

# RCE Capital Bhd (RCE MK)

## Lukewarm end to FY3/25

### Maintain HOLD and MYR1.25 TP

Core earnings were within our expectations but dividends missed a tad. Due to the 8% civil servants' salary hike, revenue hit a record high but so did credit cost. We maintain FY3/26E and FY3/27E estimates (introduce FY3/28E estimates), HOLD call and MYR1.25 TP on 2.1x end-CY25E P/BV. In our opinion, future quarterly earnings will be similar to 4QFY3/25 before accelerating in 4QFY3/26E due to the next 7% civil servants' salary hike in Dec 2025. All in all, we believe the risk-reward profile for RCE is even while >5.5% dividend yields ought to provide support to its share price.

### Core earnings in-line but dividends marginally below

4QFY3/25 net profit of MYR16.6m was suppressed by a MYR19.0m impairment on goodwill of 1 of its payroll collection products. Excluding that, 4QFY3/25 core net profit of MYR35.6m (+23% YoY, +16% QoQ) brought FY3/25 core net profit to MYR124.5m (-10% YoY) or 99% of our FY estimate. That said, the second DPS of 3.5sen (+0.0sen YoY, +0.5sen HoH) brought FY3/25 total DPS 6.5sen (-1.0sen YoY) which marginally below our expectation at 93% (xx sen) of our FY estimate.

### Mixed bag operations wise

Thanks to the 8% civil servants' salary hike in Dec 2024, gross financing growth snapped 4 successive quarters of contraction and grew 2% YoY. As record high financing was disbursed, 4QFY3/25 revenue of MYR92.8m hit a record high. That said, 4QFY3/25 allowances for impairment loss on receivables (credit cost) of MYR15.0m also hit a recent high. Despite the aforesaid civil servants' salary hike, non-performing financing ratio inched up to 4.6% as the credit quality of new customers continue to be a concern.

### Earnings estimates maintained

On enquiry of RCE, the high credit cost was due to:- (i) higher allowances set aside due to the record high disbursements; (ii) lower consensus real GDP growth forecast by economists imputed into its expected credit loss model; and (iii) one-off allowances for financing potentially impacted by Ops Sky ([link](#)). Given that disbursements have moderated and assuming real GDP growth does not deteriorate further coupled with non-recurrence of Ops Sky impairments, it expects credit cost to moderate. See Fig. 2 for our key assumptions. We also introduce FY3/28E estimates.

FYE Mar (MYR m)	FY24A	FY25A	FY26E	FY27E	FY28E
Operating income	281	267	280	298	309
Pre-provision profit	215	203	214	227	236
Core net profit	139	125	137	145	151
Core FDEPS (MYR)	0.09	0.08	0.09	0.10	0.10
Core FDEPS growth(%)	(0.0)	(10.3)	8.5	6.2	3.9
Net DPS (MYR)	0.08	0.07	0.08	0.08	0.08
Core FD P/E (x)	14.2	15.7	14.5	13.7	13.1
P/BV (x)	2.4	2.3	2.3	2.2	2.1
Net dividend yield (%)	5.6	4.9	5.6	6.0	6.0
Book value (MYR)	0.57	0.57	0.59	0.61	0.63
ROAE (%)	17.0	14.9	16.0	16.5	16.6
ROAA (%)	4.7	4.2	4.4	4.4	4.4
Consensus net profit	-	-	141	150	na
MIBG vs. Consensus (%)	-	-	(2.7)	(3.3)	na

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## HOLD

Share Price	MYR 1.33
12m Price Target	MYR 1.25 (-0%)
Previous Price Target	MYR 1.25

### Company Description

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

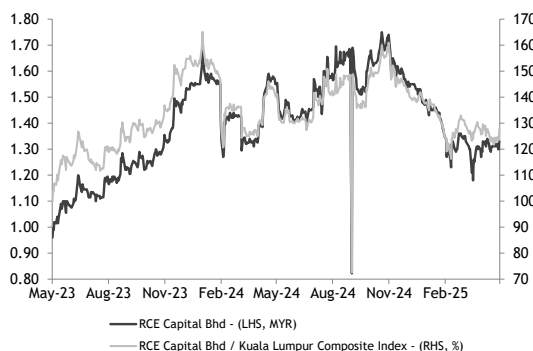
### Statistics

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	MYR2.0B USD462M

### Major shareholders:

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

### Price Performance



	-1M	-3M	-12M
Absolute (%)	5	(1)	(14)
Relative to index (%)	1	1	(10)

