

# RCE Capital Bhd (RCE MK)

## Still waiting for financing growth guidance

### Maintain HOLD call with lower TP of MYR1.32 (-9%)

Results missed our expectations. Despite the civil servants' salary hike, the poor credit quality of many applicants has stymied growth. Non-performing ratio also hit a recent high. We trim our EPS estimates by 10-11%. Utilising a lower end-CY25E target P/BV of 2.2x (2.4x previously), we cut our TP to MYR1.32 from MYR1.45. We await guidance from RCE on financing growth going forward.

### Earnings below our expectations

3QFY25 core net profit of MYR30.8m brought 9MFY25 core net profit to MYR88.9m or only 61%/67% of our/consensus FY estimate. We expected 3QFY25 core net profit of c. MYR35.0m as the civil servants' salary hike took effect in Dec 2024. The earnings shortfall was due to 9MFY25 other revenue (largely fee income) falling 44% YoY (MIBG estimate: +5% YoY). RCE explained that it is still cautious on disbursements due to poor credit quality of many applicants, leading to less fee income. 3QFY25 non-performing ratio hit 4.5%, a recent high.

### Trim earnings estimates by 10-11%

RCE stated that disbursements accelerated in Jan but has been decelerating in Feb. It hopes that disbursements will reaccelerate in Mar due to civil servants spending ahead of Hari Raya Aidilfitri celebrations which commences on 30 Mar 2025. Until then, RCE will refrain from guiding on financing growth going forward. 9MFY25 YTD financing growth eased 2.5% vs our 5.0% FY25 assumption. Reflecting slower financing growth (our own estimates) and lower other revenue (largely fee income), we trim FY25E/FY26E/FY27E EPS by 11%/11%/10% (Fig. 2).

### Acquired its own Angkasa Code

On another note, the 3QFY25 filing reveals that RCE acquired Corewealth Alliance Dynamic (CAD, Not Listed) for MYR27.0m or 5.7x P/BV. CAD's core business is similar to RCE. RCE explained that it acquired CAD to secure its Angkasa Code which allows it to deduct the salaries of civil servants automatically for repayment. Hitherto, RCE has been utilising the Angkasa Code of one its partner cooperatives. With its own Angkasa code, RCE hopes to boost its ability to price its financings higher. Repayments via Angkasa code accounts for >95% of its total repayments.

FYE Mar (MYR m)	FY23A	FY24A	FY25E	FY26E	FY27E
Operating income	261	281	268	288	306
Pre-provision profit	213	215	205	221	235
Core net profit	139	139	130	142	150
Core FDEPS (MYR)	0.09	0.09	0.09	0.10	0.10
Core FDEPS growth(%)	3.7	(0.0)	(7.1)	8.6	6.1
Net DPS (MYR)	0.15	0.08	0.07	0.08	0.08
Core FD P/E (x)	9.7	14.2	15.3	14.1	13.3
P/BV (x)	1.7	2.4	2.3	2.2	2.1
Net dividend yield (%)	16.5	5.6	5.2	5.6	6.0
Book value (MYR)	0.55	0.57	0.59	0.61	0.63
ROAE (%)	16.5	17.0	15.5	16.2	16.6
ROAA (%)	4.9	4.7	4.3	4.5	4.5
Consensus net profit	-	-	132	151	160
MIBG vs. Consensus (%)	-	-	(0.9)	(6.4)	(6.0)

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# HOLD

Share Price MYR 1.34  
12m Price Target MYR 1.32 (+4%)  
Previous Price Target MYR 1.45

### Company Description

RCE Capital is principally involved in the provision of general financing services.

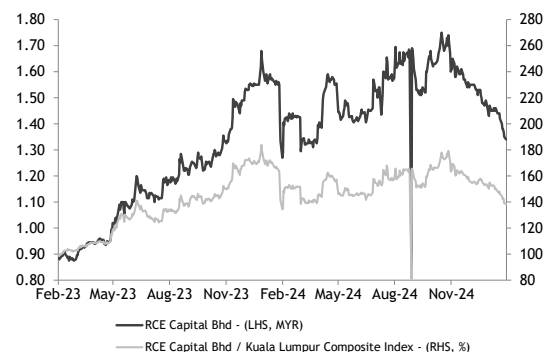
### Statistics

52w high/low (MYR) 1.75/0.82  
3m avg turnover (USDm) 0.2  
Free float (%) 35.2  
Issued shares (m) 1,484  
Market capitalisation MYR2.0B  
USD451M

