

14 Aug 2025

Reduce

Price
RM1.10

Target Price
RM1.00

Market Data

Bloomberg Code	RCE MK
No. of shares (m)	1,482.3
Market cap (RMm)	1,633.1
52-week high/low (RM)	1.77 / 1.02
Avg daily turnover (RMm)	0.8
KLCI (pts)	1,586.6
Source: Bloomberg, CIMB Securities	

Major Shareholder (%)

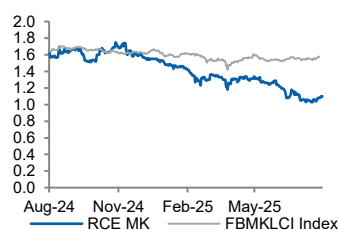
Cempaka Empayar	55.6
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Free Float	44.4
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Source: Bloomberg, CIMB Securities

Performance

	3M	6M	12M
Absolute (%)	(16.0)	(23.6)	(31.5)
Rel Market (%)	(16.0)	(23.3)	(31.5)



Source: Bloomberg, CIMB Securities

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RCE Capital

One-off DSR change lifts impairments

RCE's 1QFY3/26 core net profit contracted 27.0% QoQ (-14.3% YoY), owing to lower upfront fee income due to weaker financing disbursements during the quarter. The results fell short of expectations, accounting for 20.6% of our and 18.9% of consensus FY26F earnings forecasts, with the variance due to higher impairment provisions (+RM3m). We have cut our FY26–28F earnings forecasts by 0.3–1.8% to account for the additional RM3m in impairment provisions. We maintain our Reduce call with an unchanged DDM-based TP of RM1.00, reflecting concerns over rising impairment risks and subdued receivables growth.

Financial highlights

FYE Mar	2024	2025	2026F	2027F	2028F
Revenue (RMm)	341.7	331.7	330.8	336.7	341.5
Core net profit (RMm)	138.8	124.5	123.9	127.6	129.3
Core EPS (Sen)	9.4	8.4	8.4	8.6	8.7
EPS growth (%)	(0.0)	(10.3)	(0.5)	3.0	1.3
DPS (Sen)	7.5	6.5	6.3	6.5	6.5
Div yield (%)	6.8	5.9	5.7	5.9	5.9
Core PE (x)	11.8	13.1	13.2	12.8	12.6
PBV (x)	2.0	1.9	1.9	1.8	1.7
ROE (%)	17.0	14.3	14.5	14.4	14.1

Source: Company, CIMB Securities

1QFY3/26 core net profit fell 27.0% QoQ, 14.3% YoY; below estimates

RCE Capital (RCE)'s 1QFY3/26 core net profit contracted 27.0% QoQ (-14.3% YoY) to RM26.0m, primarily weighed down by a 47.1% QoQ decline (+21.2% YoY) in other revenue driven by lower upfront fee income and weaker financing disbursements during the quarter, with financing receivables down 0.2% QoQ (+0.6% YoY). This was partly mitigated by a 24.6% QoQ (+46.1% YoY) reduction in impairment provisions. The results fell short of expectations, accounting for 20.6% of our and 18.9% of consensus FY26F earnings forecasts, with the variance attributed to impairment provisions coming in RM3m higher than anticipated. No dividend was declared, in line with historical practice, as RCE typically makes distributions in 2Q and 4Q.