Source: FactSet

Figure 1: Summary Results Table

FY Mar (MYRm)	4QFY3/25	4QFY3/24	% YoY	3QFY3/25	% QoQ	FY3/25	FY3/24	% YoY
Interest/profit income	76.6	72.4	5.7	70.8	8.1	292.4	290.8	0.5
Other revenue	16.3	10.0	62.0	8.5	91.1	39.3	50.9	(22.8)
<b>Revenue</b>	<b>92.8</b>	<b>82.5</b>	<b>12.6</b>	<b>79.3</b>	<b>17.0</b>	<b>331.7</b>	<b>341.7</b>	<b>(2.9)</b>
Other income	8.8	9.6	(8.9)	8.2	7.3	36.2	37.9	(4.5)
Interest/profit expense applicable to revenue	(24.9)	(25.0)	(0.6)	(24.2)	2.7	(100.3)	(98.5)	1.8
Directors' remuneration and staff costs	(7.6)	(6.9)	10.6	(6.6)	15.8	(33.9)	(32.2)	5.2
Allowances for impairment loss on receivables, net	(15.0)	(10.3)	45.5	(8.4)	79.2	(37.5)	(30.2)	24.1
Impairment of goodwill on consolidation	(19.0)	-	N/M	-	N/M	(19.0)	-	N/M
Depreciation	(1.3)	(1.0)	22.3	(1.1)	12.8	(4.5)	(3.8)	17.6
Other expenses	(6.6)	(9.6)	(31.8)	(6.3)	4.8	(26.0)	(29.8)	(12.7)
Finance costs	(0.0)	(0.1)	(47.8)	(0.1)	(46.3)	(0.2)	(0.3)	(9.8)
<b>Profit before tax</b>	<b>27.2</b>	<b>39.1</b>	<b>(30.4)</b>	<b>40.9</b>	<b>(33.4)</b>	<b>146.5</b>	<b>184.8</b>	<b>(20.7)</b>
Taxation	(10.6)	(10.1)	5.3	(10.1)	4.8	(41.0)	(46.1)	(11.1)
<b>Net profit</b>	<b>16.6</b>	<b>29.1</b>	<b>(42.8)</b>	<b>30.8</b>	<b>(45.9)</b>	<b>105.5</b>	<b>138.8</b>	<b>(23.9)</b>
<b>Core net profit</b>	<b>35.6</b>	<b>29.1</b>	<b>22.6</b>	<b>30.8</b>	<b>15.8</b>	<b>124.5</b>	<b>138.8</b>	<b>(10.3)</b>
Financing & loans receivables, gross	2,090.7	2,100.4	(0.5)	2,053.1	1.8	2,090.7	2,100.4	(0.5)
(Allowance for impairment)	(140.7)	(127.7)	10.1	(133.1)	5.7	(140.7)	(127.7)	10.1
<b>Financing &amp; loans receivables, net</b>	<b>1,950.1</b>	<b>1,972.7</b>	<b>(1.1)</b>	<b>1,920.1</b>	<b>1.6</b>	<b>1,950.1</b>	<b>1,972.7</b>	<b>(1.1)</b>
Tax rate (%)	38.9	25.7	13.2	24.8	14.2	28.0	24.9	3.0
Gross NPF ratio (%)	4.6	4.0	0.6	4.5	0.1	4.6	4.0	0.6
Financing & loans loss coverage ratio (%)	147.2	153.3	(6.1)	144.9	2.3	147.2	153.3	(6.1)
Net gearing (%)	154.0	154.6	(0.6)	155.4	(1.4)	154.0	154.6	(0.6)

Source: Company

## Results analysis

- 4QFY3/25 core net profit was up 23% YoY and 16% QoQ largely due to higher early settlement profit and fee income driven by the 8% civil servant's salary hike in Dec 2024 moderated by higher allowances for impairment loss on receivables.
- FY3/25 core net profit was down 10% YoY largely due to: - (i) lower fee income driven by lower disbursements arising from more stringent credit policies; and (ii) higher allowances for impairment loss on receivables.

