

21 Nov 2024

Reduce (from Hold)

Price
 RM1.73

Target Price
 RM1.37 (from RM1.49)

Market Data

Bloomberg Code	RCE MK
No. of shares (m)	1,482.3
Market cap (RMm)	2,564.4
52-week high/low (RM)	1.77 / 1.25
Avg daily turnover (RMm)	1.6
KLCI (pts)	1,598.2

Source: Bloomberg, CIMB Securities

Major Shareholder (%)

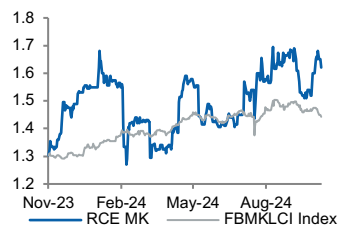
Cempaka Empayar	55.6
-----------------	------

Free Float 44.4

Source: Bloomberg, CIMB Securities

Performance

	3M	6M	12M
Absolute (%)	6.2	15.3	29.6
Rel Market (%)	6.2	12.8	29.6



Source: Bloomberg, CIMB Securities

Analyst

Nurzulaikha Azali
 03 21710506
 nurzulaikha@cimb.com

RCE Capital

Weaker 2QFY25 earnings

Net profit fell by 27.2% yoy (-8.2% qoq) in 2QFY25, mainly owing to lower fee income and higher operating costs. This brings 1HFY25 net profit to RM58.2m (-22.6% yoy), which is below expectations at 40% and 39% of our and consensus FY25F net profit estimates, respectively. Key variances include higher staff costs in 2QFY25 and negative receivable growth in 1HFY25. We cut our earnings projections by 12.7–13.1% for FY25–27F, to account for lower receivable growth in FY25F and higher operating costs for FY25–27F. Post revisions, we downgrade our call to Reduce on the weaker results, with a lower DDM-based TP of RM1.37.

Financial highlights

FYE Mar	2023	2024	2025F	2026F	2027F
Revenue (RMm)	323.6	341.7	335.8	352.6	370.2
Core net profit (RMm)	138.8	138.8	127.5	134.9	140.9
Core EPS (Sen)	9.4	9.4	8.6	9.1	9.5
EPS growth (%)	4.2	(0.0)	(8.1)	5.8	4.4
DPS (Sen)	15.0	7.5	6.0	6.4	6.7
Div yield (%)	8.7	4.3	3.5	3.7	3.8
Core PE (x)	18.5	18.5	20.1	19.0	18.2
PBV (x)	3.2	3.1	3.0	2.8	2.7
ROE (%)	16.5	17.0	15.0	15.1	15.2

Source: Company, CIMB Securities

2Q25 core net profit fell 27.2% yoy, below our and consensus estimates

RCE's 2QFY25 net profit declined 27.2% yoy (-8.2% qoq) to RM27.8m, attributed to a 48.9% yoy drop in fee income (+5.2% qoq) and a 36.8% yoy increase in operating costs (+46.5% qoq). The increase in operating costs was mainly due to a 79.9% yoy (+69.6% qoq) rise in staff costs driven by expenses related to the employee share scheme. This brings 1HFY25 net profit to RM58.2m (-22.6% yoy), which is below expectations at 40% and 39% of our and consensus full-year FY25F net profit estimates, respectively. Key variances include higher staff costs in 2QFY25 and negative receivable growth in 1HFY25. RCE declared a DPS of 3 sen (2QFY24 adjusted DPS: 8 sen), translating to a 75% dividend payout.

Financing receivables shrink 1.4% in 1HFY25, NPF continues to rise

RCE's financing receivables shrank 1.4% yoy in 1HFY25 owing to its selective lending approach focused on better credit quality disbursement, reflecting the tight financing conditions in the industry. Impairment loss on receivables softened in 2QFY25, declining 7.4% yoy and 17.9% qoq to RM6.4m. Nevertheless, non-performing financing (NPF) continued its upward trend in 2QFY25, rising by 13.3% yoy and 1.6% qoq, to reach RM88.2m. This increase raised the NPF ratio to 4.3% from 3.7% in 2QFY24 and 4.2% in 1QFY25, reaching the upper limit of the historical range since 2016 of 3.8–4.3%. Meanwhile, RCE's coverage ratio fell to 147%, the lowest level since 2015.

