

# RCE Capital Bhd (RCE MK)

## Take shelter here if a recession strikes

### Maintain HOLD with lower TP of MYR1.25 (-5%)

During the COVID-19 induced recession, credit cost ratios and cost of funds fell. Every 10bps decrease in credit cost ratio or cost of funds will accrete MYR1.6m-MYR1.8m to earnings. On an unrelated note, we trim our earnings estimates by 3% p.a. on lower profit rates and TP by 5% to MYR1.25 from MYR1.32. While we maintain our HOLD call on RCE, we flag that the company may benefit in a recession scenario. Separately, we note that its largest shareholder has been increasing its shareholding.

### COVID-19 recession saw NPFs and credit cost fall...

During the COVID-19 induced recession in CY20/FY21 until Malaysia removed most COVID-19 restriction on 1 Apr 2022, RCE's non-performing financing (NPF) and thus, credit cost ratios actually fell (Fig. 1 & 2). There was no financing moratorium for civil servants as there were no layoffs in the civil service. Civil servants are less inclined to resign and retire early during recessions due to the stable nature of civil service jobs. Thus, RCE's NPF and thus, credit cost ratios may improve during recession periods based on our observation. Every 10bps decrease in credit cost ratio below our 1.5% assumption will accrete MYR1.6m-MYR1.8m to earnings.

### ... and profit spreads widen on lower cost of funds

More poignantly, profit spreads (i.e. profit rate - cost of funds) widened during the COVID-19 recession due to lower cost of funds driven by Bank Negara Malaysia cutting the Overnight Policy Rate (OPR) (Fig. 3). The profit rate on RCE's financing products is fixed and do not fall in tandem with the OPR if the latter is cut. Thus, RCE's profit spread may widen again if a recession happens and its cost of funds fall if BNM cuts the OPR. Every 10bps decrease in average cost of funds below our 4.7% assumption will also accrete MYR1.6m-MYR1.8m to earnings.

### Trim earnings estimates by 3% p.a.

Unrelated to the above, we trim our earnings estimates by 3% p.a. on slightly lower average profit rate of 13.8% going forward (14.1% previously) as per management guidance (Fig. 4). As this lowers our 2-year forward average ROAE forecast to 16.0% from 16.4%, we cut our target end-CY25E P/BV to 2.1x from 2.2x and trim our TP to MYR1.25 from MYR1.32. Maintain HOLD. We note that its largest shareholder, **Cempaka Empayar (Not Listed)** which is controlled by Tan Sri Azman Hashim, has bought 975,000 shares in the last 2 weeks (Fig. 5) and raise its shareholding to 58.8%.

FYE Mar (MYR m)	FY23A	FY24A	FY25E	FY26E	FY27E
Operating income	261	281	261	281	298
Pre-provision profit	213	215	199	215	228
Core net profit	139	139	126	137	146
Core FDEPS (MYR)	0.09	0.09	0.08	0.09	0.10
Core FDEPS growth(%)	3.7	(0.0)	(10.2)	8.8	6.1
Net DPS (MYR)	0.15	0.08	0.07	0.08	0.08
Core FD P/E (x)	9.7	14.2	15.5	14.2	13.4
P/BV (x)	1.7	2.4	2.3	2.2	2.1
Net dividend yield (%)	16.5	5.6	5.3	5.7	6.1
Book value (MYR)	0.55	0.57	0.58	0.60	0.62
ROAE (%)	16.5	17.0	15.0	15.8	16.3
ROAA (%)	4.9	4.7	4.2	4.4	4.4
Consensus net profit	-	-	129	143	153
MIBG vs. Consensus (%)	-	-	(1.9)	(3.9)	(4.7)

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# HOLD

Share Price MYR 1.31  
12m Price Target MYR 1.25 (+1%)  
Previous Price Target MYR 1.32

### Company Description

RCE Capital is principally involved in the provision of general financing services.