Impairment losses eased by 24.6% QoQ, but NPF still a record high

RCE's impairment losses on receivables eased to RM11.3m in 1QFY3/26 (-24.6% QoQ, +46.1% YoY), but exceeded our quarterly estimate of RM8.7m. The variance was driven by a one-off RM3m impairment arising from a change in debt service ratio (DSR) treatment for certain government servant allowances. Previously, these allowances were included in the 60% DSR threshold — permitted under Angkatan Koperasi Kebangsaan Malaysia Bhd (ANGKASA) — allowing for higher loan eligibility. However, a state government later excluded these allowances from DSR calculations and payroll deductions, leading to only partial repayments being made at source. As a result, the portion of loans exceeding the revised DSR limit needs to be impaired. Excluding this one-off item, normalised impairment provisions would have been RM8.3m, marking a sharper decline of 44.6% QoQ (+7.4% YoY), in line with our estimates. As a result, non-performing financing (NPF) rose 3.9% QoQ and 14.3% YoY to RM99.3m, pushing the NPF ratio to 4.8%, up from 4.6% in 4QFY3/25 and 4.2% in 1QFY3/25. The loan loss coverage ratio fell slightly to 145% (4QFY3/25: 147%; 1QFY3/25: 150%).

Earnings forecasts reduced by 0.3–1.8% to account for additional impairments

Our earnings forecasts have been reduced by 1.8% for FY26F and by 0.3% for FY27F and FY28F after considering the additional RM3m in impairment provisions. Consequently, we project core net profit to decline 0.5% YoY in FY26F and then grow by 3.0% and 1.3% YoY in FY27F and FY28F, respectively. This is underpinned by higher fee-based income, driven by disbursement-linked charges on the back of our receivables growth assumptions of 2.0–2.5% for FY26–28F, 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 within 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 an unchanged TP of RM1.00

We maintain our Reduce call on RCE with an unchanged DDM-based target price (TP) of RM1.00 (based on cost of equity of 8.0% and a long-term growth rate of 1.0%), owing to (i) civil servants' borrowing capacity being largely maxed out amid elevated debt and living costs, (ii) intensifying competition from digital lenders, and (iii) lack of further salary adjustments following completion of the 7–15% adjustments for civil servants. RCE is currently trading at a 1.9x P/BV, which is 0.5 s.d. above its 5-year mean of 1.7x and at a premium to the banking sector P/BV average of 1.0x; we deem this overvalued owing to the continued upward trend in impairments and slower receivable growth. Key upside risks: (i) higher-than-expected receivables growth, (ii) higher-than-expected dividends. Key downside risks: (i) higher-than-expected impairment loss on receivables, (ii) lower-than-expected dividend payout.

Exhibit 1: Results summary

FYE 31 Mar	Jun-24	Mar-25	Jun-25	% chg		Cumulative		% chg	Prev. CIMB	
RM m	1QFY25	4QFY25	1QFY26	QoQ	YoY	FY25	FY26	YoY	FY26F	3M/F (%)
Profit income	72.0	76.6	71.2	(7.0)	(1.2)	72.0	71.2	(1.2)	295.17	24.1
Other revenue	7.1	16.3	8.6	(47.1)	21.2	7.1	8.6	21.2	35.62	24.1
Total revenue	79.1	92.8	79.8	(14.0)	0.8	79.1	79.8	0.8	330.8	24.1
Interest expense	(25.5)	(24.9)	(24.2)	(2.9)	(5.2)	(25.5)	(24.2)	(5.2)	(100.6)	24.0
Net interest and fee income	53.6	67.9	55.6	(18.1)	3.7	53.6	55.6	3.7	230.2	24.2
Other income	8.8	8.8	8.0	(9.2)	(9.5)	8.8	8.0	(9.5)	37.1	21.5
Operating income	62.4	76.7	63.6	(17.1)	1.9	62.4	63.6	1.9	267.3	23.8
Operating expenses	(14.2)	(15.5)	(16.8)	8.3	17.8	(14.2)	(16.8)	17.8	(64.4)	26.0
Underlying profit	48.2	61.2	46.8	(23.5)	(2.8)	48.2	46.8	(2.8)	202.9	23.1
Allowance for impairment loss	(7.7)	(15.0)	(11.3)	(24.6)	46.1	(7.7)	(11.3)	46.1	(34.7)	32.6
Exceptional	0.0	(19.0)	0.0	n.m.	n.m.	0.0	0.0	n.m.	n.a.	n.a.
Pre-tax profit	40.4	27.2	35.5	30.3	(12.2)	40.4	35.5	(12.2)	168.2	21.1
Taxation	(10.1)	(10.6)	(9.5)	(10.3)	(6.0)	(10.1)	(9.5)	(6.0)	(42.1)	22.6
Net profit	30.3	16.6	26.0	56.2	(14.3)	30.3	26.0	(14.3)	126.2	20.6
Normalise net profit	30.3	35.6	26.0	(27.0)	(14.3)	30.3	26.0	(14.3)	126.2	20.6