Figure 2: Key assumptions

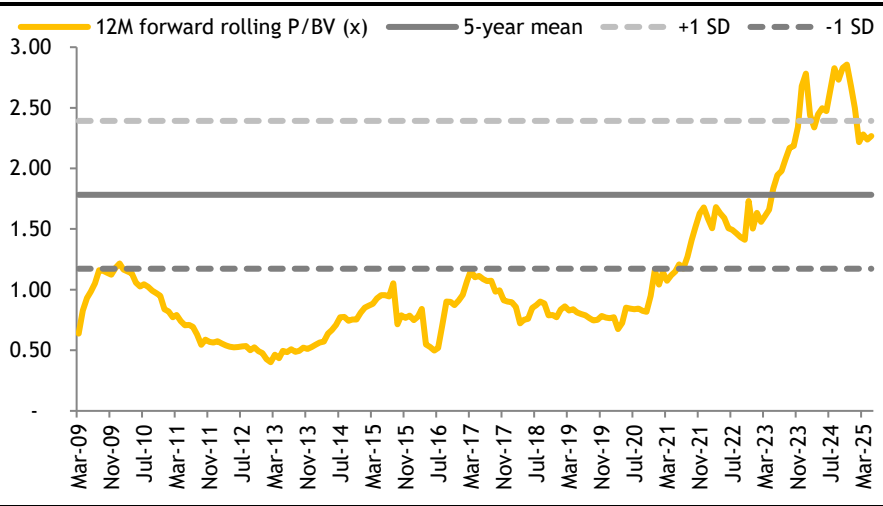
FY Mar	FY3/26E	FY3/27E	FY3/28E
Financing growth	+8.0%	+7.0%	+2.0%
Profit spread	9.1%	9.1%	9.1%
Credit cost ratio	1.5%	1.5%	1.5%

Source: Company

## Valuation and recommendation

Our MYR1.25 TP is based on 2.1x end-CY25E P/BV. We derive a target end-CY25E P/BV of 2.1x via the following assumptions: - (i) 1 year forward ROE of 16.0%; (ii) terminal growth rate of 2.0% as government emoluments have grown at 1.8% CAGR over the last 10 years; and (iii) cost of equity of 8.6% based on risk free rate of 4.2%, market risk premium of 6.3% and Beta of 0.70 (5-year historical Beta: 0.60)

