

16 Aug 2024

## Hold

**Price**  
 RM3.27

**Target Price**  
 RM2.98

### Market Data

	RCE MK
Bloomberg Code	RCE MK
No. of shares (m)	741.1
Market cap (RMm)	2,423.0
52-week high/low (RM)	3.40 / 2.30
Avg daily turnover (RMm)	1.6
KLCI (pts)	1,612.9

Source: Bloomberg, CIMB Securities

### Major Shareholder (%)

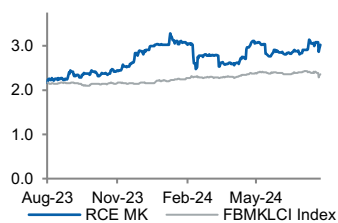
Cempaka Empayar	55.6
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Free Float	44.6
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Source: Bloomberg, CIMB Securities

### Performance

	3M	6M	12M
Absolute (%)	(0.9)	-	41.3
Rel Market (%)	(1.3)	(5.9)	28.1



Source: Bloomberg, CIMB Securities

### Analyst

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# RCE Capital

## NPF alarming; rose to 4-year high

1QFY25 net profit declined 17.8% yoy due to a 45% decrease in fee income and a 64.2% yoy rise in impairment loss provisions. Overall, we view these results as broadly in line with our and consensus expectations, representing 21%/20% of our full-year forecasts. We expect the upcoming salary adjustment for the civil servants in Dec 2024 will support receivable growth and improve asset quality. We maintain our Hold call with unchanged DDM-based TP of RM2.98.

### Financial Highlights

FYE Mar	2023	2024	2025F	2026F	2027F
Revenue (RMm)	323.6	341.7	358.4	376.0	394.4
Core net profit (RMm)	138.8	138.8	146.7	154.5	161.3
Core EPS (Sen)	18.7	18.7	19.8	20.8	21.8
EPS growth (%)	4.2	(0.0)	5.7	5.3	4.4
DPS (Sen)	30.0	15.0	13.9	14.6	15.2
Div yield (%)	9.2	4.6	4.2	4.5	4.7
Core PE (x)	17.5	17.5	16.5	15.7	15.0
PBV (x)	3.0	2.9	2.8	2.6	2.5
ROE (%)	16.5	17.0	17.2	17.1	17.1

Source: Company, CIMB Securities

### 1QFY25 net profit declined 18% yoy; in line with our and consensus expectations

RCE's 1QFY25 net profit declined by 17.8% yoy to RM30.3m, primarily due to, i) a 45% yoy decline in fee income; and ii) a 64.2% yoy increase in provision of impairment loss. Overall, we view these results as broadly in line with our and consensus expectations, coming in at 21% and 20%, respectively. On a qoq basis, 1QFY25 net profit increased by 4.3%, driven by a 24.9% reduction in provisions and a 19.2% decrease in operating expenses, owing to the absence of facility fees incurred during the quarter.

### Impairments expected to remain elevated

In 1QFY25, net impairment losses on receivables surged by 64.2% yoy to RM7.7m, driven by ongoing shifts in employment dynamics, including early retirements and transitions to private sector employment. However, on qoq, the impairments fell 24.9%, due to high base the previous quarter when the group recorded its highest quarterly impairments since 2QFY14 in 4QFY24. However, the 1QFY25 provisions remain at the higher end of the historical range of RM4m to RM8m. RCE expects impairment levels to remain elevated, with no immediate signs of relief. We project impairment losses for FY25 to reach RM31.5m (+5.4% yoy), in line with the anticipated growth in receivables.

### NPF alarming; rose to 4-year high

Non-performing financing (NPF) continued its upward trend in 1QFY25, rising by 13.6% yoy and 4.3% qoq, to reach RM86.9m. This rise pushed the NPF ratio to 4.2%, marking the highest level in four years. Although this ratio remains within the historical range of 3.8%-4.3% observed since 2016, the upward trajectory is concerning and warrants close monitoring. Despite the increase in NPF, the coverage ratio has been maintained at a solid 153%, providing a cushion against potential losses. This suggests that while the situation is manageable for now, it could present challenges if the trend continues.

