

23 May 2025

Reduce

Price
RM1.33

Target Price
RM1.23

Market Data

Bloomberg Code	RCE MK
No. of shares (m)	1,482.3
Market cap (RMm)	1,971.4
52-week high/low (RM)	1.77 / 1.18
Avg daily turnover (RMm)	0.8
KLCI (pts)	1,527.0
Source: Bloomberg, CIMB Securities	

Major Shareholder (%)

Cempaka Empayar	55.6
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Free Float	44.4
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Source: Bloomberg, CIMB Securities

Performance

	3M	6M	12M
Absolute (%)	(3.7)	(23.5)	(16.1)
Rel Market (%)	(3.7)	(21.4)	(16.1)



Source: Bloomberg, CIMB Securities

Analyst

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RCE Capital

Highest impairment ever

RCE's core net profit rose 15.8% QoQ (+22.6% YoY) in 4QFY25, supported by higher fee income, in line with solid financing disbursements during the quarter. This brought FY25 core net profit to RM124.5m (-10.3% YoY), in line with expectations, accounting for 98.0% and 97.0% of our and consensus FY25F earnings forecasts, respectively. A DPS of 3.5 sen was declared, bringing full-year FY25 DPS to 6.5 sen. This is above our estimate of 6.0 sen. We maintain our Reduce call with an unchanged DDM-based TP of RM1.23, reflecting concerns over rising impairment risks and subdued receivables growth. Valuations remain rich at 2.2x P/BV, well above the 5-year mean of 1.4x.

Financial highlights

FYE Mar	2024	2025	2026F	2027F	2028F
Revenue (RMm)	341.7	331.7	338.5	346.9	357.3
Core net profit (RMm)	138.8	124.5	131.1	134.0	138.1
Core EPS (Sen)	9.4	8.4	8.8	9.0	9.3
EPS growth (%)	(0.0)	(10.3)	5.3	2.2	3.1
DPS (Sen)	7.5	6.5	6.6	6.8	7.0
Div yield (%)	5.6	4.9	5.0	5.1	5.3
Core PE (x)	14.2	15.8	15.0	14.7	14.3
PBV (x)	2.4	2.3	2.3	2.2	2.1
ROE (%)	17.0	14.3	15.3	15.1	15.0

Source: Company, CIMB Securities

4Q25 core net profit rose 15.8% QoQ; within our and consensus estimates

Excluding an RM19.0m impairment on goodwill, RCE's core net profit rose 15.8% QoQ and 22.6% YoY to RM35.6m in 4QFY25, supported by a strong 91.1% QoQ increase in other revenue (+62.0% YoY). The uplift was primarily driven by higher upfront fees (fee income), in line with stronger financing disbursements during the quarter. This also helped to offset a higher impairment provision in 4QFY25. As a result, FY25 core net profit came in at RM124.5m, down 10.3% YoY. The results align with expectations, accounting for 98.0% of our and 97.0% of consensus FY25F earnings forecasts, respectively. A DPS of 3.5 sen was declared, bringing full-year FY25 DPS to 6.5 sen. This translates to a payout of 77.4% (in line with RCE's 60–80% dividend payout policy) and above our estimate of 6.0 sen.

Impairment losses increased by 79.2% QoQ; NPF still a record high

RCE's impairment losses on receivables surged to RM15.0m in 4QFY25, up 79.2% QoQ and 45.5% YoY. The increase was attributed to (i) higher financing disbursements during the quarter, (ii) adjustments to macroeconomic variables used in the credit cost model, (iii) a continued rise in bankruptcies among civil servants, and (iv) an increase in impairments related to borrowers affected by scam-related activities, particularly "Ops Skim," which targeted civil servants. As a result, non-performing financing (NPF) rose 4.0% QoQ and 14.7% YoY to RM95.5m, pushing the NPF ratio to 4.6%, up from 4.5% in 3QFY25 and 4.0% in 4QFY24 — exceeding the historical range of 3.8–4.3% since 2016. Nonetheless, the loan loss coverage ratio improved slightly to 147% (3QFY25: 145%; 4QFY24: 153%).

