

25 February 2025

Financial Services | Banks

RCE Capital (RCE MK)

Neutral (from Sell)

The Worst Might Be Over; U/G To NEUTRAL

Target Price (Return): MYR1.25 (-7%)
 Price (Market Cap): MYR1.34 (USD446m)
 ESG score: 3.0 (out of 4)
 Avg Daily Turnover (MYR/USD) 0.81m/0.18m

- **Upgrade to NEUTRAL from Sell with an unchanged MYR1.25 TP, 7% downside.** RCE Capital's 9MFY25 (Mar) results broadly met estimates, and earnings adjustments were not large. We expect the group to book a stronger final quarter of its financial year driven by a resumption in disbursements to capitalise on an improving operating environment. The recent share price correction also means that yields are once again attractive, though valuation still appears lofty, at over +1SD from its mean P/BV.
- **Results review.** RCE's 3QFY25 net profit of MYR30.8m (-11% YoY, +11% QoQ) brought the 9MFY25 figure to MYR88.9m (-19% YoY) – this formed 66% of our and consensus full-year estimates. The main drag on 9M earnings was from operating income, which declined 11% YoY after slower-than-expected financing disbursements affected both net financing income (-3% YoY) and non-financing income (-27%). Impairment allowances also rose 13% YoY, though credit costs of 1.5% (9MFY24: 1.3%) still remained at a manageable level, and was within the pre-pandemic range of 1-2%. All in, 9MFY25 ROAE stood at 14.6%, down from 17.4% in the previous year.
- **Is the worst over?** Recall, the [Malaysian Anti-Corruption Commission had recently dismantled a financial syndicate](#) that reportedly taught borrowers to over-leverage beyond their servicing capacity. RCE saw an influx of applications from lower-credit score customers as a result, and this led to the group having to raise its rejection rates, leading to soft financing disbursements in 9MFY25. With the syndicate now contained, we think RCE has room to be more optimistic on disbursements, and this is timely to capture increased financing demand from civil servants following the revision to the public sector's remuneration scheme in Dec 2024. While it traditionally aims to match the growth rate of the banking system (ie c.5%), we think the group can likely outpace this over the next few years, especially as the 3% YoY decline in financing receivables presents a lower base to grow from.
- **Other results highlights.** Stage 3 expected credit loss provisions (a proxy for non-performing financing) saw a 4% increase QoQ, leading to a sequential rise in credit costs to 1.6% in 3QFY25 from 1.2% in the previous quarter. Elsewhere, opex declined 33% QoQ off a high base (recall that in 2QFY25, RCE had incurred expenses related to the annual issuance of shares under its employees' share scheme) – this allowed the CIR to ease 10ppts to 22%.
- **We cut our FY25F-27F net profit by 4%, 3% and 3%** as we factor in softer financing growth estimates – our new FY25F assumption implies 1% QoQ receivables growth in 4QFY25, albeit it would still be a 1% decline YoY (2% growth previously). Our TP is maintained at MYR1.25, and includes a 0% ESG premium/discount.

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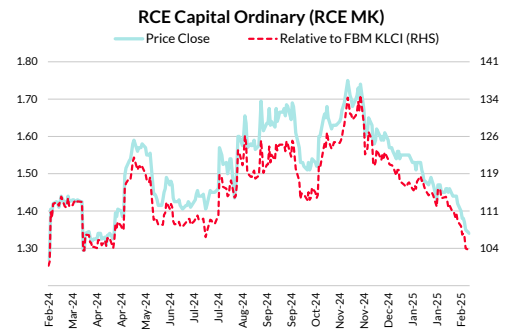


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Share Performance (%)

| | YTD | 1m | 3m | 6m | 12m |
|----------------------------|-------------|-------|--------|--------|-------|
| Absolute | (13.6) | (8.9) | (23.0) | (14.4) | 0.4 |
| Relative | (10.1) | (9.6) | (22.6) | (11.2) | (1.9) |
| 52-wk Price low/high (MYR) | 1.27 – 1.75 | | | | |



