Shariah Compliant

12 August 2026

Financial Services | Banks

RCE Capital (RCE MK)

Neutral (Maintained)

Keeping a Closer Eye On Risks

Target Price (Return):	MYR1.17 (+10.3%)
Price (Market Cap):	MYR1.06 (USD390m)
ESG score:	3.0 (out of 4)
Avg. Daily Turnover (MYR/USD):	0.4m/0.1m

- **Stay NEUTRAL with new MYR1.17 TP (from MYR1.25), 10% upside and c.6% FY27F (Mar) yield.** RCE Capital's 1QFY27 results slightly missed expectations, mainly due to higher-than-expected credit costs and weaker-than-expected financing growth during the quarter. While net financing income remained resilient, management is maintaining a conservative and prudent stance amid the increasing cases of bankruptcies and early retirements observed.

- **Results review.** RCE reported 1QFY27 net profit of MYR30.4m (+17% YoY, -12% QoQ) – this formed 23% of our and consensus' full-year PATMI forecasts. Operating income was up 1% YoY (-4% QoQ), as higher NII (+3.4% YoY) – driven by lower interest expense – more than offset the 7.4% YoY decline in non-II. This was mainly due to lower processing and administration of payroll collection fee income following changes in accounting classification – though this was fully netted off by lower-related opex, resulting in no impact on net profit. 1QFY27 ROE stood at 14.2%, representing a 1.6-ppt increase from 12.6% in the comparative period.

- **Results highlights.** The YoY improvement was primarily attributable to the absence of the c.MYR3m one-off technical impairment recognised in 1QFY26, without which, underlying YoY performance is estimated to be slightly softer at a modest 5% increase. On a QoQ basis, asset quality faced headwinds as management recorded a higher impairment charge (up 55% QoQ) driven by more conservative provisioning in response to rising early retirements, health-related cases from diseases, and elevated bankruptcy rates. The higher provisioning escalated credit costs to 142bps compared to 91bps in 4QFY26, though it still marks an improvement from the 217bps recorded in 1QFY26. Overall, management maintained a more selective financing disbursement strategy, due to which, we are expecting financing growth to remain soft in the near term.

- **We trim our FY27F-29F earnings by 5%, 7%, and 7% each** to account for higher credit cost assumptions on the back of the early retirements and rising external risks observed during the quarter, alongside our lower financing growth assumption. We lower our TP to MYR1.17, and incorporate an unchanged 0% ESG premium/discount as RCE's ESG score is on par with the country median.

- **Key downside risks include:** i) Softer-than-expected financing growth, ii), higher-than-expected credit costs, and ii) lower-than-expected net financing margins. The converse represents the upside risks.

Analysts

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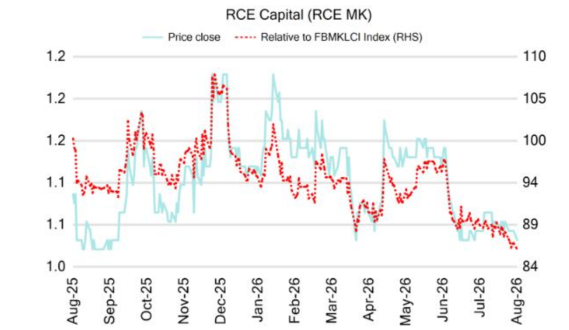
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(6.3)	(0.9)	(7.1)	(7.9)	(2.8)
Relative	(9.5)	(3.5)	(6.4)	(7.2)	(14.2)
52-wk Price low/high					1.04–1.23



Source: Bloomberg

Forecasts and Valuation	Mar-25	Mar-26	Mar-27F	Mar-28F	Mar-29F
Reported net profit (MYRm)	106	127	128	134	138
Net profit growth (%)	23.9	19.9	1.5	4.5	3.0
Recurring net profit (MYRm)	119	127	128	134	138
Recurring EPS (MYR)	0.07	0.09	0.09	0.09	0.09
BVPS (MYR)	0.57	0.59	0.60	0.62	0.64
DPS (MYR)	0.07	0.07	0.07	0.07	0.07
Recurring P/E (x)	14.74	12.29	12.11	11.59	11.26
P/B (x)	1.85	1.79	1.76	1.70	1.64
Dividend Yield (%)	6.1	6.1	6.2	6.5	6.7
Return on average equity (%)	12.6	14.8	14.6	14.9	14.8

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

Emissions And ESG

Trend analysis

RCE's total emissions increased by 9% YoY in FY26, due to an increase in headcount during the year. The total operational emissions (Scope 1 & 2) declined marginally by 2% YoY.