Source: Company, CIMB Securities

RCE Capital

Income statement

FYE Mar (RMm)	2024	2025	2026F	2027F	2028F
Net interest income	192.3	192.0	190.1	192.7	195.2
Non-interest income	88.8	75.5	77.2	78.6	79.7
Total income	281.1	267.6	267.3	271.3	274.9
Operating costs	(66.0)	(64.6)	(64.4)	(65.4)	(66.2)
Pre-provision operating profit	215.1	203.0	202.9	206.0	208.7
Provision charges	(30.2)	(37.5)	(37.8)	(35.8)	(36.3)
Pre-tax profit	184.8	146.5	165.2	170.2	172.4
Taxation	(46.1)	(41.0)	(41.3)	(42.5)	(43.1)
Net Profit	138.8	124.5	123.9	127.6	129.3

Balance sheet

FYE Mar (RMm)	2024	2025	2026F	2027F	2028F
Consumer financing	1,972.7	1,950.1	1,981.8	2,017.4	2,045.7
Deposits with financial institutions	745.0	625.6	757.7	775.4	791.3
Plant and equipment	11.0	7.4	11.2	11.4	11.7
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	49.2	50.4	51.4
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	131.4	147.9	166.2
Total Assets	2,995.6	2,986.2	3,046.8	3,118.2	3,181.8
Borrowings	2,119.6	2,058.0	2,129.3	2,167.6	2,198.0
Payables and accruals	34.2	34.0	34.8	35.6	36.3
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	9.1	9.3
Total Liabilities	2,165.8	2,146.6	2,176.3	2,215.8	2,247.1
Share capital	201.9	204.9	204.9	204.9	204.9
Reserves	627.0	634.0	665.0	697.0	729.0
Total Shareholders' Equity	829.8	839.5	870.5	902.4	934.7
Total Liabilities & Equity	2,995.6	2,986.2	3,046.8	3,118.2	3,181.8

ROE composition

FYE Mar	2024	2025	2026F	2027F	2028F
a. Net interest income/Avg. assets (%)	6.5%	6.4%	6.3%	6.3%	6.2%
b. Non-Interest Income/Avg. Assets (%)	3.0%	2.5%	2.6%	2.5%	2.5%
c. Income Yield (%)	9.5%	8.9%	8.9%	8.8%	8.7%
d. Cost/Avg. Assets (%)	2.2%	2.2%	2.1%	2.1%	2.1%
f. Cost/Income (d/c)	23.5%	24.1%	24.1%	24.1%	24.1%
g. Underlying Profitability (c-d)	7.2%	6.8%	6.7%	6.7%	6.6%
a. Underlying Profitability (%)	7.2%	6.8%	6.7%	6.7%	6.6%
b. B&DD Expense (%)	1.0%	1.3%	1.3%	1.2%	1.2%
c. Pre-tax ROA (a-b)	6.2%	5.5%	5.5%	5.5%	5.5%
d. Tax Retention Rate (%)	75.1%	72.0%	75.0%	75.0%	75.0%
e. Post tax ROA (c*d)	4.7%	4.0%	4.1%	4.1%	4.1%
f. Leverage	3.6	3.6	3.5	3.5	3.4
g. ROE (e*g)	17.0%	14.3%	14.5%	14.4%	14.1%

Source: Bloomberg, CIMB Securities

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Hold	The stock's total return is expected to be between 0% and positive 10% over the next twelve (12) months.
Reduce	The stock's total return is expected to fall below 0% or more over the next twelve (12) months.
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