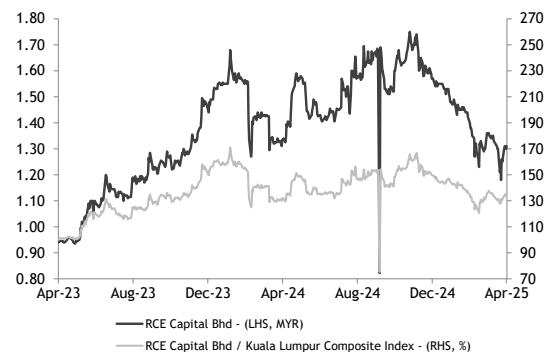
### Statistics

52w high/low (MYR)	1.75/0.82
3m avg turnover (USDm)	0.2
Free float (%)	35.2
Issued shares (m)	1,484
Market capitalisation	MYR1.9B USD441M

### Major shareholders:

Cempaka Empayar Sdn. Bhd.	58.8%
Lembaga Tabung Haji	2.6%
Employees Provident Fund	2.5%

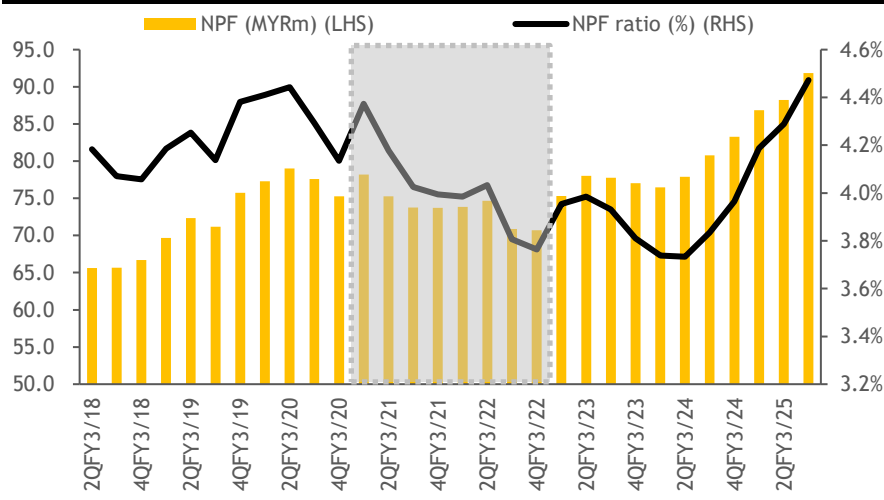
### Price Performance



	-1M	-3M	-12M
Absolute (%)	(4)	(11)	(2)
Relative to index (%)	(1)	(7)	2

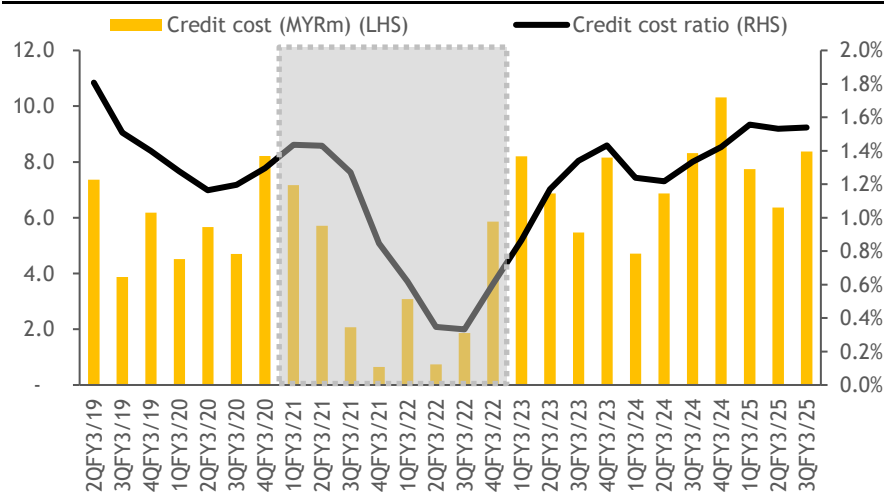
Source: FactSet

Figure 1: RCE NPF (MYRm) and NPF ratio (%)



