RCE CAPITAL BERHAD *Trading Buy*

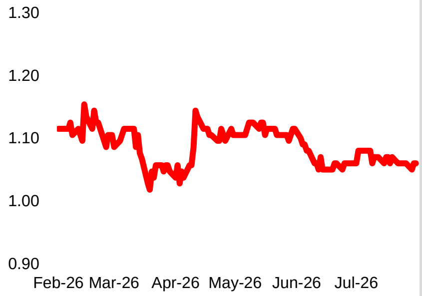
DESCRIPTION

RCE Capital is mainly involved in the general financing services to civil servants

12-month Target Price	RM1.25
Current Price	RM1.06
Expected Return	17.9%
Previous Target Price	*RM1.25*

Market	Main
Sector	Consumer Finance
Bursa Code	9296
Bloomberg Ticker	RCE MK
Shariah-compliant	Yes

SHARE PRICE CHART



52 Week Range (RM)	1.03-1.25
3-Month Average Vol ('000)	312.0

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	0.0	-4.9	-4.9
Relative Returns	-2.3	-6.0	-8.4

KEY STOCK DATA

Market Capitalisation (RMm)	1,556.1
No. of Shares (m)	1,468.0

MAJOR SHAREHOLDERS

	%
Cempaka Empayar SB	59.2
Employees Providend Fund	3.7
Lembaga Tabung Haji	3.1

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Lifted by Lower Impairments

RCE's 1QFY27 core net profit grew 16.9% YoY to RM30.4m, driven by lower financing impairments, which helped to cushion the impact from lower revenue. Financing receivables declined marginally by 0.5% QoQ to RM2.1bn. Results were in-line with expectations, accounting for 23% of our and consensus' estimates. We trim our earnings forecast to reflect bookkeeping adjustments. Following the recent share price retracement, we believe valuation has become more attractive, with RCE trading slightly below its 1-year forward average PER of 12.1x and P/BV of 1.8x. Additionally, we think that RCE continues to offer a defensive dividend profile, with an annual yeld of c.6%, underpinned by a dividend payout ratio of >70%. As such, we upgrade our call on RCE to ***Trading Buy*** from Neutral, with an unchanged DDM derived TP of RM1.25.

- **Results review.** RCE's 1QFY27 revenue declined by 1.8% YoY to RM78.4m, dragged by lower processing and administration fee income. However, net profit increased by 16.9% YoY, mainly driven by lower financing impairments and lower interest expense due to the OPR cut back in July 2025.
- **Subdued growth in financing receivables.** RCE's financing receivables declined marginally by 0.5% QoQ (+0.8% YoY) to RM2.1bn, as management remains prudent in approval standards to safeguard asset quality despite robust financing applications following civil servant salary adjustments. We continue to expect muted financing receivables growth, given the absence of further salary adjustments, intensive competition as well as weaker credit profile among new applicants.
- **Stable non-performing financing (NPF).** The weaker revenue was cushioned by the lower credit cost, with RCE's net credit cost improving by 75bps YoY to 142bps (1QFY26: 217bps). However, net credit cost increased by 51bps QoQ, due to higher early retirement and bankruptcy cases within the civil service. Meanwhile, NPF ratio held firm at 4.3% and we expect NPF ratio to remain stable given the moderating trend in resignations, self-declared bankruptcies and early retirements within the civil service.
- **Upgrade to Trading Buy**. We expect RCE's credit cost to normalise to c.RM26m in FY27F from its peak of RM38m in FY25, on the back of moderating self-declared bankruptcy and early retirements among civil servants. Meanwhile, we expect RCE's earnings growth to remain steady given the absence of further salary adjustment and weaker credit profile among new applicants. All in, we think that RCE's valuation has turned attractive following the recent retracement in share price. Hence, we upgrade our call on RCE to ***Trading Buy***, as it is currently trading slightly below its 1-year forward average PER of 12.1x and P/BV of 1.8x. Additionally, we think that RCE continues to offer a defensive dividend profile, with an annual yield of c.6%, underpinned by a dividend payout ratio of >70%.

KEY FINANCIAL SUMMARY

FYE Mar (RM'm)	**2025A**	**2026A**	**2027F**	**2028F**	**2029F**	**CAGR**
Operating Income	267.6	262.7	263.4	271.8	280.0	2.1%
Pre-provision profit	203.0	196.4	196.5	205.2	212.9	2.7%
Pre-tax profit	146.5	172.1	170.0	177.7	184.7	2.4%
Net profit	105.5	126.6	129.2	135.1	140.4	3.5%
Core net profit	124.5	126.6	129.2	135.1	140.4	3.5%
EPS (sen)	7.2	8.6	8.8	9.2	9.6	
P/E (x)	14.7	12.3	12.0	11.5	11.1	
DPS (sen)	6.5	6.5	6.2	6.4	6.7	
Dividend Yield (%)	6.1	6.1	5.8	6.1	6.3	

