RCE Capital's higher dividend payout ratio raises interest

BY **ADELINE PAUL RAJ**

RCE Capital Bhd, whose share price has been on an upward trend in recent months, recently had a positive surprise for investors when it said it would raise its dividend payout ratio (DPR) policy to between 60% and 80%, from 20% to 40%, starting from the financial year ending March 31, 2024 (FY2024).

The Main Market counter has shot up 8.9% on strong volumes since the May 23 announcement on the dividend, closing at RM2.07 on June 2 for a market value of RM1.52 billion. The stock has gained 22.5% this year. Over the last 12 months, it hit a peak of RM2.08 on May 31.

Unlike banks and most other companies, RCE — a non-bank financial institution — has managed to show consistent revenue and earnings growth over the last six years at least, notwithstanding the Covid-19 pandemic or economic slowdowns during the period.

The company provides personal financing products at fixed rates to civil servants, who make their monthly repayments through direct salary deductions.

This year, a slowing economy and a hike in the overnight policy rate (OPR) — a higher OPR increases its cost of funds — aren't expected to halt its growth streak. The company says demand for financing remains "firm".

"Amid economic uncertainty, the demand for credit continues to remain firm. The business fundamentals of RCE demonstrate its non-cyclical nature. During periods of economic uncertainties, such as inflation or recession, customers have consistently resorted to financing options," RCE tells *The Edge* in response to emailed questions.

It declines to disclose what kind of financing growth it is targeting for FY2024, but says that the banking industry growth trends are a good indicator of how it may perform. Analysts generally see banking industry loans slowing to around 4% to 5% this year, after 5.7% last year but note that RCE tends to outpace the industry.

In FY2023, RCE's net profit grew about 4% year on year to RM138.8 million on the back of an 8% increase in revenue to RM323.6 million, both of which were in line with Maybank Investment Bank (Maybank IB) Research's expectations. Gross financing expanded by 7.5% that year, ahead of most banks.

Its dividend per share for the year came up to a better-than-expected 30 sen (including a special dividend of 18 sen) versus 11 sen in FY2022, translating into a DPR of 63%.

RCE says while the rising OPR — the latest was a 25-basis point (bps) hike in May — has resulted in higher cost of funds, it has already reflected the effects into its pricing.

"We always have the ability to reprice our financing products to maintain the desired net interest margin. Sustained credit demand has been observed across different OPR cycles," it points out.

It sources its funds mainly through Islamic bonds, followed by term financing and revolving credit.

Asked if it expects to see an uptick in delinquencies this year, given the more challenging economy, it notes the salary deduction scheme ensures consistent payments. Problems arise only when civil servants leave their jobs.

"RCE solely offers fixed-rate personal financing products to civil servants. The repayment structure is facilitated through a salary deduction scheme, which takes precedence over other commercial debts. As a result, monthly collections are consistently in order without disruptions," it says.

The company adds that it prioritises quality over quantity when it comes to financing.

"Since 2013, there has been an in-house credit scoring model to ensure all applications undergo stringent credit assessment. This model has been regularly refined to maintain the quality of our financing portfolio.

"Nonetheless, in 1Q2023, there were noticeable resignations and early retirements within the healthcare and academic sectors in line with what was reported in the press/media. As a result, [there was] a higher impairment in 1Q2023 due to prudent provision policy. However, no lack of recovery efforts are in place to recover the non-performing financing. Since then, impairment has stabilised," it says.

Maybank IB Research analyst Samuel Yin Shao Yang expects FY2024 earnings to be stable despite a more challenging economy.

"For the civil service, there are actually fewer resignations when the economy is [down] because they have job security. It is somewhat seen as an iron rice bowl. In June last year, they had a salary adjustment and in January, there was another one. So, all these things drive demand for loans," he tells *The Edge*.

He notes that although RCE's cost of funds is on an upward trend, it has managed to pass this through to customers via higher profit rates for new loans. And, even then, the loans are still relatively well taken up.

"As long as the government servants get their salary adjustments and increments, it doesn't seem to be an issue," he says.

He expects RCE's earnings growth to be more or less flat this year. "We're not going to see earnings contraction ... at worse, earnings will be flat."

Its gross non-performing financing (NPF) ratio in 4QFY2023 stood at 3.8%, a decline of 12bps quarter on quarter. Net allowances for impairment loss on receivables rose slightly to RM28.7 million for the full year compared with RM11.5 million the year before.

Maybank IB upgraded the stock to a "buy" from "hold" and raised its target price by 14% to RM2.07 on May 24, the day after RCE released its financial results. Two other research houses have "hold" calls.

Does RCE's share price have legs to move further now that it has already hit the RM2.07 target price? Yin says it will likely depend on the DPR down the road.

RCE's ultimate shareholder is AmBank Group's Tan Sri Azman Hashim, who has a 58.53% stake in the company via Cempaka Empayar Sdn Bhd. He also has a direct 0.2% stake. E