HIGHEST RETURNS TO SHAREHOLDERS OVER THREE YEARS

FINANCIAL SERVICES (BELOW RM10 BIL MARKET CAPITALISATION)

RCE Capital Bhd

1 BRC AWARD OVER THE YEARS

Committed to growing quality financing, eyes digital expansion

BY KAMARUL AZHAR

Being one of the few financial institutions that focus on the civil servants' market, RCE Capital Bhd is seen as a financial institution with stable income, even at the peak of the Covid-19 pandemic.

As it is not the practice of the government to lay off its workers even during the worst of times, RCE Capital's prospects remain bright. Recognising this, investors ploughed money into its securities between March 30, 2019, and March 31, 2022.

During the review period for this year's *The Edge* Billion Ringgit Club (BRC), RCE Capital registered a three-year compound annual growth rate (CAGR) of 38.9% on its shareholders' return, based on its adjusted share price that more than doubled to RM1.85 as at March 31, 2022, from 69 sen per share on March 29, 2019. The stellar three-year return bagged RCE Capital its first BRC award as the company with the highest returns to shareholders over three years in the financial services sector (with market capitalisation of below RM10 billion).

In the financial year ended March 31, 2022 (FY2022), RCE Capital's profit before tax (PBT) rose to RM177.2 million, up 6% year on year from RM167.2 million. Meanwhile, its FY2022 profit after tax (PAT) increased 6.8% y-o-y to RM133.2 million.

The commendable results in FY2022 came on the back of its efforts to manage its expenses and funding costs. During the year, the group's profit expense remained at a manageable level of RM80.2 million, compared with RM80.4 million in FY2021.

Despite the challenging economic condition in FY2022, RCE Capital recorded 2.0% y-o-y growth in revenue, from RM293.5 million to RM299.5 million. The growth was primarily contributed by higher early settlement and fee income arising from increased refinancing activities. As at March 31, 2022, its financing receivables stood at RM1.88 billion, up 1.8% y-o-y from RM1.85 billion.

According to RCE Capital, the group monitors its funding costs to complement product development pricing through efforts in sourcing for cheaper financing, while maintaining adequate liquidity for business needs at all times.

"Following this, the group managed to reduce its weighted average profit rate of financing liabilities by 12 basis points in FY2022," says RCE Capital in its FY2022 annual report.

Non-core income of the group increased to RM20.4 million in FY2022 from RM19 million in FY2021, driven largely by higher income generated from deposits placed with licensed financial institutions and bad debt recoveries.

However, RCE Capital's operating expenses increased to RM50.9 million in FY2022 from RM49.3 million in FY2021, owing mainly to higher facility fee expense in relation to newly sourced financing liabilities during the year.

Despite higher operating expenses in FY2022, RCE Capital managed to maintain its cost-to-income ratio at 21.1%. It also recorded lower allowances for impairment charges in FY2022 compared with FY2021, owing to prudent asset quality assessment, guided by its credit scoring model.

RCE Capital's gross impaired financing also improved in FY2022 to 6.1%, from 6.7% in FY2021. However, its financing loss coverage stood at 162.8%, lower than FY2021's 168.4%. Nevertheless, the level remained adequate as collections from customers were carried out via salary deductions.

The stability of its business model has led to continued improved earnings year by year. In FY2018, its PBT was RM117.4 million and its PAT was RM88.7 million, compared with PBT of RM177.7 million and PAT of RM133.2 million in FY2022.

RCE Capital says it will continue to focus on being a responsible financier in the civil servant market.

"We will keep to our commitment to grow quality financing in line with macroeconomic development. Internally, we will work towards enhancing operations and procedures for improved efficiency and cost optimisation," the group says in its 2022 annual report. E