

23 May 2025

Financial Services | Banks

RCE Capital (RCE MK)

Neutral (Maintained)

A Small Bump In The Road

- **Keep NEUTRAL and MYR1.25 TP (6% downside) and c.6% FY26F (Mar) yield.** RCE Capital's core FY25 net profit was in line with our and consensus' estimates, but headline net profit included a one-off MYR19m charge for goodwill impairment relating to its EXP Payment (EXP) subsidiary. Moving forward, RCE can still utilise its alternative Angkasa (BPA) collection channel, which should be able to compensate for loss of business – if any – from EXP.
- **Results review.** RCE's core 4QFY25 net profit, by our estimates, stood at MYR34.7m (+19% YoY, +13% QoQ), bringing the full-year core net profit to MYR123.6m (-11% YoY) – this formed 97% of our and consensus' projections. Headline net profit of MYR16.6m (-43% YoY, -46% QoQ), however, included a one-off goodwill impairment of MYR19.0m. In 4QFY25, total operating income surged 14% YoY (QoQ: +21%) after a strong quarter for disbursements (gross financing receivables up 2% QoQ, flat YoY), though this was mitigated by higher credit costs of 2.9% (4QFY24: 2.0%, 3QFY25: 1.6%). RCE's second interim DPS of 3.5 sen met our expectations despite the headline miss, and this brought the full-year total DPS to 6.5 sen or a 77% payout on the core net profit (91% payout ratio on headline net profit; FY24: 7.5 sen, 79% payout).
- **Details of the goodwill impairment.** The goodwill impairment of MYR19m was related to RCE's subsidiary EXP, which collects repayments from civil servants under the Accountant General's Department (AGD), which in turn is governed by the Ministry of Finance (MOF). We understand that the MOF recently issued a 5% cap on profit rates for new personal financing products to civil servants under its purview, which falls below RCE's typical 6-9% rate charged, and does not meet its risk appetite, given the thinner margins. Moving forward, RCE will halt collections via its EXP subsidiary, and instead, utilise its other collection channel, BPA. Management commented that there is no impact to its revenue generation capability from the impairment as affected customers can still apply for financing via BPA, and there is no impact on existing financing facilities that are collected via EXP.
- **A bump in the road for credit costs.** Management attributed the jump in credit costs in 4QFY25 to three factors: i) Provisions for originations, given the strong disbursements during the quarter; ii) a refresh in macroeconomic variables under its provisioning models to factor in a more bearish macro outlook; and iii) a sharp rise in bankruptcy cases. Encouragingly, management notes that early retirements and exits from the civil service appear to be moderating, and hopes that the bankruptcy trend can soon follow suit.
- **Minor earnings adjustments required.** Our TP is kept at MYR1.25 and includes an unchanged 0% ESG premium/discount.

Target Price (Return): MYR1.25 (-6.0%)
Price (Market Cap): MYR1.33 (USD457m)
ESG score: 3.0 (out of 4)
Avg Daily Turnover (MYR/USD) 0.71m/0.16m

Analysts

Nabil Thoo
+603 2302 8123
nabil.thoo@rhbgroup.com

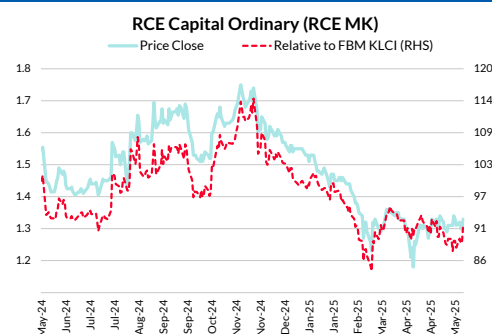


David Chong CFA
+603 2302 8106
david.chongvc@rhbgroup.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(14.2)	4.7	(1.5)	(23.6)	(14.2)
Relative	(7.2)	2.0	2.5	(19.6)	(8.3)
52-wk Price low/high (MYR)				1.18	1.75