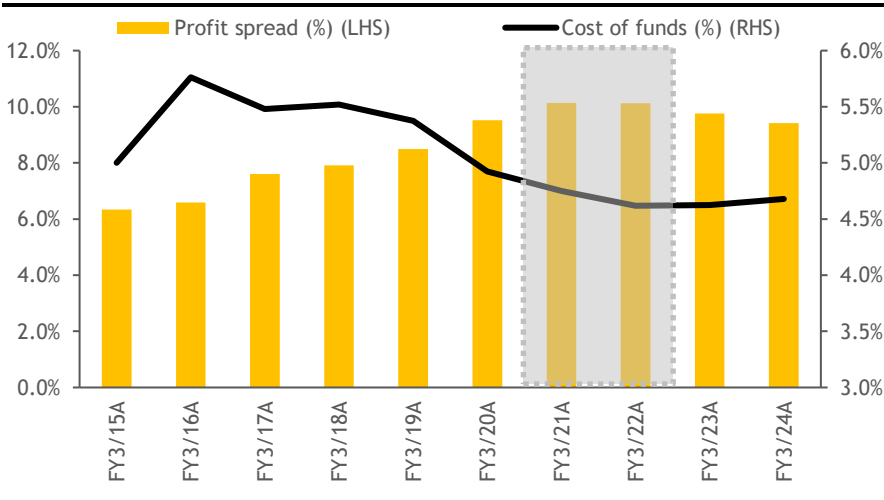
Source: Company

Figure 2: RCE credit cost (MYRm) and credit cost ratio (%)



Source: Company

Figure 3: RCE profit spread and average cost of funds (%)



Source: Company

Figure 4: Changes in key assumptions and estimates

	FY3/25E	FY3/26E	FY3/27E
<b>Revised</b>			
Average profit rate	13.8%	13.8%	13.8%
Core net profit (MYRm)	126.1	137.1	145.5
<b>Previous</b>			
Average profit rate	14.1%	14.1%	14.1%
Core net profit (MYRm)	130.4	141.6	150.3
<b>Change</b>			
Average profit rate	-2.5%	-2.5%	-2.5%
Core net profit (MYRm)	-3.3%	-3.2%	-3.2%

Source: Maybank IBG Research

Figure 5: Details of RCE shares bought by Cempaka Empayar

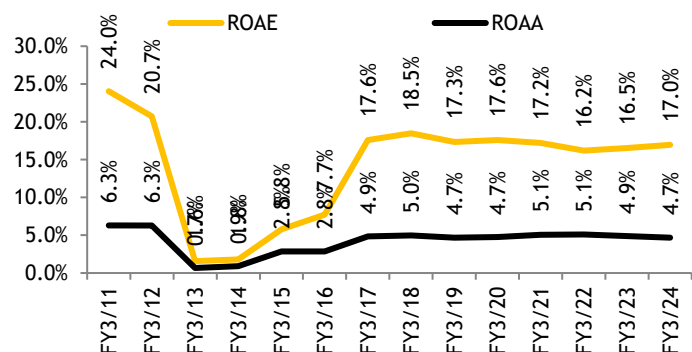
Date	Number of shares
14-Apr-2025	83,000
10-Apr-2025	262,000
9-Apr-2025	160,000
7-Apr-2025	415,000
3-Apr-2025	55,000

Source: Bursa Malaysia

## Value Proposition

- RCE Capital provides personal financing, the ultimate customers being civil servants.
- With a gross financing balance of just MYR2.1b, we estimate that its market share is only 2%.
- Non-performing financing kept in check thanks to nondiscretionary direct salary deductions.
- Competitive advantage lies in fast financing processing turnaround time of 48 hours.
- ROE generation surpasses that of the average for the overall banking industry.

### ROAE and ROAA



Source: Company

## Price Drivers

### Historical share price trend



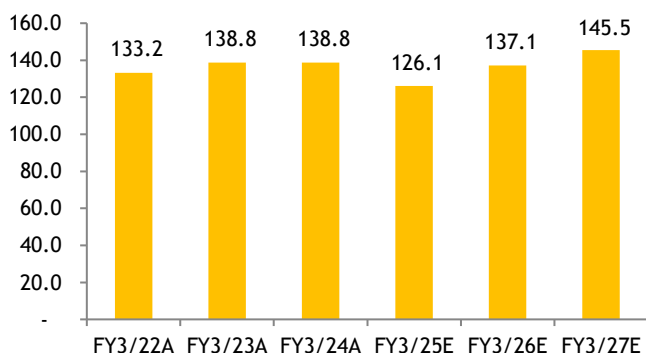
Source: Company, Maybank IBG Research

1. 2QFY21 net profit grew 21% YoY to a record high of MYR33.0m.
2. Announced share DPS of 1 treasury share for 20 shares held and bonus issue of 19 shares for 21 shares held.
3. Bank Negara Malaysia raised Overnight Policy Rate by 25bps for the first time since Jul 2020.
4. Announced a huge special DPS of 18sen and higher-than-expected interim DPS of 5sen.
5. Announced that it raised its dividend policy from 20-40% DPR to 60-80% DPR.