Figure 3: RCE rolling 12M forward P/BV

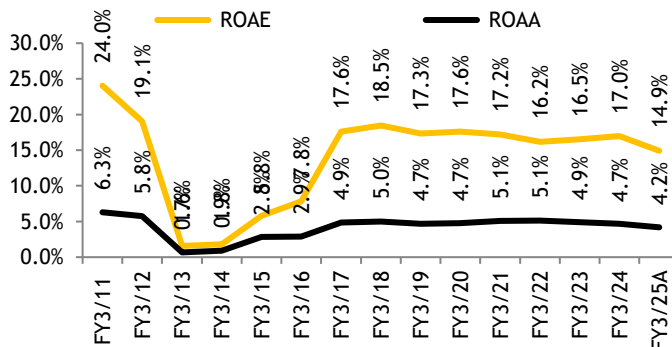


Source: Company, Maybank IBG Research, Bloomberg

## 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.

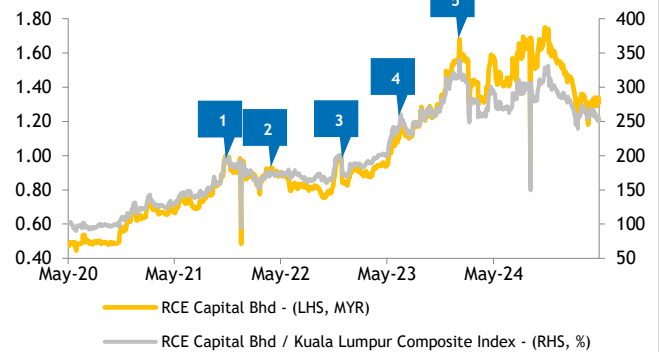
### ROAE and ROAA



Source: Company

## Price Drivers

### Historical share price trend



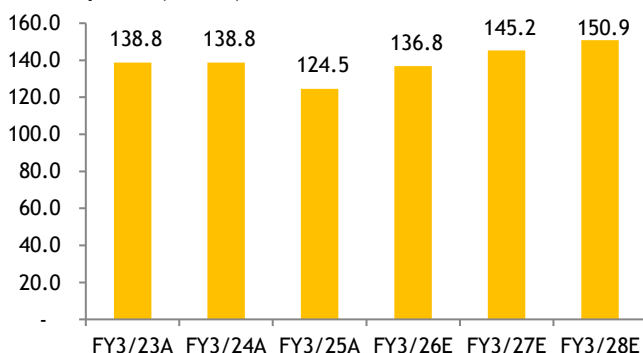
Source: Company, Maybank IBG Research

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 6% 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 7% 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.

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FYE 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
<b>Key Metrics</b>					
Core P/E (x)	14.2	15.7	14.3	13.4	12.9
Core FD P/E (x)	14.2	15.7	14.5	13.7	13.1
P/BV (x)	2.4	2.3	2.3	2.2	2.1
P/NTA (x)	2.5	2.5	2.4	2.3	2.2
Net dividend yield (%)	5.6	4.9	5.6	6.0	6.0
<b>INCOME STATEMENT (MYR m)</b>					
Islamic banking income	221.2	219.6	227.9	244.9	256.3
Other income	59.6	47.8	52.0	52.7	52.9
<b>Total non-interest income</b>	<b>280.8</b>	<b>267.4</b>	<b>279.9</b>	<b>297.6</b>	<b>309.2</b>
<b>Operating income</b>	<b>280.8</b>	<b>267.4</b>	<b>279.9</b>	<b>297.6</b>	<b>309.2</b>
Staff costs	(32.2)	(33.9)	(34.9)	(37.2)	(38.7)
Other operating expenses	(33.6)	(30.5)	(31.3)	(33.1)	(34.2)
<b>Operating expenses</b>	<b>(65.8)</b>	<b>(64.3)</b>	<b>(66.2)</b>	<b>(70.3)</b>	<b>(72.8)</b>
<b>Pre-provision profit</b>	<b>215.1</b>	<b>203.0</b>	<b>213.7</b>	<b>227.3</b>	<b>236.4</b>
Other allowances	(30.2)	(37.5)	(31.9)	(34.3)	(35.8)
Associates & JV income	0.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>184.8</b>	<b>146.5</b>	<b>181.8</b>	<b>193.1</b>	<b>200.6</b>
Income tax	(46.1)	(41.0)	(45.0)	(47.8)	(49.7)
<b>Reported net profit</b>	<b>138.8</b>	<b>105.5</b>	<b>136.8</b>	<b>145.2</b>	<b>150.9</b>
<b>Core net profit</b>	<b>138.8</b>	<b>124.5</b>	<b>136.8</b>	<b>145.2</b>	<b>150.9</b>
<b>BALANCE SHEET (MYR m)</b>					
Cash & deposits with banks	840.2	767.5	803.0	840.0	877.1
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	2,027.3	2,004.9	2,160.9	2,308.3	2,353.4
Fixed assets	7.3	4.9	3.9	3.0	2.0
Intangible assets	47.3	50.2	50.2	50.2	50.2
Other assets	73.5	158.6	158.6	158.6	158.6
<b>Total assets</b>	<b>2,995.6</b>	<b>2,986.2</b>	<b>3,176.7</b>	<b>3,360.2</b>	<b>3,441.3</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	1,175.8	979.7	979.7	979.7	979.7
Other borrowings	552.9	578.9	742.1	897.4	944.8
Other liabilities	437.1	588.1	588.7	589.1	589.4
<b>Total liabilities</b>	<b>2,165.8</b>	<b>2,146.6</b>	<b>2,310.5</b>	<b>2,466.2</b>	<b>2,513.9</b>
Share capital	201.9	204.9	204.9	204.9	204.9
Reserves	627.9	634.6	661.3	689.1	722.6
Shareholders' funds	829.8	839.5	866.2	894.0	927.4
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	829.8	839.5	866.2	894.0	927.4
<b>Total liabilities &amp; equity</b>	<b>2,995.6</b>	<b>2,986.2</b>	<b>3,176.7</b>	<b>3,360.2</b>	<b>3,441.3</b>