### Maintain Hold and DDM-based TP of RM2.98

We maintain our FY25-27F earnings forecasts with RCE's financing receivables expected to grow by 5%. This growth will be supported by the expected 13% wage increase for civil servants starting in Dec 2024. We also expect this will contribute to an improvement in RCE's impairment reversals and higher fee income, driven by an increase in early settlements. Our DDM-based TP (based on cost of equity of 10.1% and a growth rate of 5%) remains at RM2.98. Our TP implies P/BV of 2.4x, which is 2 s.d. above its 5-year mean of 1.4x and justified by its higher ROE of 17% (vs. banks: 11% on average). We believe our conservative assumption on dividends (70% payout vs FY24's 80%), implying dividend yield of 4.5-4.9% is supportive to share price. Maintain Hold rating for RCE. Key upside risks: i) higher-than-expected receivable growth, and ii) higher-than-expected dividend. Key downside risk: i) higher-than-expected impairment loss on receivables.

## RCE Capital

Year to 31 March	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	% chg		CIMB	
RM m	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	qoq	yoy	2025F	3M/F
Profit income	70.5	71.1	73.2	74.1	72.4	72.0	(0.5)	1.3	326.29	22.1%
Other revenue	12.2	12.9	14.6	13.4	10.0	7.1	(29.3)	(45.0)	32.11	22.1%
<b>Total revenue</b>	<b>82.6</b>	<b>84.0</b>	<b>87.8</b>	<b>87.4</b>	<b>82.5</b>	<b>79.1</b>	<b>(4.1)</b>	<b>(5.8)</b>	<b>358.4</b>	<b>22.1%</b>
Interest expense	(25.4)	(24.9)	(24.6)	(24.0)	(25.0)	(25.5)	1.9	2.4	(101.6)	25.1%
<b>Net interest and fee income</b>	<b>57.3</b>	<b>59.0</b>	<b>63.3</b>	<b>63.4</b>	<b>57.4</b>	<b>53.6</b>	<b>(6.7)</b>	<b>(9.2)</b>	<b>256.8</b>	<b>20.9%</b>
Non-interest income	8.8	8.5	9.7	10.0	9.6	8.8	(8.6)	3.4	39.8	22.1%
<b>Operating income</b>	<b>66.1</b>	<b>67.6</b>	<b>73.0</b>	<b>73.5</b>	<b>67.1</b>	<b>62.4</b>	<b>(6.9)</b>	<b>(7.6)</b>	<b>296.6</b>	<b>21.0%</b>
Operating expenses	(11.5)	(13.9)	(15.2)	(19.3)	(17.6)	(14.2)	(19.2)	2.6	(69.7)	20.4%
<b>Underlying profit</b>	<b>54.6</b>	<b>53.7</b>	<b>57.8</b>	<b>54.2</b>	<b>49.5</b>	<b>48.2</b>	<b>(2.5)</b>	<b>(10.3)</b>	<b>226.9</b>	<b>21.2%</b>
Allowance for impairment loss	(8.2)	(4.7)	(6.9)	(8.3)	(10.3)	(7.7)	(24.9)	64.2	(31.5)	24.6%
Exceptional	0.0	0.0	0.0	0.0	0.0	0.0	n.m.	n.m.	na	na
<b>Pre-tax profit</b>	<b>46.4</b>	<b>49.0</b>	<b>50.9</b>	<b>45.8</b>	<b>39.1</b>	<b>40.4</b>	<b>3.4</b>	<b>(17.4)</b>	<b>195.4</b>	<b>20.7%</b>
Taxation	(11.6)	(12.1)	(12.6)	(11.3)	(10.1)	(10.1)	0.5	(16.4)	(48.7)	20.8%
<b>Net profit</b>	<b>34.8</b>	<b>36.9</b>	<b>38.2</b>	<b>34.6</b>	<b>29.1</b>	<b>30.3</b>	<b>4.3</b>	<b>(17.8)</b>	<b>146.7</b>	<b>20.7%</b>

**Income Statement**

<b>FYE Mar (RMm)</b>	<b>2023</b>	<b>2024</b>	<b>2025F</b>	<b>2026F</b>	<b>2027F</b>
Net interest income	190.7	192.3	203.4	213.3	223.6
Non-interest income	71.0	88.8	93.2	97.7	102.5
<b>Total income</b>	<b>261.6</b>	<b>281.1</b>	<b>296.6</b>	<b>311.0</b>	<b>326.2</b>
Operating costs	(49.0)	(66.0)	(69.7)	(73.0)	(76.6)
<b>Pre-provision operating profit</b>	<b>212.6</b>	<b>215.1</b>	<b>226.9</b>	<b>238.0</b>	<b>249.6</b>
Provision charges	(28.7)	(30.2)	(31.5)	(33.1)	(34.7)
<b>Pre-tax profit</b>	<b>183.9</b>	<b>184.8</b>	<b>195.4</b>	<b>205.8</b>	<b>214.9</b>
Taxation	(45.2)	(46.1)	(48.7)	(51.3)	(53.6)
<b>Net Profit</b>	<b>138.8</b>	<b>138.8</b>	<b>146.7</b>	<b>154.5</b>	<b>161.3</b>

