Maybank Investment Bank

RCE Capital Bhd (RCE MK)

Maintaining a high ESG 'credit score'

BUY

Share Price	MYR 0.91
12m Price Target	MYR 1.15 (+33%)
Previous Price Target	*MYR 1.15*

Maintain BUY and MYR1.15 TP

We maintain our proprietary ESG score for RCE at 75. RCE made great strides in 'E' with lower Scope 1 and 2 emissions, energy consumption, paper consumption and waste generated. Female participation in its workforce and senior management fell to be sure but they remain high by industry standards. Moreover, female representation on its BOD crossed the 30% threshold for the first time since our records began. Our MYR1.15 TP is based on 1.9x end-CY26E P/BV. BUY for ≥7% dividend yields p.a.

'E' - a lot of improvement here

RCE's FY3/26 Scope 3 emissions grew 15% YoY primarily due to higher employee commuting emissions amid increased headcount and changes in commuting patterns. That said, we note positively that its Scope 1 and 2 emissions (-2% YoY), energy consumption (-4% YoY), paper consumption (-14% YoY) and waste generated (-18% YoY) all eased or fell meaningfully while percentage of waste diverted from landfill jumped 9ppts YoY to 58%. This speaks to effective resource management.

'S' - female participation eased but still high

Female participation in RCE's workforce and senior management fell 4ppts YoY and 5ppts YoY respectively in FY3/26. Yet, they remain very high at 69% and 61% respectively. As a comparison, female participation in **Aeon Credit Service (M)'s (ACSMK MK, CP: MYR4.55, Not Rated)** workforce and senior management was similar at 65% and 59% respectively in FY3/26. Thus, we are not overly concerned about easing female participation in RCE's workforce and senior management.

'G' - more female representation on BOD

Notwithstanding the above, female representation on RCE's BOD grew to 43% in FY3/26 or up 18ppts YoY. According to our records, this is the first time female representation on its BOD crossed the 30% threshold since we commence monitoring its ESG credentials in FY3/20. On another note, FY3/26 dividend payout ratio did fall 15ppts YoY to 75% but this is within its guided range of 60-80%.

FYE Mar (MYR m)	FY25A	FY26A	FY27E	FY28E	FY29E
Operating income	267	263	269	275	282
Pre-provision profit	203	196	202	208	214
Core net profit	125	127	130	134	138
Core FDEPS (MYR)	0.08	0.09	0.09	0.09	0.09
Core FDEPS growth(%)	(10.3)	1.8	0.4	2.9	2.9
Net DPS (MYR)	0.07	0.07	0.07	0.07	0.08
Core FD P/E (x)	15.7	12.2	10.5	10.2	9.9
P/BV (x)	2.3	1.8	1.5	1.4	1.4
Net dividend yield (%)	4.9	6.2	7.7	7.7	8.3
Book value (MYR)	0.57	0.59	0.61	0.63	0.65
ROAE (%)	14.9	14.8	14.7	14.7	14.6
ROAA (%)	4.2	4.2	4.3	4.3	4.3
Consensus net profit	-	-	129	134	138
MIBG vs. Consensus (%)	-	-	0.9	0.0	(0.0)

Company Description

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

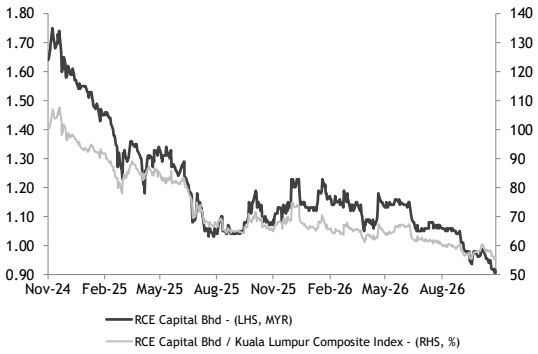
Statistics

52w high/low (MYR)	1.23/0.91
3m avg turnover (USDm)	0.1
Free float (%)	35.0
Issued shares (m)	1,501
Market capitalisation	MYR1.4B
	USD335M

Major shareholders:

