

RCE Capital

1QFY27: Weaker sequential results

- RCE Capital (RCE) posted a 1QFY3/27 core net profit of RM30.4m (+17.1% YoY, -12.2% QoQ), accounting for 23% of both our and consensus estimates. We deem this broadly within expectations as we expect earnings to pick up in subsequent quarters.
- Lower impaired loan provisions YoY underpinned the decent 1QFY3/27 performance.
- No changes to our FY3/27–29F earnings forecasts. We reiterate our Hold call with an unchanged target price (TP) of RM1.18. RCE continues to offer a defensive income profile, supported by a sustainable dividend yield of ~6%.

Core net profit recovers 17.1% YoY but sequentially down 12.2% QoQ

RCE's 1QFY3/27 core net profit (CNP) came in at RM30.4m (+17.1% YoY, -12.2% QoQ), accounting for 23% of both our and consensus FY3/27F estimates of RM132.8m and RM132m, respectively. The more robust 1QFY3/27 performance was driven by sharply lower provisions (-34% YoY), which implies a decline in net credit charge (NCC) to 141.6 basis points (bps) vs. 216.7 bps in 1QFY3/26. The main letdown in the 1QFY3/27 results was flat receivables growth (+0.8% YoY). Nonetheless, we expect receivables growth momentum to pick up following implementation of improved credit control and better fraud prevention measures.

On a sequential basis, CNP dipped 12.2% QoQ as provisions edged up by RM2.7m (+55.3% QoQ), implying a larger annualised NCC expansion of 50 bps QoQ, although receivables growth declined by 0.5% QoQ, likely reflecting a more cautious provisioning stance amid a minor uptick in the gross impaired financing ratio to 4.33% in 1QFY3/27 from 4.25% in 4QFY3/26. 1QFY3/27 net financing income also contracted marginally by 0.9% QoQ, in line with the slight 0.5% QoQ contraction in receivables growth.

FY3/27–29F earnings forecasts maintained

Although receivables growth of -0.5% QoQ has lagged our full-year forecast of +5.0% YoY, it may be too early to revise our assumptions; RCE could start pushing for stronger growth in coming quarters. At this juncture, we make no revisions to our FY3/27–29F earnings forecasts, which are premised on (i) net credit charge of 120 bps p.a., (ii) net financing margin of 9.26–9.40%, and (iii) average cost of funds of 5%. That said, we may review our forecasts should asset quality trends point to a deterioration in RCE's credit outlook.

Maintain Hold; TP unchanged at RM1.18

We reiterate our Hold rating on RCE, with our target price (TP) remaining unchanged at RM1.18, based on an FY3/27F P/BV target of 1.88x (see details in Figure 2), anchored on FY3/27F ROE of 15.0%, cost of equity of 9.35%, and terminal growth rate of 3.0%. Our P/BV multiple reflects prudent credit provisioning and reduced earnings volatility following the tightening of RCE's underwriting standards. RCE continues to offer a defensive income profile, supported by a sustainable dividend yield of ~6%, underpinned by a payout ratio of >70%. RCE is expected to maintain a manageable net debt-to-equity level of 1.5x, with funding costs remaining stable at ~5% p.a. through FY3/27–29F.

Near-term re-rating catalysts remain limited, as several structural challenges persist, including (i) concentrated borrower exposure, particularly to civil servants and the bottom-40% income group (B40) borrowers; (ii) sensitivity to macroeconomic slowdown and shocks (which could increase asset quality pressures despite safeguards such as salary deductions); (iii) lagging digital capabilities; and (iv) reliance on third-party payroll-deduction platforms, which exposes the group to execution risks and fraud incidents. Nonetheless, any improvement in its distribution channels and diversification beyond its traditional civil servant segment could enhance RCE's asset quality and earnings, supporting higher ROE and dividend visibility.

