

RCE Capital Bhd (RCE MK)

Still striking a conservative tone

D/G to HOLD with unchanged TP of MYR1.16 TP

We caught up with RCE following the second round of civil service salary hike. It is maintaining a cautious outlook on financing receivables growth but is more sanguine on NPF ratios and credit costs. We maintain our earnings estimates and TP to MYR1.16 based on 1.9x end-CY26E P/BV pending more clarity during the 4QFY3/26E results in May 2026. With <10% upside potential, we downgrade RCE to HOLD from BUY.

Still no guidance on financing receivables growth...

Effective Jan 2026, civil servants will receive another salary hike of 7% after an 8% salary hike in Dec 2024. Given the historically strong correlation between government emoluments and RCE's financing receivables (Fig. 1), we were underwhelmed that RCE did not provide any guidance on financing receivables growth for the second consecutive year. RCE stated that this is because competition remains intense and the creditworthiness of new applicants for financing remains less than desired.

... but NPF ratios and credit costs continue to ease

Recall that RCE's 2QFY3/26 NPF ratio eased to 4.7% from the recent 1QFY3/26 high of 4.8% in (Fig. 2) and 2QFY3/26 credit cost eased 17% YoY and 54% QoQ (Fig. 3) thanks to moderating bankruptcies, resignations and early retirements among civil servants ostensibly due to the 8% civil service salary hike in Dec 2024. RCE expects both NPF ratios and credit costs to continue moderating which we gather can be attributed to the recent 7% civil service salary hike.

May get a better picture in May 2026

We maintain our earnings estimates which are premised on gross financing receivables growth of 2% p.a. (end-2QFY3/26E: +2.0% YoY), NPF ratio of 4.6% (end-2QFY3/26E: 4.7%) and credit cost of MYR38m-MYR39m p.a (6MFY3/26E: MYR16.6m). RCE stated that it will have a better gauge of financing receivables growth going forward in May 2026 when it reports 4QFY3/26E results. Meanwhile, investors can rely on dividend yields of >5% p.a. premised on 75-80% DPR.

FYE Mar (MYR m)	FY24A	FY25A	FY26E	FY27E	FY28E
Operating income	281	267	273	279	286
Pre-provision profit	215	203	208	213	219
Core net profit	139	125	128	132	135
Core FDEPS (MYR)	0.09	0.08	0.09	0.09	0.09
Core FDEPS growth(%)	(0.0)	(10.3)	0.9	2.7	2.7
Net DPS (MYR)	0.08	0.07	0.07	0.07	0.07
Core FD P/E (x)	14.2	15.7	14.2	13.8	13.5
P/BV (x)	2.4	2.3	2.0	2.0	1.9
Net dividend yield (%)	5.6	4.9	5.4	5.8	5.8
Book value (MYR)	0.57	0.57	0.59	0.61	0.64
ROAE (%)	17.0	14.9	15.0	14.8	14.7
ROAA (%)	4.7	4.2	4.2	4.3	4.3
Consensus net profit	-	-	123	131	139
MIBG vs. Consensus (%)	-	-	4.1	0.4	(2.9)

HOLD

[Prior:BUY]

Share Price	MYR 1.21
12m Price Target	MYR 1.16 (+2%)
Previous Price Target	MYR 1.16

Company Description

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

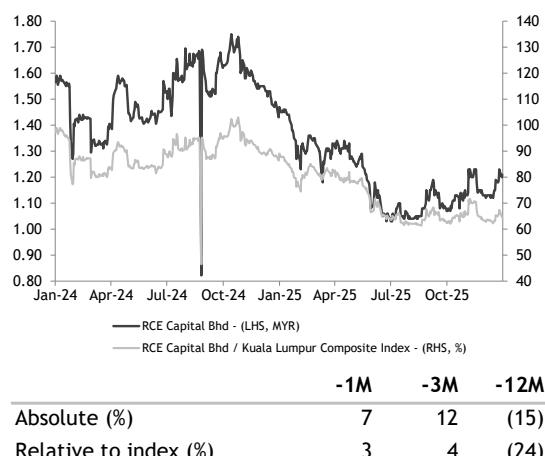
Statistics

52w high/low (MYR)	1.47/1.03
3m avg turnover (USDm)	0.2
Free float (%)	35.2
Issued shares (m)	1,484
Market capitalisation	MYR1.8B USD454M

