

## RCE Capital Bhd (RCE MK)

# Consistent earnings delivery but financing growth lacking

### Maintain HOLD call; slightly lower MYR1.15 TP

Earnings and dividends were within our expectations. Asset quality improved and credit cost continues to moderate. However, financing growth remained tepid despite civil service salary hikes. We keep FY27E/FY28E EPS largely unchanged (-1%/-1%) and expect unexciting 3-year forward EPS CAGR of 3% p.a. without stronger financing growth. We also trim our TP to MYR1.15 from MYR1.16 TP on an unchanged 1.9x end-CY26E P/BV. Maintain HOLD.

### Results within our expectations

4QFY3/26 core net profit of MYR34.7m (-3% YoY, -5% QoQ) brought FY3/26 core net profit to MYR126.6m (+2% YoY) which was in-line with our expectations at 99% of our FY estimate. The second interim DPS of 3.5sen brought FY3/26 total DPS to 6.5sen which was also within our expectations at 100% of our FY estimate. That said, financing growth QoQ continues to be tepid at 1% despite the 7% civil service salary hike in Jan 2026 as the creditworthiness of new applicants for financing remains less than desired.

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

4QFY3/26 NPF ratio eased to 4.3% from the recent 1QFY3/26 high of 4.8% in (Fig. 2) and 4QFY3/26 credit cost plunged 68% YoY (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 and another 7% hike in Jan 2026. Going forward, RCE believes that both NPF ratios and credit costs have stabilised and do not expect them to moderate much more.

### ... but earnings growth outlook unexciting, in our view

Our FY27E/FY28E EPS estimates are little changed (-1%/-1%) on minor housekeeping after the release of the aforementioned 4QFY3/26 and FY3/26 results and we introduce FY3/29E EPS estimates which imply earnings growth of 3% YoY. Our estimates are premised on gross financing receivables growth of 2% p.a., NPF ratio of 4.3% and credit cost of c.MYR25m p.a. Without strong financing growth, we expect RCE to record pedestrian 3-year forward EPS CAGR of 3% p.a.

FYE Mar (MYR m)	FY25A	FY26A	FY27E	FY28E	FY29E
Operating income	267	263	269	275	281
Pre-provision profit	203	196	202	208	213
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	1.0	2.9	2.8
Net DPS (MYR)	0.07	0.07	0.07	0.07	0.08
Core FD P/E (x)	15.7	12.2	13.4	13.0	12.6
P/BV (x)	2.3	1.8	1.9	1.8	1.8
Net dividend yield (%)	4.9	6.2	6.0	6.0	6.5
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	-	-	131	139	na
MIBG vs. Consensus (%)	-	-	(0.4)	(3.5)	na

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## HOLD

Share Price MYR 1.16  
12m Price Target MYR 1.15 (+5%)  
Previous Price Target MYR 1.16

### Company Description

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

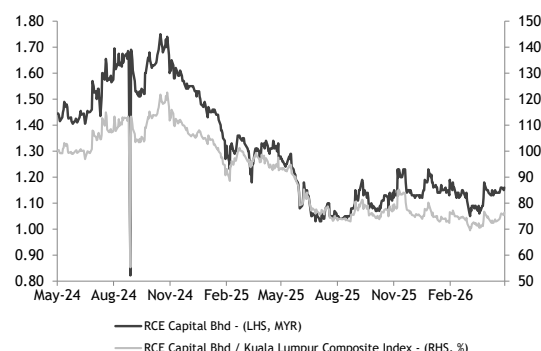
### Statistics

52w high/low (MYR)	1.29/1.03
3m avg turnover (USDm)	0.1
Free float (%)	35.7
Issued shares (m)	1,484
Market capitalisation	MYR1.7B USD434M

### Major shareholders:

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

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	(3)	(9)
Relative to index (%)	(0)	(1)	(19)

