Maybank Investment Bank

Banks

Malaysia

RCE Capital Bhd (RCE MK)

Dividend yields too good to ignore

BUY [Prior:HOLD]

Share Price	MYR 1.06
12m Price Target	MYR 1.15 (+15%)
Previous Price Target	*MYR 1.15*

Maintain MYR1.15 TP but upgrade to BUY from HOLD

Earnings were within our expectations. Gross financing receivables growth remained tepid but asset quality and credit cost stabilised. We maintain our earnings estimates and expect unexciting 3- year forward EPS CAGR of 3.0% p.a. Yet, we upgrade RCE to BUY from HOLD as investors would be rewarded with attractive dividend yields of ≥7% p.a. while waiting for gross financing receivables growth to recover. Our MYR1.15 TP is based on an unchanged 1.9x end-CY26E P/BV.

Earnings within our expectations

1QFY3/27 net profit of MYR30.4m (+17% YoY, -12% QoQ) was in-line with our expectations at 23% of our FY estimate. No dividends were declared in 1QFY3/27 but this was expected as they are traditionally declared in 2QFY and 4QFY. 1QFY3/27 gross financing receivables eased 49bps QoQ but this was expected as demand for financing levelled off after the 7% civil service salary hike in Jan 2026.

Asset quality largely stable

1QFY3/27 NPF ratio remained relatively stable QoQ at 4.3% and below the recent 1QFY3/26 high of 4.8% in (Fig. 2) while 1QFY3/27 credit cost of MYR7.5m was also relatively well contained by historical standards (Fig. 3) thanks to moderating bankruptcies, resignations and early retirements among civil servants due to the 8% civil service salary hike in Dec 2024 and another 7% hike in Jan 2026.

Maintain earnings estimates

Our estimates are premised on gross financing receivables growth of 2.0% p.a., NPF ratio of 4.3% and credit cost of c.MYR25m p.a. Going forward, we expect quarterly net profit of MYR30m-MYR35m. Without strong financing growth, we expect RCE to record pedestrian 3-year forward EPS CAGR of 3.0% p.a. Yet, we note that RCE offers attractive dividend yields of ≥7% p.a. going forward.

FYE Mar (MYR m)	FY25A	FY26A	FY27E	FY28E	FY29E
Operating income	267	263	269	275	282
Pre-provision profit	203	196	202	208	214
Core net profit	125	127	130	134	138
Core FDEPS (MYR)	0.08	0.09	0.09	0.09	0.09
Core FDEPS growth(%)	(10.3)	1.8	0.4	2.9	2.9
Net DPS (MYR)	0.07	0.07	0.07	0.07	0.08
Core FD P/E (x)	15.7	12.2	12.3	11.9	11.6
P/BV (x)	2.3	1.8	1.7	1.7	1.6
Net dividend yield (%)	4.9	6.2	6.6	6.6	7.1
Book value (MYR)	0.57	0.59	0.61	0.63	0.65
ROAE (%)	14.9	14.8	14.7	14.7	14.6
ROAA (%)	4.2	4.2	4.3	4.3	4.3
Consensus net profit	-	-	130	136	141
MIBG vs. Consensus (%)	-	-	0.0	(1.6)	(2.1)

Company Description

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

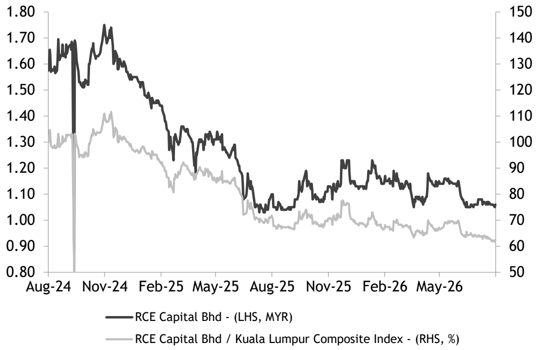
Statistics

52w high/low (MYR)	1.23/1.04
3m avg turnover (USDm)	0.1
Free float (%)	35.0
Issued shares (m)	1,501
Market capitalisation	MYR1.6B
	USD389M

Major shareholders:

Cempaka Empayar Sdn. Bhd.	58.6%
Public Mutual Bhd.	3.5%
Lembaga Tabung Haji	3.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	0	(8)	(4)
Relative to index (%)	(3)	(7)	(13)

