

14 August 2025

Financial Services | Banks

RCE Capital (RCE MK)

Neutral (Maintained)

Still An Air Of Caution

- **Stay NEUTRAL, new MYR1.15 TP from MYR1.25, 5% upside and c.6% FY26F (Mar) yield.** RCE Capital's FY26 got off to a slow start, with 1Q net profit coming up short against our and consensus' full-year estimates. Management is still maintaining a cautious stance on disbursements amidst still-elevated – albeit plateauing – cases of bankruptcies and early retirements. While most of the bad news looks priced in, an unexciting core earnings profile will likely cap the stock's potential upside.
- **Off to a slow start.** RCE posted a 1QFY26 net profit of MYR26m, a 14% drop YoY (QoQ: +56% headline, -26% core) – this formed 17% and 19% of our and consensus' full-year PATMI forecasts. The key variance vs our estimates came from: i) Softer-than-expected operating income of MYR63.5m (+2% YoY, -17% QoQ) due to weaker-than-expected financing receivables growth, and ii) higher-than-expected impairment allowances of MYR11m (+46% YoY, -25% QoQ) from still-elevated cases of bankruptcies and early retirements among civil servants. All in, 1QFY26 ROAE of 12.6% was a decline from 14.8% in 1QFY25 (4QFY25: 8.0%).
- **Still an air of caution.** Management reiterated the need to remain cautious with disbursements amidst a tough operating environment, where cases of bankruptcies and early retirements are still at elevated levels. Indeed, financing receivables growth was a soft 1% YoY (flat QoQ) – tracking below our initial estimate of +6% for FY26, which we revised down to +3%. Notably, management notes that the number of bankruptcy cases appears to have plateaued, although improvements will need to be seen before the group can turn more bullish with disbursements.
- **Slight benefits from the OPR cut.** Recall that Bank Negara Malaysia (BNM) had recently cut the OPR by 25bps. This will have a slight positive impact to interest/profit expenses on RCE's revolving credits, which form c.30% of the group's financing liabilities base. We estimate the interest/profit expense savings to amount to c.MYR2m pa – not too significant. More materially, RCE is planning a new *sukuk* tranche issuance to capitalise on the favourable bond yield movements of late – while the tranche amount and profit rate are undisclosed at this juncture, we think this could allow the group to more significantly lower its overall cost of funds over a longer period.
- **We slash our FY26-28 estimates by 15%, 12%, and 10%** as we factor in softer receivables growth and higher credit cost assumptions. Our TP drops to MYR1.15 (from MYR1.25), with zero ESG premium/discount ascribed. As the share price has retreated c.16% over the past three months, we think most of the bad news have been priced in, though an unexciting earnings profile (c.4% core earnings growth in FY26F) will likely cap any potential upside for the stock. Dividend yields of more than 6% provide downside support.

Target Price (Return): MYR1.15 (4.5%)
Price (Market Cap): MYR1.10 (USD384m)
ESG score: 3.0 (out of 4)
Avg Daily Turnover (MYR/USD) 0.81m/0.19m

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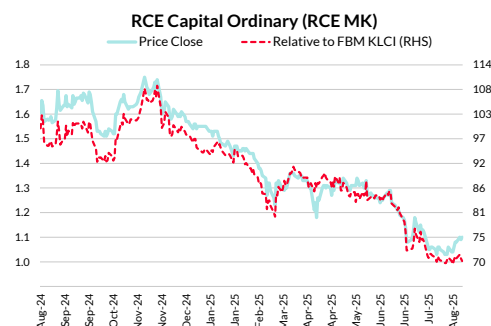


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(29.0)	(1.8)	(16.0)	(23.6)	(31.5)
Relative	(25.6)	(5.1)	(16.3)	(23.2)	(30.1)
52-wk Price low/high (MYR)				1.03	1.75