Cempaka Empayar Sdn. Bhd.	58.6%
Public Mutual Bhd.	3.5%
Lembaga Tabung Haji	3.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(6)	(15)	(15)
Relative to index (%)	(4)	(9)	(15)

Source: FactSet

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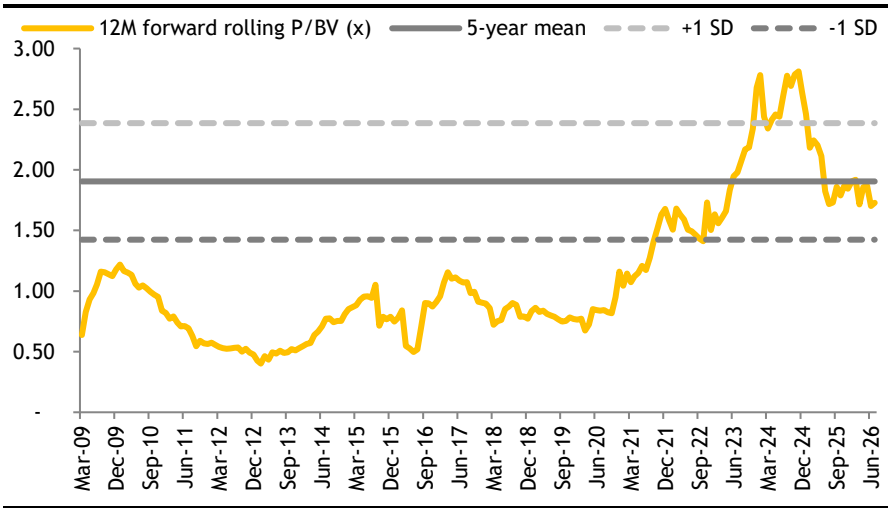
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Valuation and recommendation

Our TP of MYR1.15 TP is based on 1.9x end-CY26E P/BV. We derive a target end-CY26E P/BV of 1.9x via the following assumptions: - (i) 2 year forward ROE of 14.9%; (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).

Figure 1: RCE rolling 12M forward P/BV (x)

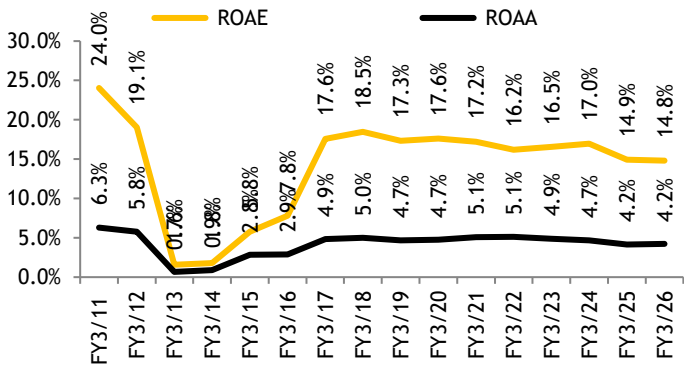


Source: Company, Maybank IBG Research, Bloomberg

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.