### Major shareholders:

Cempaka Empayar Sdn. Bhd. 57.8%  
Lembaga Tabung Haji 2.6%  
Employees Provident Fund 2.5%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(9)	(23)	0
Relative to index (%)	(10)	(23)	(2)

Source: FactSet

Figure 1: Summary Results Table

FY Mar (MYR m)	3QFY3/25	3QFY3/24	% YoY	2QFY3/25	% QoQ	9MFY3/25	9MFY3/24	% YoY
Interest/profit income	70.8	74.1	(4.4)	73.0	(2.9)	215.8	218.4	(1.2)
Other revenue	8.5	13.4	(36.3)	7.5	14.0	23.0	40.8	(43.6)
<b>Revenue</b>	<b>79.3</b>	<b>87.4</b>	<b>(9.2)</b>	<b>80.4</b>	<b>(1.3)</b>	<b>238.8</b>	<b>259.2</b>	<b>(7.9)</b>
Other income	8.2	10.0	(18.5)	10.5	(21.6)	27.5	28.3	(3.0)
Interest/profit expense applicable to revenue	(24.2)	(24.0)	1.1	(25.7)	(5.6)	(75.4)	(73.5)	2.7
Directors' remuneration and staff costs	(6.6)	(11.3)	(42.1)	(12.4)	(47.1)	(26.3)	(25.3)	3.7
Allowances for impairment loss on receivables, net	(8.4)	(8.3)	0.7	(6.4)	31.7	(22.5)	(19.9)	12.9
Depreciation of plant and equipment and right-of-use asset	(1.1)	(1.0)	18.1	(1.0)	9.3	(3.2)	(2.8)	15.9
Other expenses	(6.3)	(6.9)	(9.6)	(7.3)	(14.5)	(19.4)	(20.1)	(3.5)
Finance costs	(0.1)	(0.1)	(18.3)	(0.1)	(30.2)	(0.2)	(0.2)	3.6
<b>Profit before tax</b>	<b>40.9</b>	<b>45.8</b>	<b>(10.8)</b>	<b>38.0</b>	<b>7.6</b>	<b>119.3</b>	<b>145.7</b>	<b>(18.1)</b>
Taxation	(10.1)	(11.3)	(10.3)	(10.2)	(0.3)	(30.4)	(36.0)	(15.6)
<b>Net profit</b>	<b>30.8</b>	<b>34.6</b>	<b>(11.0)</b>	<b>27.8</b>	<b>10.5</b>	<b>88.9</b>	<b>109.7</b>	<b>(18.9)</b>
Financing & loans receivables, gross	2,053.1	2,106.8	(2.5)	2,057.4	(0.2)	2,053.1	2,106.8	(2.5)
(Allowance for impairment)	(133.1)	(123.9)	7.4	(129.9)	2.4	(133.1)	(123.9)	7.4
<b>Financing &amp; loans receivables, net</b>	<b>1,920.1</b>	<b>1,982.8</b>	<b>(3.2)</b>	<b>1,927.5</b>	<b>(0.4)</b>	<b>1,920.1</b>	<b>1,982.8</b>	<b>(3.2)</b>
	3QFY3/25	3QFY3/24	+/- ppt	2QFY3/25	+/- ppt	9MFY3/25	9MFY3/24	+/- ppt
Tax rate (%)	24.8	24.6	0.2	26.7	(2.0)	25.5	24.7	0.7
Gross NPF ratio (%)	4.5	3.8	0.6	4.3	0.2	4.5	3.8	0.6
Financing & loans loss coverage ratio (%)	144.9	153.4	(8.5)	147.2	(2.3)	144.9	153.4	(8.5)
Net gearing (%)	155.4	161.2	(5.8)	148.8	6.6	148.8	161.2	(12.4)

Source: Company

## Results analysis

- 3QFY25 core net profit was down 11% YoY largely due to:-
  - lower profit income as gross financing receivables eased 3% YoY;
  - lower fee income as less financing was disbursed; and
  - lower directors' remuneration due to non-recurrence of Employee Share Scheme (ESOS) expense.
- 3QFY25 core net profit was up 11% largely due to lower directors' remuneration due to non-recurrence of ESOS expense (2QFY25: MYR5.2m).
- 9MFY25 core net profit was down 19% YoY largely due to:- (i) lower fee income as less financing was disbursed; and (ii) higher credit costs.