Source: Bloomberg

Forecasts and Valuation	Mar-24	Mar-25	Mar-26F	Mar-27F	Mar-28F
Reported net profit (MYRm)	139	111	150	157	162
Net profit growth (%)	(0.0)	(20.3)	36.1	4.2	3.1
Recurring net profit (MYRm)	139	124	150	157	162
Recurring EPS (MYR)	0.09	0.08	0.10	0.11	0.11
BVPS (MYR)	0.56	0.57	0.60	0.62	0.64
DPS (MYR)	0.07	0.07	0.08	0.08	0.08
Recurring P/E (x)	14.21	15.70	12.98	12.45	12.07
P/B (x)	2.38	2.33	2.23	2.15	2.07
Dividend Yield (%)	5.6	4.9	5.8	6.0	6.2
Return on average equity (%)	17.0	13.2	17.6	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	Emissions (tCO2e)	Mar-23	Mar-24	Mar-25	Mar-26
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.	Scope 1	19	22	na	na
	Scope 2	155	152	na	na
	Scope 3	-	377	na	na
	Total emissions	174	551	na	na

Source: Company data, RHB

Latest ESG-Related Developments

Scope 3 emissions reporting: RCE plans to introduce its (internal) Scope 3 emissions data in its FY24 annual report to be released in mid-2024.

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 August 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.

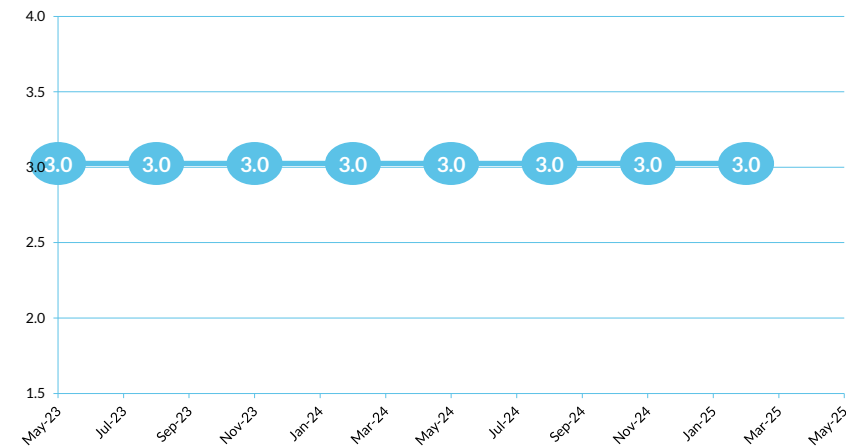
S Score: 3.0 (GOOD)