HOLD (no change)

Share price: Target price: ▶

RM1.06 RM1.18

Consensus: Buy: 0 Hold: 4 Reduce: 0

Stock information

Bloomberg ticker	RCE MK
Refinitiv ticker	REDI.KL
Share price (RM)	1.06
Market cap (US\$m/RMm)	380/1,556
ADTV (RMm)	0.4
Free float (%)	34.5
Upside/(downside) (%)	11.3
CIMB/consensus TP (%)	(1.7)

We continue to expect uplift to earnings uplift in FY27–29F in the absence of a non-recurring expense and a more benign credit risk outlook.

Earnings forecast

	Mar-26A	Mar-27F	Mar-28F
Core net profit (RMm)	126.6	132.8	142.0
Core EPS (sen)	8.6	9.1	9.7
Core EPS growth (%)	0.2	0.0	0.1
FD core P/E (x)	13.4	12.8	12.0
Recurring ROE (%)	14.8	14.9	15.2
P/BV (x)	1.9	1.8	1.7
DPS (sen)	6.5	6.5	6.5
Dividend yield (%)	6.1	6.1	6.1

Source: CIMB Securities

Price performance

	1M	3M	12M
Absolute (%)	0.0	(7.8)	(3.6)
Relative (%)	(2.3)	(7.1)	(13.0)

Source: Bloomberg, CIMB Securities

Research analyst(s)



Ei Leen Tan
(+60) 3 2635 0565
eileen.tan@cimb.com

Figure 1: Financial results

FYE March	1QFY27	1QFY26	YoY %	4QFY26	QoQ %	CIMB's FY27F	Comments
RM'm							
Net financing income	48.6	47.0	3.4	49.1	(0.9)	200.6	1QFY3/27 net financing income grew +3.4% YoY, reflecting a subdued receivables and loans portfolio expansion, +0.8% YoY, due to management's cautious stance.
Non-interest Income	7.4	8.6	(13.3)	9.1	(18.3)	39.8	Lower payroll collection fee income arising from changes in commercial terms of customers' arrangements.
Operating income	56.1	55.6	0.8	58.2	(3.6)	240.4	
Overhead expenses	(8.3)	(8.8)	(5.9)	(6.8)	21.9	(37.3)	
Pre-provision profit	47.8	46.8	2.1	51.4	(7.0)	203.1	
Allowance for ECLs	(7.5)	(11.3)	(34.1)	(4.8)	55.3	(26.0)	1QFY3/27 provisions declined 34% YoY, but rose 55.3% QoQ. 1QFY3/27 NCC stood at 141.6 bps (above our full year assumption of 120 bps).
Other impairments	0.0	0.0	n.m.	0.0	n.m.	0.0	
Profit after	40.3	35.5	13.6	46.6	(13.4)	177.1	
Pre-tax profit	40.3	35.5	13.6	46.6	(13.4)	177.1	
Net profit	30.4	26.0	17.1	34.7	(12.2)	132.8	1QFY3/27 accounted for 23% of our and consensus full year estimates.
Core Net profit	30.4	26.0	17.1	34.7	(12.2)	132.8	
Core EPS (sen)	2.1	1.8	17.1	2.4	(12.2)	9.1	
DPS (sen)	-	-	n.m.	3.5	n.m.	6.5	No dividends in 1QFY3/27.
Net yield (%)	-	-	n.m.	3.5	n.m.	6.1	

Source: CIMB Securities estimates

Figure 2: RCE Capital — Gordon growth model-derived TP maintained at RM1.18

Valuation Assumptions:	FY27F	Key rationale
ROE	15.0%	Based on sustainable ROE of 15.0%.
Beta	1.0	
Cost of Equity (CoE)	9.3%	Based on RFR of 4.0% and risk premium of 5.6%.
Risk-free rate (RFR)	4.0%	Maintained.
Risk premium	5.50%	
Terminal growth (g)	3.0%	Terminal growth of 3% reflects maturity of Malaysia's household financing market and impact of cyclical headwinds.
Gordon Growth Model:		
$\frac{ROE - g}{CoE - g}$ P/BV multiple (x) =	1.89	
BVPS (RM)	0.62	
Target Price (RM)	1.18	
Upside/(Downside)	11.5%	