Source: FactSet

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Figure 1: Summary Results Table

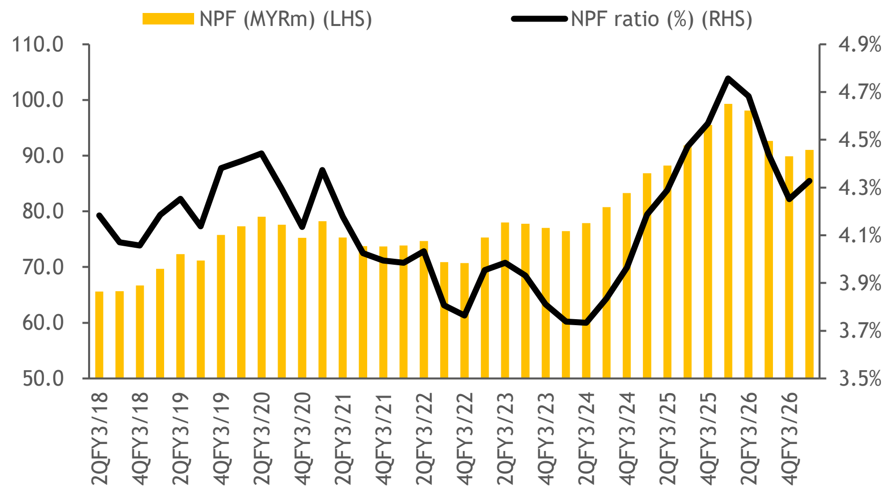
FY Mar (MYRm)	1QFY3/27	1QFY3/26	% YoY	4QFY3/26	% QoQ
Interest/profit income	70.9	71.2	*(0.4)*	70.4	*0.8*
Other revenue	7.4	8.6	*(13.3)*	9.1	*(18.3)*
Revenue	**78.4**	**79.8**	***(1.8)***	**79.5**	***(1.4)***
Other income	7.9	8.0	*(1.0)*	8.2	*(3.3)*
Interest/profit expense applicable to revenue	(22.3)	(24.2)	*(7.7)*	(21.3)	*4.6*
Directors' remuneration and staff costs	(8.6)	(7.5)	*14.6*	(8.4)	*2.4*
Allowances for impairment loss on receivables, net	(7.5)	(11.3)	*(34.1)*	(4.8)	*55.3*
Depreciation	(1.3)	(1.3)	*3.1*	(1.3)	*7.3*
Other expenses	(6.1)	(7.9)	*(22.4)*	(5.2)	*17.0*
Finance costs	(0.1)	(0.1)	*45.1*	(0.0)	*80.5*
Profit before tax	**40.3**	**35.5**	***13.6***	**46.6**	***(13.4)***
Taxation	(9.9)	(9.5)	*4.2*	(11.9)	*(17.0)*
Net profit	**30.4**	**26.0**	***17.1***	**34.7**	***(12.2)***
Core net profit	**30.4**	**26.0**	***17.1***	**34.7**	***(12.2)***
Financing & loans receivables, gross	2,103.4	2,087.4	*0.8*	2,113.8	*(0.5)*
(Allowance for impairment)	(136.6)	(144.2)	*(5.3)*	(136.5)	*0.1*
Financing & loans receivables, net	**1,966.7**	**1,943.2**	***1.2***	**1,977.3**	***(0.5)***
Tax rate (%)	24.6	26.8	*(2.2)*	25.6	*(1.1)*
Gross NPF ratio (%)	4.3	4.8	*(0.4)*	4.3	*0.1*
Financing & loans loss coverage ratio (%)	150.1	145.3	*4.9*	151.9	*(1.7)*
Net gearing (%)	152.9	162.0	*(9.1)*	146.6	*6.3*

