

25 Feb 2025

Reduce

Price
 RM1.34

Target Price
 RM1.23 (from RM1.37)

Market Data

| | |
|--------------------------|-------------|
| Bloomberg Code | RCE MK |
| No. of shares (m) | 1,482.3 |
| Market cap (RMm) | 1,986.3 |
| 52-week high/low (RM) | 1.77 / 1.25 |
| Avg daily turnover (RMm) | 1.2 |
| KLCI (pts) | 1,584.2 |

Source: Bloomberg, CIMB Securities

Major Shareholder (%)

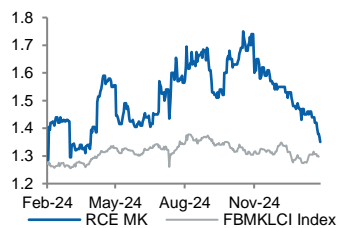
| | |
|-----------------|------|
| Cempaka Empayar | 55.6 |
|-----------------|------|

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

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RCE Capital

NPF exceeds 2016-established range

RCE's 3QFY25 net profit rose by 10.5% QoQ (-11.0% YoY) owing to lower operating costs. This brings 9MFY25 net profit to RM88.9m (-18.9% YoY), which is in line with expectations at 70% and 69% of our and consensus full-year FY25F net profit estimates, respectively. We maintain our FY25F earnings forecast as we anticipate improved earnings in 4QFY25 due to higher disbursements. Nevertheless, we cut our FY26F and FY27F earnings projections by 2.9% and 4.7%, respectively, to account for lower receivables growth. Post revisions, we lower our DDM-based TP to RM1.23. **Maintain Reduce. Key downside risk: higher-than-expected impairment loss.**

Financial highlights

| FYE Mar | 2023 | 2024 | 2025F | 2026F | 2027F |
|-----------------------|-------|-------|-------|-------|-------|
| Revenue (RMm) | 323.6 | 341.7 | 335.8 | 344.2 | 354.5 |
| Core net profit (RMm) | 138.8 | 138.8 | 127.5 | 130.9 | 134.3 |
| Core EPS (Sen) | 9.4 | 9.4 | 8.6 | 8.8 | 9.1 |
| EPS growth (%) | 4.2 | (0.0) | (8.1) | 2.7 | 2.6 |
| DPS (Sen) | 15.0 | 7.5 | 6.0 | 6.2 | 6.3 |
| Div yield (%) | 11.2 | 5.6 | 4.5 | 4.6 | 4.7 |
| Core PE (x) | 14.3 | 14.3 | 15.6 | 15.2 | 14.8 |
| PBV (x) | 2.5 | 2.4 | 2.3 | 2.2 | 2.1 |
| ROE (%) | 16.5 | 17.0 | 15.0 | 14.7 | 14.5 |

Source: Company, CIMB Securities

3Q25 core net profit rose 27.2% QoQ; within our and consensus estimates

RCE Capital (RCE)'s net profit increased by 10.5% QoQ (-11.0% YoY) to RM30.8m in 3QFY25, driven by a 32.7% QoQ reduction in operating costs (-27.4% YoY), largely due to the absence of expenses related to the employee share scheme, which led to a 47.1% QoQ decline in staff costs (-42.1% YoY). This brings 9MFY25 net profit to RM88.9m (-18.9% YoY), which is in line with both our and consensus expectations at 70% and 69% of full-year FY25F net profit estimates, respectively. We anticipate improved earnings in 4QFY25 due to higher disbursements.

Higher impairments; NPF surpasses historical range since 2016

RCE's financing receivables declined by 2.5% YoY in 9MFY25, reflecting a selective lending strategy focused on higher credit quality disbursements amid tight industry financing conditions. Meanwhile, impairment losses on receivables increased by 31.7% QoQ (+0.7% YoY) to RM8.4m in 3QFY25, driven by a continued rise in bankruptcies among civil servants. As a result, non-performing financing (NPF) trended up, growing 4.1% QoQ and 13.7% YoY to RM91.8m. This led to an increase in the NPF ratio to 4.5%, up from 4.3% in 2QFY25 and 3.8% in 3QFY24, surpassing the historical range of 3.8–4.3% since 2016. Additionally, RCE's coverage ratio dropped to 145%, its lowest level since 2015.

