

Chairman's Letter To Shareholders



Dear Shareholders,

On behalf of the Board of Directors (“the Board”), I am pleased to present you the Annual Report of RCE Capital Berhad and its subsidiaries (“the Group” or “RCE”) for the financial year ended 31 March 2024 (“FYE 2024”).

ECONOMIC REVIEW

In 2023, we experienced a moderate growth rate of 3.1% globally despite a more robust recovery in the latter part of the year. We attribute this to the heightened monetary policy measures and persistent inflation concerns. According to the International Monetary Fund (“IMF”), inflation dropped to an annual average of 6.9% from 8.7% in 2023 as compared to 2022. As inflation converges to the targeted level, central banks of advanced economy are easing their policies following a series of interest rate hikes previously to be in tandem with the resilience of global economy.

On the other hand, US has not been containing its spending which will widen the country's deficit, more so as this is an election year. This poses a risk of upward pressure on global interest rates and the US dollar, thereby adversely impacting emerging economies with threats of mounting debt. Amidst these dynamics, international cooperation and adaptive policymaking remain pivotal for steering economies towards longer term resilience and prosperity.

In addition, the enduring Russia-Ukraine conflict and the Israel-Palestine territorial hostility present multifaceted challenges to the global economy. These are disrupting crucial trade routes, heightening market volatility and contributing to energy price fluctuations. Uncertainties surrounding geopolitical risks affect financial markets and entail significant humanitarian costs, including population displacement and infrastructure destruction. Moreover, they undermine investor and business confidence, delaying investment decisions and hindering economic growth prospects.

Apart from the above, the lingering effects of the COVID-19 pandemic, weak growth in productivity and increasing geo-economics fragmentation gave rise to a low expansion of global growth with worldwide Gross Domestic Product (“GDP”) growth estimated at 3.2% in 2024.

Meanwhile, Malaysia attained GDP growth of 3.7% against the backdrop of volatile crude and palm oil prices, higher inflation and a softer ringgit. Bank Negara Malaysia (“BNM”) increased the Overnight Policy Rate (“OPR”) by 25 basis points in May 2023 to 3.0% as a measure to manage inflationary pressures and ensure price stability, thereby supporting the overall economy. Despite OPR hikes between 2022 and 2023, Malaysia was shielded from spiking inflationary pressures due to implementation of price controls on essential household items. The weakening ringgit throughout 2023 led to an elevated but manageable inflation rate.

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Amidst these dynamics, the Malaysian economy expanded by 3.7% in 2023, demonstrating resilience from domestic demand. In July 2023, the Government launched the MADANI Economy initiative to propel Malaysia into the top 30 global economies within a decade, to surpass its 37th ranking in 2022 based on World Bank data. This encompasses the revitalisation of the Corridor Authority and the coordinated implementation of the Iskandar Malaysia Comprehensive Development Plan III (2020-2030). Actions are in place to strengthen the Iskandar Malaysia Investment Centre and promote socio-economic development through fair job distribution. These will facilitate advancements of Malaysia's economic landscape and foster a more inclusive prosperity nationwide.

We anticipate further improvements in 2024 with Malaysia's economy poised to expand by 3.9%, primarily fuelled by the growth in the services sector, implementation of the national master plans, multiyear projects and investments. In all, BNM anticipates a 5.0% surge in exports for 2024, marking a recovery from the 8.0% decline experienced in 2023.

The improvement to the Government's Sistem Saraan Perkhidmatan Awam ("SSPA") planned for Budget 2025's tabling in October 2024 is crucial for civil servants experiencing financial challenges in the increasing cost of living environment. Upward adjustments to the current salary structure, including setting of a minimum wage level are expected to enhance their financial stability by lightening their financial load on households, thus increasing their disposable income and economic flexibility. This will present opportunities for the Group in its offering of customised financing solutions to civil servants.

With all the positive aspects considered, the rationalisation of fuel subsidies, utility tariff hikes and increase in service tax rate may exacerbate the current inflationary pressure. As such, the Government expects the targeted subsidy to be able to mitigate any increases that will financially burden the lower income group. Accordingly, OPR is expected to remain unchanged at current level for this year as the Government, in collaboration with BNM, is taking coordinated actions to stabilise the economy and currency.

As Malaysia moves forward, it must remain adaptable to global uncertainties while leveraging its domestic strengths for sustainable growth. With a well-diversified

economy, a burgeoning digital sector and a skilled workforce, Malaysia is well-positioned to capitalise on opportunities in the emerging technology, renewable energy and sustainable development landscape.

PERFORMANCE REVIEW

We continue to be committed to financial prudence and stability throughout FYE 2024. The Group registered revenue of RM341.7 million, with 5.6% year-on-year growth from RM323.6 million a year ago, due to our cautious approach towards credit underwriting as we emphasised on the quality of receivables despite robust customer financing demand.

The Group experienced an uptick in profit expense from RM90.1 million to RM98.5 million in FYE 2024, mainly arising from the full financial year's effect of the OPR hikes from 2022 to 2023. The unfavourable effects were in part cushioned by financing liabilities that are fixed-rated in the form of Sukuk issuances which constitute 55.5% of our financing liabilities.