Source: FactSet

Figure 1: Summary Results Table

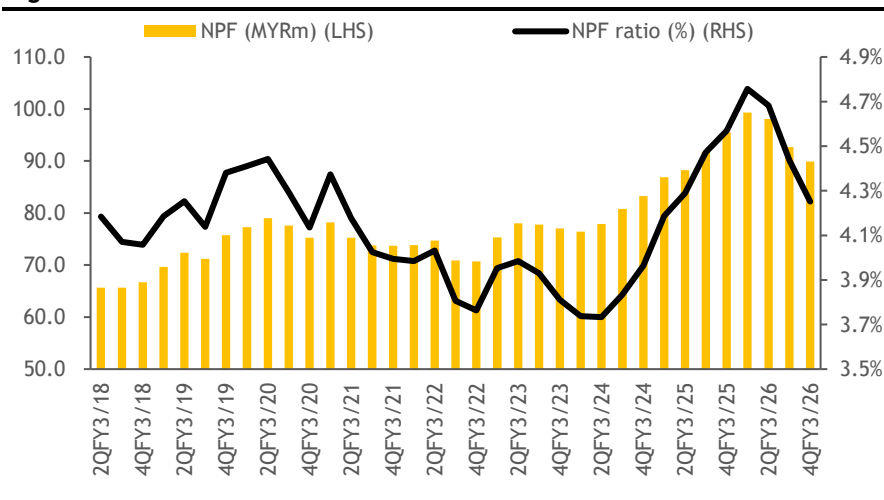
FY Mar (MYRm)	4QFY3/26	4QFY3/25	% YoY	3QFY3/26	% QoQ	FY3/26	FY3/25	% YoY
Interest/profit income	70.4	76.6	(8.1)	72.5	(2.9)	287.2	292.4	(1.8)
Other revenue	9.1	16.3	(43.9)	8.8	3.8	36.1	39.3	(8.2)
<b>Revenue</b>	<b>79.5</b>	<b>92.8</b>	<b>(14.3)</b>	<b>81.3</b>	<b>(2.1)</b>	<b>323.2</b>	<b>331.7</b>	<b>(2.5)</b>
Other income	8.2	8.8	(7.0)	8.2	(0.8)	33.2	36.2	(8.5)
Interest/profit expense applicable to revenue	(21.3)	(24.9)	(14.3)	(23.8)	(10.4)	(93.7)	(100.3)	(6.6)
Directors' remuneration and staff costs	(8.4)	(7.6)	11.0	(7.7)	8.8	(34.3)	(33.9)	1.4
Allowances for impairment loss on receivables, net	(4.8)	(15.0)	(68.0)	(3.0)	62.3	(24.3)	(37.5)	(35.1)
Impairment of goodwill on consolidation	-	(19.0)	(100.0)	-	N/M	-	(19.0)	(100.0)
Depreciation	(1.3)	(1.3)	(0.9)	(1.3)	(6.9)	(5.3)	(4.5)	19.4
Other expenses	(5.2)	(6.6)	(20.5)	(5.0)	4.4	(26.5)	(26.0)	1.8
Finance costs	(0.0)	(0.0)	13.9	(0.0)	(8.9)	(0.2)	(0.2)	(22.7)
<b>Profit before tax</b>	<b>46.6</b>	<b>27.2</b>	<b>71.1</b>	<b>48.6</b>	<b>(4.1)</b>	<b>172.1</b>	<b>146.5</b>	<b>17.4</b>
Taxation	(11.9)	(10.6)	12.6	(12.0)	(0.1)	(45.5)	(41.0)	11.0
<b>Net profit</b>	<b>34.7</b>	<b>16.6</b>	<b>108.3</b>	<b>36.6</b>	<b>(5.4)</b>	<b>126.6</b>	<b>105.5</b>	<b>19.9</b>
<b>Core net profit</b>	<b>34.7</b>	<b>35.6</b>	<b>(2.7)</b>	<b>36.6</b>	<b>(5.4)</b>	<b>126.6</b>	<b>124.5</b>	<b>1.6</b>
Financing & loans receivables, gross (Allowance for impairment)	2,113.8 (136.5)	2,090.7 (140.7)	1.1 (3.0)	2,088.3 (138.1)	1.2 (1.2)	2,113.8 (136.5)	2,090.7 (140.7)	1.1 (3.0)
<b>Financing &amp; loans receivables, net</b>	<b>1,977.3</b>	<b>1,950.1</b>	<b>1.4</b>	<b>1,950.1</b>	<b>1.4</b>	<b>1,977.3</b>	<b>1,950.1</b>	<b>1.4</b>
Tax rate (%)	25.6	38.9	(13.3)	24.6	1.0	26.4	28.0	(1.5)
Gross NPF ratio (%)	4.3	4.6	(0.3)	4.4	(0.2)	4.3	4.6	(0.3)
Financing & loans loss coverage ratio (%)	151.9	147.2	4.6	149.1	2.8	151.9	147.2	4.6
Net gearing (%)	146.6	154.0	(7.3)	153.2	(6.6)	146.6	154.0	(7.3)