Source: Bloomberg

| Forecasts and Valuation | Mar-23 | Mar-24 | Mar-25F | Mar-26F | Mar-27F |
|------------------------------|--------|--------|---------|---------|---------|
| Reported net profit (MYRm) | 139 | 139 | 128 | 154 | 160 |
| Net profit growth (%) | 4.2 | (0.0) | (7.8) | 20.2 | 4.0 |
| Recurring net profit (MYRm) | 139 | 139 | 128 | 154 | 160 |
| Recurring EPS (MYR) | 0.09 | 0.09 | 0.09 | 0.10 | 0.11 |
| BVPS (MYR) | 0.55 | 0.56 | 0.58 | 0.61 | 0.63 |
| DPS (MYR) | 0.15 | 0.07 | 0.07 | 0.08 | 0.08 |
| Recurring P/E (x) | 14.23 | 14.31 | 15.35 | 12.77 | 12.28 |
| P/B (x) | 2.45 | 2.39 | 2.30 | 2.19 | 2.11 |
| Dividend Yield (%) | 11.2 | 5.6 | 4.9 | 5.9 | 6.1 |
| Return on average equity (%) | 16.5 | 17.0 | 15.2 | 17.6 | 17.5 |

Source: Company data, RHB

Overall ESG Score: 3.0 (out of 4)

E Score: 2.7 (GOOD)

S Score: 3.0 (GOOD)

G Score: 3.7 (EXCELLENT)

Please refer to the ESG analysis on the next page

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Emissions And ESG

| Trend analysis | Emissions (tCO2e) | Mar-22 | Mar-23 | Mar-24 | Mar-25 |
|---|-------------------|--------|--------|--------|--------|
| RCE began disclosing Scope 3 emissions in the FY24 annual report. Meanwhile, Scope 1 and Scope 2 emissions showed a slight YoY decline as a result of its various climate change management strategies. | Scope 1 | 16 | 19 | 22 | na |
| | Scope 2 | 150 | 155 | 152 | na |
| | Scope 3 | - | - | 377 | na |
| | Total emissions | 166 | 174 | 551 | na |

Source: Company data, RHB

Latest ESG-Related Developments

Scope 3 emissions reporting: RCE began disclosing its (internal) Scope 3 emissions data in its FY24 annual report, which comprised mostly of emissions associated to employee commute – the group has yet to disclose Scope 3 financed emissions at this juncture.

Emphasis on employee development: RCE's employees enjoyed an average of 32 training hours per employee, an increase of 8 hours YoY, on topics such as leadership development, regulatory and technical skills, and special interest topics.

ESG Unbundled

Overall ESG Score: 3.0 (out of 4)

Last Updated: 16 Aug 2024

E Score: 2.7 (GOOD)

RCE's emissions intensity (on both an absolute and per employee basis) demonstrated a decrease in FY24 (Mar) underpinned by the group's proactive climate change management strategies. The group has also begun reporting its Scope 3 emissions in FY24 based on cross-sector tools provided by the GHG Protocol.

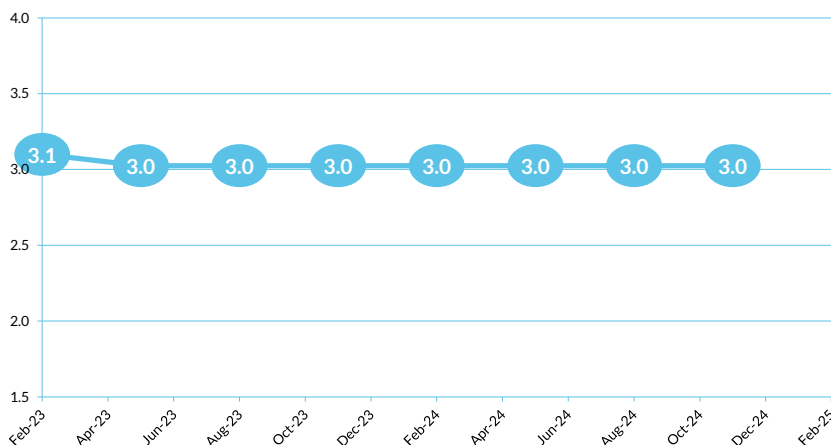
S Score: 3.0 (GOOD)