Source: Company, PublicInvest Research estimates

Table 1: Results Summary

FYE Mar (RM'm)	1Q27	1Q26	4Q26	YoY chg (%)	QoQ chg (%)	YTD FY27	YTD FY26	YoY chg (%)	Comments
Interest income	70.9	71.2	70.4	-0.4	0.8	70.9	71.2	-0.4	
Interest expense	-22.3	-24.2	-21.3	-7.7	4.6	-22.3	-24.2	-7.7	
Net interest income	48.6	47.0	49.1	3.4	-0.9	48.6	47.0	3.4	
Other non-profit income	15.3	16.6	17.3	-7.4	-11.2	15.3	16.6	-7.4	
Operating income	64.0	63.6	66.3	0.6	-3.6	64.0	63.6	0.6	YoY decline due to lower processing and administration fee income
Directors' remuneration and staff cost	-8.6	-7.5	-8.4	14.6	2.4	-8.6	-7.5	14.6	
Allowances for impairment loss	-7.5	-11.3	-4.8	-34.1	55.3	-7.5	-11.3	-34.1	Improvement in credit cost YoY as early retirements and bankruptcy cases continue to taper off
Impairment of goodwill on consolidation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Depreciation and amortisation	-1.3	-1.3	-1.3	3.1	7.3	-1.3	-1.3	3.1	
Other expenses	-6.1	-7.9	-5.2	-22.4	17.0	-6.1	-7.9	-22.4	
Finance cost	-0.1	0.0	0.0	>100	80.5	-0.1	0.0	>100	
Profit before tax	**40.3**	**35.5**	**46.6**	**13.5**	**-13.4**	**40.3**	**35.5**	**13.5**	
Taxation	-9.9	-9.5	-11.9	4.2	-17.0	-9.9	-9.5	4.2	
Net profit	**30.4**	**26.0**	**34.7**	**16.9**	**-12.2**	**30.4**	**26.0**	**16.9**	
Core net profit	**30.4**	**26.0**	**34.7**	**16.9**	**-12.2**	**30.4**	**26.0**	**16.9**	
Gross financing receivables (RM'm)	2103.4	2087.4	2113.8	0.8	-0.5				
Allowance for impairment (RM'm)	-136.6	-144.2	-136.5	-5.3	0.1				
Net financing receivables (RM'm)	1966.7	1943.2	1977.3	1.2	-0.5				
Gross NPF ratio (%)	4.3	4.8	4.3						NPF held firm
Total borrowings (RM'm)	2045.1	2202.5	2035.9	-7.1	0.5				

Source: Company, PublicInvest Research

KEY FINANCIAL DATA

INCOME STATEMENT DATA

FYE Mar (RM'm)	2025A	2026A	2027F	2028F	2029F
Interest income	292.4	287.2	291.5	301.6	312.2
Interest expense	-100.3	-93.7	-96.1	-99.0	-102.6
Net Interest Income	**192.0**	**193.5**	**195.4**	**202.7**	**209.6**
Non-interest income	75.5	69.2	68.0	69.2	70.4
Staff costs	-33.9	-34.3	-35.9	-36.1	-37.4
Other operating expenses	-30.5	-31.8	-30.8	-30.3	-30.5
Pre-provision profit	203.0	196.4	196.5	205.2	212.9
Allowance for impairment	-37.5	-24.3	-26.6	-27.5	-28.2
Profit Before Tax	146.5	172.1	170.0	177.7	184.7
Income tax	-41.0	-45.5	-40.8	-42.7	-44.3
Net profit	**105.5**	**126.6**	**129.2**	**135.1**	**140.4**
Core net profit	**124.5**	**126.6**	**129.2**	**135.1**	**140.4**
Growth					
Interest income (%)	0.5	-1.8	1.5	3.5	3.5
Pre-provision Profit (%)	-5.6	-3.3	0.1	4.4	3.8
Net Profit (%)	-23.9	19.9	2.1	4.6	3.9

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Mar (RM'm)	2025A	2026A	2027F	2028F	2029F
Property, Plant and Equipment	4.9	4.4	6.6	7.6	8.6
Financial Receivables	2,090.7	2,113.8	2,134.9	2,156.3	2,177.8
Cash and Deposits with Banks	767.5	763.4	849.8	931.4	1,012.0
Other Assets	123.0	122.3	112.4	111.8	115.6
Total Assets	**2,986.2**	**3,003.8**	**3,103.6**	**3,207.1**	**3,314.0**
Trade and Other Payables	34.3	37.3	37.3	37.3	37.3
Interest-bearing Debt	2,058.0	2,035.9	2,097.0	2,159.9	2,224.7
Other Liabilities	54.3	59.9	59.9	59.9	59.9
Total Liabilities	2,146.6	2,133.1	2,194.2	2,257.1	2,321.9
Shareholders' Equity and Minority	839.5	870.7	909.4	949.9	992.0
Total Equity and Liabilities	**2,986.2**	**3,003.8**	**3,103.6**	**3,207.1**	**3,314.0**

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Mar	2025A	2026A	2027F	2028F	2029F
Book Value Per Share (RM)	0.6	0.6	0.6	0.6	0.7
P/BV	1.9	1.8	1.7	1.6	1.6
EPS (Sen)	7.2	8.6	8.8	9.2	9.6
DPS (Sen)	6.5	6.5	6.2	6.4	6.7
Payout Ratio (%)	90.4	75.4	70.0	70.0	70.0
ROA (%)	3.5	4.2	4.2	4.2	4.2
ROE (%)	12.6	14.5	14.2	14.2	14.2

Source: Company, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12months.

NEUTRAL The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.

UNDERPERFORM The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.

TRADING BUY The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.

TRADING SELL The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.

NOT RATED The stock is not within regular research coverage.

SECTOR

OVERWEIGHT The sector is expected to outperform a relevant benchmark over the next 12 months.

NEUTRAL The sector is expected to perform in line with a relevant benchmark over the next 12 months.

UNDERWEIGHT The sector is expected to underperform a relevant benchmark over the next 12 months.

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