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-24	Mar-25	Mar-26F	Mar-27F	Mar-28F
Malaysia	EPS	0.09	0.08	0.10	0.11	0.11
Financial Services	Recurring EPS	0.09	0.08	0.10	0.11	0.11
RCE Capital	DPS	0.07	0.07	0.08	0.08	0.08
RCE MK	BVPS	0.56	0.57	0.60	0.62	0.64
Neutral						
Valuation basis	Valuation metrics	Mar-24	Mar-25	Mar-26F	Mar-27F	Mar-28F
Our GGM assumptions are:	Recurring P/E (x)	14.21	15.70	12.98	12.45	12.07
i. CoE of 10.0%;	P/B (x)	2.4	2.3	2.2	2.2	2.1
ii. ROE of 17.2%;	Dividend Yield (%)	5.6	4.9	5.8	6.0	6.2
iii. 3.5% long-term growth rate.						
Key drivers	Income statement (MYRm)	Mar-24	Mar-25	Mar-26F	Mar-27F	Mar-28F
Our FY26F forecasts are most sensitive to changes in:	Interest income	291	292	302	320	339
i. Growth in receivables;	Interest expense	(99)	(101)	(105)	(115)	(121)
ii. Impairment allowances;	Net interest income	192	192	196	205	218
iii. Financing margins.	Non interest income	89	76	102	107	106
	Total operating income	281	267	298	312	324
	Overheads	(66)	(64)	(68)	(71)	(74)
	Pre-provision operating profit	215	203	231	241	250
	Loan impairment allowances	(30)	(38)	(30)	(32)	(34)
	Other exceptional items		(14)			
	Pre-tax profit	185	152	201	209	216
	Taxation	(46)	(41)	(50)	(52)	(54)
	Reported net profit	139	111	150	157	162
	Recurring net profit	139	124	150	157	162
Key risks	Profitability ratios	Mar-24	Mar-25	Mar-26F	Mar-27F	Mar-28F
The upside risks include:	Return on average assets (%)	4.7	3.7	4.8	4.7	4.6
i. Greater-than-expected financing growth;	Return on average equity (%)	17.0	13.2	17.6	17.6	17.5
ii. Lower-than-expected credit costs;	Return on IEAs (%)	10.1	10.3	10.6	10.7	10.7
iii. Stronger-than-expect net financing margin.	Cost of funds (%)	4.7	4.8	4.8	4.8	4.8
	Net interest spread (%)	5.4	5.5	5.8	5.9	5.9
	Net interest margin (%)	6.7	6.8	6.9	6.8	6.9
	Non-interest income / total income (%)	31.6	28.3	34.2	34.2	32.8
	Cost to income ratio (%)	23.4	24.1	22.6	22.7	23.0
	Credit cost (bps)	147	179	140	140	140
The converse represents upside risk.	Balance sheet (MYRm)	Mar-24	Mar-25	Mar-26F	Mar-27F	Mar-28F
	Total gross loans	2,100	2,091	2,216	2,371	2,490
	Other interest earning assets	800	680	699	719	738
	Total gross IEAs	2,900	2,771	2,915	3,090	3,228
	Total provisions	(128)	(141)	(153)	(167)	(183)
	Net loans to customers	1,973	1,950	2,063	2,204	2,307
	Total net IEAs	2,772	2,631	2,763	2,923	3,045
	Total non-IEAs	223	356	494	482	520
	Total assets	2,996	2,986	3,256	3,405	3,565
	Other interest-bearing liabilities	2,120	2,058	2,337	2,454	2,576
	Total IBLs	2,120	2,058	2,337	2,454	2,576
	Total non-IBLs	46	89	45	45	46
	Total liabilities	2,166	2,147	2,382	2,499	2,623
	Share capital	202	205	202	202	202
	Shareholders' equity	830	840	875	906	942
	Asset quality and capital	Mar-24	Mar-25	Mar-26F	Mar-27F	Mar-28F
	Reported NPLs / gross cust loans (%)	3.7	4.6	3.8	3.8	3.8
	Total provisions / reported NPLs (%)	165.8	147.2	181.5	185.2	193.4

Source: Company data, RHB

Results At a Glance

Figure 1: Summary of 4QFY25 and FY25 results

FYE Mar (MYRm)	4Q FY24	3Q FY25	4Q FY25	QoQ (%)	YoY (%)	FY24	FY25	YoY (%)	Comments
Net profit income	47.3	46.5	51.6	11	9	192.0	191.8	(0)	
Profit income	72.4	70.8	76.6	8	6	290.8	292.4	1	
Profit expense	(25.1)	(24.3)	(24.9)	3	(1)	(98.8)	(100.6)	2	
Non-profit income	19.7	16.7	25.0	50	27	88.8	75.5	(15)	In tandem with the lower financing disbursements due to lower fees on origination
<i>Non-Il/Total income (%)</i>	29.4	26.4	32.7			31.6	28.3		
Operating Income	67.0	63.2	76.7	21	14	280.8	267.4	(5)	
Overhead expenses	(17.5)	(14.0)	(34.4)	>100	96	(65.8)	(83.3)	27	4QFY25 opex includes a MYR19m goodwill impairment related to RCE's EXP subsidiary
<i>CIR (%)</i>	26.2	22.1	44.9			23.4	31.2		
PIOP	49.5	49.3	42.3	(14)	(15)	215.1	184.0	(14)	
Impairment on financing	(10.3)	(8.4)	(15.0)	79	46	(30.2)	(37.5)	24	The jump in FY25 credit costs is attributable to the rising number of civil servants retiring early, exiting the civil service, or going bankrupt. While early retirements and exit trends are unpredictable, the group is working hard to curb the bankruptcy cases.
<i>Ann. credit costs (bps)</i>	196	163	290			152	184		
PBT	39.1	40.9	27.2	(33)	(30)	184.8	146.5	(21)	
Taxation	(10.1)	(10.1)	(10.6)			(46.1)	(41.0)		
<i>ETR (%)</i>	25.7	24.8	38.9			24.9	28.0		
Headline Net Profit	29.1	30.8	16.6	(46)	(43)	138.8	105.5	(24)	Formed 83% of our and consensus' full-year estimates.
Core Net Profit	29.1	30.8	34.7	13	19	138.8	123.6	(11)	Formed 97% of our and consensus' full-year estimates.
Other key data and ratios									
Gross financing	2,100.4	2,053.1	2,090.7	2	(0)				Receivables growth stalled due to a greater number of applications among lower credit score customers. This includes civil servants that were engaged in a trend of compressed financing enabled by a recently dismantled financial syndicate. 4QFY25 saw an acceleration in disbursements partly helped by the revision to civil servants' salaries in Dec 2024.
Total borrowings	2,119.6	2,143.4	2,058.0	(4)	(3)				
Total assets	2,995.6	3,011.8	2,986.2	(1)	(0)				
Shareholders' funds	829.8	823.0	839.5	2	1				
ROAA (%)	3.8%	4.1%	2.2%			4.7%	3.5%		
ROAE (%)	14.2%	14.8%	8.0%			17.0%	12.6		

