

RCE Capital Bhd (RCE MK)

Effect of recent civil service salary hike quickly fizzled out

Maintain HOLD but with lower TP of MYR1.12 (-10%)

1QFY3/26 results underperformed our and consensus' expectation on higher-than-expected credit cost. Moreover, gross financing growth stalled and NPF ratio continues to rise despite the 8% civil service salary hike in Dec 2024. We trim our earnings estimates by 7-11% and DPS estimates by 1sen p.a. Consequently, we trim our target end-CY25E P/BV to 1.9x from 2.1x to trim our TP by 10% to MYR1.12 from MYR1.25. Still relatively high dividend yields of c.6% p.a. ought to limit downside risk to its share price.

Earnings below our and consensus' expectations

1QFY3/26 core net profit of MYR26.0m (-14% YoY, -27% QoQ) accounted for only 19% of our and consensus' FY estimate. Yet, 1QFY3/26 revenue of MYR79.8m (+1% YoY, -14% QoQ) was within our expectations at 23% of our FY estimate. The earnings shortfall was due to higher-than-expected allowances for impairment loss on receivables (credit cost) as there was a c.MYR3m one-off credit cost due to a state government disallowing an allowance it pays to its staff to be deducted to repay RCE.

Financing growth stalled while NPF ratio rose

Notwithstanding the above, we are underwhelmed that 1QFY3/26 gross financing growth flattened QoQ after a 2% QoQ boost in 4QFY3/25 driven by 8% civil service salary hike in Dec 2024. RCE explained that demand for new financing remains high but the poor credit quality of applicants has restrained it from disbursing a lot of new financing. This explanation jives with its non-performing financing (NPF) ratio inching up to another recent high of 4.8% on persistently high bankruptcy and early retirement rates.

Trim earnings and dividends estimates

Reflecting the above, we cut FY26E/FY27E gross financing growth to 2%/2% from 8%/7% while maintaining FY28E gross financing growth at 2% and raise our credit cost ratio forecasts to 1.8% from 1.5% (Fig. 2). Net impact is to trim FY26E/FY27E/FY28E earnings by 7%/10%/11% and FY26E/FY27E/FY28E DPS by 1sen p.a. We still expect gross financing to grow, but at a low rate, due to the 7% civil service salary hike in Dec 2025. Until then, we expect quarterly earnings to average c.MYR30m.

FYE Mar (MYR m)	FY24A	FY25A	FY26E	FY27E	FY28E
Operating income	281	267	271	277	284
Pre-provision profit	215	203	206	212	217
Core net profit	139	125	127	130	134
Core FDEPS (MYR)	0.09	0.08	0.09	0.09	0.09
Core FDEPS growth(%)	(0.0)	(10.3)	0.7	2.7	2.7
Net DPS (MYR)	0.08	0.07	0.07	0.07	0.07
Core FD P/E (x)	14.2	15.7	12.9	12.6	12.3
P/BV (x)	2.4	2.3	1.9	1.8	1.7
Net dividend yield (%)	5.6	4.9	5.9	6.4	6.4
Book value (MYR)	0.57	0.57	0.59	0.61	0.63
ROAE (%)	17.0	14.9	14.8	14.7	14.6
ROAA (%)	4.7	4.2	4.2	4.2	4.2
Consensus net profit	-	-	138	148	155
MIBG vs. Consensus (%)	-	-	(8.2)	(12.0)	(13.4)

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HOLD

Share Price	MYR 1.10
12m Price Target	MYR 1.12 (+7%)
Previous Price Target	MYR 1.25