Source: Company

Results analysis

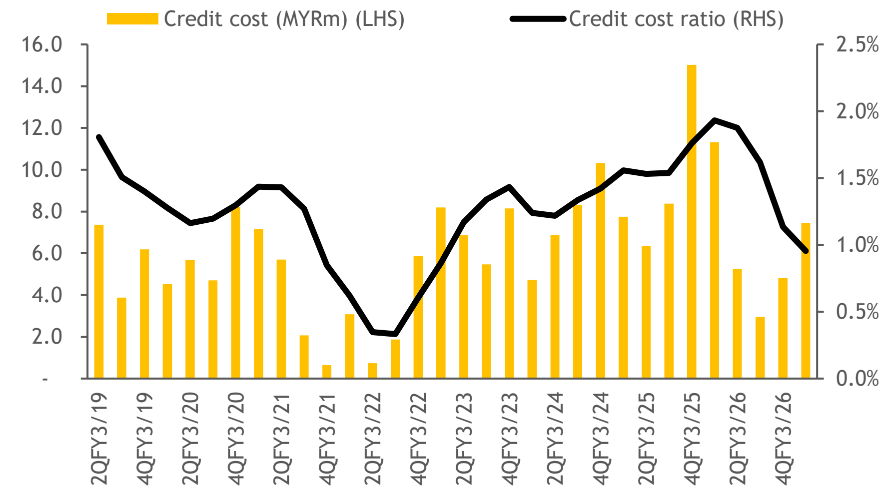
- 1QFY3/27 net profit grew 17% YoY largely due to lower credit cost YoY as its NPF ratio eased 43bps YoY.
- 1QFY3/27 net profit eased 12% QoQ largely due to higher credit cost QoQ. RCE stated that more customers passed away in the quarter than usual.

Figure 2: RCE NPF



Source: Company

Figure 3: RCE credit cost

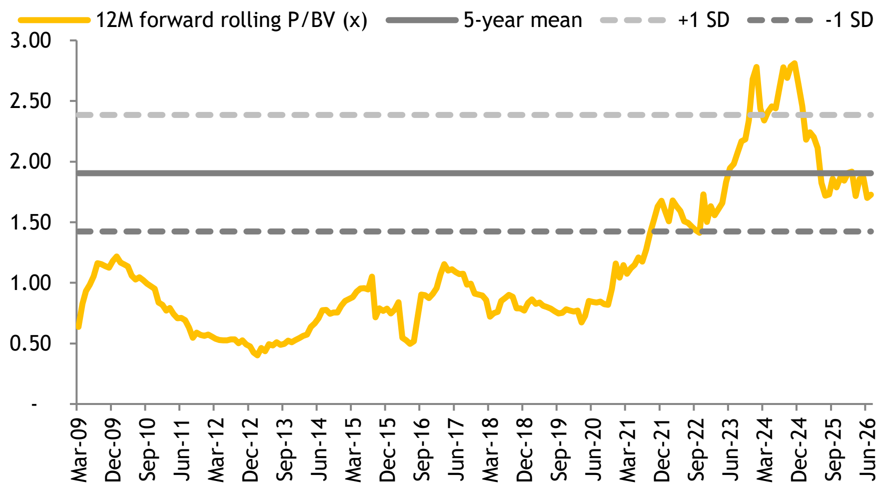


Source: Company

Valuation and recommendation

Our TP of MYR1.15 TP is based on 1.9x end-CY26E P/BV. We derive a target end-CY26E P/BV of 1.9x via the following assumptions: - (i) 2 year forward ROE of 14.9%; (ii) terminal growth rate of 2.0% as government emoluments have grown at 1.8% CAGR over the last 10 years; and (iii) 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 4: RCE rolling 12M forward P/BV (x)

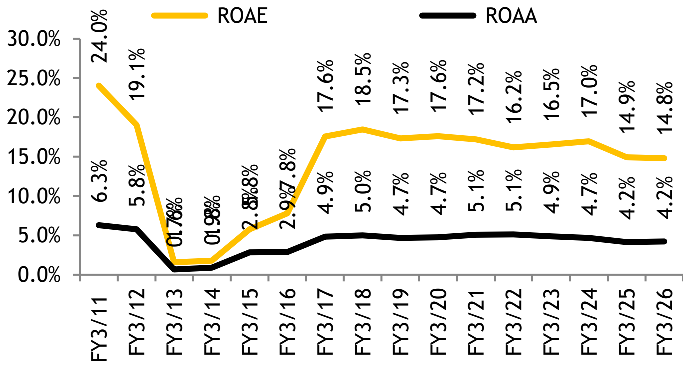


Source: Company, Maybank IBG Research, Bloomberg

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.