Emissions (tCO2e)	Mar 23	Mar-24	Mar-25	Mar-26
Scope 1	22.50	26.20	28.10	24.80
Scope 2	196.40	191.30	186.10	185.40
Scope 3	0.00	376.98	368.98	425.76
Total emissions	218.90	594.48	583.18	635.96

Source: Company data, RHB

Latest ESG-Related Developments

FY26 emissions: RCE posted total Scope 1 and Scope 2 greenhouse gas emissions of 210.2tCO2e in FY26, a 2% YoY decline. The savings were largely attributable to its continuous operational controls and energy management practices.

Emphasis on employee development: RCE's commitment to empowering human capital resulted in a total of 5,587.7 training hours clocked by its workforce in FY26, highlighting a solid 18.5% increase from the 4,714.3 total training hours recorded in FY25.

ESG Unbundled

Overall ESG Score: 3.0 (out of 4)

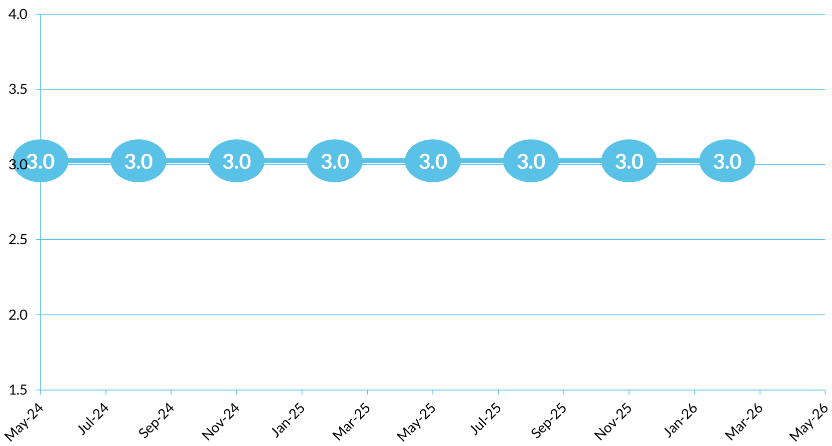
Last Updated: 03-Aug-2026

E Score: 2.7 (GOOD)
RCE's greenhouse gas emissions (on both an absolute and per employee basis) demonstrated an increase in FY26 (Mar), mainly attributed to the increase in headcount which reflected changes in commuting patterns.

S Score: 3.0 (GOOD)
RCE places strong focus on employee development. Its employees enjoyed an average of 24 training hours in FY26, up from 22 hours in FY25 due to a higher number of employees involved in targeted capability-building initiatives and greater focus on on-the-job learning. The group's employee turnover rate in FY26 was at 13% (FY25: 8%), owing partly to its competitive job market conditions, evolving employee expectations, and personal circumstances.

G Score: 3.7 (EXCELLENT)
Four out of seven 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
Malaysia
Financial Services
RCE Capital
RCE MK
Neutral

Valuation basis

Our GGM assumptions are:
i. CoE of 9.6%;
ii. ROE of 15.2%; and
iii. 3.5% long-term growth rate.

Key drivers

Our FY27F forecasts are most sensitive to changes in:
i. Growth in receivables;
ii. Impairment allowances;
iii. Financing margins.

Key risks

The upside risks include:
i. Greater-than-expected financing growth;
ii. Lower-than-expected credit costs; and
iii. Stronger-than-expect net financing margin.

The converse represents downside risks.

Company profile

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.

Financial summary (MYR)	Mar-25	Mar-26	Mar-27F	Mar-28F	Mar-29F
EPS	0.07	0.09	0.09	0.10	0.10
Recurring EPS	0.08	0.09	0.09	0.10	0.10
DPS	0.06	0.06	0.07	0.07	0.08
BVPS	0.57	0.59	0.61	0.63	0.65

Valuation metrics	Mar-25	Mar-26	Mar-27F	Mar-28F	Mar-29F
Recurring P/E (x)	14.74	12.29	12.11	11.59	11.26
P/B (x)	1.9	1.8	1.8	1.7	1.6
Dividend Yield (%)	6.1	6.1	6.2	6.5	6.7

Income statement (MYRm)	Mar-25	Mar-26	Mar-27F	Mar-28F	Mar-29F
Interest income	292	287	293	303	316
Interest expense	(101)	(94)	(96)	(100)	(106)
Net interest income	192	193	198	203	211
Non interest income	76	69	79	85	86
Total operating income	267	263	277	288	297
Overheads	(83)	(66)	(72)	(77)	(82)
Pre-provision operating profit	184	196	205	211	215
Loan impairment allowances	(38)	(24)	(30)	(29)	(28)
Other exceptional items	(19)	0	0	0	0
Pre-tax profit	147	172	175	182	188
Taxation	(41)	(45)	(46)	(48)	(50)
Reported net profit	106	127	128	134	138
Recurring net profit	119	127	128	134	138