FY25–28F earnings outlook cut by 12.8% on average

Owing to the weaker 2QFY25 results, we have reduced our net profit forecast by 13.1% for FY25F and by 12.7% for FY26–27F, as we cut our receivable growth assumption to 4% for FY25 from 5% previously and raise our operating costs assumption to reflect higher staff costs. Despite that, we anticipate net profit to rise 19.1% hoh in 2HFY25F, with 4QFY25F expected to be the strongest quarter. This optimism stems from the upcoming 7–15% civil servant salary hikes, starting 1 Dec 2024 (Phase 1), which coincide with the festive season. This period — encompassing Christmas (Dec 2024), Chinese New Year (Jan 2025), Eid (Mar 2025), the holiday season (late Dec 2024 to early Jan 2025), and school reopening (Jan 2025) — typically leads to higher consumer spending and increased demand for financing. The upcoming civil servant salary revision is also expected to reduce the risk of early retirements and transitions to the private sector by improving civil servants' financial

stability through increased disposable income. Consequently, we anticipate a reduction in RCE's NPF ratio to 4%.

Downgrade to Reduce on weaker earnings, TP cut to RM1.37

Post revisions, we downgrade our call to Reduce (from a Hold) with a lower DDM-based TP (based on cost of equity of 10.1% and a growth rate of 5%) of RM1.37. Our TP implies a P/BV of 2.2x, which is 2 s.d. above its five-year mean of 1.4x. Key upside risks: i) higher-than-expected receivable growth, ii) higher-than-expected dividend. Key downside risk: higher-than-expected impairment loss on receivables.

Exhibit 1: Results summary

FYE 31 Mar	Sep-23	Jun-24	Sep-24	% chg		Cumulative		% chg	CIMB	
	2Q24	1Q25	2Q25	qoq	yoy	1H24	1H25	yoy	FY25F	6M/F
Profit income	73.2	72.0	73.0	1.3	(0.4)	144.3	145.0	0.5	325.7	44.5%
Other revenue	14.6	7.1	7.5	5.2	(48.9)	27.5	14.5	(47.1)	32.7	44.5%
Total revenue	87.8	79.1	80.4	1.6	(8.4)	171.8	159.5	(7.1)	358.4	44.5%
Interest expense	(24.6)	(25.5)	(25.7)	0.6	4.5	(49.5)	(51.2)	3.5	(101.6)	50.4%
Net interest and fee income	63.3	53.6	54.7	2.1	(13.5)	122.3	108.3	(11.4)	256.8	42.2%
Non-interest income	9.7	8.8	10.5	18.5	7.4	18.3	19.3	5.5	39.8	48.4%
Operating income	73.0	62.4	65.2	4.4	(10.7)	140.6	127.6	(9.2)	296.6	43.0%
Operating expenses	(15.2)	(14.2)	(20.8)	46.5	36.8	(29.1)	(35.1)	20.5	(69.7)	50.4%
Underlying profit	57.8	48.2	44.3	(8.0)	(23.2)	111.5	92.5	(17.0)	226.9	40.8%
Allowance for impairment loss	(6.9)	(7.7)	(6.4)	(17.9)	(7.4)	(11.6)	(14.1)	21.7	(31.5)	44.8%
Exceptional	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.	n.a.	n.a.
Pre-tax profit	50.9	40.4	38.0	(6.1)	(25.4)	99.9	78.4	(21.5)	195.4	40.1%
Taxation	(12.6)	(10.1)	(10.2)	0.3	(19.7)	(24.8)	(20.3)	(18.1)	(48.7)	41.6%
Net profit	38.2	30.3	27.8	(8.2)	(27.2)	75.1	58.2	(22.6)	146.7	39.6%

Source: Company, CIMB Securities

Income statement

FYE Mar (RMm)	2023	2024	2025F	2026F	2027F
Net interest income	190.7	192.3	187.8	197.7	207.6
Non-interest income	71.0	88.8	79.9	83.9	88.1
Total income	261.6	281.1	267.8	281.7	295.7
Operating costs	(49.0)	(66.0)	(69.6)	(73.2)	(76.9)
Pre-provision operating profit	212.6	215.1	198.2	208.5	218.9
Provision charges	(28.7)	(30.2)	(30.4)	(32.0)	(33.5)
Pre-tax profit	183.9	184.8	167.8	177.5	185.3
Taxation	(45.2)	(46.1)	(40.3)	(42.6)	(44.5)
Net Profit	138.8	138.8	127.5	134.9	140.9