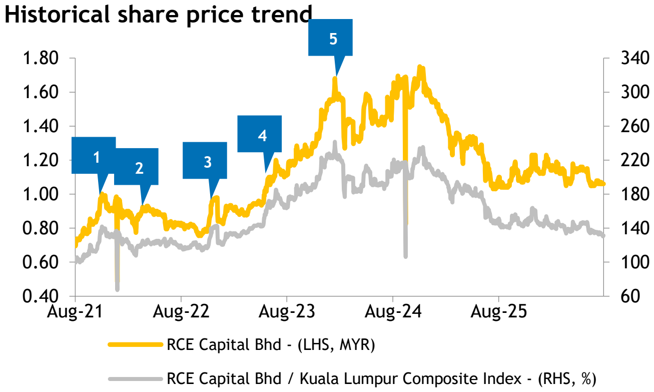
ROAE and ROAA



Source: Company

Price Drivers

Historical share price trend



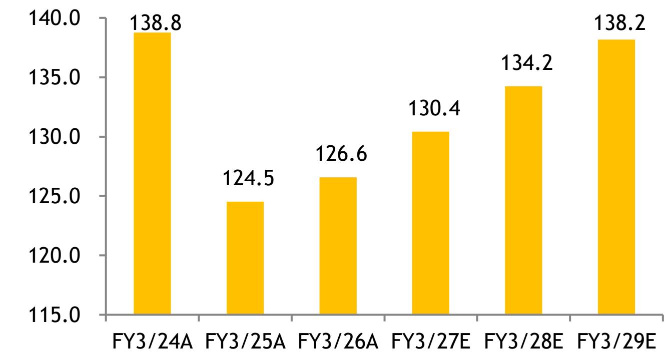
Source: Company, Maybank IBG Research

1. 2QFY21 net profit grew 21% YoY to a record high of MYR33.0m.
2. Announced share DPS of 1 treasury share for 20 shares held and bonus issue of 19 shares for 21 shares held.
3. Bank Negara Malaysia raised Overnight Policy Rate by 25bps for the first time since Jul 2020.
4. Announced a huge special DPS of 18sen and higher-than expected interim DPS of 5sen.
5. Announced that it raised its dividend policy from 20-40% DPR to 60-80% DPR.

Financial Metrics

- Introduced better credit scoring model in 2013. We forecast gross financing CAGR of 2% p.a. over the next 3 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 3-year forward core net profit CAGR of 3% p.a. Recently raised DPR policy from 20-40% to 60-80%.

Core net profit (MYRm)



Source: Company (historical), 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	FY25A	FY26A	FY27E	FY28E	FY29E
Key Metrics					
Core P/E (x)	15.7	12.2	11.9	11.6	11.2
Core FD P/E (x)	15.7	12.2	12.3	11.9	11.6
P/BV (x)	2.3	1.8	1.7	1.7	1.6
P/NTA (x)	2.5	1.9	1.9	1.8	1.7
Net dividend yield (%)	4.9	6.2	6.6	6.6	7.1
INCOME STATEMENT (MYR m)					
Islamic banking income	219.6	219.7	225.0	230.5	236.1
Other income	47.8	42.8	43.7	44.6	45.4
Total non-interest income	**267.4**	**262.5**	**268.7**	**275.0**	**281.6**
Operating income	**267.4**	**262.5**	**268.7**	**275.0**	**281.6**
Staff costs	(33.9)	(34.3)	(34.9)	(35.5)	(36.2)
Other operating expenses	(30.5)	(31.8)	(31.8)	(31.8)	(31.8)
Operating expenses	**(64.3)**	**(66.1)**	**(66.7)**	**(67.3)**	**(68.0)**
Pre-provision profit	**203.0**	**196.4**	**202.0**	**207.7**	**213.5**
Other allowances	(37.5)	(24.3)	(24.7)	(25.2)	(25.7)
Associates & JV income	0.0	0.0	0.0	0.0	0.0
Pretax profit	**146.5**	**172.1**	**177.3**	**182.5**	**187.8**
Income tax	(41.0)	(45.5)	(46.9)	(48.2)	(49.7)
Reported net profit	**105.5**	**126.6**	**130.4**	**134.2**	**138.2**
Core net profit	**124.5**	**126.6**	**130.4**	**134.2**	**138.2**
BALANCE SHEET (MYR m)					
Cash & deposits with banks	767.5	763.4	791.5	823.5	852.4
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	2,004.9	2,021.7	2,061.2	2,101.6	2,142.7
Fixed assets	4.9	4.4	4.0	3.7	3.4
Intangible assets	50.2	68.4	68.4	68.4	68.4
Other assets	158.6	146.0	146.0	146.0	146.0
Total assets	**2,986.2**	**3,003.8**	**3,071.1**	**3,143.1**	**3,212.8**
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	979.7	1,035.9	1,035.9	1,035.9	1,035.9
Other borrowings	578.9	539.6	578.9	619.0	660.3
Other liabilities	588.1	557.7	557.9	558.1	558.3
Total liabilities	**2,146.6**	**2,133.1**	**2,172.7**	**2,213.0**	**2,254.5**
Share capital	204.9	204.9	204.9	204.9	204.9
Reserves	634.6	665.8	693.6	725.2	753.5
Shareholders' funds	839.5	870.7	898.5	930.1	958.3
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	839.5	870.7	898.5	930.1	958.3
Total liabilities & equity	**2,986.2**	**3,003.8**	**3,071.1**	**3,143.1**	**3,212.8**