Source: Company data, RHB

Figure 2: Revisions to our full-year earnings forecasts

FYE Mar	Net profit (MYRm)			EPS (MYR)			DPS (MYR)		
	Previous	Revised	% Chg	Previous	Revised	% Chg	Previous	Revised	% Chg
2026F	153.8	150.4	-2.2	0.10	0.10	-2.3	0.08	0.08	-2.3
2027F	159.9	156.8	-2.0	0.11	0.11	-2.1	0.08	0.08	-2.1
2028F	na	161.7	na	na	0.11	na	na	0.08	na

Source: Company data, RHB

Valuation and TP

Our unchanged TP of MYR1.25 is based on a GGM-derived P/BV of 2.10x, and includes a 0% ESG premium/discount. The sole change to our GGM model was to CY25F BVPS, which was lowered to MYR0.59 from MYR0.60 in tandem with the slight forecast adjustments.

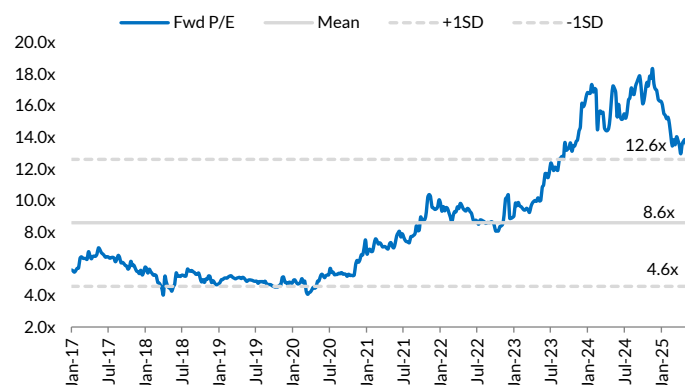
While valuations remain lofty at 2.1x P/BV (over +1SD from the mean, vs 17-18% ROE forecasted), we think the share price is well supported by the counter's decent dividend yields of 6%. Higher-for-longer credit costs, however, present a significant downside risk to earnings.

Figure 3: 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	MYR0.59
		Intrinsic value	MYR1.24
ESG premium/(discount) (%)	0.0	ESG premium/(discount)	MYR0.00
		TP (rounded)	MYR1.25

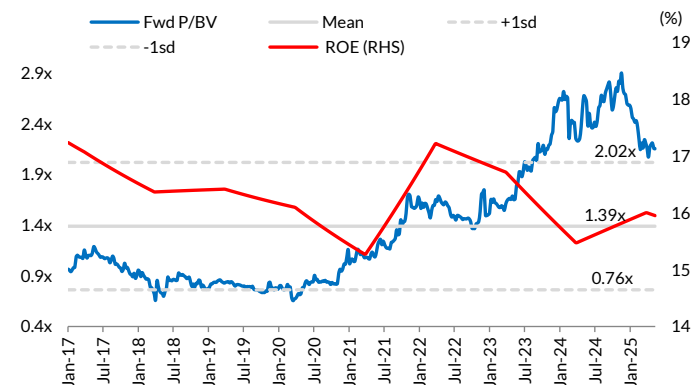
Source: Company data, RHB

Figure 4: RCE's 12-month forward P/E



Source: Bloomberg, RHB

Figure 5: 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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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 2302 8100
Fax : +603 2302 8134

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 5093 9888
Fax : +6221 5093 9777

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470