**Balance Sheet**

<b>FYE Mar (RMm)</b>	<b>2023</b>	<b>2024</b>	<b>2025F</b>	<b>2026F</b>	<b>2027F</b>
Consumer financing	1,899.4	1,972.7	2,071.4	2,174.9	2,283.7
Factoring and confirming	53.9	54.6	55.3	56.0	56.7
Deposits with financial institutions	799.9	745.0	782.8	822.7	864.4
Plant and equipment	11.9	11.0	11.6	12.1	12.8
Investment in properties	0.0	0.0	0.0	0.0	0.0
Goodwill on consolidation	47.3	47.3	47.3	47.3	47.3
Other investments	0.0	0.0	0.0	0.0	0.0
AFS financial assets	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	38.6	48.4	50.9	53.4	56.2
Other receivables and deposits	16.0	21.4	21.4	21.4	21.4
Asset held for sale	0.0	0.0	0.0	0.0	0.0
Cash and bank balances	79.8	95.3	107.4	120.2	133.5
<b>Total Assets</b>	<b>2,946.8</b>	<b>2,995.6</b>	<b>3,148.0</b>	<b>3,308.1</b>	<b>3,475.9</b>
Borrowings	2,091.5	2,119.6	2,225.6	2,336.8	2,453.7
Payables and accruals	36.3	34.2	36.0	37.8	39.7
Hire purchase	1.5	1.3	1.4	1.4	1.5
Deferred tax liabilities	2.9	2.0	2.1	2.2	2.3
Tax liabilities	8.9	8.7	9.2	9.6	10.1
<b>Total Liabilities</b>	<b>2,141.2</b>	<b>2,165.8</b>	<b>2,274.2</b>	<b>2,387.9</b>	<b>2,507.4</b>
Share capital	201.9	201.9	201.9	201.9	201.9
Reserves	603.0	627.0	671.0	718.0	766.0
<b>Total Shareholders' Equity</b>	<b>805.7</b>	<b>829.8</b>	<b>873.8</b>	<b>920.1</b>	<b>968.5</b>
<b>Total Liabilities &amp; Equity</b>	<b>2,946.8</b>	<b>2,995.6</b>	<b>3,148.0</b>	<b>3,308.1</b>	<b>3,475.9</b>

**ROE composition**

<b>FYE Mar</b>	<b>2023</b>	<b>2024</b>	<b>2025F</b>	<b>2026F</b>	<b>2027F</b>
a. Net interest income/Avg. assets (%)	6.7%	6.5%	6.6%	6.6%	6.6%
b. Non-Interest Income/Avg. Assets (%)	2.5%	3.0%	3.0%	3.0%	3.0%
c. Income Yield (%)	9.2%	9.5%	9.7%	9.6%	9.6%
d. Cost/Avg. Assets (%)	1.7%	2.2%	2.3%	2.3%	2.3%
f. Cost/Income (d/c)	18.7%	23.5%	23.5%	23.5%	23.5%
<b>g. Underlying Profitability (c-d)</b>	<b>7.5%</b>	<b>7.2%</b>	<b>7.4%</b>	<b>7.4%</b>	<b>7.4%</b>
a. Underlying Profitability (%)	7.5%	7.2%	7.4%	7.4%	7.4%
b. B&DD Expense (%)	1.0%	1.0%	1.0%	1.0%	1.0%
<b>c. Pre-tax ROA (a-b)</b>	<b>6.5%</b>	<b>6.2%</b>	<b>6.4%</b>	<b>6.3%</b>	<b>6.3%</b>
d. Tax Retention Rate (%)	75.4%	75.1%	75.1%	75.1%	75.1%
e. Post tax ROA (c*d)	4.9%	4.7%	4.8%	4.8%	4.8%
f. Leverage	3.4	3.6	3.6	3.6	3.6
<b>g. ROE (e*f)</b>	<b>16.5%</b>	<b>17.0%</b>	<b>17.2%</b>	<b>17.1%</b>	<b>17.1%</b>

Source: Bloomberg, CIMB Securities

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<b>Hold</b>	The stock's total return is expected to be between 0% and positive 10% over the next twelve (12) months.
<b>Reduce</b>	The stock's total return is expected to fall below 0% or more over the next twelve (12) months.
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<b>Neutral</b>	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
<b>Underweight</b>	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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