Source: Bloomberg

Forecasts and Valuation	Mar-24	Mar-25	Mar-26F	Mar-27F	Mar-28F
Reported net profit (MYRm)	139	111	129	138	146
Net profit growth (%)	(0.0)	(20.3)	16.3	7.0	6.2
Recurring net profit (MYRm)	139	124	129	138	146
Recurring EPS (MYR)	0.09	0.08	0.09	0.09	0.10
BVPS (MYR)	0.56	0.57	0.59	0.61	0.63
DPS (MYR)	0.07	0.07	0.07	0.07	0.07
Recurring P/E (x)	11.75	12.98	12.56	11.74	11.06
P/B (x)	1.96	1.92	1.88	1.82	1.75
Dividend Yield (%)	6.7	5.9	6.0	6.4	6.8
Return on average equity (%)	17.0	13.2	15.1	15.7	16.1

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

RCE's total emissions showed a marginal decline YoY in FY25, owing to the group's initiatives to improve operational efficiencies and energy use.

Emissions (tCO ₂ e)	Mar-23	Mar-24	Mar-25	Mar-26
Scope 1	23	26	28	na
Scope 2	196	191	186	na
Scope 3	-	377	369	na
Total emissions	219	594	583	na

Source: Company data, RHB

Latest ESG-Related Developments

FY25 emissions: RCE posted total Scope 1, 2 and 3 greenhouse gas emissions of 583tCO₂e in FY25, a 2% YoY decline – the savings were largely attributable to the group's internal initiatives to improve operational efficiencies and energy use.

Emphasis on employee development: RCE's employees enjoyed an average of 22 training hours per employee in FY25, a slight drop from 24 hours in FY24, 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: 14 Aug 2025

E Score: 2.7 (GOOD)

RCE's greenhouse gas emissions (on both an absolute and per employee basis) demonstrated a decrease in FY25 (Mar) underpinned by the group's proactive climate change management strategies. Other environmental indicators, including energy use and waste diverted from disposal, also showed YoY improvements.

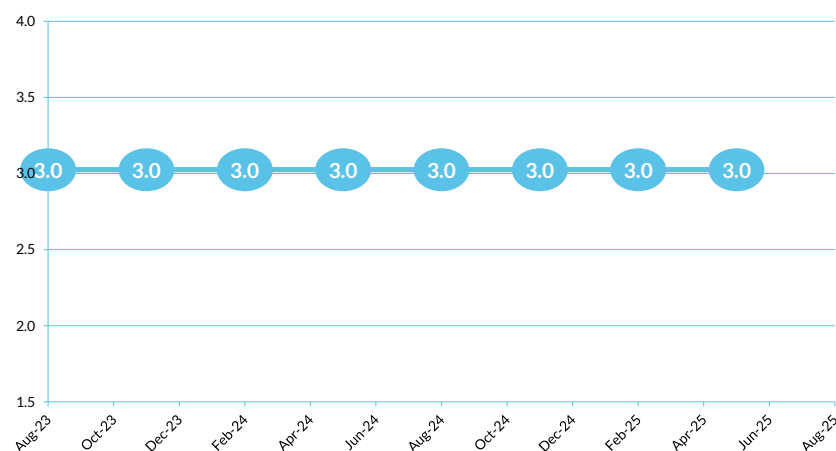
S Score: 3.0 (GOOD)

RCE places strong focus on employee development – its employees enjoyed an average of 22 training hours in FY25, a slight decline from 24 hours in FY24 due to a greater focus on on-the-job learning. The group's employee turnover rate in FY25 was a low 8% (FY24: 13%), owing partly to its competitive compensation packages (which includes an employees' share scheme for select employees).

G Score: 3.7 (EXCELLENT)

Five out of nine members of the Board of Directors are independent directors. RCE's sustainability agenda is determined by a dedicated Sustainability Management Committee, which in turn is supported by a Sustainability Working Committee.