## Financial Metrics

- Introduced better credit scoring model in 2013. We forecast gross financing CAGR of 5% p.a. over the next three years.
- Average cost of funds is rising but so is average financing yields.
- Asset quality better than before. New financings are smaller in size (<2%).
- Forecast three-year forward core net profit CAGR of 2% p.a. Recently raised DPR policy from 20-40% to 60-80%.

### Core net profit (MYRm)



Source: Company (historicals), Maybank IBG Research (forecasts)

## Swing Factors

### Upside

- Easing competition - competitors have been reducing their exposure to personal financing.
- Lower cost of funds - we estimate that every 25bps reduction in cost of funds will accrete 3% to earnings.
- Access to CCRIS - if RCE Capital gains access to CCRIS, it can better assess customers' total indebtedness

### Downside

- High household debt - Household debt to GDP is elevated at >80% and may crimp customers' repayment ability.
- Need to leverage - RCE Capital cannot take deposits and thus, has to assume debt to finance its financing.
- Asset-liability duration mismatch - customers' repayment may not match RCE's debt repayment.

Risk Rating & Score <sup>1</sup>	N/A
Score Momentum <sup>2</sup>	N/A
Last Updated	N/A
Controversy Score <sup>3</sup>	N/A

## Business Model & Industry Issues

- Being a non-bank financial institution (NBFI), RCE does not have a large environmental footprint. That said, we opine that it has a large social footprint by way of responsible financing.
- NBFIs were a lot more carefree in disbursing financing before Jul 2013. In Jul 2013, Bank Negara Malaysia instituted macro prudential measures to rein in high household debt levels caused by the aforementioned.
- Since then, reflecting RCE's broad transition to more socially-responsible lending parameters, tenure of its financing is capped at 10 years (25 years previously) and debt service ratio of its customers is capped at 60%.
- In CY13, RCE also put in place an in-house credit scoring model that precludes RCE from over-lending to particular customers. As a result, average financing/customer has eased from c. MYR30,000 in FY3/13 to c. MYR20,000 currently.
- To be sure, RCE does carry out related party transactions (RPT) as it places deposits and borrows from AMMB Holdings which is 12%-owned by Tan Sri Azman Hashim, the controlling shareholder of RCE.
- That said, interest rates on the aforementioned deposits and borrowings do not appear unfair to us or detrimental to minority shareholders. RCE has also been a constituent of the FTSE4Good Bursa Malaysia Index since 22 Jun 2020.
- All in all, we rate RCE's ESG credentials vis-à-vis its core business as commendable. RCE scores above-average in our proprietary scoring methodology with an overall score of 75/100 (71/100 previously).

## Material E issues

- No major environmental issues. Cut paper utilisation/employee by 10% to 5.4k pieces in FY3/24 vis-à-vis FY3/20.
- The above was achieved via emails reminding employees to "Think before you Print" and printing on both sides.
- FY3/24 scope 1 and 2 emissions in CO2e tonnes per employee cut to 0.85 (FY3/20: 0.96).
- Part of the reason for the above is due to the extensive use of energy saving light bulbs.

## Material S issues

- RCE is guided by Bank Negara Malaysia's (BNM) guidelines for responsible financing.
- In Jul 2013, BNM instituted macro prudential measures to rein in high household debt levels.
- Since then, tenure of its financing is capped at 10 years and debt service ratio of its customers is capped at 60%.
- In-house credit scoring model put in place in CY13 precludes RCE from over-lending to a customer.
- As a result, average financing/customer has eased from c. MYR30,000 in FY3/13 to c. MYR20,000 currently.
- Technical and soft skills trainings provided to sales team to promote responsible financing.
- Extends study grants to students pursuing the Association of Chartered Certified Accountants qualification.
- To date, RCE has extended MYR584,000 in study grants to 36 students.
- An overwhelming 74% of RCE's employees as at end-FY3/24 are women.
- FY3/24 overall employee turnover rate decreased to 12.8% (FY3/23: 16.0%, FY3/22: 17.5%).
- FY3/24 average training hours per employee was 24 (FY3/23: 35, FY3/22: 24).