Expecting better 4QFY25 earnings on higher disbursement

We maintain our FY25F earnings forecast, as we expect net profit to grow by around 25.3% QoQ, driven by higher fee income (charged on each disbursement) and a lower net impairment loss on receivables due to some reversals. This will be supported by increased disbursements in 4QFY25, bolstered by the 7–15% hikes in civil servant salaries effective from 1 Dec 2024 (Phase 1). Additionally, the festive season, including Chinese New Year (Jan 2025) and Eid (Mar 2025), as well as the reopening of schools (Feb 2025), typically boosts consumer spending and financing demand. The civil servant salary hikes are also expected to reduce the risk of early retirements and transitions to the private sector by enhancing civil servants' financial stability through increasing their disposable income. Nevertheless, our earnings projections for FY26F and FY27F have been lowered by 2.9% and 4.7%, respectively, as we cut our FY26F and FY27F receivables growth assumptions to more conservative rates of 2.5% and 3%, respectively (from 5% previously), to reflect RCE's

selective lending strategy as well as increased competition on the back of the rise of alternative financing schemes, such as those offered by Grab and Shopee.

TP cut to RM1.23; maintain Reduce

Following the revisions, our DDM-based target price (TP) (using a cost of equity of 8.8% and a growth rate of 3%) is lowered to RM1.23 from RM1.37 previously. This TP implies a P/BV of 2x. We maintain our Reduce call for RCE owing to concerns over rising impairment provisions and slower receivables growth. Additionally, it is currently trading at 2.2x P/BV, significantly above its 5-year mean of 1.4x (+1.5 s.d.), which we deem overvalued owing to the continued upward trend in impairments. Key upside risks: (i) higher-than-expected receivables growth, (ii) higher-than-expected dividends. Key downside risk: higher-than-expected impairment loss on receivables.

Exhibit 1: Results summary

| FYE 31 Mar | Dec-23 | Sep-24 | Dec-24 | % chg | | Cumulative | | % chg | Prev. CIMB | |
|------------------------------------|-------------|-------------|-------------|--------------|---------------|--------------|--------------|---------------|--------------|--------------|
| RM m | 3QFY24 | 2QFY25 | 3QFY25 | QoQ | YoY | 9MFY24 | 9MFY25 | YoY | FY25F | 9M/F |
| Profit income | 74.1 | 73.0 | 70.8 | (2.9) | (4.4) | 218.4 | 215.8 | (1.2) | 303.38 | 71.1% |
| Other revenue | 13.4 | 7.5 | 8.5 | 14.0 | (36.3) | 40.8 | 23.0 | (43.6) | 32.40 | 71.1% |
| Total revenue | 87.4 | 80.4 | 79.3 | (1.3) | (9.2) | 259.2 | 238.8 | (7.9) | 335.8 | 71.1% |
| Interest expense | (24.0) | (25.7) | (24.2) | (5.6) | 1.1 | (73.5) | (75.4) | 2.7 | (106.4) | 70.9% |
| Net interest and fee income | 63.4 | 54.7 | 55.1 | 0.6 | (13.1) | 185.7 | 163.4 | (12.0) | 229.4 | 71.3% |
| Other income | 10.0 | 10.5 | 8.2 | (21.6) | (18.5) | 28.3 | 27.5 | (3.0) | 38.4 | 71.5% |
| Operating income | 73.5 | 65.2 | 63.3 | (2.9) | (13.9) | 214.0 | 190.9 | (10.8) | 267.8 | 71.3% |
| Operating expenses | (19.3) | (20.8) | (14.0) | (32.7) | (27.4) | (48.4) | (49.1) | 1.4 | (69.6) | 70.6% |
| Underlying profit | 54.2 | 44.3 | 49.3 | 11.1 | (9.1) | 165.6 | 141.8 | (14.4) | 198.2 | 71.5% |
| Allowance for impairment loss | (8.3) | (6.4) | (8.4) | 31.7 | 0.7 | (19.9) | (22.5) | 12.9 | (30.4) | 74.1% |
| Exceptional | 0.0 | 0.0 | 0.0 | n.m. | n.m. | 0.0 | 0.0 | n.m. | n.a. | n.a. |
| Pre-tax profit | 45.8 | 38.0 | 40.9 | 7.6 | (10.8) | 145.7 | 119.3 | (18.1) | 167.8 | 71.1% |
| Taxation | (11.3) | (10.2) | (10.1) | (0.3) | (10.3) | (36.0) | (30.4) | (15.6) | (40.3) | 75.5% |
| Net profit | 34.6 | 27.8 | 30.8 | 10.5 | (11.0) | 109.7 | 88.9 | (18.9) | 127.5 | 69.7% |