Figure 2: Major assumptions and estimates

	FY25E	FY26E	FY27E
<b>Revised</b>			
Financing growth (%)	0.0%	8.0%	7.0%
Other revenue (MYRm)	33.3	42.9	42.9
Core net profit (MYRm)	130.4	141.6	150.3
<b>Previous</b>			
Financing growth (%)	5.0%	10.0%	2.0%
Other revenue (MYRm)	50.9	54.9	58.7
Core net profit (MYRm)	146.7	158.8	166.8

Source: Maybank IBG Research

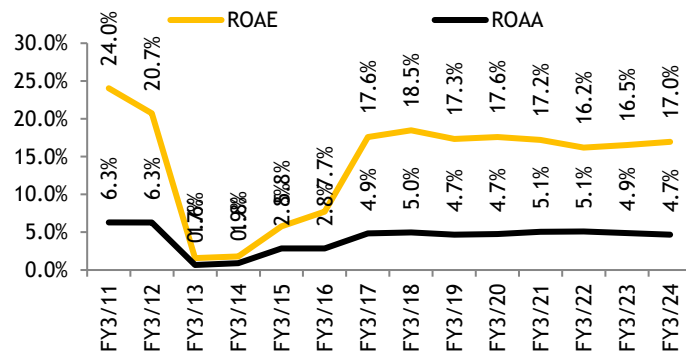
## Valuation and recommendation

Our MYR1.32 TP is based on 2.2x end-FY25E P/BV. We derive a target end-FY25E P/BV of 2.2x via the following assumptions: - (i) average 2 year forward ROE of 16.4% (17.7% previously); (ii) terminal growth rate of 2.0% as government emoluments have grown at 1.8% CAGR over the last 10 years; and (iii) cost of equity of 8.6% based on risk free rate of 4.2%, market risk premium of 6.3% and Beta of 0.70 (5-year historical Beta: 0.60).

## Value Proposition

- RCE Capital provides personal financing, the ultimate customers being civil servants.
- With a gross financing balance of just MYR2.1b, we estimate that its market share is only 2%.
- Non-performing financing kept in check thanks to nondiscretionary direct salary deductions.
- Competitive advantage lies in fast financing processing turnaround time of 48 hours.
- ROE generation surpasses that of the average for the overall banking industry.

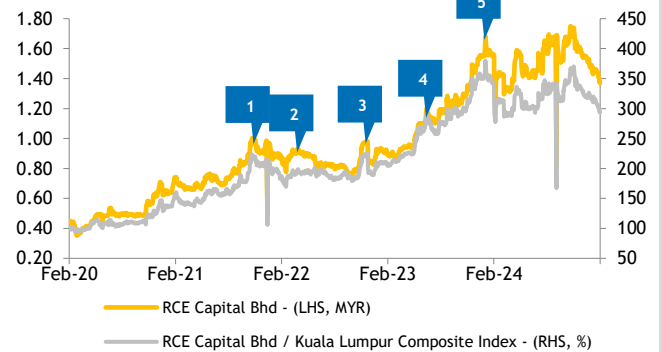
### ROAE and ROAA



Source: Company

## Price Drivers

### Historical share price trend



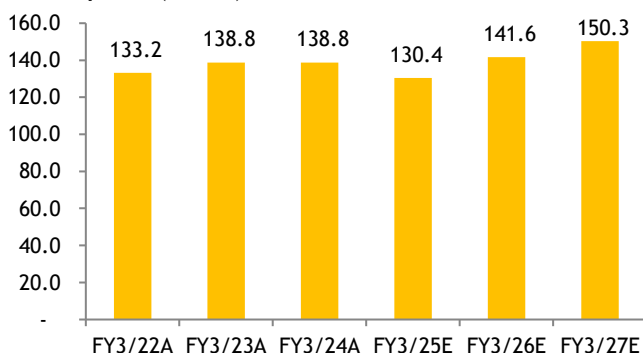
Source: Company, Maybank IBG Research

1. 2QFY21 net profit grew 21% YoY to a record high of MYR33.0m.
2. Announced share DPS of 1 treasury share for 20 shares held and bonus issue of 19 shares for 21 shares held.
3. Bank Negara Malaysia raised Overnight Policy Rate by 25bps for the first time since Jul 2020.
4. Announced a huge special DPS of 18sen and higher-than-expected interim DPS of 5sen.
5. Announced that it raised its dividend policy from 20-40% DPR to 60-80% DPR.

