



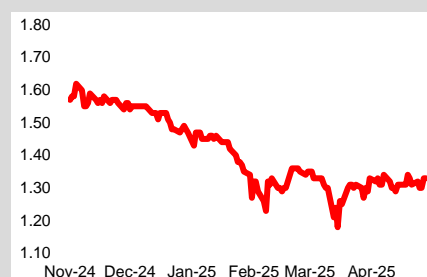
#### DESCRIPTION

RCE Capital is mainly involved in the general financing services to civil servants

12-month Target Price	RM1.42
Current Price	RM1.33
Expected Return	6.4%
Previous Target Price	RM1.50

Market	Main
Sector	Consumer Finance
Bursa Code	9296
Bloomberg Ticker	RCE MK
Shariah-compliant	Yes

#### SHARE PRICE CHART



52 Week Range (RM)	1.18-1.77
3-Month Average Vol ('000)	590.4

#### SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	4.7	-1.5	-22.1
Relative Returns	0.6	2.6	-20.4

#### KEY STOCK DATA

Market Capitalisation (RMm)	1,952.5
No. of Shares (m)	1,468.0

#### MAJOR SHAREHOLDERS

	%
Cempaka Empayar SB	58.8
Lembaga Tabung Haji	3.5
Public Islamic Oppo FD	1.7

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## Asset Quality Still Concerning

RCE's 4QFY25 headline net profit fell 42% YoY to RM16.9m, dragged by higher impairment allowances and a one-off goodwill impairment. After adjusting for the one-off item, RCE's core net profit came in at RM35.9m, bringing FY25 core net profit to RM124.8m. Results were in-line with our and consensus estimates, accounting for 97% and 98% respectively. Nevertheless, we cut our earnings forecast for FY26-27F by an average of 5% as we raise our credit cost assumption on concerns over asset quality. While dividend yield appears attractive at 5% following the share price retracement, we maintain our **Neutral** call on RCE as we think RCE's valuation remains lofty, trading at +1SD from its 5-year average P/BV of 2.2x. Following our earnings adjustment, our DDM derived TP is reduced to RM1.42. On a side note, RCE declared a second interim dividend of 3.5sen (FY25: 6.5sen), translating to a dividend payout ratio of 77%.

§ **Results review.** 4QFY25 revenue rose by 12.6% YoY to RM92.8m, on higher early settlement profit and fee income due to higher financing disbursements. However, RCE's headline net profit declined by 41.8% YoY to RM16.9m, due to higher impairment loss on receivables and a one-off goodwill impairment of RM19m. After adjusting for the non-core item, RCE's core net profit came in at RM35.9m, bringing FY25 core net profit to RM124.8m.

§ **Financing disbursements reached all-time high in Jan.** Credit demand among civil servants surged after the salary adjustment in Dec 2024, which resulted in an all-time high financing disbursements in Jan 2025. This led to a 1.8% QoQ financing receivables growth. We expect financing receivables growth to moderate going forward, on the absence of festive season and a normalisation in credit demand post salary adjustments.

§ **Non-performing financing (NPF) hit all-time high.** While management has observed a moderation in early retirement trends among the civil service, self-declared bankruptcy cases remain elevated. As a result, NPF ratio reached an all-time high of 4.6%. RCE's Loan Loss Coverage (LLC) ratio rose to 147%, which should provide sufficient buffer.

## KEY FINANCIAL SUMMARY

FYE Mar (RM'm)	2024A	2025A	2026F	2027F	2028F	CAGR
Operating Income	281.1	267.6	289.3	305.1	315.3	5.6%
Pre-provision profit	215.1	203.3	220.1	234.2	242.8	6.1%
Pre-tax profit	184.8	146.3	181.9	194.8	203.4	11.6%
Core net profit	138.8	124.8	138.2	148.1	154.6	7.5%
EPS (sen)	9.5	8.5	9.4	10.1	10.5	
P/E (x)	14.1	15.7	14.1	13.2	12.6	
DPS (sen)	7.5	6.5	6.6	7.1	7.4	
Dividend Yield (%)	5.6	4.9	5.0	5.3	5.6	