RCE places strong focus on employee development - its employees enjoyed an average of 32 training hours in FY23, compared to 24 hours in FY22. The group, in collaboration with Yayasan Azman Hashim, provides study grants and scholarships to deserving underprivileged students to pursue Chartered Accountancy certifications. To date, MYR572,000 has been distributed under the programme.

G Score: 3.7 (EXCELLENT)

Four out of eight members of the Board of Directors (ex-CEO) are independent directors, while all members are non-executive. Board members have a maximum allowed tenure of nine years, to facilitate Board refreshment.

ESG Rating History



Source: RHB

Financial Exhibits

| Asia | Financial summary (MYR) | Mar-23 | Mar-24 | Mar-25F | Mar-26F | Mar-27F |
|--|--|---------------|---------------|----------------|----------------|----------------|
| Malaysia | EPS | 0.09 | 0.09 | 0.09 | 0.10 | 0.11 |
| Financial Services | Recurring EPS | 0.09 | 0.09 | 0.09 | 0.10 | 0.11 |
| RCE Capital | DPS | 0.15 | 0.07 | 0.07 | 0.08 | 0.08 |
| RCE MK | BVPS | 0.55 | 0.56 | 0.58 | 0.61 | 0.63 |
| Neutral | | | | | | |
| | Valuation metrics | Mar-23 | Mar-24 | Mar-25F | Mar-26F | Mar-27F |
| Valuation basis | Recurring P/E (x) | 14.23 | 14.31 | 15.35 | 12.77 | 12.28 |
| Our GGM assumptions are: | P/B (x) | 2.5 | 2.4 | 2.3 | 2.2 | 2.1 |
| i. CoE of 10.0%; | Dividend Yield (%) | 11.2 | 5.6 | 4.9 | 5.9 | 6.1 |
| ii. ROE of 17.2%; | | | | | | |
| iii. 3.5% long-term growth rate. | | | | | | |
| | Income statement (MYRm) | Mar-23 | Mar-24 | Mar-25F | Mar-26F | Mar-27F |
| Key drivers | Interest income | 281 | 291 | 301 | 312 | 330 |
| Our FY25 forecasts are most sensitive to changes in: | Interest expense | (90) | (99) | (103) | (109) | (115) |
| i. Growth in receivables; | Net interest income | 190 | 192 | 198 | 202 | 216 |
| ii. Impairment allowances; | Non interest income | 71 | 89 | 65 | 101 | 103 |
| iii. Financing margins. | Total operating income | 261 | 281 | 263 | 303 | 319 |
| | Overheads | (49) | (66) | (63) | (68) | (73) |
| Key risks | Pre-provision operating profit | 213 | 215 | 200 | 235 | 245 |
| The upside risks include: | Loan impairment allowances | (29) | (30) | (29) | (30) | (32) |
| i. Greater-than-expected financing growth; | Pre-tax profit | 184 | 185 | 171 | 205 | 213 |
| ii. Lower-than-expected credit costs; | Taxation | (45) | (46) | (43) | (51) | (53) |
