5%	(99.1)	74.1%
<b>Net interest and fee income</b>	<b>60.2</b>	<b>58.8</b>	<b>57.3</b>	<b>59.0</b>	<b>63.3</b>	<b>63.4</b>	<b>0.2%</b>	<b>7.9%</b>	<b>176.3</b>	<b>185.7</b>	<b>5.4%</b>	<b>238.1</b>	<b>78.0%</b>
Non-interest income	6.3	7.3	8.8	8.5	9.7	10.0	3.2%	37.3%	19.3	28.3	46.8%	29.4	96.2%
<b>Operating income</b>	<b>66.5</b>	<b>66.1</b>	<b>66.1</b>	<b>67.6</b>	<b>73.0</b>	<b>73.5</b>	<b>0.6%</b>	<b>11.1%</b>	<b>195.6</b>	<b>214.0</b>	<b>9.4%</b>	<b>269.6</b>	<b>79.4%</b>
Operating expenses	(11.1)	(14.6)	(11.5)	(13.9)	(15.2)	(19.3)	26.7%	32.5%	(37.5)	(48.4)	29.0%	(50.5)	95.9%
<b>Underlying profit</b>	<b>55.4</b>	<b>51.5</b>	<b>54.6</b>	53.7	57.8	54.2	-6.2%	5.1%	158.0	165.6	4.8%	219.2	75.6%
Allowance for impairment	(6.9)	(5.5)	(8.2)	(4.7)	(6.9)	(8.3)	21.1%	52.1%	(20.5)	(19.9)	-3.0%	(30.1)	66.2%
Exceptional	0.0	0.0	0.0	0.0	0.0	0.0	n.a.	n.a.	0.0	0.0	n.a.	na	na
<b>Pre-tax profit</b>	<b>48.6</b>	<b>46.1</b>	<b>46.4</b>	<b>49.0</b>	<b>50.9</b>	<b>45.8</b>	<b>-9.9%</b>	<b>-0.5%</b>	<b>137.5</b>	<b>145.7</b>	<b>6.0%</b>	<b>189.1</b>	<b>77.1%</b>
Taxation	(12.0)	(10.9)	(11.6)	(12.1)	(12.6)	(11.3)	-10.8%	3.6%	(33.6)	(36.0)	7.3%	(46.4)	77.6%
<b>Net profit</b>	<b>36.5</b>	<b>35.2</b>	<b>34.8</b>	<b>36.9</b>	<b>38.2</b>	<b>34.6</b>	<b>-9.6%</b>	<b>-1.7%</b>	<b>103.9</b>	<b>109.7</b>	<b>5.5%</b>	<b>142.7</b>	<b>76.9%</b>

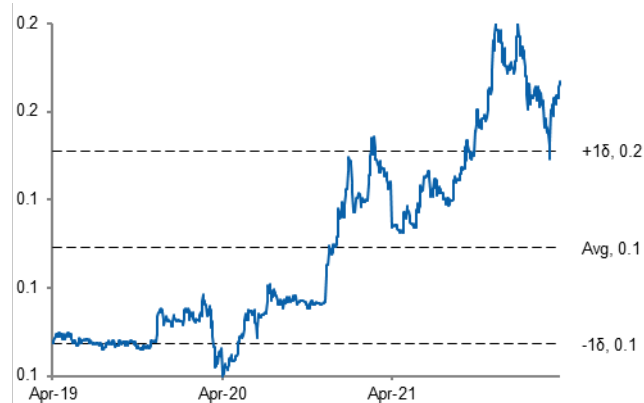
Source: Company, KAF

**Exhibit 1: PB Band chart**



Source: Company, KAF, Bloomberg

**Exhibit 2: PE Band chart**



Source: Company, KAF, Bloomberg

# Disclosure Appendix

## Recommendation structure

**Absolute performance, long term (fundamental) recommendation:** The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

**Performance parameters and horizon:** Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

**Market or sector view:** This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

**Target price:** The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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