On the other hand, the OPR hikes also resulted in higher income from deposit placements, giving rise to an increase in other operating income from RM28.0 million to RM37.9 million. Our treasury unit remains committed to optimising returns to the Group by continuously sourcing for competitive rates in both financing as well as deposit placement channels.

Operating expenses increased notably from RM48.8 million to RM65.8 million in FYE 2024. This was mainly due to the Group's efforts in obtaining new financing facilities, launching of multiple sales and marketing campaigns to boost disbursements and increased intensity in recovery activities. In addition to that, the Group invested in technology and cybersecurity as well as compliance and employee retention endeavours. Following which, the cost-to-income ratio rose to 23.4% from 18.6% a year ago.

In line with the Group's prudent credit policy, the financing base increased steadily by 4.0% from RM2.02 billion to RM2.10 billion as compared to a year ago. Non-performing financing remained elevated primarily due to higher early retirement and resignation of customers. The total impairment charge was higher at RM30.2 million as compared to RM28.7 million a year ago with a steady financing loss coverage ratio of more than 150.0%.

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Overall, the Group recorded a stable profit after tax of RM138.8 million in FYE 2024, translated into earnings per share and return on average equity of 18.9 sen and 17.0% respectively.

Despite these challenges, we remain committed in upholding our financial prudence and sustainability standards whilst navigating the ever evolving economic landscape.

CORPORATE DEVELOPMENT

We maintained our status as a shariah-compliant security for the third consecutive year, validated by the Shariah Advisory Council ("SAC") of Securities Commission Malaysia. This underscores our steadfast obligation to ethical financial practices and role in advancing an inclusive shariah-compliant financial ecosystem. We will continue our dedication to two primary areas, namely responsible financing through high-quality shariah-compliant financial products and ongoing digitalisation to deliver sustainable shareholders' returns.

A remarkable corporate achievement was winning The Edge Billion Ringgit Club Awards 2023 for the highest return to shareholders over three years in the financial services sector below RM10.00 billion market capitalisation. This marked our second consecutive year winning the same award.

On 10 August 2023, we issued the ninth tranche of sukuk with an issuance size of RM254.0 million via the RM2.00 billion Sukuk Murabahah Asset-Backed Securitisation Programme ("RM2.00 billion Sukuk Murabahah ABS Programme") by our special purpose vehicle ("SPV") namely, Zamarad Assets Berhad ("ZAB"). This issuance demonstrates our ability to access capital markets effectively.

ZAB's RM2.00 billion Sukuk Murabahah ABS Programme has a Revolving Option ("RO") feature, which marked a pioneering initiative in Malaysia's Islamic finance landscape. The RO feature allows the purchase of additional receivables from the Originator, RCE Marketing Sdn Bhd, using excess funds from ZAB's sinking funds. This innovation ensures ongoing funding and minimises negative carry for the Group.

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Best Securitization Sukuk by the Asset Triple A Islamic Finance Awards 2023

On 16 August 2023, the Asset Triple A Islamic Finance Awards recognised RCE's accomplishments, honouring ZAB with the prestigious "Best Securitization Sukuk" award for Tranches 7 and 8, totalling RM474.0 million.

Throughout FYE 2024, RCE demonstrated its strength and undertaking to investors by fully redeeming RM120.0 million and RM90.0 million Class A Sukuk from various tranches issued by ZAB and another SPV, Al Dzahab Assets Berhad ("ADA"), respectively upon their legal maturity.

ADA has further early redeemed RM105.0 million Class B Sukuk from its first three tranches of RM900.0 million Sukuk Murabahah ABS Programme upon their expected maturity of seven years instead of the legal maturity of eight and a half years.

The above showed the underlying cash flow strength of the securitised receivables in both ZAB and ADA's Sukuk Murabahah ABS Programmes.

INVESTOR RELATIONS

RCE upholds a high disclosure and corporate governance standards, underscoring its commitment to transparency and accountability. Our dedicated Investor Relations

team rigorously maintains open lines of communication with stakeholders, investors and analysts, leveraging various key communication platforms for timely and comprehensive sharing of corporate developments and business activities.

Conducting regular and systematic engagements with stakeholders to solicit constructive feedback provides valuable input for enhancing the Group's overall performance and operations.

Maybank Investment Bank Berhad, KAF-Seagroatt & Campbell Securities Sdn Bhd, RHB Research Institute Sdn Bhd and Public Investment Bank Berhad cover the Group. These esteemed institutions disseminate information and insights to investors on a regular basis, contributing to the broader understanding of the Group's strategic direction and financial performance.

SUSTAINABILITY DEVELOPMENT

We are firm in creating sustainable value for shareholders, business partners, customers and employees. We believe in providing financing solutions that are financially sound, environmentally and socially responsible. To this end, we actively raise awareness and action among stakeholders, including our Sales Team, employees and customers.