| iii. Stronger-than-expect net financing margin. | Reported net profit | 139 | 139 | 128 | 154 | 160 |
| | Recurring net profit | 139 | 139 | 128 | 154 | 160 |
| The converse represents upside risk. | | | | | | |
| | Profitability ratios | Mar-23 | Mar-24 | Mar-25F | Mar-26F | Mar-27F |
| Company Profile | Return on average assets (%) | 4.9 | 4.7 | 4.2 | 4.8 | 4.8 |
| RCE Capital provides general financing services to civil servants - repayments are done via direct salary deductions. Its wholly-owned EXP Payment unit offers payroll collection management services for government departments under the purview of the Accountant General's Department. | Return on average equity (%) | 16.5 | 17.0 | 15.2 | 17.6 | 17.5 |
| | Return on IEAs (%) | 10.3 | 10.1 | 10.4 | 10.5 | 10.5 |
| | Cost of funds (%) | 4.6 | 4.7 | 4.7 | 4.8 | 4.8 |
| | Net interest spread (%) | 5.7 | 5.4 | 5.6 | 5.7 | 5.7 |
| | Net interest margin (%) | 7.0 | 6.7 | 6.8 | 6.8 | 6.9 |
| | Non-interest income / total income (%) | 27.1 | 31.6 | 24.7 | 33.2 | 32.3 |
| | Cost to income ratio (%) | 18.7 | 23.4 | 24.0 | 22.5 | 23.1 |
| | Credit cost (bps) | 147 | 147 | 140 | 140 | 140 |
| | Balance sheet (MYRm) | Mar-23 | Mar-24 | Mar-25F | Mar-26F | Mar-27F |
| | Total gross loans | 2,021 | 2,100 | 2,079 | 2,204 | 2,358 |
| | Other interest earning assets | 854 | 800 | 822 | 845 | 869 |
| | Total gross IEAs | 2,875 | 2,900 | 2,901 | 3,049 | 3,227 |
| | Total provisions | (122) | (128) | (139) | (151) | (165) |
| | Net loans to customers | 1,899 | 1,973 | 1,940 | 2,053 | 2,194 |
| | Total net IEAs | 2,753 | 2,772 | 2,762 | 2,898 | 3,062 |
| | Total non-IEAs | 194 | 223 | 363 | 381 | 367 |
| | Total assets | 2,947 | 2,996 | 3,125 | 3,280 | 3,429 |
| | Other interest-bearing liabilities | 2,092 | 2,120 | 2,226 | 2,337 | 2,454 |
| | Total IBLs | 2,092 | 2,120 | 2,226 | 2,337 | 2,454 |
| | Total non-IBLs | 50 | 46 | 45 | 46 | 47 |
| | Total liabilities | 2,141 | 2,166 | 2,271 | 2,383 | 2,501 |
| | Share capital | 202 | 202 | 202 | 202 | 202 |
| | Shareholders' equity | 806 | 830 | 854 | 897 | 929 |
| | Asset quality and capital | Mar-23 | Mar-24 | Mar-25F | Mar-26F | Mar-27F |
| | Reported NPLs / gross cust loans (%) | 3.8 | 3.7 | 3.8 | 3.8 | 3.8 |
| | Total provisions / reported NPLs (%) | 157.8 | 165.8 | 175.9 | 180.2 | 184.0 |