Profitability ratios (MYRm)	Mar-25	Mar-26	Mar-27F	Mar-28F	Mar-29F
Return on average assets (%)	3.5	4.2	4.2	4.3	4.2
Return on average equity (%)	12.6	14.8	14.6	14.9	14.8
Return on IEAs (%)	10.4	10.3	10.4	10.4	10.5
Cost of funds (%)	4.8	4.6	4.6	4.6	4.6
Net interest spread (%)	5.6	5.7	5.8	5.8	5.9
Net interest margin (%)	6.8	6.9	7.0	7.0	7.0
Non-interest income / total income	28.3	26.4	28.5	29.5	29.0
Cost to income ratio (%)	24.1	25.2	26.0	26.6	27.4
Credit cost (bps)	179	116	140	130	120

Balance sheet (MYRm)	Mar-25	Mar-26	Mar-27F	Mar-28F	Mar-29F
Total gross loans	2,091	2,114	2,177	2,242	2,355
Other interest earning assets	680	726	746	767	789
Total gross IEAs	2,771	2,839	2,923	3,010	3,143
Total provisions	(141)	(136)	(149)	(159)	(169)
Net loans to customers	1,950	1,977	2,029	2,083	2,186
Total net IEAs	2,631	2,703	2,775	2,850	2,975
Total non-IEAs	356	301	297	359	378
Total assets	2,986	3,004	3,072	3,210	3,353
Other interest-bearing liabilities	2,058	2,036	2,138	2,245	2,357
Total IBLs	2,058	2,036	2,138	2,245	2,357
Total non-IBLs	89	97	48	49	49
Total liabilities	2,147	2,133	2,186	2,293	2,406
Share capital	205	205	202	202	202
Shareholders' equity	840	871	887	916	946

Assets quality and capital	Mar-25	Mar-26	Mar-27F	Mar-28F	Mar-29F
Reported NPLs / gross cust loans (%)	4.6	4.3	3.8	3.8	3.8
Total provisions / reported NPLs (%)	147.2	151.9	179.5	186.9	188.7

Source: Company data, RHB

Results At a Glance

Figure 1: Summary of 1QFY27 results

FYE Mar (MYRm)	1Q FY26	4Q FY26	1Q FY27	QoQ (%)	YoY (%)	Comments
Net financing income	**47.0**	**49.0**	**48.5**	***(1)***	***3***	
Financing income	71.2	70.4	70.9	*1*	*(0)*	
Financing expense	(24.2)	(21.4)	(22.4)	*5*	*(8)*	
Non-financing income	**16.6**	**17.3**	**15.3**	***(11)***	***(7)***	YoY decline was mainly driven by lower processing and administration of payroll collection fee income arising from changes in accounting classification.
Non-FI/Total income (%)	*26.1*	*26.1*	*24.0*			
Operating Income	**63.5**	**66.3**	**63.9**	*(4)*	*1*	
Overhead expenses	(16.7)	(14.9)	(16.1)	*8*	*(4)*	YoY decline, mainly reflecting lower expenses associated with the change in accounting classification of payroll collection fees.
CIR (%)	*26.3*	*22.5*	*25.2*			
PIOP	**46.8**	**51.4**	**47.8**	***(7)***	***2***	
Impairment allowances on financing	(11.3)	(4.8)	(7.5)	*55*	*(34)*	1QFY26 included c.MYR3m in one-off technical impairments. QoQ increase due to rising early retirements, health-related cases, and bankruptcy rates.
Ann. credit costs (bps)	*217*	*91*	*142*			
PBT	**35.5**	**46.6**	**40.3**	***(13)***	***14***	
Taxation	(9.5)	(11.9)	(9.9)			
ETR (%)	*26.8*	*25.6*	*24.6*			
Net Profit	**26.0**	**34.7**	**30.4**	*(12)*	*17*	Formed 23% of our and consensus' forecasts.
<u>Other key data and ratios</u>						
Gross financing	2,087.4	2,113.8	2,103.4	*(0)*	*1*	Financing growth continued to lag management's usual mid-single-digit target.
Total borrowings	2,202.5	2,035.9	2,045.1	*0*	*(7)*	
Total assets	3,097.7	3,000.2	2,986.1	*(1)*	*(4)*	
Shareholders' funds	814.1	870.7	847.8	*(3)*	*4*	
ROAA (%)	3.4%	4.6%	4.1%			
ROAE (%)	12.6%	16.2%	14.2%			

Source: Company data, RHB

Earnings forecasts

We cut our FY27F-29F PATMI growth by 5%, 7%, and 7% to factor in:

i. Higher credit cost assumptions of 140bps, 130bps, and 120bps from 110bps, driven by rising early retirements and external factors (ie diseases and bankruptcy rates) during the quarter;

ii. Softer financing growth, reflecting management's more cautious approach towards financing disbursements.