Source: Company

## Results analysis

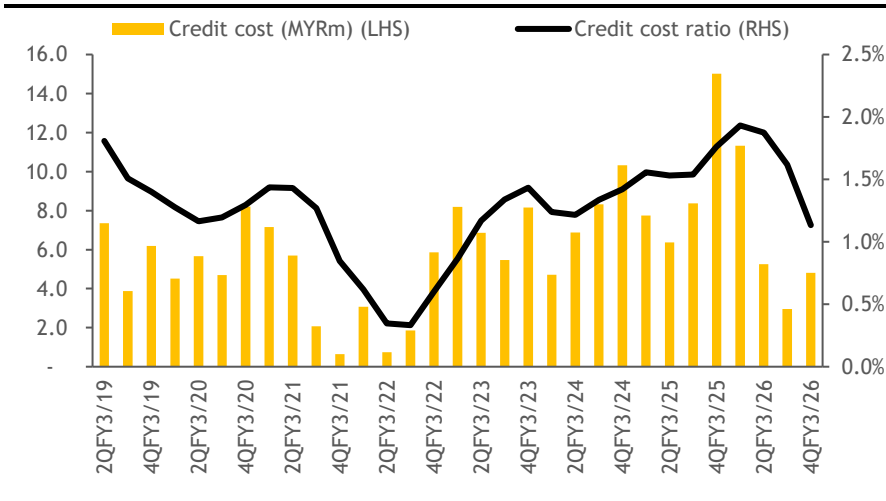
- 4QFY3/26 core net profit eased 3% YoY and 5% QoQ largely due to lower early settlement and fee income.
- FY3/26 core net profit was up 2% YoY largely due to lower credit cost moderating lower early settlement income following lower refinancing activities from customers.

Figure 2: RCE NPF



Source: Company

Figure 3: RCE credit cost

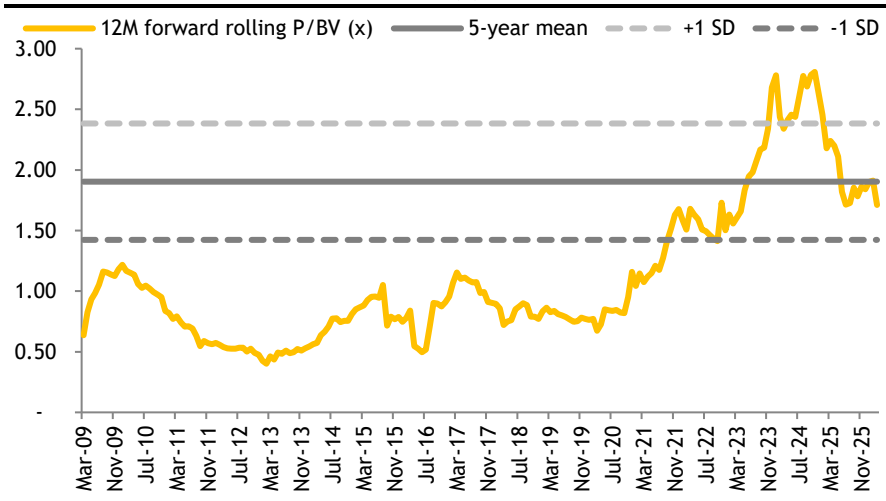


Source: Company

### Valuation and recommendation

Due to our marginally lower FY3/27E and FY3/28E EPS estimates, we trim our TP to MYR1.15 TP from MYR1.16 based on an unchanged 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 (x)