Source: CIMB Securities estimates

Financial Information

Figure 3: Profit and Loss

	Mar-25A	Mar-26A	Mar-27F	Mar-28F	Mar-29F
Interest income	292	287	302	317	332
Interest expense	(100)	(94)	(101)	(103)	(108)
Net interest income	192	193	201	214	225
Non-interest income	39	36	40	42	42
Operating income	231	230	240	256	267
Staff costs	(34)	(34)	(37)	(39)	(41)
Other (expenses)/income	(13)	1	0	0	0
Pre-provision expenses	(47)	(33)	(37)	(39)	(41)
Pre-Provision Profit	184	196	203	217	226
ECL allowance on receivables	(19)	(24)	(26)	(27)	(29)
Other impairments	(19)	0	0	0	0
Share of associate profit/(loss)	0	0	0	0	0
Pretax Profit	147	172	177	189	197
Income tax expense	(41)	(45)	(44)	(47)	(49)
Minority interest	0	0	0	0	0
Net profit	106	127	133	142	148
Core net profit	106	127	133	142	148

Source: CIMB Securities, Company

Figure 4: Key Ratios

	Mar-25A	Mar-26A	Mar-27F	Mar-28F	Mar-29F
ROA (%)	3.5	4.2	4.4	4.6	4.6
ROE (%)	12.2	14.8	14.9	15.2	15.1
Net financing margin (%)	9.2	9.2	9.3	9.4	9.4
Net interest income/Operating income	83.0	84.3	83.4	83.7	84.2
NOII/Operating income	17.0	15.7	16.6	16.3	15.8
Pre-provision CIR (%)	20.5	14.4	15.5	15.3	15.4
Post-provision CIR (%)	28.5	25.0	26.3	26.0	26.2
Gross impaired financing ratio (%)	4.6	4.3	4.5	4.5	4.5
Financing loss coverage (%)	147.3	151.9	144.4	144.4	146.7
Net credit charge (bps)	88.4	115.8	120.0	120.0	120.0
Net debt-to-equity ratio (x)	1.5	1.5	1.5	1.5	1.5
Interest coverage ratio (x)	330.6	345.0	338.3	349.6	348.5
Capital adequacy ratio (CAR) (%)	40.1	41.4	41.9	42.0	42.1
Dividend payout ratio	90.3	75.3	71.8	67.1	64.4

Source: CIMB Securities, Company

Financial Information

Figure 5: Balance Sheet

(RMm)	Mar-25A	Mar-26A	Mar-27F	Mar-28F	Mar-29F
Plant and equipment	7	9	9	9	9
Goodwill and intangible assets	50	68	68	68	68
Investments in JVs/Associates	0	0	0	0	0
Net Receivables	1,950	1,977	2,075	2,179	2,296
Other investments	0	0	0	0	0
Deferred tax assets	91	94	96	99	102
Trade and other receivables	120	92	92	95	97
Deposits pledged to financial institutions	626	681	630	635	640
Cash and bank balances	142	82	13	47	73
Total Assets	2,986	3,004	2,984	3,132	3,286
Borrowings and financing liabilities	2,058	2,036	2,000	2,100	2,200
Payables, accruals and others	35	38	39	40	41
Lease liabilities	1	3	1	1	1
Deferred tax liabilities	46	50	30	30	30
Tax liabilities	6	7	6	6	6
Total liabilities	2,147	2,133	2,076	2,177	2,278
Share capital	205	205	205	205	205
Reserves	635	666	703	750	803
Shareholders' funds	840	871	908	955	1,008
Minority interest	0	0	0	0	0
Total equity and liabilities	2,986	3,004	2,984	3,132	3,286