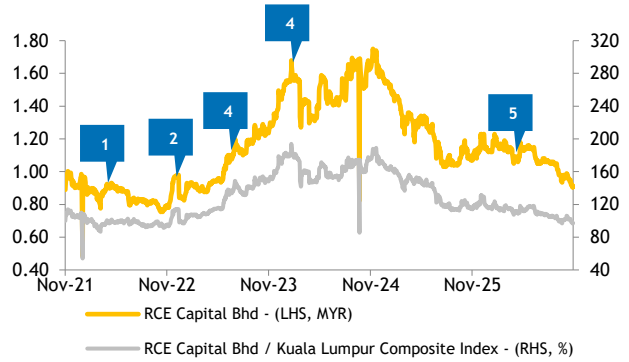
ROAE and ROAA



Source: Company

Price Drivers

Historical share price trend



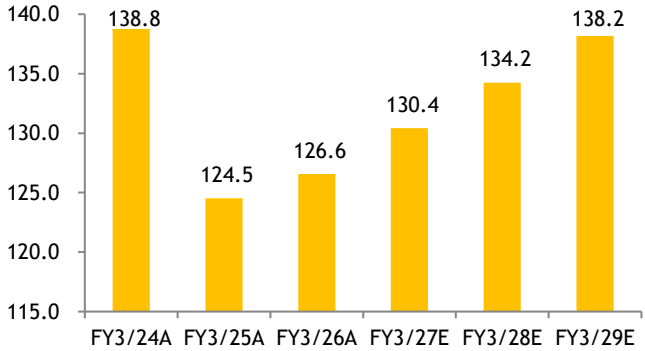
Source: Company, Maybank IBG Research

1. Announced share DPS of 1 treasury share for 20 shares held and bonus issue of 19 shares for 21 shares held.
2. Bank Negara Malaysia raised Overnight Policy Rate by 25bps for the first time since Jul 2020.
3. Announced a huge special DPS of 18sen and higher-than expected interim DPS of 5sen.
4. Announced that it raised its dividend policy from 20-40% DPR to 60-80% DPR.
5. Despite civil servants' salaries being hiked by 15% over 2 years, financing receivables growth has been flattish.

Financial Metrics

- Introduced better credit scoring model in 2013. We forecast gross financing CAGR of 2% p.a. over the next 3 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 3-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 (historical), 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.

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Risk Rating & Score[1]	N/A
Score Momentum[2]	N/A
Last Updated	N/A
Controversy Score[3]	N/A

Business Model & Industry Issues

- Being a non-bank financial institution (NBFI), RCE does not have a large environmental footprint. That said, we opine that is has a large social footprint by way of responsible financing.
- NBFIs were a lot more carefree in disbursing financing before Jul 2013. In Jul 2013, Bank Negara Malaysia instituted macro prudential measures to rein in high household debt levels caused by the aforementioned.
- Since then, reflecting RCE's broad transition to more socially-responsible lending parameters, tenure of its financing is capped at 10 years (25 years previously) and debt service ratio of its customers is capped at 60%.
- In CY13, RCE also put in place an in-house credit scoring model that precludes RCE from over-lending to particular customers. As a result, average financing/customer has eased from c.MYR30,000 in FY3/13 to c. MYR20,000 currently.
- To be sure, RCE does carry out related party transactions (RPT) as it places deposits and borrows from AMMB Holdings which is 10%-owned by Tan Sri Azman Hashim, the controlling shareholder of RCE.
- That said, interest rates on the aforementioned deposits and borrowings do not appear unfair to us or detrimental to minority shareholders. RCE has also been a constituent of the FTSE4Good Bursa Malaysia Index since 22 Jun 2020.
- All in all, we rate RCE's ESG credentials vis-à-vis its core business as commendable. RCE scores above-average in our proprietary scoring methodology with an overall score of 75/100 (unchanged).

Material E issues

- No major environmental issues. Cut paper utilisation/ employee by 14% YoY to 55.2 MT in FY3/26.
- The above was achieved via emails reminding employees to "Think before you Print" and printing on both sides.
- FY3/26 scope 1 and 2 emissions in CO2e tonnes per employee cut to 0.89 (FY3/25: 0.98).
- Part of the reason for the above is due to the extensive use of energy saving light bulbs.

Material S issues

- RCE is guided by Bank Negara Malaysia's (BNM) guidelines for responsible financing.
- In Jul 2013, BNM instituted macro prudential measures to rein in high household debt levels.
- Since then, tenure of its financing is capped at 10 years and debt service ratio of its customers is capped at 60%.
- In-house credit scoring model put in place in CY13 precludes RCE from over-lending to a customer.
- As a result, average financing/customer has eased from c.MYR30,000 in FY3/13 to c. MYR20,000 currently.
- Technical and soft skills trainings provided to sales team to promote responsible financing.
- Extends study grants to students pursuing the Association of Chartered Certified Accountants qualification.
- To date, RCE has extended MYR596,000 in study grants to 38 students.
- An overwhelming 69% of RCE's employees as at end-FY3/26 are women.
- FY3/26 overall employee turnover rate normalised to 12.8% (FY3/25: 7.6%, FY3/24: 12.8%).
- FY3/26 average training hours per employee was 24 (FY3/25: 22, FY3/24: 24).

