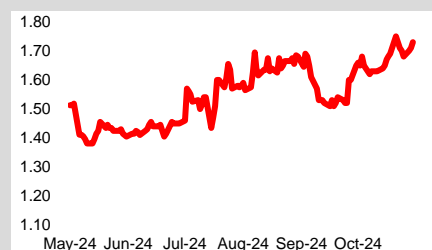


**DESCRIPTION**

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

<b>12-month Target Price</b>	RM1.50
<b>Current Price</b>	RM1.73
<b>Expected Return</b>	-13.2%
<b>Previous Target Price</b>	RM1.60

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

**SHARE PRICE CHART**


52 Week Range (RM)	1.25-1.77
3-Month Average Vol ('000)	992.2

**SHARE PRICE PERFORMANCE**

	1M	3M	6M
Absolute Returns	8.1	9.8	12.9
Relative Returns	8.0	12.0	13.3

**KEY STOCK DATA**

Market Capitalisation (RMm)	2,536.0
No. of Shares (m)	1,465.9

**MAJOR SHAREHOLDERS**

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

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## Dragged by Lower Disbursements

RCE's 2QFY25 net profit decreased by 27.2% YoY to RM27.8m, due to weaker revenue on lower loan disbursements as the Group sought to preserve asset quality, as well as higher employee share scheme (ESS) expenses. Cumulative 1HFY25 net profit of RM58.1m is below our and consensus estimates, accounting for 40% of full-year forecasts. The discrepancy in our forecast was mainly due to lower-than-expected operating income coupled with higher-than-expected staff cost. We cut our earnings estimates by 6%-12%, to account for the lower operating income. Nevertheless, we believe that the worse could be over for RCE, as financing growth should be lifted by the impending civil servant salary hike in December. Following our earnings adjustment, our DDM-derived TP is reduced to RM1.50, given the lower DPS assumption. We maintain our **Neutral** call on RCE. On a side note, RCE declared a first interim dividend of 3sen.

§ **Results review.** 2QFY25 revenue fell by 8.4% YoY to RM80.4m, mainly due to lower operating income given management's prudent approach to prioritizing better asset quality. As a result of the lower operating income coupled with higher staff cost due to ESS expense, RCE's 2QFY25 net profit decreased by 27.2% YoY to RM27.8m.

§ **Declining financing receivables.** RCE's financing receivables of RM2.06bn fell by 0.8% QoQ (-1.4% YoY), in tandem with management's strategic approach to focus on its asset quality due to 'compressed financing' whereby some applicants have accumulated debt (with DSR >60%) as they borrowed from several financial institutions concurrently. However, we foresee stronger earnings going forward, as the upcoming civil servant salary adjustment should lead to an increase in financing receivables.

§ **Non-performing financing (NPF) still elevated.** RCE's NPF ratio increased to 4.3% from 4.2% in 1QFY25 as the higher impairments was mainly caused by early retirements and resignations among the civil services. We expect NPF ratio to moderate going forward, as the salary adjustment should help to maintain the attractiveness of the civil service, potentially leading to lower early retirements and resignations.

**KEY FINANCIAL SUMMARY**

FYE Mar (RM'm)	2023A	2024A	2025F	2026F	2027F	CAGR
Operating Income	261.6	281.1	270.4	292.0	309.1	3.2%
Pre-provision profit	212.6	215.1	200.6	220.1	236.3	3.2%
Pre-tax profit	183.9	184.8	169.8	189.3	204.0	3.3%
Net profit	138.8	138.8	129.1	143.9	155.0	3.8%
EPS (sen)	9.5	9.5	8.8	9.8	10.6	
P/E (x)	18.3	18.3	19.6	17.6	16.4	
DPS (sen)	15.0	7.5	6.0	6.5	7.0	
Dividend Yield (%)	8.7	4.3	3.5	3.8	4.0	