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	0.09	0.09	0.10
Financial Services	Recurring EPS	0.09	0.08	0.09	0.09	0.10
RCE Capital	DPS	0.07	0.07	0.07	0.07	0.07
RCE MK	BVPS	0.56	0.57	0.59	0.61	0.63
Neutral						
Valuation basis	Valuation metrics	Mar-24	Mar-25	Mar-26F	Mar-27F	Mar-28F
Our GGM assumptions are:	Recurring P/E (x)	11.75	12.98	12.56	11.74	11.06
i. CoE of 10.0%;	P/B (x)	2.0	1.9	1.9	1.8	1.8
ii. ROE of 15.8%; and	Dividend Yield (%)	6.7	5.9	6.0	6.4	6.8
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	298	310	326
i. Growth in receivables;	Interest expense	(99)	(101)	(105)	(115)	(121)
ii. Impairment allowances; and	Net interest income	192	192	193	196	205
iii. Financing margins.	Non interest income	89	76	81	92	99
	Total operating income	281	267	274	287	304
	Overheads	(66)	(64)	(68)	(71)	(74)
	Pre-provision operating profit	215	203	206	217	230
	Loan impairment allowances	(30)	(38)	(35)	(33)	(35)
	Other exceptional items		(14)			
	Pre-tax profit	185	152	171	183	195
	Taxation	(46)	(41)	(43)	(46)	(49)
	Reported net profit	139	111	129	138	146
	Recurring net profit	139	124	129	138	146
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	4.1	4.2	4.2
i. Greater-than-expected financing growth;	Return on average equity (%)	17.0	13.2	15.1	15.7	16.1
ii. Lower-than-expected credit costs; and	Return on IEAs (%)	10.1	10.3	10.6	10.6	10.7
iii. Stronger-than-expect net financing margin.	Cost of funds (%)	4.7	4.8	4.8	4.8	4.8
The converse represents downside risks.	Net interest spread (%)	5.4	5.5	5.8	5.8	5.9
	Net interest margin (%)	6.7	6.8	6.9	6.7	6.7
	Non-interest income / total income (%)	31.6	28.3	29.7	32.0	32.5
	Cost to income ratio (%)	23.4	24.1	24.6	24.7	24.5
	Credit cost (bps)	147	179	165	150	150
Company Profile	Balance sheet (MYRm)	Mar-24	Mar-25	Mar-26F	Mar-27F	Mar-28F
RCE provides general financing services to civil servants – repayments are done via direct salary deductions. Its wholly-owned EXP Payment unit offers payroll collection management services for government departments under the purview of the Accountant General's Department.	Total gross loans	2,100	2,091	2,153	2,261	2,374
	Other interest earning assets	800	680	699	719	738
	Total gross IEAs	2,900	2,771	2,853	2,980	3,113
	Total provisions	(128)	(141)	(158)	(173)	(190)
	Net loans to customers	1,973	1,950	1,996	2,088	2,185
	Total net IEAs	2,772	2,631	2,695	2,807	2,923
	Total non-IEAs	223	356	547	581	622
	Total assets	2,996	2,986	3,242	3,388	3,545
	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	861	889	922
	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	192.7	201.1	210.1