Key G metrics and issues

- BOD comprises 1 Non-Independent Non-Executive Chairman (NINEC), 2 Non-Independent Non-Executive Directors (NINED) and 4 Independent Directors (ID; 57% of total).
- Largest shareholder is Cempaka Empayar Sdn Bhd, which is controlled by Tan Sri Azman Hashim (TSAH).
- NINEC, Shahman Azman is a son of TSAH. NINED, Shalina Azman is a daughter of TSAH.
- 3 of the 7 BOD members are women (43% representation), the aforementioned Shalina Azman, Azura Binti Rahman and Tracey Chen Wee Keng.
- FY3/26 directors' remuneration accounted for <1% of FY3/26 net profit.
- Deloitte PLT is the independent auditor. They have been appointed for >10 years.
- There are 4 BOD level committees. 2 are chaired by IDs (i.e. Audit and Nomination & Remuneration), 1 chaired by a NINED (i.e. Employees' Share Scheme) and 1 chaired by the NINEC (i.e. Sustainability Management).
- Carries out RPTs with AMMB Holdings (AMMB), which is 10%-owned by TSAH. As at end-FY3/26, RCE has deposits of MYR213.8m and borrowings of MYR424.4m with AMMB.
- That said, interest rates on the aforementioned deposits and borrowings appear fair to us.
- RCE hired PricewaterhouseCoopers Consulting to review its related party transactions.

[1]***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]***Score Momentum*** - indicates changes to the company's score since the last update – a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. [3]***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

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	Quantitative Parameters (Score: 50)					
	Particulars	**Unit**	**2024**	**2025**	**2026**	**ACSM MK (FY3/26)**
E	Scope 1 emissions	tCO2e	26	28	25	213
	Scope 2 emissions	tCO2e	191	186	185	2,613
	Total	**tCO2e**	**218**	**214**	**210**	**2,826**
	Scope 3 emissions	tCO2e	377	369	426	771,930
	Total	**tCO2e**	**594**	**583**	**636**	**774,756**
	Scope 1 & 2 emissions per employee	tCO2e	1.08	0.98	0.89	0.85
	Energy consumption	GJ	1,351.1	1,336.0	1,284.4	16,697.6
	Water consumption	m3	267	277	276	13,385
	Paper consumption per employee	'000 kg	77.0	64.1	55.2	4.0
	Waste generated	kg	N/A	2,069.8	1,688.1	N/A
	Waste diverted from disposal	%	N/A	49%	58%	N/A
S	% of women in workforce	%	74%	73%	69%	65%
	% of women in managerial roles	%	69%	66%	61%	59%
	Sales team training in responsible financing participation rate	%	97.2%	100.0%	100.0%	N/A
	Community investment as % of net profit	%	0.2%	0.2%	0.2%	0.5%
	Employee turnover rate	%	12.8	7.6	12.8	11.0
	Employee training per employee	hours	24	22	24	30
G	Incidents of non-compliance	incidents	-	-	-	-
	Board salary as % of core net profit	%	0.7%	0.8%	0.8%	1.5%
	Independent directors on the Board	%	50%	56%	57%	55%
	% of profits returned to shareholders	%	79%	90%	75%	41%
	Female directors on the Board	%	25%	25%	43%	36%

Qualitative Paramaters (Score: 100)

a) Is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?
Yes. RCE has an ESG policy in place. It has a Sustainability Working Committee which reports to the Sustainability Management Committee which in turn, reports directly to the Board of Directors.

b) Is the senior management salary linked to fulfilling ESG targets?
Yes. Up to 20%.

c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?
Yes.

e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?
Yes. Business travel and employee commuting.

f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?
Switching off all office lights and equipment during breaks and before leaving office, retro-fitting LED lighting, recycling paper and avoiding unnecessary printing.

g) Does carbon offset form part of the net zero/carbon neutrality target of the company?
Yes but it is not a major polluter.