FYE 31 Mar	FY25A	FY26A	FY27E	FY28E	FY29E
Key Ratios					
Growth (%)					
Net interest income	na	na	na	na	na
Non-interest income	(4.8)	(1.8)	2.3	2.4	2.4
Operating expenses	(2.2)	2.8	0.8	1.0	1.0
Pre-provision profit	(5.6)	(3.3)	2.9	2.8	2.8
Core net profit	(10.3)	1.6	3.0	2.9	2.9
Gross loans	(0.5)	1.1	2.0	2.0	2.0
Customer deposits	na	na	na	na	na
Total assets	(0.3)	0.6	2.2	2.3	2.2
Profitability (%)					
Non-int. income/Total income	100.0	100.0	100.0	100.0	100.0
Cost/income	24.1	25.2	24.8	24.5	24.2
Liquidity (%)					
Loans/customer deposits	na	na	na	na	na
Asset quality (%)					
Gross NPF	4.6	4.3	4.3	4.3	4.3
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	14.9	14.8	14.7	14.7	14.6
ROAA	4.2	4.2	4.3	4.3	4.3
Shareholders equity/assets	28.1	29.0	29.3	29.6	29.8

Source: Company; Maybank IBG Research

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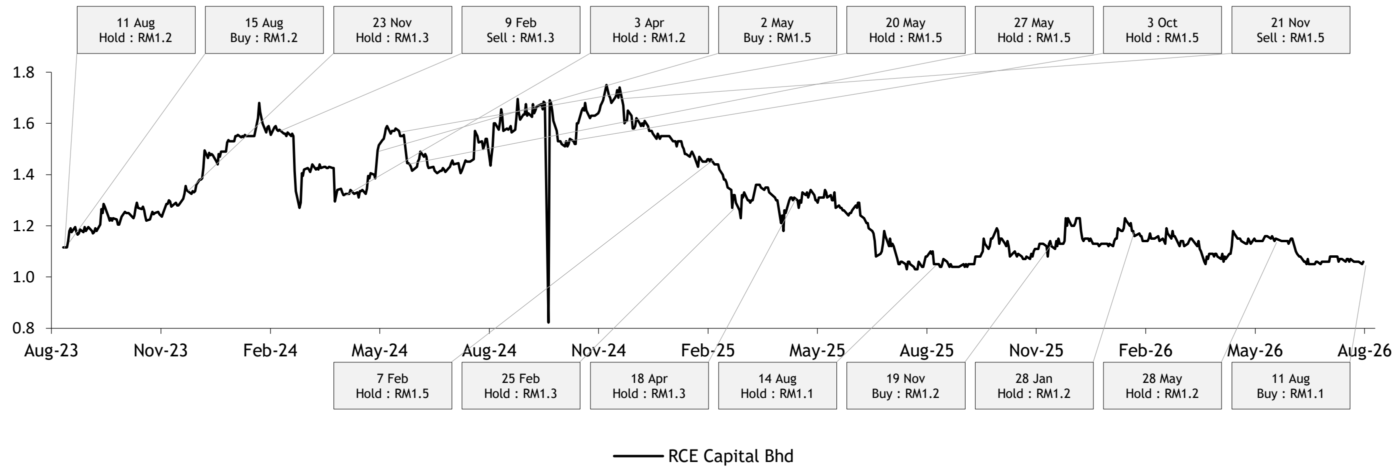

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