Financing receivables picked up in 4QFY25

Financing receivables rose 1.8% QoQ in 4QFY25, supported by the 7–15% upward salary adjustments for civil servants effective 1 Dec 2024. Seasonal factors, including festive spending during Chinese New Year and Hari Raya, along with the reopening of schools, also contributed to stronger consumer financing demand during the quarter. However, on a YoY basis, receivables declined slightly by 0.5%, reflecting RCE's selective lending approach, which prioritises credit quality amid a more cautious industry financing landscape. We maintain our FY26F and FY27F receivables growth forecasts of 2% and 2.5%, respectively, to reflect this disciplined underwriting strategy. Our assumptions also account for rising competition from alternative digital lenders, such as Grab and Shopee, which are increasingly tapping into the personal financing market.

Earnings forecasts maintained

Our FY26F and FY27F earnings forecasts have been adjusted by 0.1% and -0.2%, respectively, for housekeeping changes. We project net profit growth of approximately 5.3% YoY in FY26F, followed by 2.2% YoY growth in FY27F. This is underpinned by higher fee-based income, driven by disbursement-linked charges on the back of our receivables' growth assumptions of 2% and 2.5% for FY26F and FY27F, respectively. Additionally, we expect impairment losses on receivables to normalise following the elevated provisioning recognised in 4QFY25. The recent civil servant salary adjustments are also expected to enhance financial stability among RCE's core borrower base, potentially lowering the risk of early retirement or migration to the private sector by improving disposable income levels.

Maintain Reduce with unchanged TP of RM1.23

We maintain our Reduce call for RCE with an unchanged DDM-based target price (TP) (using a cost of equity of 8.8% and a growth rate of 3%) of RM1.23 owing to risks from rising impairment provisions and slower receivables growth. This TP implies a P/BV of 2x. Additionally, the stock is currently trading at a 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	Mar-24	Dec-24	Mar-25	% chg		Cumulative		% chg	Prev. CIMB	
RM m	4QFY24	3QFY25	4QFY25	QoQ	YoY	FY24	FY25	YoY	FY25F	12M/F
Profit income	72.4	70.8	76.6	8.1	5.7	290.8	292.4	0.5	296.00	98.8
Other revenue	10.0	8.5	16.3	91.1	62.0	50.9	39.3	(22.8)	39.79	98.8
Total revenue	82.5	79.3	92.8	17.0	12.6	341.7	331.7	(2.9)	335.8	98.8
Interest expense	(25.0)	(24.2)	(24.9)	2.7	(0.6)	(98.5)	(100.3)	1.8	(106.4)	94.3
Net interest and fee income	57.4	55.1	67.9	23.3	18.3	243.2	231.3	(4.9)	229.4	100.9
Other income	9.6	8.2	8.8	7.3	(8.9)	37.9	36.2	(4.5)	38.4	94.4
Operating income	67.1	63.3	76.7	21.2	14.4	281.1	267.6	(4.8)	267.8	99.9
Operating expenses	(17.6)	(14.0)	(15.5)	10.3	(12.2)	(66.0)	(64.6)	(2.2)	(69.6)	92.8
Underlying profit	49.5	49.3	61.2	24.4	23.8	215.1	203.0	(5.6)	198.2	102.5
Allowance for impairment loss	(10.3)	(8.4)	(15.0)	79.2	45.5	(30.2)	(37.5)	24.1	(30.4)	123.5
Exceptional	0.0	0.0	(19.0)	n.m.	n.m.	0.0	(19.0)	n.m.	n.a.	n.a.
Pre-tax profit	39.1	40.9	27.2	(33.4)	(30.4)	184.8	146.5	(20.7)	167.8	87.3
Taxation	(10.1)	(10.1)	(10.6)	4.8	5.3	(46.1)	(41.0)	(11.1)	(40.3)	101.8
Net profit	29.1	30.8	16.6	(45.9)	(42.8)	138.8	105.5	(23.9)	127.5	82.8
Normalise net profit	29.1	30.8	35.6	15.8	22.6	138.8	124.5	(10.3)	127.5	97.6