Target (Score: 100)		
Particulars	**Target**	**Achieved**
Progressive reduction in Scope 1 & 2 emissions (2020 as baseline year)	-	N/A
Scope 1 & 2 - Net zero by 2050 (2020 as baseline year)	-	N/A
Scope 3 - Net zero by 2050 (2020 as baseline year)	-	N/A
Impact		
NA		
Overall Score: 75		
As per our ESG matrix, RCE Capital (RCE MK) has an overall score of 75.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	50	25
Qualitative	25%	100	25
Target	25%	100	25
Total			**75**

As per our ESG assessment, RCE has an established framework, internal policies, and tangible mid/long-term targets. RCE's overall ESG score is 75, which makes its ESG rating above average in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

Appendix I

Methodology of our proprietary ESG scoring methodology.

We evaluate the ESG ratings based on quantitative, qualitative and ESG targets. We assign a score for each of these three parameters. The overall rating is based on the weighted average of the scores: quantitative (50%), qualitative (25%) and ESG target (25%).

For the quantitative, qualitative and ESG target, the sub-parameters are assigned a score - '0' for data not available, '+1' for improving trajectory, positive change, 'Yes', better than peers or a positive number if historical is not available and '-1' for declining trajectory, negative change, 'No', lower than peers or a negative number. The total of the scores of all the sub-parameters is divided by the total number of sub-parameters, to derive the score of each of the three parameters.

The sub-parameters may be different for different industries depending on the key areas to monitor for each industry. A company should achieve a minimum score of 50 for an average ESG rating.

FYE 31 Mar	FY25A	FY26A	FY27E	FY28E	FY29E
Key Metrics					
Core P/E (x)	15.7	12.2	10.2	9.9	9.6
Core FD P/E (x)	15.7	12.2	10.5	10.2	9.9
P/BV (x)	2.3	1.8	1.5	1.4	1.4
P/NTA (x)	2.5	1.9	1.6	1.5	1.5
Net dividend yield (%)	4.9	6.2	7.7	7.7	8.3
INCOME STATEMENT (MYR m)					
Islamic banking income	219.6	219.7	225.0	230.5	236.1
Other income	47.8	42.8	43.7	44.6	45.4
Total non-interest income	**267.4**	**262.5**	**268.7**	**275.0**	**281.6**
Operating income	**267.4**	**262.5**	**268.7**	**275.0**	**281.6**
Staff costs	(33.9)	(34.3)	(34.9)	(35.5)	(36.2)
Other operating expenses	(30.5)	(31.8)	(31.8)	(31.8)	(31.8)
Operating expenses	**(64.3)**	**(66.1)**	**(66.7)**	**(67.3)**	**(68.0)**
Pre-provision profit	**203.0**	**196.4**	**202.0**	**207.7**	**213.5**
Other allowances	(37.5)	(24.3)	(24.7)	(25.2)	(25.7)
Associates & JV income	0.0	0.0	0.0	0.0	0.0
Pretax profit	**146.5**	**172.1**	**177.3**	**182.5**	**187.8**
Income tax	(41.0)	(45.5)	(46.9)	(48.2)	(49.7)
Reported net profit	**105.5**	**126.6**	**130.4**	**134.2**	**138.2**
Core net profit	**124.5**	**126.6**	**130.4**	**134.2**	**138.2**
BALANCE SHEET (MYR m)					
Cash & deposits with banks	767.5	763.4	791.5	823.5	852.4
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	2,004.9	2,021.7	2,061.2	2,101.6	2,142.7
Fixed assets	4.9	4.4	4.0	3.7	3.4
Intangible assets	50.2	68.4	68.4	68.4	68.4
Other assets	158.6	146.0	146.0	146.0	146.0
Total assets	**2,986.2**	**3,003.8**	**3,071.1**	**3,143.1**	**3,212.8**
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	979.7	1,035.9	1,035.9	1,035.9	1,035.9
Other borrowings	578.9	539.6	578.9	619.0	660.3
Other liabilities	588.1	557.7	557.9	558.1	558.3
Total liabilities	**2,146.6**	**2,133.1**	**2,172.7**	**2,213.0**	**2,254.5**
Share capital	204.9	204.9	204.9	204.9	204.9
Reserves	634.6	665.8	693.6	725.2	753.5
Shareholders' funds	839.5	870.7	898.5	930.1	958.3
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	839.5	870.7	898.5	930.1	958.3
Total liabilities & equity	**2,986.2**	**3,003.8**	**3,071.1**	**3,143.1**	**3,212.8**