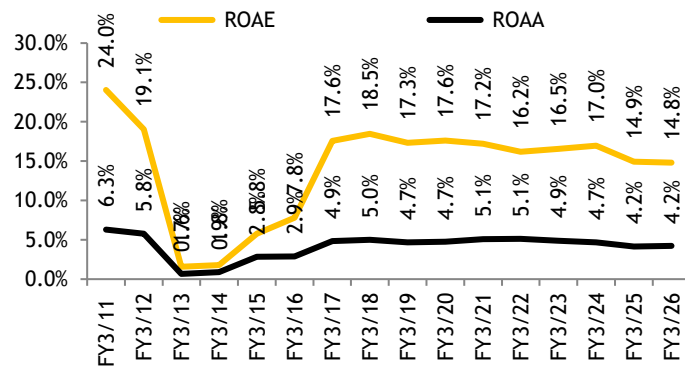


Source: Company, Maybank IBG Research, Bloomberg

## 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.

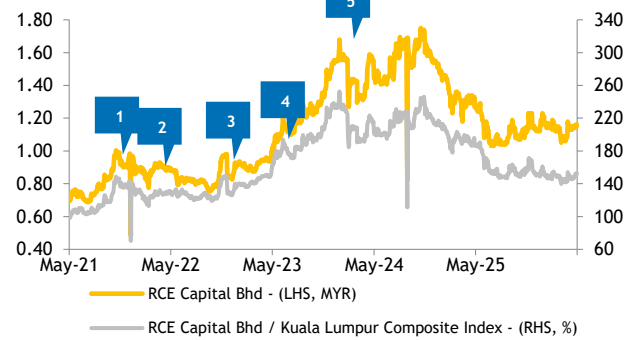
### ROAE and ROAA



Source: Company

## Price Drivers

### Historical share price trend



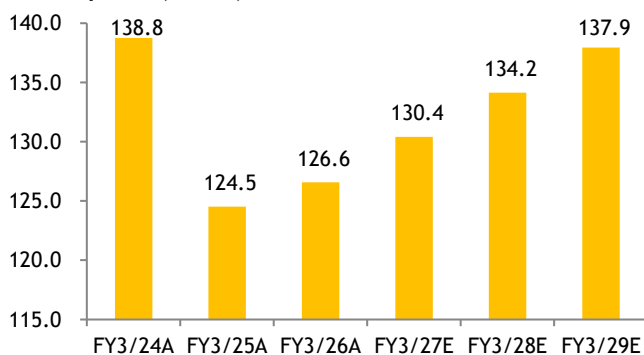
Source: Company, Maybank IBG Research

1. 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 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.

FYE 31 Mar	FY25A	FY26A	FY27E	FY28E	FY29E
<b>Key Metrics</b>					
Core P/E (x)	15.7	12.2	13.1	12.7	12.3
Core FD P/E (x)	15.7	12.2	13.4	13.0	12.6
P/BV (x)	2.3	1.8	1.9	1.8	1.8
P/NTA (x)	2.5	1.9	2.1	2.0	1.9
Net dividend yield (%)	4.9	6.2	6.0	6.0	6.5
<b>INCOME STATEMENT (MYR m)</b>					
Islamic banking income	219.6	217.9	223.2	228.6	234.0
Other income	47.8	44.6	45.5	46.4	47.3
<b>Total non-interest income</b>	<b>267.4</b>	<b>262.5</b>	<b>268.7</b>	<b>274.9</b>	<b>281.3</b>
<b>Operating income</b>	<b>267.4</b>	<b>262.5</b>	<b>268.7</b>	<b>274.9</b>	<b>281.3</b>
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)
<b>Operating expenses</b>	<b>(64.3)</b>	<b>(66.1)</b>	<b>(66.7)</b>	<b>(67.3)</b>	<b>(68.0)</b>
<b>Pre-provision profit</b>	<b>203.0</b>	<b>196.4</b>	<b>202.0</b>	<b>207.6</b>	<b>213.2</b>
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
<b>Pretax profit</b>	<b>146.5</b>	<b>172.1</b>	<b>177.3</b>	<b>182.4</b>	<b>187.5</b>
Income tax	(41.0)	(45.5)	(46.9)	(48.2)	(49.6)
<b>Reported net profit</b>	<b>105.5</b>	<b>126.6</b>	<b>130.4</b>	<b>134.2</b>	<b>137.9</b>
<b>Core net profit</b>	<b>124.5</b>	<b>126.6</b>	<b>130.4</b>	<b>134.2</b>	<b>137.9</b>
<b>BALANCE SHEET (MYR m)</b>					
Cash & deposits with banks	767.5	763.4	792.8	827.3	858.4
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	2.5	0.7	(1.1)
Intangible assets	50.2	68.4	68.4	68.4	68.4
Other assets	158.6	146.0	146.0	146.0	146.0
<b>Total assets</b>	<b>2,986.2</b>	<b>3,003.8</b>	<b>3,071.0</b>	<b>3,143.9</b>	<b>3,214.3</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	979.7	1,035.9	1,035.9	1,035.9	1,035.9
Other borrowings	578.9	539.6	578.9	620.2	662.6
Other liabilities	588.1	557.7	557.9	558.1	558.3
<b>Total liabilities</b>	<b>2,146.6</b>	<b>2,133.1</b>	<b>2,172.7</b>	<b>2,214.2</b>	<b>2,256.8</b>
Share capital	204.9	204.9	204.9	204.9	204.9
Reserves	634.6	665.8	693.4	724.8	752.7
Shareholders' funds	839.5	870.7	898.3	929.7	957.5
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	898.3	929.7	957.5
<b>Total liabilities &amp; equity</b>	<b>2,986.2</b>	<b>3,003.8</b>	<b>3,071.0</b>	<b>3,143.9</b>	<b>3,214.3</b>