Company Description

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

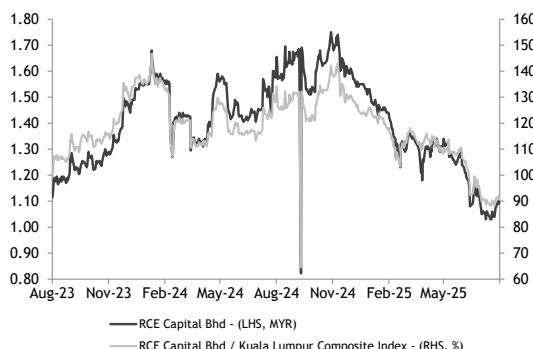
Statistics

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	MYR1.6B
	USD388M

Major shareholders:

Cempaka Empayar Sdn. Bhd.	58.4%
Lembaga Tabung Haji	2.6%
Employees Provident Fund	2.5%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(2)	(16)	(31)
Relative to index (%)	(4)	(15)	(30)

Source: FactSet

There could be some relief going forward

Lest we sound overly bearish, we gather that there are a couple of positives for RCE going forward. Bank Negara Malaysia (BNM) cut the Overnight Policy Rate (OPR) by 25bps to 2.75% on 9 Jul 2025. The profit rate that RCE charges on all of its financing products are fixed while the profit rate on its financing liabilities (i.e. term loans, revolving credit, sukuk) is variable in the long term (i.e. sukuk can be refinanced at lower rates in a low 10-year Malaysian Government Securities yield environment). Thus, its earnings can improve meaningfully should BNM continue cutting the OPR. We estimate that every 25bps reduction in its cost of funds will accrete 3% to earnings. While RCE is managing its gross financing growth targets given the challenge it is facing on asset quality, we still expect gross financing to grow in FY3/26E. Civil servants are due to receive another salary hike of 7% in Dec 2025. We hope the credit quality of applicants will have improved by then.

Figure 1: Summary Results Table

FY Mar (MYRm)	1QFY3/26	1QFY3/25	% YoY	4QFY3/25	% QoQ
Interest/profit income	71.2	72.0	(1.2)	76.6	(7.0)
Other revenue	8.6	7.1	21.2	16.3	(47.1)
Revenue	79.8	79.1	0.8	92.8	(14.0)
Other income	8.0	8.8	(9.5)	8.8	(9.2)
Interest/profit expense applicable to revenue	(24.2)	(25.5)	(5.2)	(24.9)	(2.9)
Directors' remuneration and staff costs	(7.5)	(7.3)	3.1	(7.6)	(0.9)
Allowances for impairment loss on receivables, net	(11.3)	(7.7)	46.1	(15.0)	(24.6)
Impairment of goodwill on consolidation	-	-	N/M	(19.0)	(100.0)
Depreciation	(1.3)	(1.1)	23.8	(1.3)	3.2
Other expenses	(7.9)	(5.8)	35.1	(6.6)	19.8
Finance costs	(0.1)	(0.0)	30.8	(0.0)	41.7
Profit before tax	35.5	40.4	(12.2)	27.2	30.3
Taxation	(9.5)	(10.1)	(6.0)	(10.6)	(10.3)
Net profit	26.0	30.3	(14.3)	16.6	56.2
Core net profit	26.0	30.3	(14.3)	35.6	(27.0)
Financing & loans receivables, gross	2,087.4	2,074.4	0.6	2,090.7	(0.2)
(Allowance for impairment)	(144.2)	(129.9)	11.0	(140.7)	2.5
Financing & loans receivables, net	1,943.2	1,944.4	(0.1)	1,950.1	(0.4)
Tax rate (%)	26.8	25.0	1.8	38.9	(12.1)
Gross NPF ratio (%)	4.8	4.2	0.6	4.6	0.2
Financing & loans loss coverage ratio (%)	145.3	149.6	(4.3)	147.2	(2.0)
Net gearing (%)	162.0	160.1	1.9	154.0	8.1

Source: Company

Results analysis

- 1QFY3/26 core net profit was down 14% YoY largely due to higher allowances for impairment loss on receivables (credit cost). RCE explained that there was a c.MYR3m one-off credit cost due to a state government disallowing an allowance it pays to its staff to be auto-deducted via Angkasa to repay RCE.
- 1QFY3/26 core net profit was down 27% QoQ largely due to lower early settlement and fee income QoQ. Recall that 4QFY3/26 revenue was boosted by record high disbursements (driven by the 8% civil service salary hike in Dec 2024) that translated into higher early settlement and fee income.

