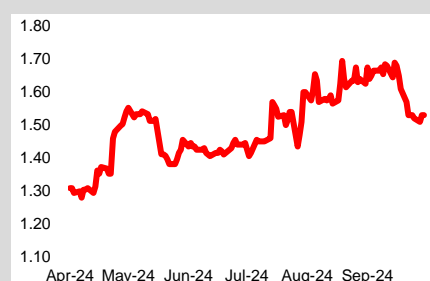


DESCRIPTION

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

12-month Target Price	RM1.60
Current Price	RM1.53
Expected Return	4.5%
Previous Target Price	RM1.60

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

SHARE PRICE CHART


52 Week Range (RM)	1.21-1.73
3-Month Average Vol ('000)	1,393.8

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	-6.7	6.3	18.3
Relative Returns	-4.9	4.5	8.4

KEY STOCK DATA

Market Capitalisation (RMm)	2,242.5
No. of Shares (m)	1,465.7

MAJOR SHAREHOLDERS

	%
Cempaka Empayar SB	58.5
Lembaga Tabung Haji	3.5
Public Islamic OPPO FD	1.7

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Staying Prudent

Following our meeting with RCE's management recently, we are more optimistic over its long-term growth, driven by the upcoming salary hike among civil servants in December this year though we remain prudent on RCE's financing receivables growth in the near term. We believe that RCE's financing receivables will only start to pick up in 2HFY25 however. While allowance for impairments remain elevated due to high level of resignations and early retirements, we think that the worst may be over, attributable to the 2-phase civil servant salary adjustment, which should help to reduce early retirements and resignations. More details on the salary adjustment will likely be revealed during the Budget 2025 announcement. All in all, we maintain our **Neutral** call and TP of RM1.60.

§ **1QFY25 results recap.** RCE's 1QFY25 net profit decreased by 17% YoY to RM30.3m, due to lower fee income and higher allowance for impairment loss. In addition, Non-Performing Financing (NPF) continued its uptrend, as RCE saw its NPF ratio rise to 4.2% (1QFY24: 3.7%), mainly dragged by early retirements and resignations within the civil service.

§ **Muted financing receivables growth.** Recall that RCE's financing receivables declined by 1.2% on a QoQ basis, likely due to management's strategy to remain prudent in terms of approval of new applications in order to ensure better asset quality. However, we think that the impending salary adjustment should lead to an increase in RCE's financing receivables, although the positive impact will only be reflected in 2HFY25. Note that the Malaysian government previously announced a 7-15% salary adjustment among the civil servants which will be implemented in 2 stages, Dec 2024 and Jan 2026.

§ **Potential margin expansion going forward.** While resignations and early retirements have remained elevated, we believe that the salary hike will help to mitigate these trends, which may result in lower credit cost going forward. We understand that RCE is looking to issue another round of sukuk amounting to RM150m in Dec 2024, where the proceeds will be utilised to refinance short-term loans (revolving credit), potentially leading to an improvement in profit margins.

KEY FINANCIAL SUMMARY

FYE Mar (RM'm)	2023A	2024A	2025F	2026F	2027F	CAGR
Operating Income	261.6	281.1	290.3	303.8	317.7	4.2%
Pre-provision profit	212.6	215.1	223.7	235.5	247.7	4.8%
Pre-tax profit	183.9	184.8	192.6	203.6	214.0	5.0%
Net profit	138.8	138.8	146.4	154.8	162.7	5.4%
EPS (sen)	9.5	9.5	10.0	10.6	11.1	
P/E (x)	16.2	16.2	15.3	14.5	13.8	
DPS (sen)	15.0	7.5	7.0	7.5	8.0	
Dividend Yield (%)	9.8	4.9	4.6	4.9	5.2	

Source: Company, PublicInvest Research estimates

KEY FINANCIAL DATA

INCOME STATEMENT DATA

FYE Mar (RM'm)	2023A	2024A	2025F	2026F	2027F
Interest income	280.7	290.8	313.4	327.9	342.9
Interest expense	-90.1	-98.5	-101.1	-104.1	-107.3
Net Interest Income	190.7	192.3	212.3	223.8	235.6
Non-interest income	71.0	88.8	78.0	80.0	82.1
Staff costs	-27.1	-32.2	-33.3	-34.4	-35.6
Other operating expenses	-21.7	-33.6	-33.1	-33.7	-34.2
Pre-provision profit	212.6	215.1	223.7	235.5	247.7
Allowance for impairment	-28.7	-30.2	-31.1	-31.8	-33.7
Profit Before Tax	183.9	184.8	192.6	203.6	214.0
Income tax	-45.2	-46.1	-46.2	-48.9	-51.4
Net profit	138.8	138.8	146.4	154.8	162.7
Growth					
Interest income (%)	2.2	3.6	7.8	4.6	4.6
Pre-provision Profit (%)	12.6	1.2	4.0	5.3	5.2
Net Profit (%)	4.2	0.0	5.5	5.7	5.1

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	890.3	837.4	861.4
Other Assets	39.0	47.7	21.4	10.2	4.6
Total Assets	2946.8	2995.6	3103.0	3213.3	3326.2
Trade and Other Payables	36.6	34.6	34.6	34.6	34.6
Interest-bearing Debt	2091.5	2119.6	2183.2	2248.7	2316.1
Other Liabilities	13.0	11.7	11.7	11.7	11.7
Total Liabilities	2141.2	2165.8	2229.4	2294.9	2362.4
Shareholders' Equity and Minority	805.7	829.8	873.5	918.4	963.8
Total Equity and Liabilities	2946.8	2995.6	3103.0	3213.3	3326.2

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Mar	2023A	2024A	2025F	2026F	2027F
Book Value Per Share (RM)	0.5	0.6	0.6	0.6	0.6
P/BV	2.8	2.7	2.6	2.5	2.4
EPS (Sen)	9.5	9.5	10.0	10.6	11.1
DPS (Sen)	15.0	7.5	7.0	7.5	8.0
Payout Ratio (%)	158.4	79.2	70.1	71.0	72.1
ROA (%)	4.7	4.6	4.7	4.8	4.9
ROE (%)	17.2	16.7	16.8	16.9	16.9

Source: Company, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	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.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

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

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