## Key G metrics and issues

- BOD comprises 1 Non-Independent Non-Executive Chairman (NINEC), 3 Non-Independent Non-Executive Directors (NINED) and 4 Independent Directors (ID; 50% of total).
- Largest shareholder is Cempaka Empayar Sdn Bhd, which is controlled by Tan Sri Azman Hashim (TSAH).
- NINEC, Shahman Azman is a son of TSAH. NINED, Shalina Azman is a daughter of TSAH.
- Only 2 of the 8 BOD members are women (25% representation), the aforementioned Shalina Azman and Azura Binti Rahman.
- FY3/24 directors' remuneration accounted for <1% of FY3/24 net profit.
- Deloitte PLT is the independent auditor. They have been appointed for >10 years.
- There are 4 BOD level committees. 2 are chaired by IDs (i.e. Audit and Nomination & Remuneration), 1 chaired by a NINED (i.e. Employees' Share Scheme) and 1 chaired by the NINEC (i.e. Sustainability Management).
- Carries out RPTs with AMMB Holdings (AMMB), which is 12%-owned by TSAH. As at end-FY3/24, RCE has deposits of MYR396.2m and borrowings of MYR379.9m with AMMB.
- That said, interest rates on the aforementioned deposits and borrowings appear fair to us.
- RCE hired PricewaterhouseCoopers Consulting to review its related party transactions.

<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. <sup>3</sup>**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Quantitative Parameters (Score: 50)						
	Particulars	Unit	2022	2023	2024	ACSM MK (FY3/24)
E	Scope 1 emissions	tCO2e	16	19	22	200
	Scope 2 emissions	tCO2e	150	155	152	2,317
	<b>Total</b>	<b>tCO2e</b>	<b>166</b>	<b>174</b>	<b>174</b>	<b>2,517</b>
	Scope 3 emissions	tCO2e	N/A	N/A	377	N/A
	<b>Total</b>	<b>tCO2e</b>	<b>166</b>	<b>174</b>	<b>551</b>	<b>2,517</b>
	Scope 1 & 2 emissions per employee	tCO2e	0.94	0.90	0.85	0.81
	Energy consumption	GJ	1,206.6	1,300.8	1,339.9	N/A
	Water consumption	m3	N/A	N/A	267	19,457
	Paper consumption per employee	'000 pieces	3.7	3.7	5.4	N/A
	Waste generated	kg	N/A	N/A	N/A	N/A
Waste diverted from disposal	kg	322.4	796.7	1,010.7	N/A	
S	% of women in workforce	%	73%	74%	74%	66%
	% of women in managerial roles	%	64%	66%	69%	39%
	Sales team responsible financing training rate	%	100.0%	100.0%	97.2%	N/A
	Responsible financing articles posted on social media	posts	7	19	7	N/A
	Complaints received & resolved	number	7	6	8	N/A
	Employee turnover rate	%	17.5	16.0	12.8	18.2
Employee training per employee	hours	24	35	24	21	
G	Incidents of non-compliance	incidents	1	3	-	-
	Board salary as % of core net profit	%	0.7%	0.7%	0.7%	1.1%
	Independent directors on the Board	%	50%	50%	50%	56%
	% of profits returned to shareholders	%	57%	158%	79%	34%
Female directors on the Board	%	11%	13%	25%	44%	

Qualitative Parameters (Score: 100)	
a) Is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?	<i>Yes. RCE has an ESG policy in place. It has a Sustainability Working Committee which reports to the Sustainability Management Committee which in turn, reports directly to the Board of Directors.</i>
b) Is the senior management salary linked to fulfilling ESG targets?	<i>Yes.</i>
c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?	<i>Yes.</i>
e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	<i>Yes. Employee commute.</i>
f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>Switching off all office lights and equipment during breaks and before leaving office, retro-fitting LED lighting, recycling paper and avoiding unnecessary printing.</i>
g) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>No, as RCE is not a major polluter.</i>

Target (Score: 100)			
Particulars		Target	Achieved
Reduce GHG emissions/employee by FY3/24E		1.0	0.9
Women representation on board by FY3/25E		30%	NA
<b>Impact</b>			
NA			
<b>Overall Score: 75</b>			
As per our ESG matrix, RCE Capital (RCE MK) has an overall score of 75.			

ESG score	Weights	Scores	Final Score
Quantitative	50%	50	25
Qualitative	25%	100	25
Target	25%	100	25
<b>Total</b>			<b>75</b>

As per our ESG assessment, RCE has an established framework, internal policies, and tangible mid/long-term targets. RCE's overall ESG score is 75, which makes its ESG rating above average in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

## Appendix I

Methodology of our proprietary ESG scoring methodology.