Source: Company data, RHB

Results At a Glance

Figure 1: Summary of 3QFY25 and 9MFY25 results

| FYE Mar (MYRm) | 3QFY24 | 2QFY25 | 3QFY25 | QoQ (%) | YoY (%) | 9MFY24 | 9MFY25 | YoY (%) | Comments |
|----------------------------------|---------|---------|---------|---------|---------|--------|--------|---------|--|
| Net financing income | 50.0 | 47.2 | 46.5 | (1) | (7) | 144.7 | 140.2 | (3) | |
| Financing income | 74.1 | 73.0 | 70.8 | (3) | (4) | 218.4 | 215.8 | (1) | |
| Financing expense | (24.1) | (25.8) | (24.3) | (6) | 1 | (73.7) | (75.6) | 3 | |
| Non-financing income | 23.4 | 17.9 | 16.7 | (7) | (29) | 69.1 | 50.5 | (27) | In tandem with the lower financing disbursements due to lower fees on origination |
| <i>Non-IT/Total income (%)</i> | 31.9 | 27.5 | 26.4 | | | 32.3 | 26.5 | | |
| Operating Income | 73.4 | 65.1 | 63.2 | (3) | (14) | 213.8 | 190.7 | (11) | |
| Overhead expenses | (19.2) | (20.8) | (14.0) | (33) | (27) | (48.2) | (48.9) | 1 | 2QFY25 opex included MYR5.2m in charges related to the annual issuance of shares to staff. In the past several years, this was typically done in 3Q |
| <i>CIR (%)</i> | 26.2 | 31.9 | 22.1 | | | 22.5 | 25.6 | | |
| PIOP | 54.2 | 44.3 | 49.3 | 11 | (9) | 165.6 | 141.8 | (14) | |
| Impairment on financing | (8.3) | (6.4) | (8.4) | 32 | 1 | (19.9) | (22.5) | 13 | The jump in 9MFY25 credit costs is attributable to the rising number of civil servants retiring early, exiting the civil service, or going bankrupt. While early retirements and exit trends are unpredictable, the group is working hard to curb the bankruptcy cases |
| <i>Ann. credit costs (bps)</i> | 159 | 123 | 163 | | | 133 | 147 | | |
| PBT | 45.8 | 38.0 | 40.9 | 8 | (11) | 145.7 | 119.3 | (18) | |
| Taxation | (11.3) | (10.2) | (10.1) | | | (36.0) | (30.4) | | |
| <i>ETR (%)</i> | 24.6 | 26.7 | 24.8 | | | 24.7 | 25.5 | | |
| Net Earnings | 34.6 | 27.8 | 30.8 | 11 | (11) | 109.7 | 88.9 | (19) | Formed 66% and 66% of our and consensus full-year estimates |
| Other key data and ratios | | | | | | | | | |
| Gross financing | 2,106.8 | 2,057.4 | 2,053.1 | (0) | (3) | | | | Receivables growth stalled due to a greater number of applications among lower credit score customers. This includes civil servants that were engaged in a trend of compressed financing enabled by a recently dismantled financial syndicate |
| Total borrowings | 2,194.7 | 2,050.6 | 2,143.4 | 5 | (2) | | | | |
| Total assets | 3,049.7 | 2,923.8 | 3,011.8 | 3 | (1) | | | | |
| Shareholders' funds | 805.9 | 835.1 | 823.0 | (1) | 2 | | | | |
| ROAA (%) | 4.6% | 3.8% | 4.1% | | | 5.1% | 4.0% | | |
| ROAE (%) | 17.0% | 13.6% | 14.8% | | | 17.4% | 14.6% | | |

Source: Company data, RHB

Figure 2: Revisions to our full-year earnings forecasts

| FYE Mar | Net profit (MYRm) | | | EPS (MYR) | | | DPS (MYR) | | |
|---------|-------------------|---------|-------|-----------|---------|-------|-----------|---------|-------|
| | Previous | Revised | % Chg | Previous | Revised | % Chg | Previous | Revised | % Chg |
| 2025F | 133.9 | 128.0 | -4.4 | 0.09 | 0.09 | -4.4 | 0.07 | 0.07 | -4.4 |
| 2026F | 158.7 | 153.8 | -3.1 | 0.11 | 0.10 | -3.1 | 0.08 | 0.08 | -3.1 |
| 2027F | 165.0 | 159.9 | -3.1 | 0.11 | 0.11 | -3.1 | 0.08 | 0.08 | -3.1 |

Source: Company data, RHB

Valuation and TP

Our TP of MYR1.25 is based on a GGM-derived P/BV of 2.10x (from 2.05x), and includes a 0% ESG premium/discount. Key changes to our model input include ROE (17.2% vs 17.5% previously) and BVPS (MYR0.60 vs MYR0.61 previously), both in line with forecast changes. These were offset by a lower COE assumption of 10.0% (10.3% previously) as we think RCE's operating environment is set to improve.