Source: Company, PublicInvest Research estimates

**Table 1: Results Summary**

<u>FYE Mar ((RM'm)</u>	<u>2Q25</u>	<u>2Q24</u>	<u>1Q25</u>	<u>YoY chg (%)</u>	<u>QoQ chg (%)</u>	<u>YTD FY25</u>	<u>YTD FY24</u>	<u>YoY chg (%)</u>	<u>Comments</u>
Interest income	73.0	73.2	72.0	-0.4	1.3	145.0	144.3	0.5	
Interest expense	-25.7	-24.6	-25.5	4.5	0.6	-51.2	-49.5	3.5	
Net interest income	47.3	48.7	46.5	-2.8	1.6	93.8	94.8	-1.1	
Other non-profit income	17.9	24.3	15.9	-26.4	12.6	33.8	45.8	-26.1	
Operating income	65.2	73.0	62.4	-10.7	4.4	127.6	140.6	-9.2	YoY decline due to lower loan disbursements
Directors' remuneration and staff cost	-12.4	-6.9	-7.3	79.9	69.6	-19.7	-14.0	40.9	After accounting for ESS expense
Allowances for impairment loss	-6.4	-6.9	-7.7	-7.4	-17.9	-14.1	-11.6	21.7	
Depreciation	-1.0	-0.9	-1.1	14.0	-2.7	-2.1	-1.8	14.8	
Other expenses	-7.3	-7.4	-5.8	-0.8	25.8	-13.2	-13.2	-0.3	
Finance cost	-0.1	-0.1	0.0	60.0	146.2	-0.1	-0.1	19.5	
Profit before tax	38.0	50.9	40.4	-25.4	-6.1	78.4	99.9	-21.5	
Taxation	-10.2	-12.6	-10.1	-19.7	0.3	-20.3	-24.8	-18.1	
Net profit	27.8	38.2	30.3	-27.2	-8.2	58.1	75.1	-22.6	
Gross financing receivables	2057.4	2086.6	2074.4	-1.4	-0.8				
Allowance for impairment	-129.9	-121.4	-129.9	7.0	0.0				
Net financing receivables	1927.5	1965.3	1944.4	-1.9	-0.9				
Gross NPF ratio (%)	4.3	3.7	4.2						
Total borrowings	2050.6	2139.9	2162.6	-4.2	-5.2				

Source: Company, PublicInvest Research

## KEY FINANCIAL DATA

### INCOME STATEMENT DATA

FYE Mar (RM'm)	2023A	2024A	2025F	2026F	2027F
Interest income	280.7	290.8	293.5	316.2	334.3
Interest expense	-90.1	-98.5	-101.1	-104.1	-107.3
<b>Net Interest Income</b>	<b>190.7</b>	<b>192.3</b>	<b>192.4</b>	<b>212.0</b>	<b>227.1</b>
Non-interest income	71.0	88.8	78.0	80.0	82.1
Staff costs	-27.1	-32.2	-38.1	-38.9	-39.1
Other operating expenses	-21.7	-33.6	-31.5	-32.7	-33.5
Pre-provision profit	212.6	215.1	200.6	220.1	236.3
Allowance for impairment	-28.7	-30.2	-30.8	-30.7	-32.3
Profit Before Tax	183.9	184.8	169.8	189.3	204.0
Income tax	-45.2	-46.1	-40.8	-45.4	-49.0
<b>Net profit</b>	<b>138.8</b>	<b>138.8</b>	<b>129.1</b>	<b>143.9</b>	<b>155.0</b>
<b>Growth</b>					
Interest income (%)	2.2	3.6	0.9	7.7	5.7
Pre-provision Profit (%)	12.6	1.2	-6.7	9.7	7.3
Net Profit (%)	4.2	0.0	-7.0	11.5	7.7

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	2142.4	2249.6	2362.0
Cash and Deposits with Banks	879.7	840.2	916.0	929.1	942.8
Other Assets	39.0	47.7	35.1	29.2	22.9
<b>Total Assets</b>	<b>2946.8</b>	<b>2995.6</b>	<b>3100.3</b>	<b>3214.4</b>	<b>3334.3</b>
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	870.9	919.5	971.9
<b>Total Equity and Liabilities</b>	<b>2946.8</b>	<b>2995.6</b>	<b>3100.3</b>	<b>3214.4</b>	<b>3334.3</b>

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	0.7
P/BV	3.1	3.1	2.9	2.8	2.6
EPS (Sen)	9.5	9.5	8.8	9.8	10.6
DPS (Sen)	15.0	7.5	6.0	6.5	7.0
Payout Ratio (%)	158.4	79.2	68.1	66.2	66.2
ROA (%)	4.7	4.6	4.2	4.5	4.6
ROE (%)	17.2	16.7	14.8	15.6	15.9

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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### **Published and printed by:**

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