We evaluate the ESG ratings based on quantitative, qualitative and ESG targets. We assign a score for each of these three parameters. The overall rating is based on the weighted average of the scores: quantitative (50%), qualitative (25%) and ESG target (25%).

For the quantitative, qualitative and ESG target, the sub-parameters are assigned a score - '0' for data not available, '+1' for improving trajectory, positive change, 'Yes', better than peers or a positive number if historical is not available and '-1' for declining trajectory, negative change, 'No', lower than peers or a negative number. The total of the scores of all the sub-parameters is divided by the total number of sub-parameters, to derive the score of each of the three parameters.

The sub-parameters may be different for different industries depending on the key areas to monitor for each industry. A company should achieve a minimum score of 50 for an average ESG rating.

FYE 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Key Metrics</b>					
Core P/E (x)	9.6	14.2	15.2	14.0	13.2
Core FD P/E (x)	9.7	14.2	15.5	14.2	13.4
P/BV (x)	1.7	2.4	2.3	2.2	2.1
P/NTA (x)	1.8	2.5	2.4	2.3	2.2
Net dividend yield (%)	16.5	5.6	5.3	5.7	6.1
<b>INCOME STATEMENT (MYR m)</b>					
Islamic banking income	209.4	221.2	219.1	228.5	245.5
Other income	52.0	59.6	42.0	52.3	52.9
<b>Total non-interest income</b>	<b>261.4</b>	<b>280.8</b>	<b>261.0</b>	<b>280.8</b>	<b>298.5</b>
<b>Operating income</b>	<b>261.4</b>	<b>280.8</b>	<b>261.0</b>	<b>280.8</b>	<b>298.5</b>
Staff costs	(27.1)	(32.2)	(30.4)	(32.4)	(34.5)
Other operating expenses	(21.7)	(33.6)	(31.9)	(33.7)	(35.7)
<b>Operating expenses</b>	<b>(48.8)</b>	<b>(65.8)</b>	<b>(62.3)</b>	<b>(66.1)</b>	<b>(70.2)</b>
<b>Pre-provision profit</b>	<b>212.6</b>	<b>215.1</b>	<b>198.8</b>	<b>214.7</b>	<b>228.3</b>
Other allowances	(28.7)	(30.2)	(30.8)	(32.0)	(34.4)
Associates & JV income	0.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>183.9</b>	<b>184.8</b>	<b>168.0</b>	<b>182.7</b>	<b>193.8</b>
Income tax	(45.2)	(46.1)	(41.9)	(45.6)	(48.3)
<b>Reported net profit</b>	<b>138.8</b>	<b>138.8</b>	<b>126.1</b>	<b>137.1</b>	<b>145.5</b>
<b>Core net profit</b>	<b>138.8</b>	<b>138.8</b>	<b>126.1</b>	<b>137.1</b>	<b>145.5</b>
<b>BALANCE SHEET (MYR m)</b>					
Cash & deposits with banks	879.7	840.2	861.9	900.3	940.1
Sec. under resale agreements	0.0	0.0	0.0	0.0	0.0
Derivatives financial assets	0.0	0.0	0.0	0.0	0.0
Dealing securities	0.0	0.0	0.0	0.0	0.0
Available-for-sale securities	0.0	0.0	0.0	0.0	0.0
Investment securities	0.0	0.0	0.0	0.0	0.0
Financing and advances	1,953.3	2,027.3	2,027.3	2,185.1	2,334.3
Fixed assets	7.2	7.3	7.0	6.6	6.3
Intangible assets	47.3	47.3	47.3	47.3	47.3
Other assets	59.3	73.5	73.5	73.5	73.5
<b>Total assets</b>	<b>2,946.8</b>	<b>2,995.6</b>	<b>3,017.0</b>	<b>3,213.0</b>	<b>3,401.6</b>
Derivatives financial instruments	0.0	0.0	0.0	0.0	0.0
Subordinated debt	0.0	0.0	0.0	0.0	0.0
Other securities in issue	1,290.9	1,175.8	1,175.8	1,175.8	1,175.8
Other borrowings	434.3	552.9	551.6	719.7	879.6
Other liabilities	416.0	437.1	436.4	437.0	437.5
<b>Total liabilities</b>	<b>2,141.2</b>	<b>2,165.8</b>	<b>2,163.8</b>	<b>2,332.5</b>	<b>2,492.9</b>
Share capital	201.9	201.9	201.9	201.9	201.9
Reserves	603.7	627.9	651.3	678.5	706.8
Shareholders' funds	805.7	829.8	853.3	880.4	908.7
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	0.0	0.0	0.0	0.0	0.0
Total equity	805.7	829.8	853.3	880.4	908.7
<b>Total liabilities &amp; equity</b>	<b>2,946.8</b>	<b>2,995.6</b>	<b>3,017.0</b>	<b>3,213.0</b>	<b>3,401.6</b>