Balance sheet

FYE Mar (RMm)	2023	2024	2025F	2026F	2027F
Consumer financing	1,899.4	1,972.7	2,051.6	2,154.2	2,261.9
Deposits with financial institutiona	799.9	745.0	776.0	814.1	854.0
Plant and equipment	11.9	11.0	11.5	12.0	12.6
Investment in properties	0.0	0.0	0.0	0.0	0.0
Goodwill on consolidation	47.3	47.3	47.3	47.3	47.3
Other investments	0.0	0.0	0.0	0.0	0.0
AFS financial assets	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	38.6	48.4	50.4	52.9	55.5
Other receivables and deposits	16.0	21.4	21.4	21.4	21.4
Asset held for sale	0.0	0.0	0.0	0.0	0.0
Cash and bank balances	79.8	95.3	162.4	171.7	181.4
Total Assets	2,946.8	2,995.6	3,120.6	3,273.6	3,434.1
Borrowings	2,091.5	2,119.6	2,204.4	2,314.6	2,430.3
Payables and accruals	36.3	34.2	35.6	37.4	39.2
Hire purchase	1.5	1.3	1.4	1.4	1.5
Deferred tax liabilities	2.9	2.0	2.1	2.2	2.3
Tax liabilities	8.9	8.7	9.1	9.5	10.0
Total Liabilities	2,141.2	2,165.8	2,252.6	2,365.1	2,483.3
Share capital	201.9	201.9	201.9	201.9	201.9
Reserves	603.0	627.0	666.0	706.0	748.0
Total Shareholders' Equity	805.7	829.8	868.0	908.5	950.8
Total Liabilities & Equity	2,946.8	2,995.6	3,120.6	3,273.6	3,434.1

ROE composition

FYE Mar	2023	2024	2025F	2026F	2027F
a. Net interest income/Avg. assets (%)	6.7%	6.5%	6.1%	6.2%	6.2%
b. Non-Interest Income/Avg. Assets (%)	2.5%	3.0%	2.6%	2.6%	2.6%
c. Income Yield (%)	9.2%	9.5%	8.8%	8.8%	8.8%
d. Cost/Avg. Assets (%)	1.7%	2.2%	2.3%	2.3%	2.3%
f. Cost/Income (d/c)	18.7%	23.5%	26.0%	26.0%	26.0%
g. Underlying Profitability (c-d)	7.5%	7.2%	6.5%	6.5%	6.5%
a. Underlying Profitability (%)	7.5%	7.2%	6.5%	6.5%	6.5%
b. B&DD Expense (%)	1.0%	1.0%	1.0%	1.0%	1.0%
c. Pre-tax ROA (a-b)	6.5%	6.2%	5.5%	5.5%	5.5%
d. Tax Retention Rate (%)	75.4%	75.1%	76.0%	76.0%	76.0%
e. Post tax ROA (c*d)	4.9%	4.7%	4.2%	4.2%	4.2%
f. Leverage	3.4	3.6	3.6	3.6	3.6
g. ROE (e*f)	16.5%	17.0%	15.0%	15.1%	15.2%

Source: Bloomberg, CIMB Securities

DISCLAIMER

The content of this report (including the views, opinions and recommendations expressed and the information contained in this report) has been prepared by and belongs to CIMB Securities Sdn Bhd (formerly known as KAF Equities Sdn Bhd) ("**CIMB Securities**").

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.

By accepting this report, you represent and warrant that you are entitled to receive this report in accordance with the restrictions in this report and agree to be bound by the limitations in this report. Any failure to comply with these limitations may constitute a violation of law.

This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, in whole or in part, to any other person.

This report is general in nature and has been prepared for information purposes only. It is intended for distribution in Malaysia by CIMB Securities to the clients of CIMB Securities, CIMB Investment Bank Berhad and CIMB Bank Berhad generally and does not have regard to the specific investment objectives, financial situation and particular needs of any specific person who may receive this report.

The information, views, opinions or recommendations in this report are not and should not be construed or considered as an offer, or solicitation to buy or sell, or an invitation to subscribe for, the securities of the company(ies), related investments or other financial instruments or any derivative instrument, or any rights pertaining thereto.

You are advised to make your own independent evaluation of the information contained in this report, consider your own individual investment objectives, financial situation and particular needs and consult your own professional and financial advisers as to the legal, business, financial, tax and other aspects before participating in any transaction in respect of the securities of company(ies) covered in this report. The securities of the company(ies) may not be eligible for subscription or sale in all jurisdictions or to all categories of investors.

