

RCE Capital

Stabilisation in earnings; upgrade to Hold

- RCE Capital (RCE) posted a decent recovery in 3QFY3/26 with core net profit (CNP) at RM36.6m (+19% YoY, +24.9% QoQ), while CNP grew marginally by 3.4% YoY in 9M3/25.
- Results were ahead of our forecast but within consensus estimates, in the absence of a non-recurring expense, lower provisions, and higher early settlement income.
- We raise our FY3/26/27/28F earnings forecasts by 8.8%/8.5%/8.3%, respectively. Given the improved credit risk outlook, we upgrade RCE from Reduce to Hold, with a higher TP of RM1.18, based on a P/BV target of 1.91x (previously 1.65x).

9MFY3/26 results ahead of our forecasts, in line with consensus

RCE's 9MFY3/26 results came in as a surprise to us: 3QFY3/26 CNP of RM36.6m (+19% YoY, +24.9% QoQ) was driven by lower operating expenses (opex) and a sharper dip in provisions despite a modest expansion in net financing income in 3QFY3/26 (+4.5% YoY, -0.2% QoQ). RCE noted sequential moderation in financing demand growth, mainly due to civil servants deferring new applications ahead of the salary adjustment in Jan 2026. Meanwhile, for 9MFY3/26, RCE recorded modest growth in net financing income of +2.9% YoY largely owing to many civil servants' deferment stance. Notwithstanding the slower top-line growth, RCE continued to benefit from higher early settlement income from increased disbursement and refinancing activities. 9MFY3/26 financing allowances within the group also edged down by 13% YoY following the rollout of initiatives to tighten risk management and curb exposure to irresponsible practices within the industry. RCE has delivered sequential improvements each quarter since the initiatives were implemented a year ago. For 9MFY3/26, CNP rose by 3.4% YoY.

FY3/26/27/28F earnings forecasts raised

We have raised our FY3/26/27/28F earnings projections by 8.8%/8.5%/8.3%, respectively, on overall lower opex, while maintaining our current assumptions as follows: (i) gross financing receivables growth of 5.5–6.0%, (ii) net credit charge of 180 basis points (bps) p.a., (iii) net financing margin of 9.4–9.5%, (iv) average cost of funds of 5%.

Upgrade RCE from Reduce to Hold, with TP raised to RM1.18 (from RM1.00)

Following our earnings revisions, we raise our target price (TP) to RM1.18 (from RM1.00) based on an FY27F P/BV target of 1.91x (previously 1.65x), premised on a dividend-adjusted FY27F ROE of 15.1%, cost of equity of 9.35%, and a terminal growth rate of 3.0%. Our revised P/BV multiple reflects lower earnings volatility following tighter underwriting standards, an improved provisioning trend (with credit costs normalising), and a consistent, sustainable dividend yield of ~6% supported by a >70% payout ratio and a stable funding cost assumption of 5%, with contained leverage. This places RCE broadly in line with its mid-cycle valuation multiples, with its risk-reward profile now more balanced.

However, structural constraints remain owing to RCE's (i) concentrated lending exposure to civil servants and the bottom 40% income group (B40) borrowers, (ii) sensitivity to economic slowdown and shocks, and (iii) reliance on payroll-deduction service providers, which may expose the group to downside earnings risks and sophisticated frauds.

We upgrade RCE to Hold as downside risks appear contained while catalysts for further multiple expansion remain limited.

HOLD (from Reduce)

 Share price: **RM1.18** Target price: **RM1.18** ▲

RM1.18 RM1.18

Consensus: Buy:1 Hold:3 Reduce:0

Stock information

Bloomberg ticker	RCE MK
Refinitiv ticker	REDI.KL
Share price (RM)	1.18
Market cap (US\$m/RMm)	439/1,732
ADTV (RMm)	0.8
Free float (%)	32.5
Upside/(downside) (%)	0.0
CIMB/consensus TP (%)	(1.7)

We continue to expect uplift to earnings in FY26-28F in the absence of a non-recurring expense and a more benign credit risk outlook.

