

2 April 2025

Financial Services | Banks

RCE Capital (RCE MK)

Neutral (Maintained)

Erring On The Side Of Caution

- **Keep NEUTRAL and MYR1.25 TP (6% downside), and c.6% FY26F (Mar) yield.** We recently met with RCE Capital's management team, and we noted a tone of caution – particularly on the asset quality front – outweighing the recent strong demand for financing supported by the revision to civil servants' salaries. Given the counter's premium valuation (2.2x P/BV vs 18% ROE) and uncertain asset quality outlook, we maintain our NEUTRAL rating.
- **A strong quarter for disbursements...** Demand for financing from civil servants saw a spike in 4QFY25 following the c.8% increase to civil servants' salaries in Dec 2024 on top of seasonality effects. In fact, financing disbursements in Jan 2025 reached an all-time (monthly) high for the group. While this came off slightly in February, March is expected to be another strong month for disbursements. All in, management looks to end its financial year with flat gross receivables growth, implying a decent 2% QoQ rise in 4QFY25. This, we think, should be positive for both financing and non-financing (from upfront fees on disbursements) income, and should help RCE post its strongest quarter in the financial year – our forecast is for RCE to record a net profit of MYR39m in 4QFY25, ie up 34% YoY and 27% MoM.
- **...but not out of the woods yet.** Despite the recent dismantling of a financial syndicate targeting civil servants, RCE is still opting to err on the side of caution for now. Based on a preliminary assessment of its portfolio, customers directly exposed to the financial syndicate were minimal, though there may still be unidentified affected accounts on its books that could turn impaired. Encouragingly, the accounts already identified as affected by the syndicate are still performing, though full provisions have already been made out of prudence.
- **Asset quality still an area of concern.** In addition to the above, management observed that early retirements and exits from the civil service have not improved post salary revision. Bankruptcy cases among civil servants are on the rise, including a rising trend of self-declared bankruptcies. All of these will force borrowers to drop off from RCE's salary deduction scheme, whereupon full provisions for the accounts will need to be made.
- **Other meeting highlights.** RCE expects minimal impact from the establishment of the Consumer Credit Commission (tabled in parliament in early March), as it already adheres to strict governance rules as a public-listed firm. Elsewhere, the proposed abolishment of Rule of 78 on flat rate financing products is also unlikely to have a material impact on the group, since it already provides rebates and discounts on early settlements. Lastly, management reaffirmed its commitment to paying out 60-80% of its earnings as dividends in the upcoming Mar 2025 quarter. We expect RCE to declare a final DPS of 3.5 sen (1HFY25: 3.0 sen) under a 75% payout ratio assumption.

Target Price (Return): MYR1.25 (-6.0%)
 Price (Market Cap): MYR1.33 (USD440m)
 ESG score: 3.0 (out of 4)
 Avg Daily Turnover (MYR/USD) 0.70m/0.16m

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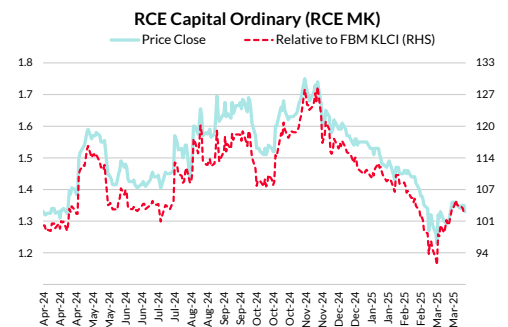


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(14.2)	3.1	(14.2)	(17.4)	2.7
Relative	(6.4)	7.0	(7.2)	(8.6)	3.8
52-wk Price low/high (MYR)					1.23 – 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)	14.12	14.21	15.23	12.67	12.19
P/B (x)	2.43	2.38	2.28	2.17	2.10
Dividend Yield (%)	11.2	5.6	4.9	5.9	6.2
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

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.

Emissions (tCO2e)	Mar-22	Mar-23	Mar-24	Mar-25
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 internal Scope 3 emissions data in its FY24 annual report, where it tracks employee commuting data based on recommendations from the GHG protocol.

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.