## Financial Metrics

- Introduced better credit scoring model in 2013. We forecast gross financing CAGR of 5% p.a. over the next three years.
- Average cost of funds is rising but so is average financing yields.
- Asset quality better than before. New financings are smaller in size (<2%).
- Forecast three-year forward core net profit CAGR of 3% p.a. Recently raised DPR policy from 20-40% to 60-80%.

### Core net profit (MYRm)



Source: Company (historicals), Maybank IBG Research (forecasts)

## Swing Factors

### Upside

- Easing competition - competitors have been reducing their exposure to personal financing.
- Lower cost of funds - we estimate that every 25bps reduction in cost of funds will accrete 3% to earnings.
- Access to CCRIS - if RCE Capital gains access to CCRIS, it can better assess customers' total indebtedness

### Downside

- High household debt - Household debt to GDP is elevated at >80% and may crimp customers' repayment ability.
- Need to leverage - RCE Capital cannot take deposits and thus, has to assume debt to finance its financing.
- Asset-liability duration mismatch - customers' repayment may not match RCE's debt repayment.

FYE 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Key Metrics</b>					
Core P/E (x)	9.6	14.2	15.1	13.9	13.1
Core FD P/E (x)	9.7	14.2	15.3	14.1	13.3
P/BV (x)	1.7	2.4	2.3	2.2	2.1
P/NTA (x)	1.8	2.5	2.4	2.3	2.2
Net dividend yield (%)	16.5	5.6	5.2	5.6	6.0
<b>INCOME STATEMENT (MYR m)</b>					
Islamic banking income	209.4	221.2	225.8	235.5	253.0
Other income	52.0	59.6	42.0	52.3	53.0
<b>Total non-interest income</b>	<b>261.4</b>	<b>280.8</b>	<b>267.8</b>	<b>287.8</b>	<b>306.0</b>
<b>Operating income</b>	<b>261.4</b>	<b>280.8</b>	<b>267.8</b>	<b>287.8</b>	<b>306.0</b>
Staff costs	(27.1)	(32.2)	(30.9)	(32.9)	(35.0)
Other operating expenses	(21.7)	(33.6)	(32.3)	(34.2)	(36.2)
<b>Operating expenses</b>	<b>(48.8)</b>	<b>(65.8)</b>	<b>(63.2)</b>	<b>(67.1)</b>	<b>(71.2)</b>
<b>Pre-provision profit</b>	<b>212.6</b>	<b>215.1</b>	<b>204.6</b>	<b>220.7</b>	<b>234.7</b>
Other allowances	(28.7)	(30.2)	(30.8)	(32.0)	(34.4)
Associates & JV income	0.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>183.9</b>	<b>184.8</b>	<b>173.7</b>	<b>188.7</b>	<b>200.3</b>
Income tax	(45.2)	(46.1)	(43.3)	(47.1)	(49.9)
<b>Reported net profit</b>	<b>138.8</b>	<b>138.8</b>	<b>130.4</b>	<b>141.6</b>	<b>150.3</b>
<b>Core net profit</b>	<b>138.8</b>	<b>138.8</b>	<b>130.4</b>	<b>141.6</b>	<b>150.3</b>
<b>BALANCE SHEET (MYR m)</b>					
Cash & deposits with banks	879.7	840.2	866.5	909.4	954.1
Sec. under resale agreements	0.0	0.0	0.0	0.0	0.0
Derivatives financial assets	0.0	0.0	0.0	0.0	0.0
Dealing securities	0.0	0.0	0.0	0.0	0.0
Available-for-sale securities	0.0	0.0	0.0	0.0	0.0
Investment securities	0.0	0.0	0.0	0.0	0.0
Financing and advances	1,953.3	2,027.3	2,027.3	2,185.1	2,334.3
Fixed assets	7.2	7.3	7.0	6.6	6.3
Intangible assets	47.3	47.3	47.3	47.3	47.3
Other assets	59.3	73.5	73.5	73.5	73.5
<b>Total assets</b>	<b>2,946.8</b>	<b>2,995.6</b>	<b>3,021.6</b>	<b>3,222.1</b>	<b>3,415.6</b>
Derivatives financial instruments	0.0	0.0	0.0	0.0	0.0
Subordinated debt	0.0	0.0	0.0	0.0	0.0
Other securities in issue	1,290.9	1,175.8	1,175.8	1,175.8	1,175.8
Other borrowings	434.3	552.9	551.6	719.7	879.6
Other liabilities	416.0	437.1	436.6	437.3	437.7
<b>Total liabilities</b>	<b>2,141.2</b>	<b>2,165.8</b>	<b>2,164.0</b>	<b>2,332.8</b>	<b>2,493.2</b>
Share capital	201.9	201.9	201.9	201.9	201.9
Reserves	603.7	627.9	655.7	687.4	720.5
Shareholders' funds	805.7	829.8	857.6	889.3	922.4
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	0.0	0.0	0.0	0.0	0.0
Total equity	805.7	829.8	857.6	889.3	922.4
<b>Total liabilities &amp; equity</b>	<b>2,946.8</b>	<b>2,995.6</b>	<b>3,021.6</b>	<b>3,222.1</b>	<b>3,415.6</b>