Major shareholders:

Cempaka Empayar Sdn. Bhd.	58.4%
Lembaga Tabung Haji	2.6%
Employees Provident Fund	2.5%

Price Performance

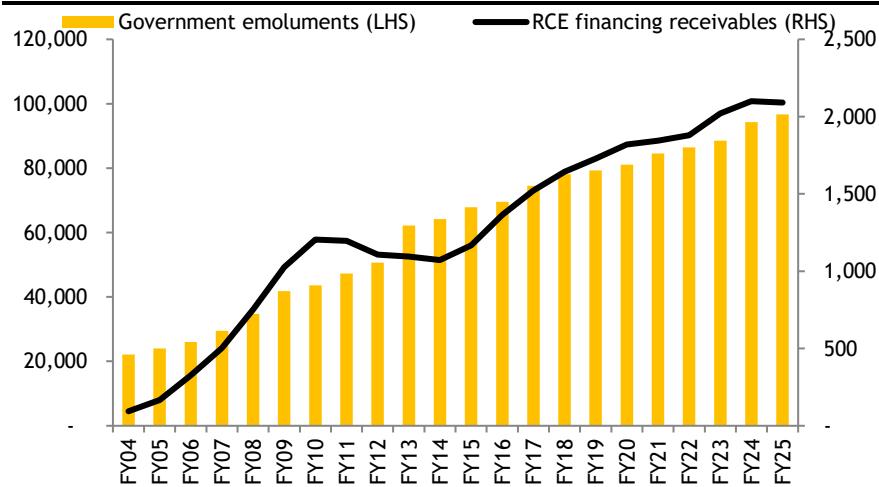


Source: FactSet

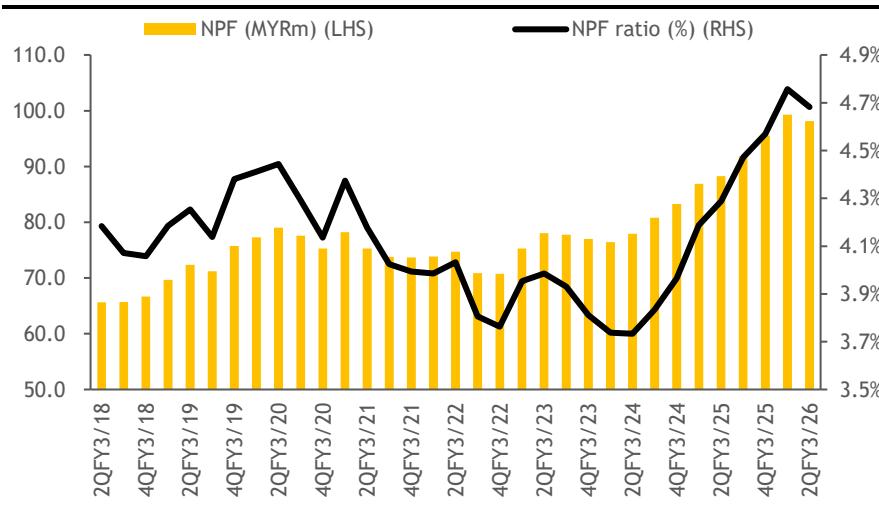
NPF = non-performing financing

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Tear Sheet Insert

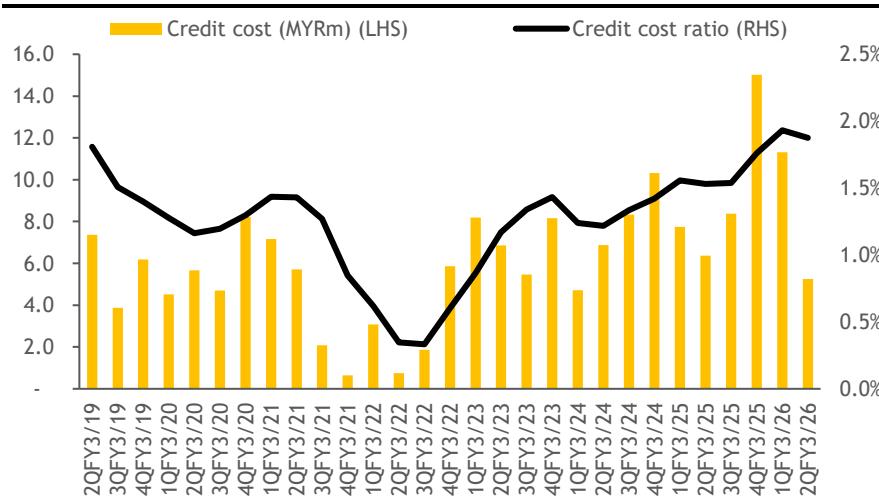
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Figure 1: Government emoluments vs. RCE gross financing receivables (MYRb)

