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## **The Star: Civil service test for RCE**

By Doreenn Leong



THE fragility of Malaysia's non-bank financing industry has been laid bare, with RCE Capital Bhd's latest earnings.

Its heavy reliance on civil servants, a borrower base that has long been prized for its stability, has now become a flawed plan.

With new policy changes, rising bankruptcies, and shifting financial habits, the company faces a tougher operating environment than in years past.

The stock fell more than 5% in mid-August to RM1.04, hovering near a two-year low, after posting a 14.3% year-on-year decline in net profit to RM25.99mil for the first quarter ended June 30, 2025 (1Q26).

The miss against consensus estimates, with only 19% of expected full-year earnings delivered, was blamed on higher impairment losses that surged to RM11.32mil.

This is not unique to RCE.

Civil servants, long seen as the safest borrowers given the government's automatic payroll deduction system, are increasingly showing signs of financial strain.

Analysts point to an uptick in self-declared bankruptcies and early retirements as key risks.

Maybank Investment Bank Research analyst Samuel Yin Shao Yang notes that RCE's fortunes are closely linked to government salary and policy decisions.

“Generally, it’s sensitive because if you look at their financing book and compare it against the government’s emoluments or what the government brings every year to civil servants, that relationship is nearly perfect. Whenever the civil servants get a salary hike, then the loans will grow as well,” he tells StarBiz 7.

This sensitivity has been evident in recent quarters. After civil servants received an 8% pay hike in December 2024, loan applications surged.

But disbursements stalled as credit quality concerns forced RCE to pull back, keeping gross financing growth flat in 1Q26.

Another 7% salary adjustment is due in December 2025, which could boost demand, though lenders remain cautious.

If there is a silver lining for RCE, it lies in Bank Negara Malaysia’s (BNM) recent monetary easing. The central bank cut the overnight policy rate (OPR) by 25 basis points (bps) to 2.75% in July, with the market expecting further accommodation.

Yin sees this as a direct positive for RCE’s margins.

“I think the net interest margin (NIM) should actually expand because BNM is on an easing mode. I don’t think the NIMs are an issue.

“Their financing products, the rates are fixed whereas the cost of funds is flexible. So, if BNM is on an easing mode, then the NIMs will actually expand. The issue is more of the credit quality – right now, a lot of people are overstretched.”

RCE funds itself opportunistically through sukuk and bank borrowings. As yields fall, refinancing could lower its funding costs further.

Maybank Investment Bank Research (Maybank IB) estimates that every 25bps reduction in the cost of funds lifts RCE’s earnings by about 3%.

Asset quality — the central concern

The bigger challenge, however, is asset quality.

The non-performing financing ratio rose to a record 4.8% in 1Q26, up from 4.6% in the prior quarter.

Analysts warn that this reflects structural pressures – civil servants grappling with higher living costs, debt burdens, and in some cases, policy shifts that restrict loan repayment deductions.

CIMB Research highlighted one such policy: a state government disallowed certain allowances from being deducted via Angkasa for loan repayments, leading to partial defaults. This forced RCE to take a one-off RM3mil impairment hit.

Yin cautions that while smaller non-bank players may still chase aggressive growth, the industry-wide cooling will eventually catch up with them.

“I think it’s part of a broader cooling trend. The thing is that there might be smaller players which are not listed, which are experiencing quite good growth. But I think it will come back to bite them one day.”

The civil-servant financing space is also no longer as insulated from competition as it once was.

Microlending and buy now, pay later providers, including financial technology platforms, are nibbling at market share by offering quick, small-ticket loans.

“Yes and no,” says Yin, when asked if such players threaten RCE’s dominance.

“Yes, there’s more competition, but RCE’s forte is speed. If they’ve got all the documents ready, the civil servants can get the money in 48 hours. Other players will take about two to three weeks. This is for RCE’s loan size of about RM20,000 per borrower.”

Traditional banks, too, are showing renewed interest, although cautiously.

“They have to tread very carefully because all this personal financing to the civil servant is unsecured, there’s no collateral,” Yin adds.

#### Re-rating catalysts

With loan growth flattening and impairments rising, investors are looking for catalysts to re-rate the stock.

Yin points to two: “I would probably say the number one catalyst is the lower interest rates. And number two would probably be the salary hike.”

Both are in play over the next 12 months. Analysts expect BNM to maintain its easing stance into 2026, while the December civil service pay increase could revive loan demand.

But as Maybank IB, RHB Research and CIMB Research have all noted, earnings visibility remains clouded.

Forecasts have been cut across the board – Maybank slashed its target price to RM1.12, RHB to RM1.15, and CIMB to RM1 – with all three citing asset quality as the key drag.

Despite the gloom, one factor continues to anchor RCE’s stock – dividends.

With yields of around 6% annually, payouts provide some downside support even as valuations contract.

For long-term investors, they will want to wait for asset quality to stabilise, margins to expand from lower rates, and the next round of salary hikes to flow through.

Until then, RCE’s niche strength – fast, fixed-rate loans for civil servants – is being tested as never before by policy shifts, competition and rising defaults.