FYE 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Key Ratios</b>					
<b>Growth (%)</b>					
Net interest income	na	na	na	na	na
Non-interest income	9.2	7.4	(4.7)	7.5	6.3
Operating expenses	(3.6)	34.9	(3.9)	6.1	6.2
Pre-provision profit	12.6	1.2	(4.9)	7.9	6.3
Core net profit	4.2	(0.0)	(6.0)	8.6	6.1
Gross loans	7.5	3.9	(0.0)	8.0	7.0
Customer deposits	na	na	na	na	na
Total assets	8.1	1.7	0.9	6.6	6.0
<b>Profitability (%)</b>					
Non-int. income/Total income	100.0	100.0	100.0	100.0	100.0
Cost/income	18.7	23.4	23.6	23.3	23.3
<b>Liquidity (%)</b>					
Loans/customer deposits	na	na	na	na	na
<b>Asset quality (%)</b>					
Gross NPF	3.8	4.0	4.0	4.0	4.0
<b>Capital adequacy (%)</b>					
CET1	na	na	na	na	na
Tier 1 capital	na	na	na	na	na
Risk-weighted capital	na	na	na	na	na
<b>Returns (%)</b>					
ROAE	16.5	17.0	15.5	16.2	16.6
ROAA	4.9	4.7	4.3	4.5	4.5
Shareholders equity/assets	27.3	27.7	28.4	27.6	27.0

Source: Company; Maybank IBG Research

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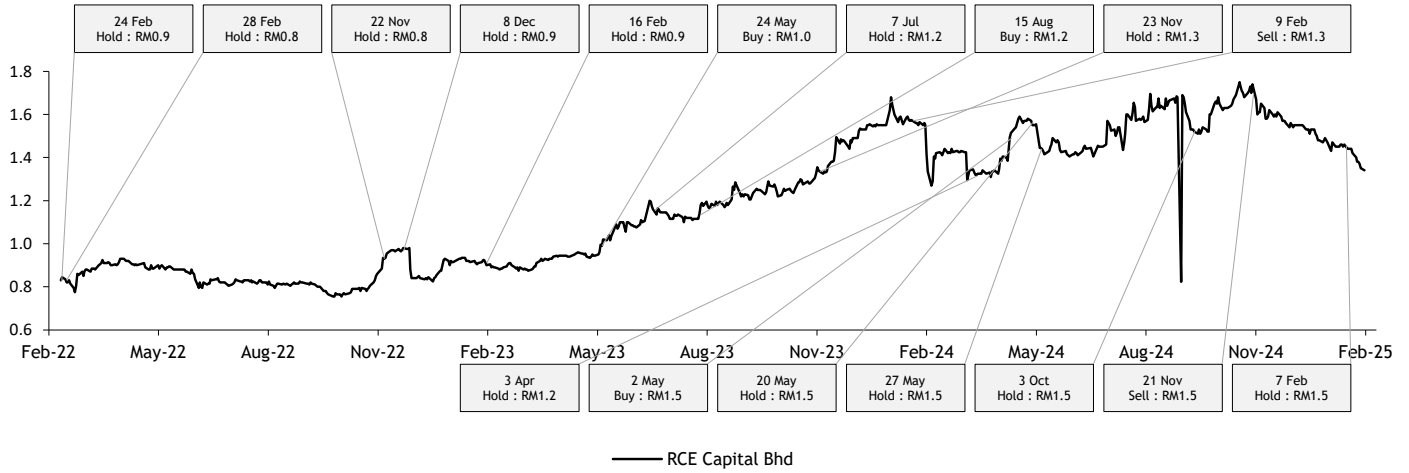
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