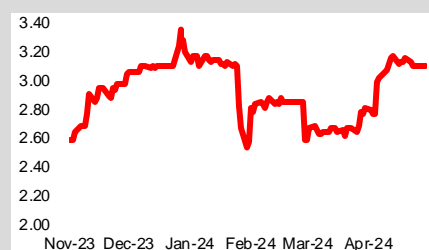


**DESCRIPTION**

RCE Capital is mainly involved in the general financing services to civil servants

12-month Target Price	RM3.18
Current Price	RM3.11
Expected Return	+2.3%
Previous Target Price	RM2.95

Market Sector	Main Consumer Finance
Bursa Code	9296
Bloomberg Ticker	RCE MK
Shariah-compliant	Yes

**SHARE PRICE CHART**


52 Week Range (RM)	2.02-3.40
3-Month Average Vol ('000)	1,048.6

**SHARE PRICE PERFORMANCE**

	1M	3M	6M
Absolute Returns	11.5	16.5	19.6
Relative Returns	7.7	16.0	4.9

**KEY STOCK DATA**

Market Capitalisation (RMm)	2,279.2
No. of Shares (m)	732.9

**MAJOR SHAREHOLDERS**

	%
Cempaka Empayar SB	58.5
Woo Khai Yoon	1.5
EPF	1.5

**Wong Ling Ling**

T 603 2268 3000

F 603 2268 3014

E wong.lingling@publicinvestbank.com.my

**Earnings Within Expectations**

RCE's 4QFY24 net profit fell by 16.6% YoY to RM29.1m, mainly dragged by an increase in allowance for impairment loss, higher operating expenses from facility fee relating to new funding secured and higher sales and marketing expenses. Full-year FY24 net profit of RM138.7m came in within our and consensus estimates, accounting for 97% and 96% respectively. Nevertheless, we tweak our earnings forecast for FY25-26F downwards by c.3% to account for the higher credit cost. We raise our dividend payout assumption to c.70% on higher financing receivables growth underpinned by the increase in civil servants' salaries. As such our DDM-derived TP is adjusted to RM3.18, implying a P/BV of 2.7x. Given the recent run in share price (+16.4%) since our initiation and the limited upside potential, we downgrade our call on RCE from Trading Buy to **Neutral**.

§ **Results review.** 4QFY24 net profit declined by 16.6% YoY to RM29.1m, due to higher operating expenses, increase in sales and marketing campaign expense and financing recovery activities. In addition, RCE reported an increase in allowances for impairment loss (+26.6% YoY), dragged by higher non-performing financing. We gather that the rising impairments was mainly attributed to the increase in early retirements and resignations among the civil servants. On a QoQ basis, RCE's net profit fell by 15.9%, on lower interest income, higher operating expenses as well as higher provision for impairment loss.

§ **Asset quality still stable.** While there has been an increase in NPF from RM77m in 4QFY23 to RM83.3m in 4QFY24 due to the shift in employment dynamics among the civil servants, we believe that the group's asset quality is still solid. This is mainly attributable to RCE's financing receivables which grew by 3.9% YoY, and a healthy loan loss coverage ratio of 153%.

§ **Dividend.** RCE declared a second interim dividend of 7sen, bringing the total dividend declared for FY24 to 15sen. This translates to a dividend payout ratio of 79% and an attractive dividend yield of 4.8%.

§ **Outlook.** We believe that RCE's financing receivables growth will likely accelerate in 2HFY25, driven by the adjustment in civil servants' salary that will be implemented on 1 Dec 2024 given the strong correlation with government emoluments. That being said, we raise our financing receivables growth assumption for FY26F to c.8% as well as our dividend payout ratio assumption to c.70%. As a result, our TP for RCE is now higher at RM3.18, implying a P/BV 2.7x. Given the limited upside potential, we downgrade our call on RCE to Neutral however.

**KEY FINANCIAL SUMMARY**

FYE Mar (RM'm)	2023A	2024A	2025F	2026F	2027F	CAGR
Operating Income	261.6	274.7	283.9	299.2	313.2	4.5%
Pre-provision profit	212.6	208.7	225.5	239.2	252.0	6.5%
Pre-tax profit	183.9	184.8	194.5	207.4	218.3	5.7%
Net profit	138.8	138.8	147.8	157.6	165.9	6.1%
EPS (sen)	18.7	18.7	19.9	21.3	22.4	
P/E (x)	16.6	16.6	15.6	14.6	13.9	
DPS (sen)	30.0	15.0	14.0	15.0	16.0	
Dividend Yield (%)	9.6	4.8	4.5	4.8	5.1	