During the 28th United Nations Climate Change Conference, Malaysia reaffirmed its stance, pledging a 45.0% reduction in greenhouse gas emissions by 2030 and achieving net-zero emissions by 2050. In alignment with these national objectives and the aid of numerous government action plans and policy changes, RCE endeavours to commit to its Economic, Environmental, Social and Governance ("EESG") agenda. This entails implementing several environmental measures in the coming years, including reducing waste and carbon emissions, increasing energy efficiency, adopting renewable energy, refining sustainable waste management practices and integrating sustainability considerations into all strategies, businesses and operations.

The Group's EESG initiatives have demonstrated significant progress, propelling us towards environmental sustainability. As evidence of our dedication, we are proud to maintain inclusion in the FTSE4Good Bursa Malaysia Index List and Shariah Indices Constituencies for five and three consecutive years, respectively.

We engage in diverse initiatives to accelerate digital transformation while emphasising on employee well-being, safety and security as well as community activities.

For detailed information regarding our sustainability efforts, we encourage stakeholders to refer to the Sustainability Statement included in this Annual Report.

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DIVIDEND

In FYE 2019, RCE implemented a policy to consistently reward shareholders with dividend payments ranging from 20% to 40% of the Group's profit after tax. On 23 May 2023, the Board announced it is adopting new dividend guidance, setting a payout ratio of 60% to 80% beginning from FYE 2024, provided it does not compromise the Group's cash flow requirements. This strategic adjustment reflects the Board's confidence in RCE's financial performance and pledge to enhance shareholder value.

On 22 November 2023, the Board declared the first interim dividend of 8.0 sen per ordinary share, with a total payout of RM58.6 million, distributed to shareholders on 28 December 2023. Subsequently, on 23 May 2024, the Board announced a second interim dividend of 7.0 sen per share, amounting to RM51.3 million.

All-in-all, the total dividend declared for FYE 2024 reflects a payout ratio of 79.2%, reaffirming RCE's consistent delivery of returns to its shareholders.

We sincerely thank our shareholders for their unwavering support and confidence in the Group over the years.

OUTLOOK

It is crucial to acknowledge the prevailing uncertainties in global and local economies, which demands our careful attention and strategic response.

The impending election and outcome of the polling in US and UK respectively, highlight the need for adaptability and resilience in our strategies. These elections carry significant weight as they directly influence economic policies and market sentiments. Fluctuations in US federal interest rates significantly influence financial markets and investment decisions, necessitating vigilant monitoring and proactive risk management strategies.

The major conflicts we are experiencing will undoubtedly have profound economic implications, both regionally and globally. Such events trigger disruptions in oil supplies, consequently driving up fuel costs and impacting heavily reliant oil industries. The ensuing market volatility could precipitate fluctuations in stock markets as investors adopt a more risk-averse stance amidst escalating uncertainty on regional stability. The broadening geopolitical tensions could disrupt trade routes and supply chains across Middle East, creating ripple effects on global trade and economic growth. Currency markets may experience turbulence as a result of these developments.

The current rise in gold prices can significantly impact the economy, particularly in currency markets, economic strength, interest rates and inflation. The interplay between these factors underscores the complex dynamics within financial markets and the widening implications on economic stability and growth.

Locally, the on-going and potential subsidy support from the Government through the newly introduced central database hub, Pangkalan Data Utama ("PADU"), presents both opportunities and challenges. It holds the potential to fortify economic activities, stimulate growth and enhance competitiveness within targeted industries.

As we navigate the uncertain global and local economic landscape and inflationary pressures, we will continue recalibrating our strategies, including prudent financial management, proactive risk mitigation and strategic foresight for sustainability and long-term value creation for stakeholders. Leveraging information technology's capabilities, we enhance agility in our systems and processes while prioritising the well-being and safety of our employees, including mental fitness.

We are also intensifying efforts towards the EESG agenda, focusing on delivering sustainable performance, responsible financing, prudent asset quality management and cost discipline. Domestically, Malaysia is poised to grow moderately, supported by increased household spending, continuous employment, wage growth and heightened investment activities. RCE is ready to adapt and respond effectively to these challenges, ensuring resilience and sustainable growth ahead.

ACKNOWLEDGMENT

With the release of this Annual Report, I wish to convey my sincere appreciation to all stakeholders for your continuous trust.

We welcome Puan Azura binti Azman, who joined the Board on 1 December 2023. With over thirty years of extensive experience in the banking industry, including stockbroking, corporate banking, credit, business development and private equity, her expertise will be invaluable. She is also an active member of the capital market industry. Puan Azura's appointment will complement our existing Board, and we eagerly anticipate her contribution to the Group.

Furthermore, I express heartfelt gratitude to Encik Mahadzir bin Azizan, who stepped down as an Independent Non-Executive Director on 30 October 2023 after nine years of valuable service and contribution to the Group.

I wish to thank the Regulators for their guidance. Additionally, I extend our gratitude to our customers, business and banking partners and suppliers for their continued support.

Lastly, I would like to express my deepest appreciation to my colleagues and the Board for their constant commitment and guidance in the Group. Together, we look forward to achieving greater heights of success.

Shahman Azman
Chairman