Source: Company data, RHB

Results At a Glance

Figure 1: RCE – summary of 1QFY26 results

FYE Mar (MYRm)	1Q FY25	4Q FY25	1Q FY26	QoQ (%)	YoY (%)	Comments
Net profit income	46.5	51.6	47.0	(9)	1	
Profit income	72.0	76.6	71.2	(7)	(1)	QoQ decline in tandem with the slight shrinkage in the receivables book.
Profit expense	(25.6)	(24.9)	(24.2)	(3)	(5)	
Non-profit Income	15.9	25.0	16.6	(34)	4	1QFY26 saw sequentially softer disbursements off a high base in 4QFY25.
Non-profit income/Total income (%)	25.5	32.7	26.1			
Operating Income	62.4	76.7	63.5	(17)	2	
Overhead expenses	(14.2)	(34.4)	(16.7)	(51)	18	
CIR (%)	22.7	44.9	26.3			
PIOP	48.2	42.3	46.8	11	(3)	
Impairment on financing	(7.7)	(15.0)	(11.3)	(25)	46	Includes c.MYR3m one-off technical impairments, while the remaining business-as-usual (BAU) credit costs capture an unfavourable macroeconomic factors refresh
Ann. credit costs (bps)	148	290	217			
PBT	40.4	27.2	35.5	30	(12)	
Taxation	(10.1)	(10.6)	(9.5)			
ETR (%)	25.0	38.9	26.8			
Net earnings	30.3	16.6	26.0	56	(14)	Forms 17%/19% of our/consensus estimates.
Other key data and ratios						
Gross financing	2,074.4	2,090.7	2,087.4	(0)	1	Guidance is for RCE to track the growth of the wider banking system (ie mid-single digit), though we think risks are tilted heavily to the downside.
Total borrowings	2,162.6	2,058.0	2,202.5	7	2	
Total assets	3,002.3	2,986.2	3,097.7	4	3	
Shareholders' funds	804.2	839.5	814.1	(3)	1	
ROAA (%)	4.0%	2.2%	3.4%			
ROAE (%)	14.8%	8.0%	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	150.4	128.6	-14.5%	0.10	0.09	-14.5%	0.08	0.07	-14.5%
2027F	156.8	137.6	-12.3%	0.11	0.09	-12.3%	0.08	0.07	-12.3%
2028F	161.7	146.1	-9.7%	0.11	0.10	-9.7%	0.08	0.07	-9.7%

Source: Company data, RHB

Valuation and TP

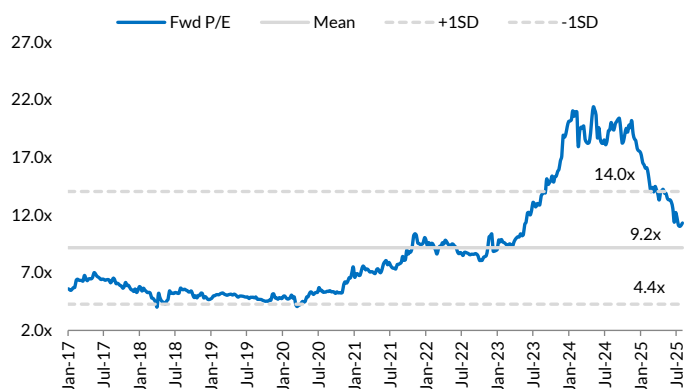
Our new TP of MYR1.15 (from MYR1.25) is based on a GGM-derived P/BV of 1.9x (previously 2.1x), below +1SD from its mean. Key changes to our GGM model inputs include: i) A lower ROE assumption of 15.8% from 17.2% in line with our earnings revisions, and ii) a rolled-forward CY26F BVPS of MYR0.60 (previously CY25F BVPS of MYR0.59).

Figure 3: GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	15.8
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)	1.87
Cost of equity - CAPM (%)	10.0	BVPS - CY26F	MYR0.60
		Intrinsic value	MYR1.13
ESG premium/(discount) (%)	0.0	ESG premium/(discount)	MYR0.00
		TP (rounded)	MYR1.15

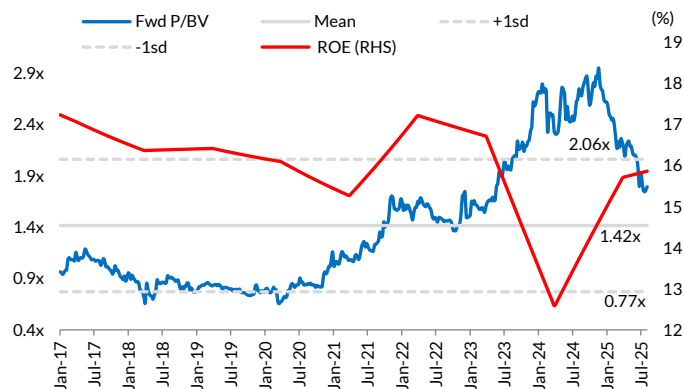
Source: Company data, RHB

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



Source: Bloomberg, RHB

Figure 5: RCE Capital's 12-month forward P/BV vs ROE



Source: Bloomberg, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2025-05-23	Neutral	1.25	1.27
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

Source: RHB, Bloomberg

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