FYE 31 Mar	FY25A	FY26A	FY27E	FY28E	FY29E
<b>Key Ratios</b>					
<b>Growth (%)</b>					
Net interest income	na	na	na	na	na
Non-interest income	(4.8)	(1.8)	2.3	2.3	2.3
Operating expenses	(2.2)	2.8	0.8	1.0	1.0
Pre-provision profit	(5.6)	(3.3)	2.9	2.8	2.7
Core net profit	(10.3)	1.6	3.0	2.9	2.8
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	2.4	2.2
<b>Profitability (%)</b>					
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
<b>Liquidity (%)</b>					
Loans/customer deposits	na	na	na	na	na
<b>Asset quality (%)</b>					
Gross NPF	4.6	4.3	4.3	4.3	4.3
<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	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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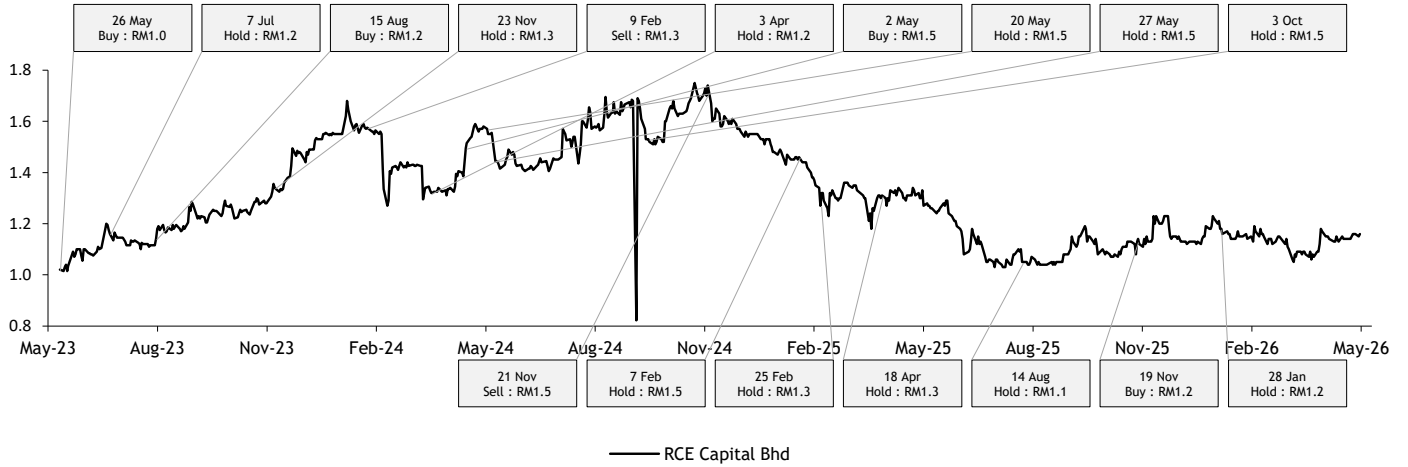
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