Figure 2: Key assumptions and estimates

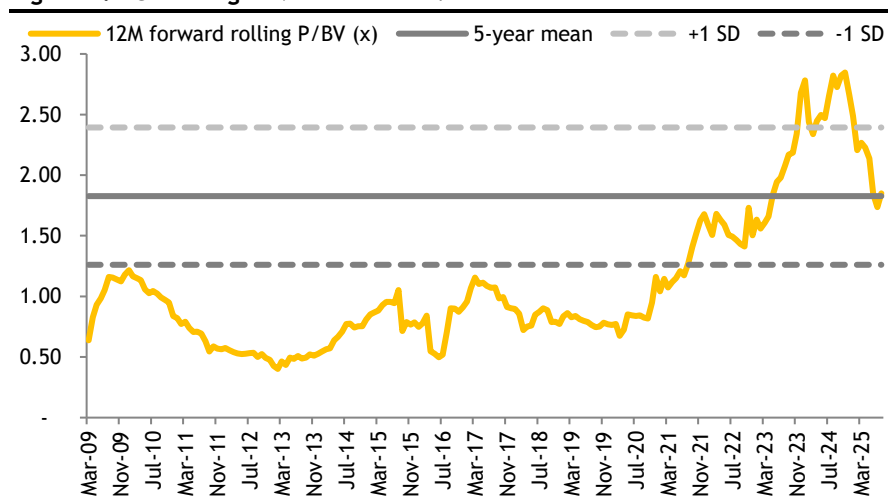
FY Mar	FY3/26E	FY3/27E	FY3/28E
Revised			
Gross financing growth	+2.0%	+2.0%	+2.0%
Credit cost ratio	1.8%	1.8%	1.8%
Core net profit (MYRm)	126.9	130.4	133.9
DPS (sen)	6.5	7.0	7.0
Previous			
Gross financing growth	+8.0%	+7.0%	+2.0%
Credit cost ratio	1.5%	1.5%	1.5%
Core net profit (MYRm)	136.8	145.2	150.9
DPS (sen)	7.5	8.0	8.0

Source: Company

Valuation and recommendation

Our revised MYR1.12 TP (MYR1.25 previously) is based on 1.9x end-CY25E P/BV (2.1x previously). We derive a target end-CY25E P/BV of 1.9x via the following assumptions: - (i) 1 year forward ROE of 14.8% (16.0% previously); (ii) unchanged terminal growth rate of 2.0% as government emoluments have grown at 1.8% CAGR over the last 10 years; and (iii) unchanged 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

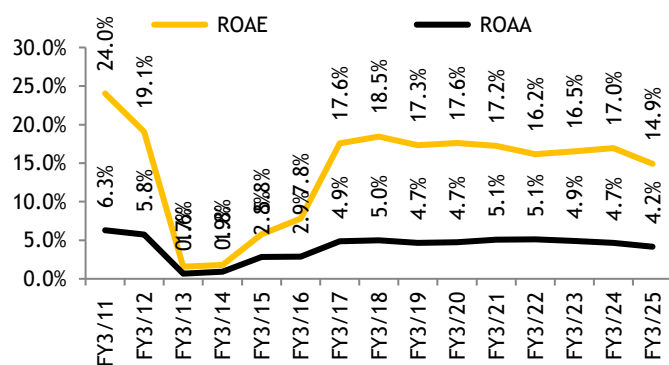


Source: Company, Maybank IBG Research, Bloomberg

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.