Source: Company

Figure 2: RCE NPF

Source: Company

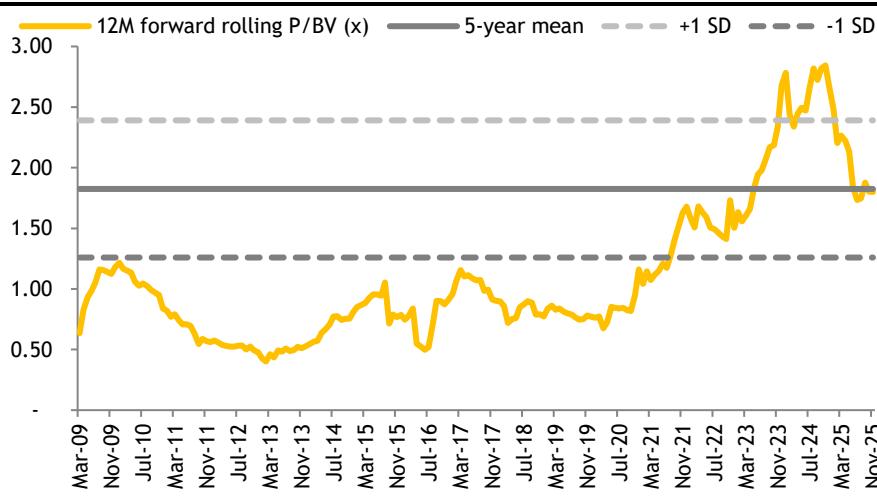
Figure 3: RCE credit cost

Source: Company

Valuation and recommendation

Our MYR1.16 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 4: RCE rolling 12M forward P/BV

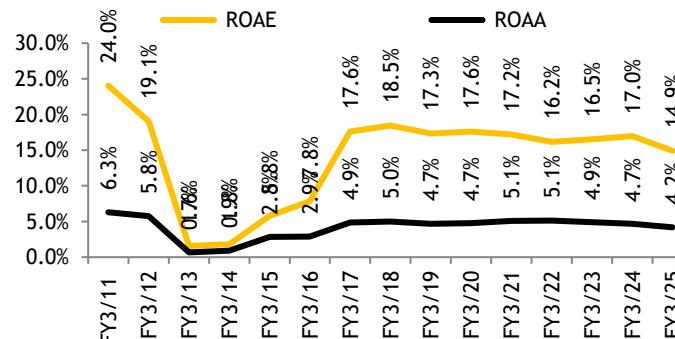


Source: Company, Maybank IBG Research, Bloomberg

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

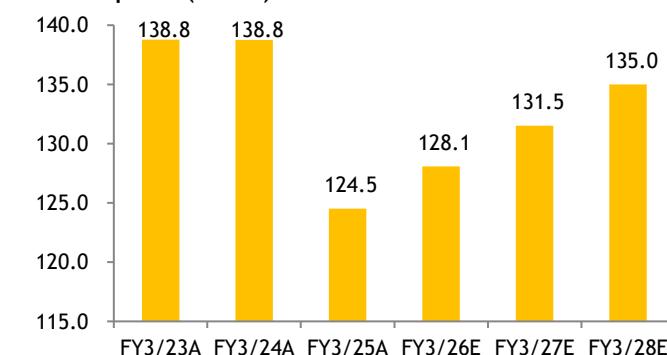


Source: Company

Financial Metrics

- Introduced better credit scoring model in 2013. We forecast gross financing CAGR of 2% 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)

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.