Source: CIMB Securities, Company

Figure 6: Key Drivers

	Mar-25A	Mar-26A	Mar-27F	Mar-28F	Mar-29F
Gross receivables (RMm)	2,090.7	2,113.8	2,219.5	2,330.4	2,458.6
Gross yield on receivables (%)	14.0	13.7	13.9	13.9	13.9
Cost-of-funds (%)	4.8	4.6	5.0	5.0	5.0
Gross receivables growth (%)	(0.5)	1.1	5.0	5.0	5.5
Net interest income growth (%)	(0.1)	0.7	3.7	6.7	5.1
Non-interest income growth (%)	(22.8)	(8.2)	10.3	5.0	1.0
Operating Income growth (%)	(4.9)	(0.8)	4.7	6.4	4.4
PPOP growth (%)	(14.4)	6.7	3.4	6.7	4.3
Profit before tax growth (%)	(20.7)	17.4	2.9	6.9	4.1
Net profit growth (%)	(23.9)	19.9	4.9	6.9	4.1

Source: CIMB Securities, Company

DISCLAIMER

The content of this report (including the views, opinions and recommendations expressed and the information contained in this report) has been prepared by and belongs to CIMB Securities Sdn Bhd ("CIMB Securities").

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.

By accepting this report, you represent and warrant that you are entitled to receive this report in accordance with the restrictions set forth below and agree to be bound by the limitations contained herein. Any failure to comply with these limitations may constitute a violation of law. This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person, in whole or in part, without the prior written consent of CIMB Securities.

This report is general in nature and has been prepared for information purposes only and does not have regard to the specific investment objectives, financial situation and particular needs of any specific person who may receive this report. CIMB Securities does not act as a financial adviser, consultant, or fiduciary to you or any of your agents with respect to any information provided in this report.

The information, views, opinions or recommendations in this report are not and should not be construed or considered as an offer, or solicitation to buy or sell, or an invitation to subscribe for, the securities of the company(ies), related investments or other financial instruments or any derivative instrument, or any rights pertaining thereto.

You are advised to make your own independent evaluation of the information contained in this report, consider your own individual investment objectives, financial situation and particular needs and consult your own professional and financial advisers as to the legal, business, financial, tax and other aspects before participating in any transaction in respect of the securities of company(ies) covered in this report. The securities of the company(ies) may not be eligible for subscription or sale in all jurisdictions or to all categories of investors.

CIMB Securities may or may not issue regular reports on the subject matter of this report at any frequency and may cease to do so or change the periodicity of reports at any time. CIMB Securities has no obligation to update this report to include any omission or in the event of a change (whether material or not) to the information contained in this report.

This report does not purport to contain all the information that a prospective investor may require. CIMB Securities has no and will not accept any obligation to (i) check or ensure that the contents of this report are current, reliable or relevant; or (ii) ensure that the contents of this report constitute all the information a prospective investor may require. CIMB and its affiliates, related and associate corporations do not make any guarantee, representation or warranty, express or implied, as to the adequacy, accuracy, completeness, reliability or fairness of any views, opinions, recommendations and information contained in this report. Accordingly, CIMB Securities and its affiliates, related and associate corporations (and their respective directors, connected persons, officers and/or employees) shall not be liable in any manner whatsoever for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any reliance thereon or usage of this report. In particular, CIMB Securities disclaims all responsibility and liability for the views, opinions and recommendations set out in this report.

Unless otherwise specified, this report is based upon sources or data which the analyst(s) considered to be reasonable, correct and reliable at the time of issue of this report. Such sources or data will, unless otherwise specified, for market data, be market data and prices available from the market, information aggregation service providers or stock exchange where the relevant security is listed, or, where appropriate, any other commonly accepted sources. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from his/her research.

Whilst the analyst(s) have made every effort to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered by the analyst(s) to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment.