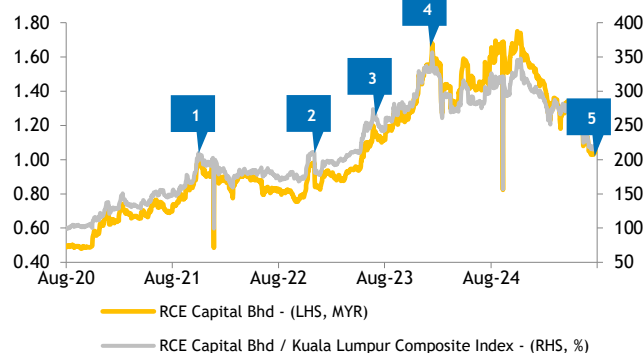
ROAE and ROAA



Source: Company

Price Drivers

Historical share price trend



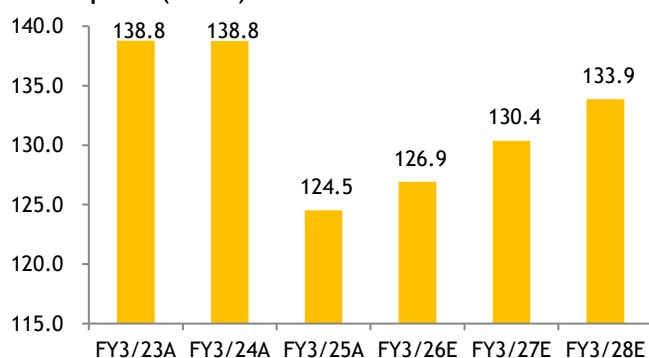
Source: Company, Maybank IBG Research

1. 2QFY21 net profit grew 21% YoY to a record high of MYR33.0m.
2. Bank Negara Malaysia raised Overnight Policy Rate by 25bps for the first time since Jul 2020.
3. Announced a huge special DPS of 18sen and higher-than expected interim DPS of 5sen.
4. Announced that it raised its dividend policy from 20-40% DPR to 60-80% DPR.
5. Non-performing financing and credit cost begin to rise due to overleveraged customers.

Financial Metrics

- Introduced better credit scoring model in 2013. We forecast gross financing CAGR of 2% 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 2% 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
Key Metrics					
Core P/E (x)	14.2	15.7	12.7	12.4	12.1
Core FD P/E (x)	14.2	15.7	12.9	12.6	12.3
P/BV (x)	2.4	2.3	1.9	1.8	1.7
P/NTA (x)	2.5	2.5	2.0	1.9	1.8
Net dividend yield (%)	5.6	4.9	5.9	6.4	6.4
INCOME STATEMENT (MYR m)					
Islamic banking income	221.2	219.6	221.9	227.5	233.1
Other income	59.6	47.8	48.7	49.7	50.7
Total non-interest income	280.8	267.4	270.6	277.2	283.8
Operating income	280.8	267.4	270.6	277.2	283.8
Staff costs	(32.2)	(33.9)	(33.8)	(34.4)	(35.1)
Other operating expenses	(33.6)	(30.5)	(30.4)	(30.9)	(31.4)
Operating expenses	(65.8)	(64.3)	(64.2)	(65.3)	(66.6)
Pre-provision profit	215.1	203.0	206.5	211.8	217.3
Other allowances	(30.2)	(37.5)	(37.8)	(38.5)	(39.3)
Associates & JV income	0.0	0.0	0.0	0.0	0.0
Pretax profit	184.8	146.5	168.7	173.3	177.9
Income tax	(46.1)	(41.0)	(41.8)	(42.9)	(44.1)
Reported net profit	138.8	105.5	126.9	130.4	133.9
Core net profit	138.8	124.5	126.9	130.4	133.9
BALANCE SHEET (MYR m)					
Cash & deposits with banks	840.2	767.5	800.8	831.5	865.8
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	2,043.9	2,083.7	2,124.3
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
Total assets	2,995.6	2,986.2	3,057.5	3,127.0	3,200.9
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	618.6	660.3	702.9
Other liabilities	437.1	588.1	588.2	588.4	588.6
Total liabilities	2,165.8	2,146.6	2,186.5	2,228.4	2,271.2
Share capital	201.9	204.9	204.9	204.9	204.9
Reserves	627.9	634.6	666.1	693.7	724.8
Shareholders' funds	829.8	839.5	871.0	898.6	929.7
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	871.0	898.6	929.7
Total liabilities & equity	2,995.6	2,986.2	3,057.5	3,127.0	3,200.9