FYE 31 Mar	FY25A	FY26A	FY27E	FY28E	FY29E
Key Ratios					
Growth (%)					
Net interest income	na	na	na	na	na
Non-interest income	(4.8)	(1.8)	2.3	2.4	2.4
Operating expenses	(2.2)	2.8	0.8	1.0	1.0
Pre-provision profit	(5.6)	(3.3)	2.9	2.8	2.8
Core net profit	(10.3)	1.6	3.0	2.9	2.9
Gross loans	(0.5)	1.1	2.0	2.0	2.0
Customer deposits	na	na	na	na	na
Total assets	(0.3)	0.6	2.2	2.3	2.2
Profitability (%)					
Non-int. income/Total income	100.0	100.0	100.0	100.0	100.0
Cost/income	24.1	25.2	24.8	24.5	24.2
Liquidity (%)					
Loans/customer deposits	na	na	na	na	na
Asset quality (%)					
Gross NPF	4.6	4.3	4.3	4.3	4.3
Capital adequacy (%)					
CET1	na	na	na	na	na
Tier 1 capital	na	na	na	na	na
Risk-weighted capital	na	na	na	na	na
Returns (%)					
ROAE	14.9	14.8	14.7	14.7	14.6
ROAA	4.2	4.2	4.3	4.3	4.3
Shareholders equity/assets	28.1	29.0	29.3	29.6	29.8

Source: Company; Maybank IBG Research

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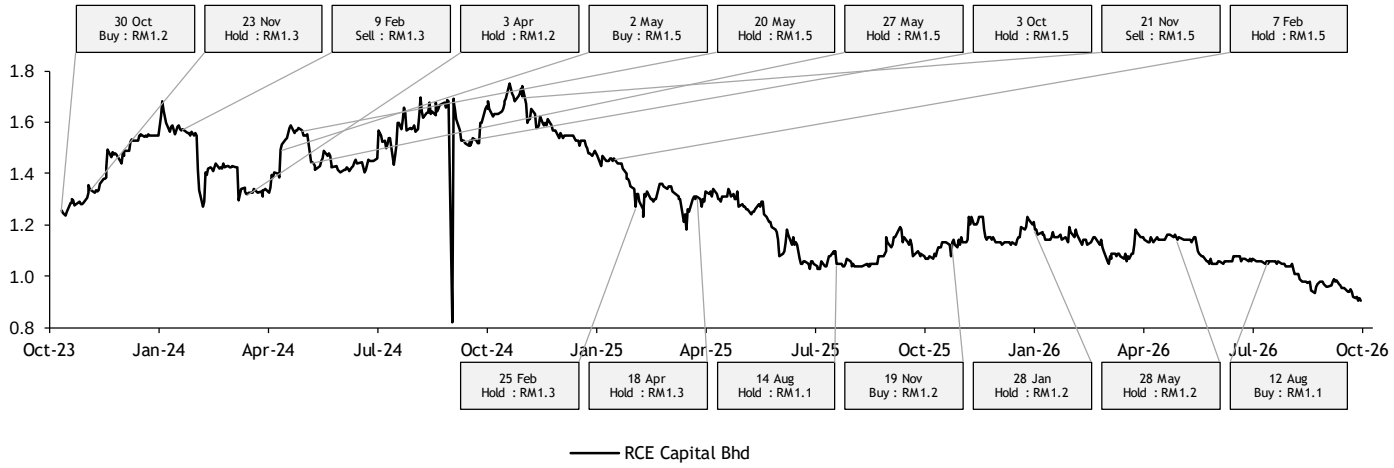
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