This report may contain information obtained from third party content providers. Reproduction and distribution of third-party contents in any form is prohibited except with the prior written consent of the related third-party content provider.

Third party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such contents. Third party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their contents.

CIMB Securities and its affiliates, related and associate corporations (and their respective directors, connected persons, officers and/or employees) may own or have positions in securities of the company(ies) covered in this report or any securities related to it, and may from time to time add to or dispose of, or may be materially interested in, any such securities. Further, CIMB Securities and its affiliates, related and associate corporations do and seek to do business with the company(ies) covered in this report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell them to or buy them from clients (for its own account or the account of its clients) and may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) as well as solicit investment, advisory or other services from any company(ies) mentioned in this report. In such capacities, CIMB Securities and its affiliates, related and associate corporations may engage in transactions in a manner inconsistent with any views, opinions and recommendations expressed in this report.

In reviewing this report, you should be aware that any or all of the foregoing, among other things, may give rise to actual or potential conflicts of interest. Subject to the duties of confidentiality, additional information may be available, on request, at our sole discretion.

RATING GUIDE

Stock Rating	Definition
Buy	The stock's total return is expected to exceed 10% over the next twelve (12) months.
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.
	<i>Note: The total expected return of a stock is defined as the sum of:</i> <i>(a) the percentage difference between the target price and the current price; and</i> <i>(b) the forward net dividend yields of the stock. Stock price targets have an investment horizon of twelve (12) months.</i>
Sector Rating	Definition
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

DISCLOSURE OF CONFLICTS OF INTEREST

Disclosure by CIMB Securities

CIMB Securities hereby declares that:

- (a) CIMB Securities, CIMB Investment Bank Berhad and/or CIMB Bank Berhad has/have proprietary positions in the following securities of the company(ies) mentioned in this report:
NIL
- (b) CIMB Securities (only in respect of its Equities Research Department) received material benefit in relation to the production of this report for the following companies mentioned in this report:
Nil

Disclosure by Analyst(s)

The analyst(s) who prepared this report declares that:

- (a) He/she received material benefit in relation to the production of this report for the following companies mentioned in this report:
Nil
- (b) He/she has/have an interest in the securities in the following company(ies) recommended in this report:
Nil
- (c) He/she serves as a director or board member of the following company(ies) mentioned in this report:
Nil

The analyst(s) responsible for the production of this report certifies that the views, opinions and recommendations expressed herein accurately and exclusively reflect his/her personal views, opinions and recommendations about any and all of the company(ies) or securities analysed in this report and were prepared independently and autonomously.

No part of the compensation of the analyst(s) was, is or will be directly or indirectly related to the inclusion of specific opinions, views or recommendations in this report. CIMB Securities prohibits the analyst(s) who prepared this report from receiving any compensation, incentive or bonus based on specific investment banking transactions or for providing a specific view, opinion or recommendation of a particular company(ies). Information barriers and other arrangements may be established, where necessary, to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/her coverage of company(ies) in the performance of his/her duties or the correlation between his/her views, opinions or recommendations and the performance of the securities of the company(ies) and may also participate in the businesses as described above.

This report is distributed or disseminated in Malaysia by CIMB Securities for the benefit of and for the use of the clients of CIMB Securities, CIMB Investment Bank Berhad and CIMB Bank Berhad. This report is also distributed or disseminated in any specific geographical area or jurisdiction by the affiliates or related corporations of CIMB Securities who are licensed in such jurisdictions, or any third-party business partner pursuant to an arrangement between CIMB Securities and such third party business partner.

Recipients of this report are to contact CIMB Securities at Level 18, Menara CIMB, Jalan Stesen Sentral 2, Kuala Lumpur Sentral, 50470 Kuala Lumpur in respect of any matters arising from or in connection with this report. CIMB Securities has no obligation to update or revise the information in or the contents of this report after the date of this report.