Source: Company, PublicInvest Research estimates

**Table 1: Results Summary**

<b>FYE Mar (RM'm)</b>	<b>4Q25</b>	<b>4Q24</b>	<b>3Q25</b>	<b>YoY chg (%)</b>	<b>QoQ chg (%)</b>	<b>YTD FY25</b>	<b>YTD FY24</b>	<b>YoY chg (%)</b>	<b>Comments</b>
Interest income	76.6	72.4	70.8	5.7	8.1	292.4	290.8	0.5	
Interest expense	-24.9	-25.0	-24.2	-0.6	2.7	-100.3	-98.5	1.8	
Net interest income	51.7	47.4	46.6	9.0	10.9	192.0	192.3	-0.1	
Other non-profit income	25.0	19.7	16.7	27.3	50.0	75.5	88.8	-15.0	YoY growth on higher loan disbursements
Operating income	76.7	67.1	63.3	14.4	21.2	267.6	281.1	-4.8	
Directors' remuneration and staff cost	-7.6	-6.9	-6.6	10.6	15.8	-33.9	-32.2	5.2	
Allowances for impairment loss	-15.0	-10.3	-8.4	45.5	79.2	-37.5	-30.2	24.1	Higher credit cost was due to higher early retirements and bankruptcy cases
Impairment of goodwill on consolidation	-19.0	0.0	0.0	nm	nm	-19.0	0.0	nm	
Depreciation	-1.0	-1.0	-1.0	-4.6	-2.7	-4.1	-3.8	7.5	
Other expenses	-6.6	-9.6	-6.4	-31.8	3.0	-26.1	-29.8	-12.3	
Finance cost	0.0	-0.1	-0.1	-47.8	-46.3	-0.2	-0.3	-9.8	
<b>Profit before tax</b>	<b>27.2</b>	<b>39.1</b>	<b>40.9</b>	<b>-29.7</b>	<b>-32.7</b>	<b>146.5</b>	<b>184.8</b>	<b>-20.6</b>	
Taxation	-10.6	-10.1	-10.1	5.3	4.8	-41.0	-46.1	-11.1	
<b>Net profit</b>	<b>16.9</b>	<b>29.1</b>	<b>30.8</b>	<b>-41.8</b>	<b>-45.0</b>	<b>105.8</b>	<b>138.8</b>	<b>-23.7</b>	
<b>Core net profit</b>	<b>35.9</b>	<b>29.1</b>	<b>30.8</b>	<b>23.5</b>	<b>16.7</b>	<b>124.8</b>	<b>138.8</b>	<b>-10.1</b>	<b>After adjusting for one-off items</b>
Gross financing receivables (RMm)	2,090.7	2,100.4	2,053.1	-0.5	1.8				
Allowance for impairment (RMm)	-140.7	-127.7	-133.1	10.1	5.7				
Net financing receivables (RMm)	1,950.1	1,972.7	1,920.1	-1.1	1.6				
Gross NPF ratio (%)	4.6	4.0	4.5						All-time high but LLC remained at comfortable level
Total borrowings (RMm)	2,058.0	2,119.6	2,194.7	-2.9	-6.2				
Loan Loss Coverage (%)	147.2	153.3	144.9						

Source: Company, PublicInvest Research

## KEY FINANCIAL DATA

### INCOME STATEMENT DATA

FYE Mar (RM'm)	2024A	2025A	2026F	2027F	2028F
Interest income	290.8	292.9	314.4	331.8	343.7
Interest expense	-98.5	-100.3	-104.1	-107.3	-110.5
<b>Net Interest Income</b>	<b>192.3</b>	<b>192.6</b>	<b>210.3</b>	<b>224.5</b>	<b>233.2</b>
Non-interest income	88.8	75.5	79.0	80.5	82.1
Staff costs	-32.2	-33.9	-36.8	-37.6	-39.0
Other operating expenses	-33.6	-30.7	-32.3	-33.0	-33.3
Pre-provision profit	215.1	203.3	220.1	234.2	242.8
Allowance for impairment	-30.2	-37.5	-38.2	-39.3	-39.4
Profit Before Tax	184.8	146.3	181.9	194.9	203.5
Income tax	-46.1	-41.0	-43.6	-46.8	-48.8
<b>Core net profit</b>	<b>138.8</b>	<b>124.8</b>	<b>138.2</b>	<b>148.1</b>	<b>154.6</b>

#### Growth

Interest income (%)	3.6	0.7	7.4	5.5	3.6
Pre-provision Profit (%)	1.2	-5.5	8.2	6.4	3.7
Net Profit (%)	0.0	-10.1	11.2	7.1	4.4

Source: Company, PublicInvest Research estimates

### BALANCE SHEET DATA

FYE Mar (RM'm)	2024A	2025A	2026F	2027F	2028F
Property, Plant and Equipment	7.3	4.9	6.6	6.6	7.6
Financial Receivables	2100.4	2090.7	2153.4	2218.1	2284.6
Cash and Deposits with Banks	840.2	767.5	1001.6	1052.1	1101.4
Other Assets	47.7	123.0	33.4	30.2	29.2
<b>Total Assets</b>	<b>2995.6</b>	<b>2986.2</b>	<b>3195.1</b>	<b>3306.9</b>	<b>3422.8</b>
Trade and Other Payables	34.6	34.9	34.6	34.6	34.6
Interest-bearing Debt	2119.6	2058.0	2248.7	2316.1	2385.6
Other Liabilities	11.7	53.7	11.7	11.7	11.7
Total Liabilities	2165.8	2146.6	2294.9	2362.4	2431.9
Shareholders' Equity and Minority	829.8	839.5	900.1	944.5	990.9
<b>Total Equity and Liabilities</b>	<b>2995.6</b>	<b>2986.2</b>	<b>3195.1</b>	<b>3306.9</b>	<b>3422.8</b>

Source: Company, PublicInvest Research estimates

### PER SHARE DATA & RATIOS

FYE Mar	2024A	2025A	2026F	2027F	2028F
Book Value Per Share (RM)	0.6	0.6	0.6	0.6	0.7
P/BV	2.4	2.3	2.2	2.1	2.0
EPS (Sen)	9.5	8.5	9.4	10.1	10.5
DPS (Sen)	7.5	6.5	6.6	7.1	7.4
Payout Ratio (%)	79.4	76.8	70.0	70.0	70.0
ROA (%)	4.6	4.0	4.3	4.5	4.5
ROE (%)	16.7	14.5	15.4	15.7	15.6

Source: Company, PublicInvest Research estimates

## RATING CLASSIFICATION

### STOCKS

<b>OUTPERFORM</b>	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
<b>NEUTRAL</b>	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
<b>UNDERPERFORM</b>	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
<b>TRADING BUY</b>	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
<b>TRADING SELL</b>	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
<b>NOT RATED</b>	The stock is not within regular research coverage.

### SECTOR

<b>OVERWEIGHT</b>	The sector is expected to outperform a relevant benchmark over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform a relevant benchmark over the next 12 months.

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