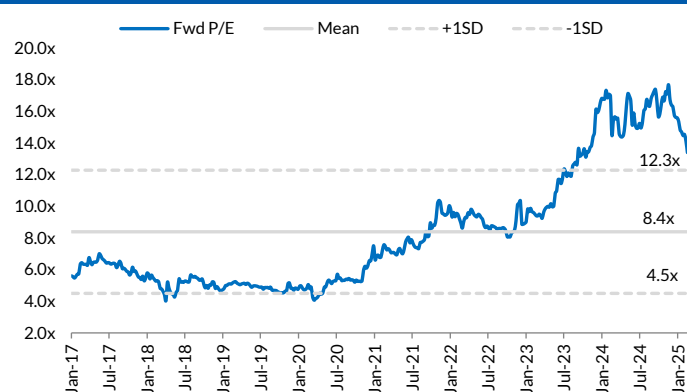
RCE's share price has declined 23% from its recent peak of MYR1.74 in Nov 2024, and yields are once again attractive now at c.6%. While valuation remains lofty at 2.2x P/BV (over +1SD from mean, vs 17-18% ROE forecasted), we think the downside risk has now significantly reduced, especially as we expect earnings to improve in FY26F in tandem with the operating environment for civil servant financing.

Figure 3: GGM valuation

| | | | |
|--|------|------------------------|----------------|
| Cost of equity (COE) computation: | | Sustainable ROE (%) | 17.2 |
| Risk free rate (%) | 4.0 | COE (%) | 10.0 |
| Equity premium (%) | 5.3 | Long-term growth (g) | 3.5 |
| Beta (x) | 1.2 | Implied P/BV (x) | 2.10 |
| Cost of equity - CAPM (%) | 10.0 | BVPS - CY25F | MYR0.60 |
| | | Intrinsic value | MYR1.27 |
| ESG premium/(discount) (%) | 0.0 | ESG premium/(discount) | MYR0.00 |
| | | TP (rounded) | MYR1.25 |

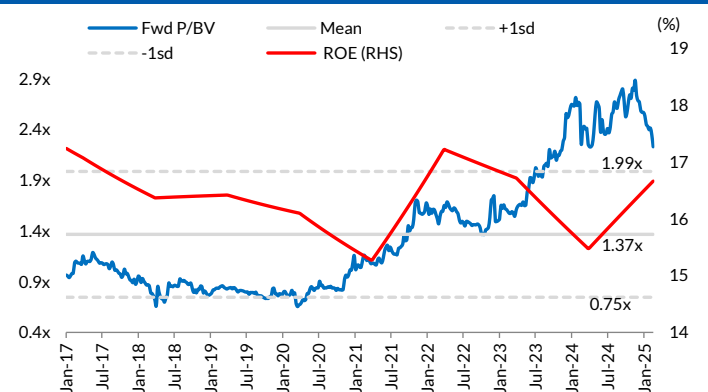
Source: Company data, RHB

Figure 4: RCE Capital's 12-month forward P/E



Source: Bloomberg, RHB

Figure 5: RCE Capital's 12-month forward P/BV vs ROE



Source: Bloomberg, RHB

Recommendation Chart



Source: RHB, Bloomberg

| Date | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 2024-11-21 | Sell | 1.25 | 1.70 |
| 2024-08-16 | Sell | 2.70 | 1.57 |
| 2024-05-27 | Sell | 2.40 | 1.45 |
| 2024-02-08 | Sell | 2.40 | 1.57 |
| 2024-01-12 | Sell | 2.30 | 1.55 |
| 2023-11-23 | Sell | 2.30 | 1.34 |
| 2023-08-15 | Neutral | 2.20 | 1.14 |
| 2023-05-24 | Neutral | 1.95 | 1.00 |
| 2023-02-15 | Neutral | 1.95 | 0.93 |
| 2022-11-22 | Neutral | 1.95 | 0.94 |
| 2022-08-12 | Buy | 1.92 | 0.82 |
| 2022-05-31 | Buy | 2.00 | 0.88 |
| 2022-02-25 | Buy | 1.90 | 0.85 |
| 2021-11-10 | Neutral | 3.90 | 1.01 |
| 2021-08-12 | Buy | 3.20 | 0.72 |

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

| | |
|---------------------|--|
| Buy: | Share price may exceed 10% over the next 12 months |
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