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The Edge Malaysia: Higher civil servant salaries will boost RCE Capital's earnings, says Maybank IB

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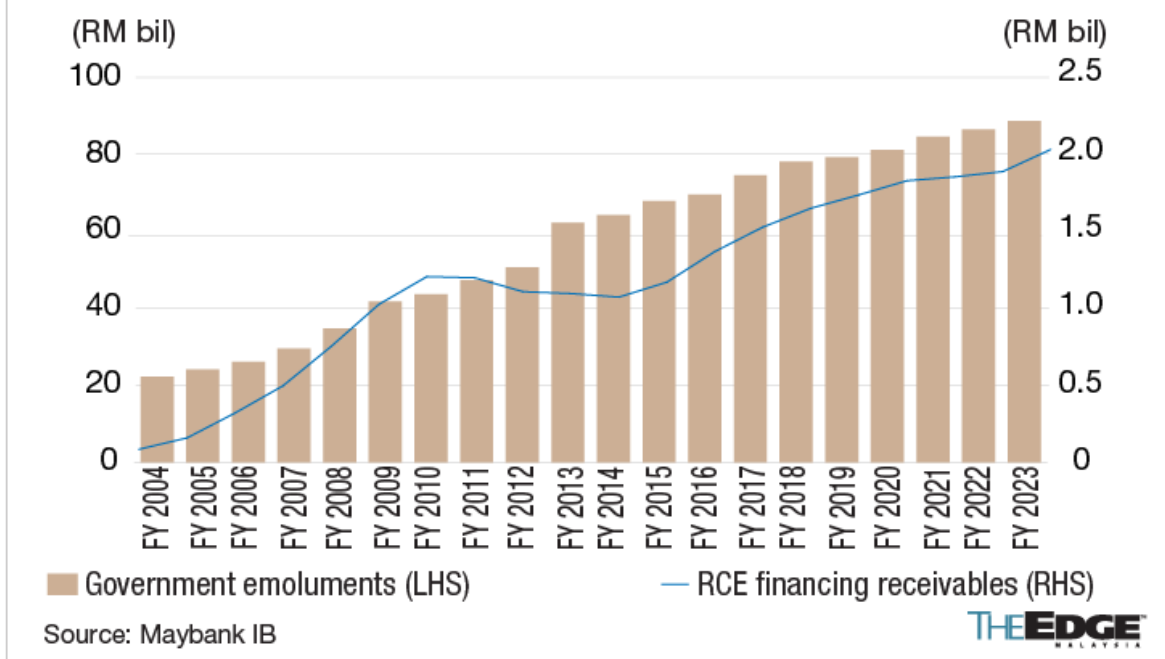
KUALA LUMPUR (May 3): Malaysia's planned increase in civil servant salaries will boost earnings of RCE Capital Bhd, which mainly provides consumer financing to government employees, Maybank Investment Bank (Maybank IB) said and upgraded the stock to 'buy'.

RCE Capital's financing growth is "likely to accelerate", Maybank IB said in a note to clients. "There is a strong correlation between government emoluments and RCE's financing receivables balance."

The research house, one of four covering RCE Capital, is raising its earnings estimates by as much as 10% and its dividend forecast by up to 9%. The company is now expected to make a core net profit of RM154 million in 2025 with a net dividend of 16 sen per share for the financial year ending March 31, 2025 (FY2025).

Shares of RCE Capital have climbed about 7% since May 1, when Prime Minister Anwar Ibrahim announced an increase in civil servants' salaries by at least 13% effective Dec 1 this year. The increase would cost the government an additional allocation of over RM10 billion.

RCE's financing receivables strongly correlate with government emolument



The gains have helped cut RCE Capital's year-to-date loss to a little under 3% ahead of its full-year financial results due to be announced by the end of this month, which analyst consensus calls for net profit of RM144.25 million for FY2024.

Following Maybank IB's upgrade, there are now two 'buy' calls, one 'hold' rating and one 'sell' recommendation for RCE Capital, according to Bloomberg. The consensus 12-month target price is RM2.83.

Further, credit costs at RCE Capital are likely to decelerate, Maybank IB said.

Civil servants repay their financing to RCE Capital with non-discretionary salary deductions via Angkasa cooperative, and RCE Capital does experience non-performing financing (NPF) receivables and higher credit costs if civil servants resign from the civil service or retire early, Maybank IB flagged.

"We gather that NPF ratios and credit costs have been creeping up as civil servants sought employment opportunities out of the civil service to cope with the higher cost of living," Maybank IB said. "With higher salaries, it is reasonable to expect fewer of them to do so going forward."