FYE 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
<b>Key Ratios</b>					
<b>Growth (%)</b>					
Net interest income	na	na	na	na	na
Non-interest income	7.4	(4.8)	4.7	6.3	3.9
Operating expenses	34.9	(2.2)	2.9	6.1	3.6
Pre-provision profit	1.2	(5.6)	5.3	6.4	4.0
Core net profit	(0.0)	(10.3)	9.8	6.2	3.9
Gross loans	3.9	(0.5)	8.0	7.0	2.0
Customer deposits	na	na	na	na	na
Total assets	1.7	(0.3)	6.4	5.8	2.4
<b>Profitability (%)</b>					
Non-int. income/Total income	100.0	100.0	100.0	100.0	100.0
Cost/income	23.4	24.1	23.7	23.6	23.5
<b>Liquidity (%)</b>					
Loans/customer deposits	na	na	na	na	na
<b>Asset quality (%)</b>					
Gross NPF	4.0	4.6	4.6	4.6	4.6
<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	17.0	14.9	16.0	16.5	16.6
ROAA	4.7	4.2	4.4	4.4	4.4
Shareholders equity/assets	27.7	28.1	27.3	26.6	27.0

Source: Company; Maybank IBG Research

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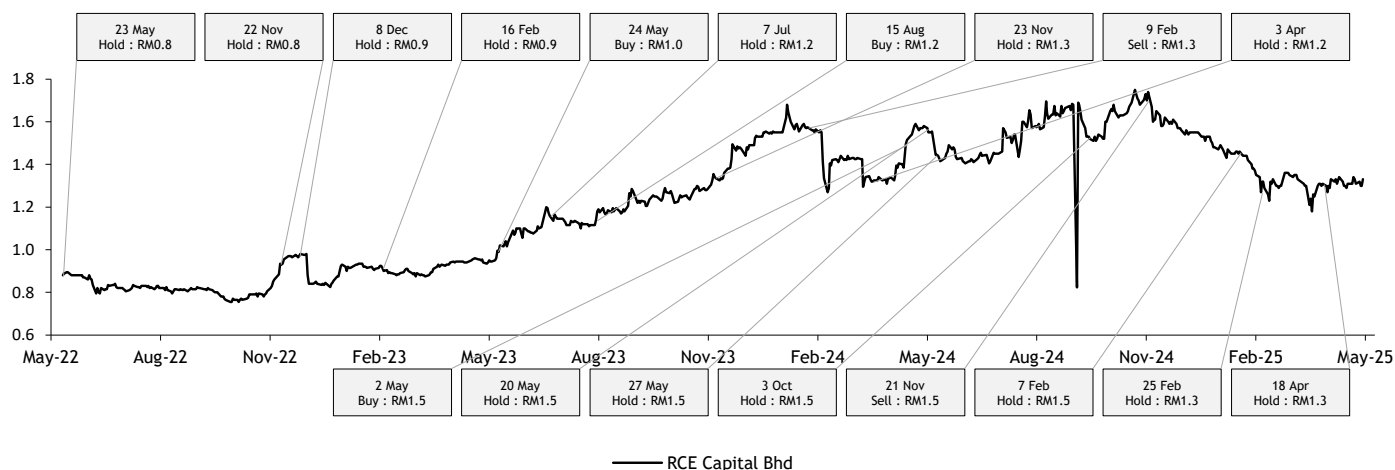
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