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 12%-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 17% YoY to 64.1 MT in FY3/25.
- The above was achieved via emails reminding employees to "Think before you Print" and printing on both sides.
- FY3/25 scope 1 and 2 emissions in CO2e tonnes per employee cut to 0.98 (FY3/24: 1.08).
- 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 73% of RCE's employees as at end-FY3/25 are women.
- FY3/25 overall employee turnover rate decreased to 7.6% (FY3/24: 12.8%, FY3/23: 16.0%).
- FY3/25 average training hours per employee was 22 (FY3/24: 24, FY3/23: 35).

Key G metrics and issues

- BOD comprises 1 Non-Independent Non-Executive Chairman (NINEC), 3 Non-Independent Non-Executive Directors (NINED) and 5 Independent Directors (ID; 56% 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 9 BOD members are women (33% representation), the aforementioned Shalina Azman, Azura Binti Rahman and Tracey Chen Wee Keng.
- FY3/25 directors' remuneration accounted for <1% of FY3/25 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 12%-owned by TSAH. As at end-FY3/25, RCE has deposits of MYR176.9m and borrowings of MYR433.5m 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	2023	2024	2025	ACSM MK (FY3/25)
E	Scope 1 emissions	tCO2e	23	26	28	57
	Scope 2 emissions	tCO2e	196	191	186	2,162
	Total	tCO2e	219	218	214	2,219
	Scope 3 emissions	tCO2e	N/A	377	369	3,603
	Total	tCO2e	219	594	583	5,822
	Scope 1 & 2 emissions per employee	tCO2e	1.09	1.08	0.98	0.69
	Energy consumption	GJ	1,310.4	1,351.1	1,336.0	13,807.1
	Water consumption	m3	N/A	267	277	23,831
S	Paper consumption per employee	'000 pieces	56.2	77.0	64.1	N/A
	Waste generated	kg	N/A	N/A	2,069.8	N/A
	Waste diverted from disposal	kg	796.7	1,010.7	1,023.8	N/A
G	% of women in workforce	%	74%	74%	73%	66%
	% of women in managerial roles	%	66%	69%	66%	46%
	Sales team responsible financing training rate	%	100.0%	97.2%	100.0%	N/A
	Responsible financing articles posted on social media	posts	19	7	7	N/A
	Complaints received & resolved	number	6	8	9	1
	Employee turnover rate	%	16.0	12.8	7.6	17.0
	Employee training per employee	hours	35	24	22	29

Qualitative Parameters (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.

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. Employee commute.

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
Net zero by 2050 (2020 as baseline year)	-	N/A
Women representation on board by FY3/25E	30%	33%

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	FY24A	FY25A	FY26E	FY27E	FY28E
Key Metrics					
Core P/E (x)	14.2	15.7	13.9	13.5	13.2
Core FD P/E (x)	14.2	15.7	14.2	13.8	13.5
P/BV (x)	2.4	2.3	2.0	2.0	1.9
P/NTA (x)	2.5	2.5	2.2	2.1	2.0
Net dividend yield (%)	5.6	4.9	5.4	5.8	5.8
INCOME STATEMENT (MYR m)					
Islamic banking income	221.2	219.6	224.2	229.7	235.4
Other income	59.6	47.8	48.7	49.7	50.7
Total non-interest income	280.8	267.4	272.9	279.4	286.1
Operating income	280.8	267.4	272.9	279.4	286.1
Staff costs	(32.2)	(33.9)	(34.2)	(34.8)	(35.5)
Other operating expenses	(33.6)	(30.5)	(30.7)	(31.2)	(31.8)
Operating expenses	(65.8)	(64.3)	(64.9)	(66.1)	(67.3)
Pre-provision profit	215.1	203.0	208.0	213.4	218.8
Other allowances	(30.2)	(37.5)	(37.8)	(38.5)	(39.3)
Associates & JV income	0.0	0.0	0.0	0.0	0.0
Pretax profit	184.8	146.5	170.2	174.8	179.5
Income tax	(46.1)	(41.0)	(42.2)	(43.3)	(44.4)
Reported net profit	138.8	105.5	128.1	131.5	135.0
Core net profit	138.8	124.5	128.1	131.5	135.0
BALANCE SHEET (MYR m)					
Cash & deposits with banks	840.2	767.5	802.1	833.8	869.3
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	2,027.3	2,004.9	2,043.9	2,083.7	2,124.3
Fixed assets	7.3	4.9	3.9	3.0	2.0
Intangible assets	47.3	50.2	50.2	50.2	50.2
Other assets	73.5	158.6	158.6	158.6	158.6
Total assets	2,995.6	2,986.2	3,058.8	3,129.3	3,204.4
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	1,175.8	979.7	979.7	979.7	979.7
Other borrowings	552.9	578.9	618.6	660.3	702.9
Other liabilities	437.1	588.1	588.3	588.4	588.6
Total liabilities	2,165.8	2,146.6	2,186.6	2,228.4	2,271.2
Share capital	201.9	204.9	204.9	204.9	204.9
Reserves	627.9	634.6	667.3	696.0	728.3
Shareholders' funds	829.8	839.5	872.2	900.9	933.2
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	829.8	839.5	872.2	900.9	933.2
Total liabilities & equity	2,995.6	2,986.2	3,058.8	3,129.3	3,204.4