Earnings forecast

	Mar-25A	Mar-26F	Mar-27F
Core net profit (RMm)	105.5	127.6	134.3
Core EPS (sen)	7.2	8.7	9.2
Core EPS growth (%)	(24.0)	5.3	4.5
FD core P/E (x)	16.4	13.6	12.9
Recurring ROE (%)	12.2	14.9	15.1
P/BV (x)	2.1	2.1	2.0
DPS (sen)	6.5	6.5	6.5
Dividend yield (%)	5.5	5.5	5.5

Source: CIMB Securities

Price performance

	1M	3M	12M
Absolute (%)	0.9	(4.1)	(6.3)
Relative (%)	3.0	(9.1)	(14.0)

Source: Bloomberg, CIMB Securities

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Figure 1: Financial results

FYE December	3QFY26	3QFY25	YoY %	2QFY26	QoQ %	9MFY26	9MFY25	YoY %	CIMB's FY26F	Comments
RM'm										
Net financing income	48.7	46.6	4.5	48.7	(0.2)	144.4	140.4	2.9	203.0	Steady growth in 3QFY26 and 9MFY26 net financing income on a RM2bn receivables portfolio.
Non-interest Income	8.8	8.5	3.2	9.6	(8.4)	27.0	23.0	17.0	41.3	Increase driven by early settlement income.
Operating income	57.4	55.1	4.3	58.3	(1.5)	171.4	163.4	4.9	244.3	
Overhead expenses	(5.9)	(5.8)	1.3	(11.7)	(49.4)	(26.4)	(21.6)	21.8	(49.3)	
Pre-provision profit	51.5	49.3	4.6	46.6	10.5	145.0	141.8	2.3	195.0	
Allowance for ECLs	(3.0)	(8.4)	(64.7)	(5.3)	(43.7)	(19.5)	(22.5)	(13.1)	(38.7)	Lower allowances in 3QFY26 following
Other impairments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	increased customer refinancing activities
Profit after provision	48.6	40.9	18.8	41.4	17.3	125.5	119.3	5.2	156.4	
Associate	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Pre-tax profit	48.6	40.9	18.8	41.4	17.3	125.5	119.3	5.2	156.4	
Net profit	36.6	30.8	19.1	29.3	24.9	91.9	88.9	3.4	117.3	Ahead of our estimates, within
Core Net profit	36.6	30.8	19.1	29.3	24.9	91.9	88.9	3.4	117.3	consensus.
Core EPS (sen)	2.5	2.1	18.9	2.0	24.9	6.3	6.1	3.2	8.0	
DPS (sen)	-	-	<i>n.m.</i>	3.0	<i>n.m.</i>	3.0	3.0	-	6.5	
Net yield (%)	-	-	<i>n.m.</i>	2.6	<i>n.m.</i>	2.6	2.6	-	5.6	

Source: CIMB Securities estimates

Figure 2: RCE Capital — Housekeeping revisions to Gordon growth model-derived TP

Valuation Assumptions:	FY27F	Key rationale
ROE	15.1%	Based on dividend-adjusted FY27F ROE.
Beta	1.0	
Cost of Equity (CoE)	9.35%	Based on RFR of 3.5% and investor risk premium of 6.25%.
Risk-free rate (RFR)	3.5%	
Risk premium	5.85%	
Terminal growth (g)	3.0%	Terminal growth of 3% reflects maturity of Malaysia's household financing market and impact of cyclical headwinds.
Gordon Growth Model:		
$\frac{ROE - g_c}{CoE - g}$ P/BV multiple (x) =	1.91	
BVPS (RM)	0.62	
Target Price (RM)	1.18	
Upside/(Downside)	9.6%	