CIMB Securities may or may not issue regular reports on the subject matter of this report at any frequency and may cease to do so or change the periodicity of reports at any time. CIMB Securities has no obligation to update this report to include any material omission or in the event of a material change to the information contained in this report.

CIMB Securities does not accept any obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the contents of this report constitute all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and recommendations; and accordingly, CIMB Securities as well as its affiliates, related and associate corporations (and their respective directors, officers and/or employees) shall not be liable in any manner whatsoever for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any reliance thereon or usage of this report. In particular, CIMB Securities disclaims all responsibility and liability for the views, opinions and recommendations set out in this report.

Unless otherwise specified, this report is based upon sources or data which CIMB Securities considered to be reasonable, correct and reliable at the time of issue of this report. Such sources or data will, unless otherwise specified, for market data, be market data and prices available from the stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research.

Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of your investments may go down and you may lose some or all of your investments.

This report may contain information obtained from third party content providers. Reproduction and distribution of third party contents in any form is prohibited except with the prior written consent of the related third party content provider.

Third party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such contents. Third party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their contents.

CIMB Securities as well as its affiliates, related and associate corporations (and their respective directors, officers and/or employees) may own or have positions in securities of the company(ies) covered in this report or any securities related to it and may from time to time add to or dispose of, or may be materially interested in, any such securities.

Further, CIMB Securities as well as its affiliates, related and associate corporations do and seek to do business with the company(ies) covered in this report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell them to or buy them from customers (for its own account or the account of its customers) and may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) as well as solicit investment, advisory or other services from any company(ies) mentioned in this report.

CIMB Securities as well as its affiliates, related and associate corporations may enter into an agreement with the company(ies) covered in this report relating to the production of research reports. CIMB Securities may disclose the contents of this report to the company(ies) covered by it and may have amended the contents of this report following such disclosure.

The analyst(s) responsible for the production of this report certifies that the views, opinions and recommendations expressed herein accurately and exclusively reflect his/her personal views, opinions and recommendations about any and all of the company(ies) or securities analysed in this report and were prepared independently and autonomously.

In reviewing this research report, you should be aware that any or all of the foregoing, among other things, may give rise to actual or potential conflicts of interest. Subject to the duties of confidentiality, additional information may be available, on request, at our sole discretion.

RATING GUIDE

Stock Rating	Definition
Buy	The stock's total return is expected to exceed 10% over the next twelve (12) months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next twelve (12) months.
Reduce	The stock's total return is expected to fall below 0% or more over the next twelve (12) months.
	<i>Note: The total expected return of a stock is defined as the sum of: the percentage difference between the target price and the current price; and the forward net dividend yields of the stock. Stock price targets have an investment horizon of twelve (12) months.</i>
Sector Rating	Definition
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

DISCLOSURE OF CONFLICTS OF INTEREST

Disclosure by CIMB Securities

CIMB Securities hereby declares that:

(a) CIMB Securities, CIMB Investment Bank Berhad and/or CIMB Bank Berhad has/have proprietary positions in the following securities of the company(ies) mentioned in this report:

Nil

(b) CIMB Securities (only in respect of its Equities Research Department) received material benefit in relation to the production of this report for the following companies mentioned in this report:

Nil

Disclosure by Analyst(s)

The analyst(s) who prepared this report declares that:

(a) He/she received material benefit in relation to the production of this report for the following companies mentioned in this report:

Nil

(b) He/she has/have an interest in the securities in the following company(ies) recommended in this report:

Nil

(c) He/she serves as a director or board member of the following company(ies) mentioned in this report:

Nil

Information barriers and other arrangements may be established, where necessary, to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/her coverage of company(ies) in the performance of his/her duties or the correlation between his/her views, opinions or recommendations and the performance of the securities of the company(ies) and may also participate in the solicitation of the businesses.

This report is distributed in Malaysia by CIMB Securities solely for the benefit of and for the exclusive use of the clients of CIMB Securities, CIMB Investment Bank Berhad and CIMB Bank Berhad. Recipients of this report are to contact CIMB Securities at Level 14, Chulan Tower, No. 3, Jalan Conlay, 50450 Kuala Lumpur in respect of any matters arising from or in connection with this report. CIMB Securities has no obligation to update, revise or reaffirm its opinion or the information in this research report after the date of this report.

This report is not directed to or intended for distribution or publication outside of Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located and seek the advice of professional advisers in your jurisdiction.