Figure 2: Revisions to earnings forecasts

	Net profit (MYRm)			EPS (MYR)			DPS (MYR)		
FYE Mar	Previous	Revised	% Chg	Previous	Revised	% Chg	Previous	Revised	% Chg
2027F	135.2	128.5	-5.0%	0.09	0.09	-5.0%	0.07	0.07	-5.0%
2028F	143.5	134.2	-6.5%	0.10	0.09	-6.5%	0.07	0.07	-6.5%
2029F	148.2	138.2	-6.8%	0.10	0.09	-6.8%	0.08	0.07	-6.8%

Source: Company data, RHB

Valuation and TP

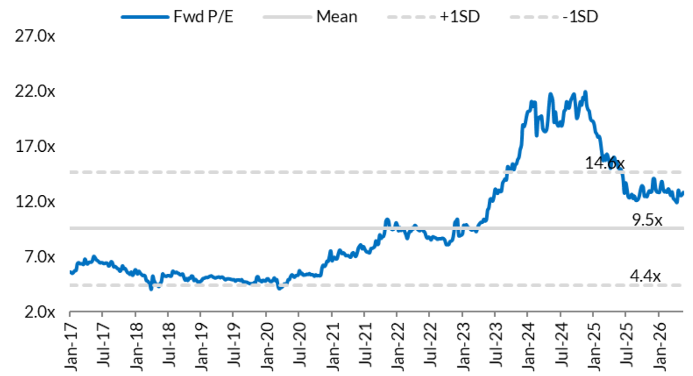
Our TP has been revised to MYR1.17 from MYR1.25 due to a marginal downward adjustment to our ROE assumptions to 15.2% from 15.3%, alongside a higher equity risk premium of 5.8% from 5.5%, reflecting the changes to our earnings forecasts and tougher operating environment. Consequently, our GGM-derived P/BV has been revised to 1.93x (from 2.05x) leading to an updated intrinsic value of MYR1.17 (MYR1.24 previously).

Figure 3: GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	15.2
Risk free rate (%)	3.8	COE (%)	9.6
Equity premium (%)	5.8	Long-term growth (g)	3.5
Beta (x)	1.0	Implied P/BV (x)	1.93
Cost of equity - CAPM (%)	9.6	BVPS - CY25F	MYR0.60
		Intrinsic value	MYR1.17
ESG premium/(discount) (%)	0.0	ESG premium/(discount)	MYR0.00
		TP (rounded)	**MYR1.17**

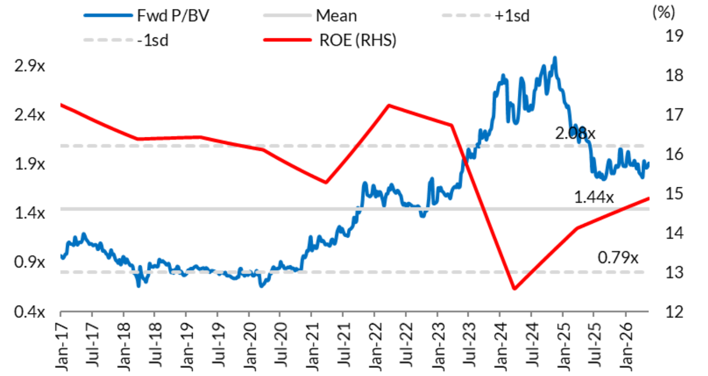
Source: Company data, RHB

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



Source: Bloomberg, RHB

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



Source: Bloomberg, RHB

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2026-05-28	Neutral	1.25	1.14
2025-11-19	Neutral	1.10	1.13
2025-08-14	Neutral	1.15	1.05
2025-05-23	Neutral	1.25	1.27
2025-02-25	Neutral	1.25	1.27
2024-11-21	Sell	1.25	1.70
2024-05-27	Sell	2.40	1.45
2024-02-08	Sell	2.40	1.57
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
2022-08-12	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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Take Profit:	Target price has been attained. Look to accumulate at lower levels
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Not Rated:	Stock is not within regular research coverage

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