Source: Company, CIMB Securities

RCE Capital

Income statement

FYE Mar (RMm)	2024	2025	2026F	2027F	2028F
Net interest income	192.3	192.0	197.5	201.7	208.1
Non-interest income	88.8	75.5	77.5	79.4	81.8
Total income	281.1	267.6	275.0	281.2	289.9
Operating costs	(66.0)	(64.6)	(66.2)	(67.7)	(69.8)
Pre-provision operating profit	215.1	203.0	208.7	213.4	220.0
Provision charges	(30.2)	(37.5)	(34.0)	(34.8)	(35.9)
Pre-tax profit	184.8	146.5	174.8	178.6	184.2
Taxation	(46.1)	(41.0)	(43.7)	(44.7)	(46.0)
Net Profit	138.8	124.5	131.1	134.0	138.1

Balance sheet

FYE Mar (RMm)	2024	2025	2026F	2027F	2028F
Consumer financing	1,972.7	1,950.1	1,989.1	2,038.8	2,100.0
Deposits with financial institutiona	745.0	625.6	760.1	782.1	807.4
Plant and equipment	11.0	7.4	11.2	11.5	11.9
Investment in properties	0.0	0.0	0.0	0.0	0.0
Goodwill on consolidation	47.3	50.2	50.2	50.2	50.2
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	48.4	90.7	49.4	50.8	52.5
Other receivables and deposits	21.4	65.4	65.4	65.4	65.4
Asset held for sale	0.0	0.0	0.0	0.0	0.0
Cash and bank balances	95.3	141.9	131.2	146.1	159.4
Total Assets	2,995.6	2,986.2	3,056.6	3,144.9	3,246.7
Borrowings	2,119.6	2,058.0	2,137.1	2,190.6	2,256.3
Payables and accruals	34.2	34.0	34.9	35.9	37.1
Hire purchase	1.3	0.9	1.3	1.4	1.4
Deferred tax liabilities	2.0	1.1	2.1	2.1	2.2
Tax liabilities	8.7	52.7	8.9	9.2	9.5
Total Liabilities	2,165.8	2,146.6	2,184.4	2,239.1	2,306.4
Share capital	201.9	204.9	204.9	204.9	204.9
Reserves	627.0	634.0	667.0	700.0	735.0
Total Shareholders' Equity	829.8	839.5	872.3	905.8	940.3
Total Liabilities & Equity	2,995.6	2,986.2	3,056.6	3,144.9	3,246.7

ROE composition

FYE Mar	2024	2025	2026F	2027F	2028F
a. Net interest income/Avg. assets (%)	6.5%	6.4%	6.5%	6.5%	6.5%
b. Non-Interest Income/Avg. Assets (%)	3.0%	2.5%	2.6%	2.6%	2.6%
c. Income Yield (%)	9.5%	8.9%	9.1%	9.1%	9.1%
d. Cost/Avg. Assets (%)	2.2%	2.2%	2.2%	2.2%	2.2%
f. Cost/Income (d/c)	23.5%	24.1%	24.1%	24.1%	24.1%
g. Underlying Profitability (c-d)	7.2%	6.8%	6.9%	6.9%	6.9%
a. Underlying Profitability (%)	7.2%	6.8%	6.9%	6.9%	6.9%
b. B&DD Expense (%)	1.0%	1.3%	1.1%	1.1%	1.1%
c. Pre-tax ROA (a-b)	6.2%	5.5%	5.8%	5.8%	5.8%
d. Tax Retention Rate (%)	75.1%	72.0%	75.0%	75.0%	75.0%
e. Post tax ROA (c*d)	4.7%	4.0%	4.3%	4.3%	4.3%
f. Leverage	3.6	3.6	3.5	3.5	3.5
g. ROE (e*g)	17.0%	14.3%	15.3%	15.1%	15.0%

Source: Bloomberg, CIMB Securities

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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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