Source: Company, PublicInvest Research estimates

**Table 1: Results Summary**

<u>FYE Mar ((RM'm)</u>	<u>4QFY24</u>	<u>4QFY23</u>	<u>3QFY24</u>	<u>YoY chg (%)</u>	<u>QoQ chg (%)</u>	<u>YTD 24</u>	<u>YTD 23</u>	<u>YoY chg (%)</u>	<u>Comments</u>
Interest income	72.4	70.5	74.1	2.8	-2.2	290.8	280.7	3.6	
Interest expense	-25.0	-25.4	-24.0	-1.3	4.4	-98.5	-90.1	9.4	
Net interest income	47.4	45.1	50.1	5.0	-5.3	192.3	190.7	0.9	
Other non-profit income	19.7	20.9	23.4	-6.0	-15.9	88.8	71.0	25.2	
Operating income	67.1	66.1	73.5	1.5	-8.7	281.1	261.6	7.4	
Directors' remuneration and staff cost	-6.9	-6.0	-11.3	14.9	-39.4	-32.2	-27.1	18.9	
Allow ances for impairment loss	-10.3	-8.2	-8.3	26.6	24.0	-30.2	-28.7	5.4	Increase in NPF
Depreciation	-1.0	-0.9	-1.0	13.3	8.9	-3.8	-3.6	6.2	
Other expenses	-9.6	-4.5	-6.9	113.3	38.9	-29.8	-18.1	64.5	Higher operating expenses from facility fee, sales and marketing expenses
Finance cost	-0.1	-0.1	-0.1	16.9	-15.9	-0.3	-0.2	14.8	
Profit before tax	39.1	46.4	45.8	-15.7	-14.6	184.8	183.9	0.5	
Taxation	-10.1	-11.6	-11.3	-13.2	-10.7	-46.1	-45.2	2.1	
Net profit	29.1	34.8	34.6	-16.6	-15.9	138.8	138.8	0.0	
Gross financing receivables	2100.4	2020.9	2106.8	3.9	-0.3				
Allow ance for impairment	-127.7	-121.5	-123.9	5.1	3.0				
Net financing receivables	1972.7	1899.4	1982.8	3.9	-0.5				
Gross NPF ratio (%)	4.0	3.8	3.8						
Total borrowings	2119.6	2091.5	2194.7	1.3	-3.4				

## KEY FINANCIAL DATA

### INCOME STATEMENT DATA

FYE Mar (RM'm)	2023A	2024A	2025F	2026F	2027F
Interest income	280.7	290.8	315.4	332.1	347.5
Interest expense	-90.1	-98.5	-102.8	-105.9	-109.0
<b>Net Interest Income</b>	<b>190.7</b>	<b>192.3</b>	<b>212.7</b>	<b>226.3</b>	<b>238.4</b>
Non-interest income	71.0	82.4	71.3	73.0	74.8
Staff costs	-27.1	-32.2	-32.9	-34.2	-35.3
Other operating expenses	-21.7	-33.6	-25.3	-25.6	-25.6
Pre-provision profit	212.6	208.7	225.5	239.2	252.0
Allowance for impairment	-28.7	-30.2	-31.1	-31.8	-33.7
Profit Before Tax	183.9	184.8	194.5	207.4	218.3
Income tax	-45.2	-46.1	-46.7	-49.8	-52.4
<b>Net profit</b>	<b>138.8</b>	<b>138.8</b>	<b>147.8</b>	<b>157.6</b>	<b>165.9</b>
<b>Growth</b>					
Interest income (%)	2.2	3.6	8.5	5.3	4.6
Pre-provision Profit (%)	12.6	-1.9	8.1	6.1	5.4
Net Profit (%)	4.2	0.0	6.5	6.7	5.3

Source: Company, PublicInvest Research estimates

### BALANCE SHEET DATA

FYE Mar (RM'm)	2023A	2024A	2025F	2026F	2027F
Property, Plant and Equipment	7.2	7.3	6.8	6.6	6.6
Financial Receivables	2020.9	2100.4	2184.4	2359.2	2453.6
Cash and Deposits with Banks	879.7	840.2	926.3	876.1	903.2
Other Assets	39.0	47.7	21.4	10.1	4.6
<b>Total Assets</b>	<b>2946.8</b>	<b>2995.6</b>	<b>3139.0</b>	<b>3252.0</b>	<b>3368.0</b>
Trade and Other Payables	36.6	34.6	34.6	34.6	34.6
Interest-bearing Debt	2091.5	2119.6	2218.9	2285.5	2354.1
Other Liabilities	13.0	11.7	11.7	11.7	11.7
Total Liabilities	2141.2	2165.8	2265.2	2331.7	2400.3
Shareholders' Equity and Minority	805.7	829.8	873.8	920.3	967.7
<b>Total Equity and Liabilities</b>	<b>2946.8</b>	<b>2995.6</b>	<b>3139.0</b>	<b>3252.0</b>	<b>3368.0</b>

Source: Company, PublicInvest Research estimates

### PER SHARE DATA & RATIOS

FYE Mar	2023A	2024A	2025F	2026F	2027F
Book Value Per Share (RM)	1.1	1.1	1.2	1.2	1.3
P/BV	2.9	2.8	2.6	2.5	2.4
EPS (Sen)	18.7	18.7	19.9	21.3	22.4
DPS (Sen)	30.0	15.0	14.0	15.0	16.0
Payout Ratio (%)	158.4	80.1	70.2	70.5	71.5
ROA (%)	4.7	4.6	4.7	4.8	4.9
ROE (%)	17.2	16.7	16.9	17.1	17.1

Source: Company, PublicInvest Research estimates

## RATING CLASSIFICATION

### STOCKS

<b>OUTPERFORM</b>	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
<b>NEUTRAL</b>	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
<b>UNDERPERFORM</b>	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
<b>TRADING BUY</b>	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
<b>TRADING SELL</b>	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
<b>NOT RATED</b>	The stock is not within regular research coverage.

### SECTOR

<b>OVERWEIGHT</b>	The sector is expected to outperform a relevant benchmark over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform a relevant benchmark over the next 12 months.

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**PUBLIC INVESTMENT BANK BERHAD (20027-W)**  
26th Floor, Menara Public Bank 2  
78, Jalan Raja Chulan,  
50200 Kuala Lumpur  
T 603 2268 3000  
F 603 2268 3014