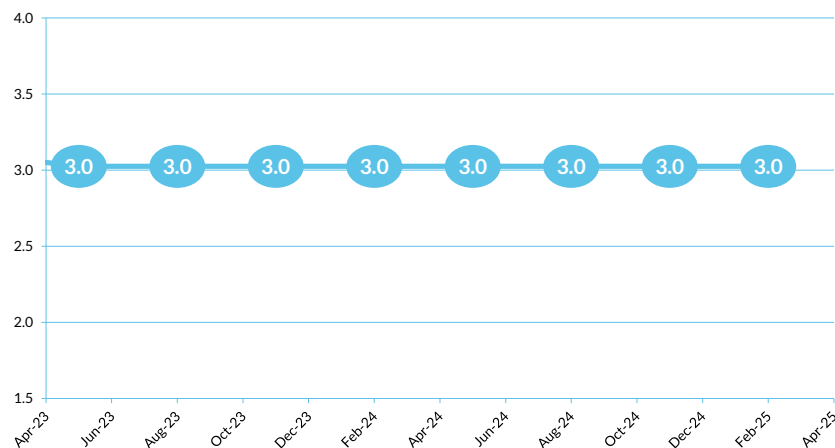
S Score: 3.0 (GOOD)

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)

4 out of 8 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 9 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)	14.12	14.21	15.23	12.67	12.19
Our GGM assumptions are:	P/B (x)	2.4	2.4	2.3	2.2	2.1
i. CoE of 10.0%;	Dividend Yield (%)	11.2	5.6	4.9	5.9	6.2
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)
	Pre-provision operating profit	213	215	200	235	245
Key risks	Loan impairment allowances	(29)	(30)	(29)	(30)	(32)
The upside risks include:	Pre-tax profit	184	185	171	205	213
i. Greater-than-expected financing growth;	Taxation	(45)	(46)	(43)	(51)	(53)
ii. Lower-than-expected credit costs; and	Reported net profit	139	139	128	154	160
iii. Stronger-than-expected net financing margin.	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 provides general financing services to civil servants	Return on average equity (%)	16.5	17.0	15.2	17.6	17.5
- repayments are done via direct salary deductions. Its	Return on IEAs (%)	10.3	10.1	10.4	10.5	10.5
wholly-owned EXP Payment unit offers payroll	Cost of funds (%)	4.6	4.7	4.7	4.8	4.8
collection management services for government	Net interest spread (%)	5.7	5.4	5.6	5.7	5.7
departments under the purview of the Accountant	Net interest margin (%)	7.0	6.7	6.8	6.8	6.9
General's Department.	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

Valuation and TP

Our TP of MYR1.25 is based on a GGM-derived P/BV of 2.10x, just above +1SD from the mean, and includes a 0% ESG premium/discount. No changes were made to our earnings forecasts and GGM inputs.

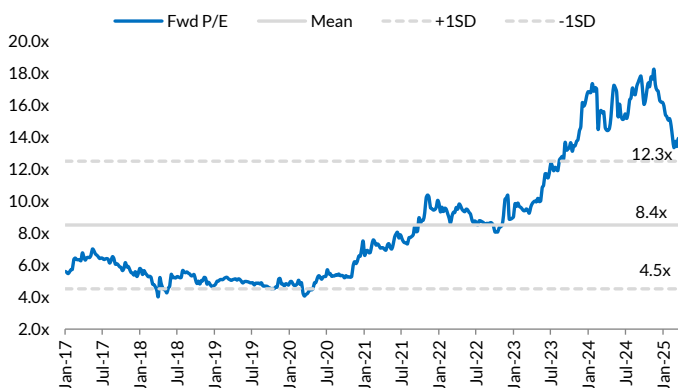
Despite expectations of a strong 4QFY25 financial performance, we think RCE's medium-to-longer term outlook could be challenging, mostly due to persistent pressures on the asset quality front. The counter is also trading at a premium to its peers (2.2x P/BV and 14x P/E, vs peers' 1.0-1.1x P/BV and 7-11x P/E). However, we think downside risk to share price performance is limited, given RCE's attractive dividend yields of c.6%.

Figure 1: 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

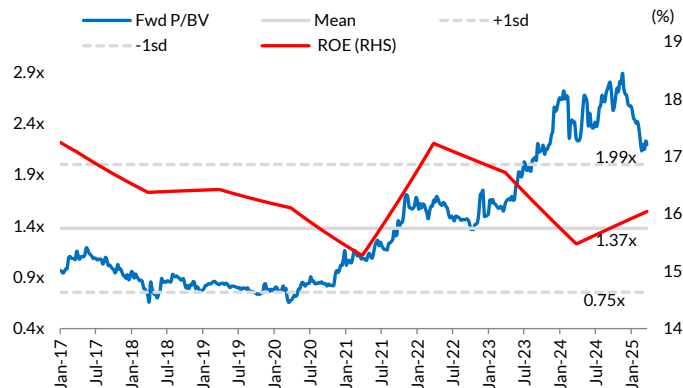
Source: Company data, RHB

Figure 2: RCE's 12-month forward P/E



Source: Bloomberg, RHB

Figure 3: RCE's 12-month forward P/BV vs ROE



Source: Bloomberg, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2025-02-25	Neutral	1.25	1.27
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

Source: RHB, Bloomberg

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