FYE 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Key Ratios</b>					
<b>Growth (%)</b>					
Net interest income	na	na	na	na	na
Non-interest income	9.2	7.4	(7.1)	7.6	6.3
Operating expenses	(3.6)	34.9	(5.3)	6.2	6.2
Pre-provision profit	12.6	1.2	(7.6)	8.0	6.3
Core net profit	4.2	(0.0)	(9.1)	8.8	6.1
Gross loans	7.5	3.9	(0.0)	8.0	7.0
Customer deposits	na	na	na	na	na
Total assets	8.1	1.7	0.7	6.5	5.9
<b>Profitability (%)</b>					
Non-int. income/Total income	100.0	100.0	100.0	100.0	100.0
Cost/income	18.7	23.4	23.8	23.5	23.5
<b>Liquidity (%)</b>					
Loans/customer deposits	na	na	na	na	na
<b>Asset quality (%)</b>					
Gross NPF	3.8	4.0	4.0	4.0	4.0
<b>Capital adequacy (%)</b>					
CET1	na	na	na	na	na
Tier 1 capital	na	na	na	na	na
Risk-weighted capital	na	na	na	na	na
<b>Returns (%)</b>					
ROAE	16.5	17.0	15.0	15.8	16.3
ROAA	4.9	4.7	4.2	4.4	4.4
Shareholders equity/assets	27.3	27.7	28.3	27.4	26.7

Source: Company; Maybank IBG Research

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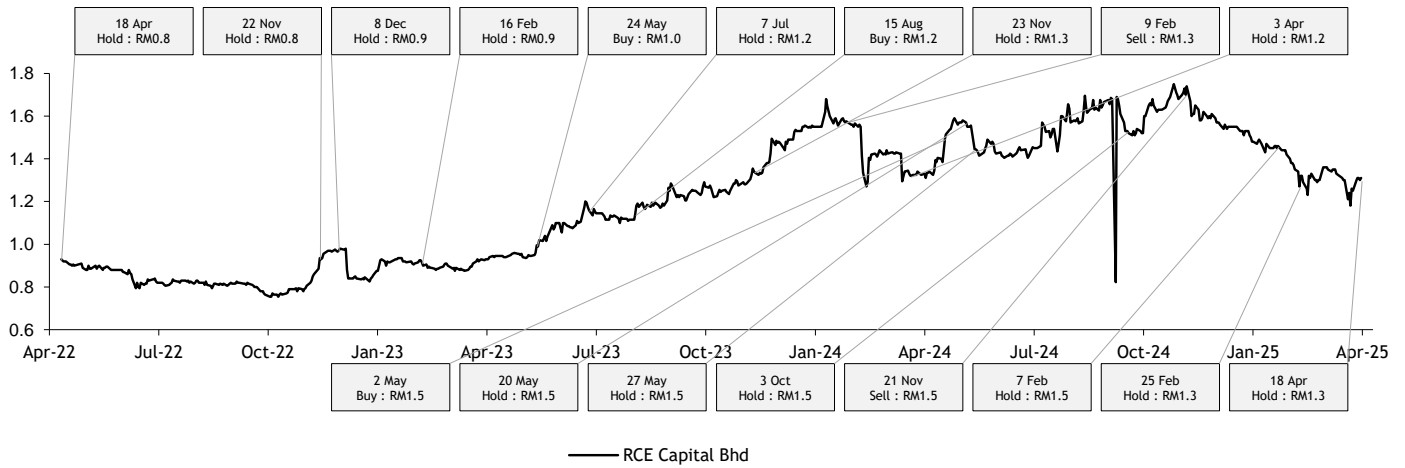
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