FYE 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
Key Ratios					
Growth (%)					
Net interest income	na	na	na	na	na
Non-interest income	7.4	(4.8)	1.2	2.4	2.4
Operating expenses	34.9	(2.2)	(0.3)	1.9	1.9
Pre-provision profit	1.2	(5.6)	1.7	2.6	2.6
Core net profit	(0.0)	(10.3)	1.9	2.7	2.7
Gross loans	3.9	(0.5)	2.0	2.0	2.0
Customer deposits	na	na	na	na	na
Total assets	1.7	(0.3)	2.4	2.3	2.4
Profitability (%)					
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
Liquidity (%)					
Loans/customer deposits	na	na	na	na	na
Asset quality (%)					
Gross NPF	4.0	4.6	4.6	4.6	4.6
Capital adequacy (%)					
CET1	na	na	na	na	na
Tier 1 capital	na	na	na	na	na
Risk-weighted capital	na	na	na	na	na
Returns (%)					
ROAE	17.0	14.9	14.8	14.7	14.6
ROAA	4.7	4.2	4.2	4.2	4.2
Shareholders equity/assets	27.7	28.1	28.5	28.7	29.0

Source: Company; Maybank IBG Research

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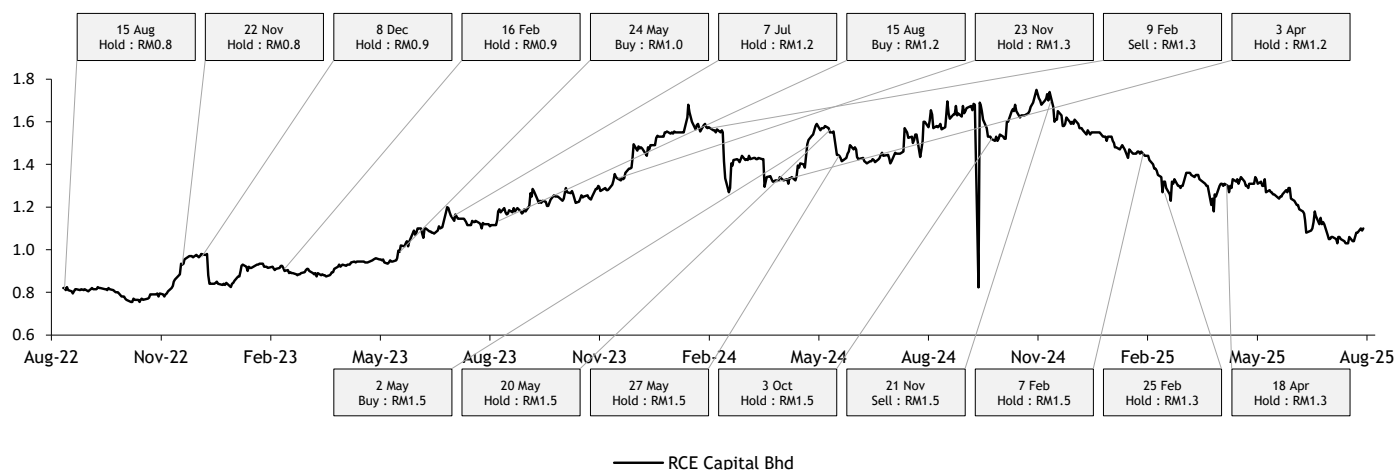
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