FYE 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
Key Ratios					
Growth (%)					
Net interest income	na	na	na	na	na
Non-interest income	7.4	(4.8)	2.1	2.4	2.4
Operating expenses	34.9	(2.2)	0.9	1.9	1.9
Pre-provision profit	1.2	(5.6)	2.5	2.6	2.5
Core net profit	(0.0)	(10.3)	2.8	2.7	2.7
Gross loans	3.9	(0.5)	2.0	2.0	2.0
Customer deposits	na	na	na	na	na
Total assets	1.7	(0.3)	2.4	2.3	2.4
Profitability (%)					
Non-int. income/Total income	100.0	100.0	100.0	100.0	100.0
Cost/income	23.4	24.1	23.8	23.6	23.5
Liquidity (%)					
Loans/customer deposits	na	na	na	na	na
Asset quality (%)					
Gross NPF	4.0	4.6	4.6	4.6	4.6
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	17.0	14.9	15.0	14.8	14.7
ROAA	4.7	4.2	4.2	4.3	4.3
Shareholders equity/assets	27.7	28.1	28.5	28.8	29.1

Source: Company; Maybank IBG Research

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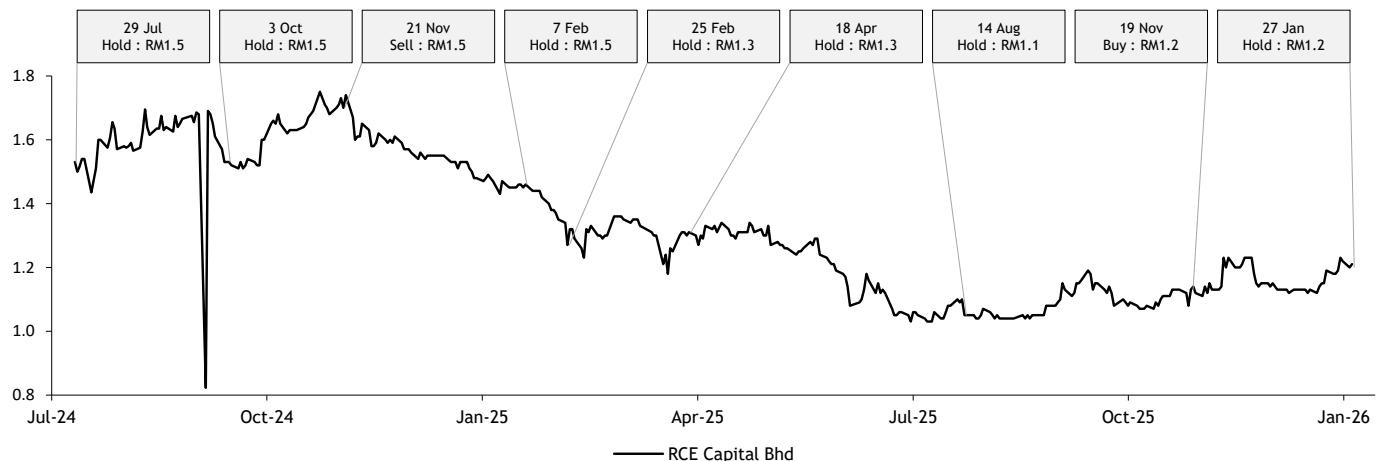
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