Source: Company, CIMB Securities

Income statement

| FYE Mar (RMm) | 2023 | 2024 | 2025F | 2026F | 2027F |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Net interest income | 190.7 | 192.3 | 187.8 | 191.7 | 197.8 |
| Non-interest income | 71.0 | 88.8 | 79.9 | 81.9 | 84.4 |
| Total income | 261.6 | 281.1 | 267.8 | 273.7 | 282.1 |
| Operating costs | (49.0) | (66.0) | (69.6) | (71.1) | (73.3) |
| Pre-provision operating profit | 212.6 | 215.1 | 198.2 | 202.5 | 208.8 |
| Provision charges | (28.7) | (30.2) | (30.4) | (31.2) | (32.1) |
| Pre-tax profit | 183.9 | 184.8 | 167.8 | 172.3 | 176.7 |
| Taxation | (45.2) | (46.1) | (40.3) | (41.4) | (42.4) |
| Net Profit | 138.8 | 138.8 | 127.5 | 130.9 | 134.3 |

Balance sheet

| FYE Mar (RMm) | 2023 | 2024 | 2025F | 2026F | 2027F |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Consumer financing | 1,899.4 | 1,972.7 | 2,051.6 | 2,102.9 | 2,166.0 |
| Deposits with financial institutiona | 799.9 | 745.0 | 776.0 | 799.9 | 827.2 |
| Plant and equipment | 11.9 | 11.0 | 11.5 | 11.8 | 12.2 |
| 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 | 52.0 | 53.7 |
| 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 | 181.2 | 198.4 |
| Total Assets | 2,946.8 | 2,995.6 | 3,120.6 | 3,216.5 | 3,326.3 |
| Borrowings | 2,091.5 | 2,119.6 | 2,204.4 | 2,259.5 | 2,327.3 |
| Payables and accruals | 36.3 | 34.2 | 35.6 | 36.7 | 38.0 |
| Hire purchase | 1.5 | 1.3 | 1.4 | 1.4 | 1.4 |
| Deferred tax liabilities | 2.9 | 2.0 | 2.1 | 2.2 | 2.2 |
| Tax liabilities | 8.9 | 8.7 | 9.1 | 9.4 | 9.7 |
| Total Liabilities | 2,141.2 | 2,165.8 | 2,252.6 | 2,309.1 | 2,378.6 |
| Share capital | 201.9 | 201.9 | 201.9 | 201.9 | 201.9 |
| Reserves | 603.0 | 627.0 | 666.0 | 705.0 | 745.0 |
| Total Shareholders' Equity | 805.7 | 829.8 | 868.0 | 907.3 | 947.6 |
| Total Liabilities & Equity | 2,946.8 | 2,995.6 | 3,120.6 | 3,216.5 | 3,326.2 |

ROE composition

| FYE Mar | 2023 | 2024 | 2025F | 2026F | 2027F |
|--|--------------|--------------|--------------|--------------|--------------|
| a. Net interest income/Avg. assets (%) | 6.7% | 6.5% | 6.1% | 6.1% | 6.0% |
| 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% | 8.6% | 8.6% |
| d. Cost/Avg. Assets (%) | 1.7% | 2.2% | 2.3% | 2.2% | 2.2% |
| 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% | 6.4% | 6.4% |
| a. Underlying Profitability (%) | 7.5% | 7.2% | 6.5% | 6.4% | 6.4% |
| 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% | 5.4% | 5.4% |
| 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% | 4.1% | 4.1% |
| f. Leverage | 3.4 | 3.6 | 3.6 | 3.6 | 3.5 |
| g. ROE (e*g) | 16.5% | 17.0% | 15.0% | 14.7% | 14.5% |

Source: Bloomberg, CIMB Securities

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|----------------------|---|
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| Reduce | The stock's total return is expected to fall below 0% or more over the next twelve (12) months. |
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