Source: CIMB Securities estimates

Financial Information

Figure 1: Profit and Loss

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Interest income	291	292	307	322	338
Interest expense	(99)	(100)	(104)	(108)	(113)
Net interest income	192	192	203	215	226
Non-interest income	51	39	41	43	44
Operating income	243	231	244	257	270
Staff costs	(32)	(34)	(36)	(37)	(39)
Other (expenses)/income	4	(13)	0	0	0
Pre-provision expenses	(28)	(47)	(36)	(37)	(39)
Pre-Provision Profit	215	184	209	220	231
ECL allowance on receivables	(30)	(19)	(39)	(41)	(43)
Other impairments	0	(19)	0	0	0
Share of associate profit/(loss)	0	0	0	0	0
Pretax Profit	185	147	170	179	187
Income tax expense	(46)	(41)	(43)	(45)	(47)
Minority interest	0	0	0	0	0
Net profit	139	106	128	134	140
Core net profit	139	106	128	134	140

Source: CIMB Securities, Company

Figure 2: Key Ratios

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
ROA (%)	4.7	3.5	4.2	4.3	4.3
ROE (%)	27.0	12.2	14.9	15.1	15.0
Net financing margin (%)	9.3	9.2	9.5	9.5	9.4
Net interest income/Operating income (%)	79.1	83.0	83.1	83.5	83.8
NOII/Operating income (%)	20.9	17.0	16.9	16.5	16.2
Pre-provision CIR (%)	11.5	20.5	14.5	14.5	14.5
Post-provision CIR (%)	24.0	28.5	30.4	30.4	30.6
Gross impaired financing ratio (%)	6.1	6.7	6.7	6.7	6.7
Financing loss coverage (%)	153.3	147.3	150.0	150.0	150.0
Net credit charge (bps)	146.7	88.4	180.0	180.0	180.0
Net debt-to-equity ratio (x)	1.5	1.5	1.5	1.5	1.5
Interest coverage ratio (x)	346.9	330.6	335.0	339.4	339.8
Capital adequacy ratio (CAR) (%)	40.3	40.1	40.6	40.1	39.7
Dividend payout ratio (%)	79.2	90.3	74.7	71.0	67.9

Source: CIMB Securities, Company

Financial Information

Figure 3: Balance Sheet

(RMm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Plant and equipment	11	7	7	7	7
Goodwill and intangible assets	47	50	50	50	50
Investments in JVs/Associates	0	0	0	0	0
Net Receivables	1,973	1,950	2,026	2,118	2,215
Other investments	0	0	0	0	0
Deferred tax assets	48	91	93	96	99
Trade and other receivables	76	120	115	116	119
Deposits pledged to financial institutions	745	626	625	630	635
Cash and bank balances	95	142	127	168	206
Total Assets	2,996	2,986	3,045	3,185	3,331
Borrowings and financing liabilities	2,120	2,058	2,100	2,200	2,300
Payables, accruals and others	36	35	36	37	38
Lease liabilities	2	1	1	1	1
Deferred tax liabilities	1	46	30	30	30
Tax liabilities	8	6	6	6	6
Total liabilities	2,166	2,147	2,173	2,274	2,375
Share capital	202	205	205	205	205
Reserves	628	635	667	706	751
Shareholders' funds	830	840	872	911	956
Minority interest	0	0	0	0	0
Total equity and liabilities	2,996	2,986	3,045	3,185	3,331

Source: CIMB Securities, Company

Figure 1: Key Drivers

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Gross receivables (RMm)	2,100.4	2,090.7	2,205.7	2,338.1	2,478.3
Gross yield on receivables (%)	14.1	14.0	14.3	14.2	14.1
Cost-of-funds (%)	4.6	4.8	5.0	5.0	5.0
Gross receivables growth (%)	3.9	(0.5)	5.5	6.0	6.0
Net interest income growth (%)	0.9	(0.1)	5.7	5.8	5.2
Non-interest income growth (%)	18.6	(22.8)	5.0	3.0	3.0
Operating Income growth (%)	4.1	(4.9)	5.6	5.3	4.8
PPOP growth (%)	1.2	(14.4)	13.4	5.4	4.8
Profit before tax growth (%)	0.5	(20.7)	16.1	5.3	4.5
Net profit growth (%)	0.0	(23.9)	20.9	5.3	4.5

Source: CIMB Securities, Company

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