

RCE Capital

Lower provisions and absence of one-off cost

- RCE Capital (RCE) posted a 4QFY3/26 core net profit of RM34.7m (+108.3% YoY, -5.4% QoQ). FY3/26 results (+19.9% YoY) were broadly within our and consensus estimates.
- FY3/26 earnings were primarily supported by lower provisions and the absence of a non-recurring goodwill impairment.
- We adjusted our EPS forecasts by -1.2% to +1.1% for housekeeping. However, we maintain our target price of RM1.18 and Hold rating.

Robust recovery in FY3/26; results within our and consensus estimates

RCE's 4QFY3/26 core net profit (CNP) came in at RM34.7m (+108.3% YoY, -5.4% QoQ), while FY3/26 CNP recovered by +19.9% YoY to RM125.6m, broadly meeting expectations at 99.2% of our full-year projection of RM127.6m and 101.3% of the consensus RM125m estimate. The stronger 4QFY3/26 results were driven by sharply lower provisions (-68% YoY) and the absence of a non-recurring goodwill impairment (which hit 4QFY3/25), which implies an estimated net credit charge (NCC) of 91.5 basis points (bps) vis-à-vis 287.3 bps in 4QFY3/25. Receivables growth picked up modestly in 4QFY3/26 (+1.2% QoQ, +1.1% YoY) following another round of civil servant salary adjustments (+7% in Jan 2026). Although this has yet to translate into stronger net financing income for the quarter, it signals potential growth in FY3/27. Meanwhile, FY3/26 core net profit grew 19.9%, driven by a 35% decline in expected credit loss (ECL) allowances to RM24.3m, reflecting a 62.8 bps YoY reduction in NCC to 116.2 bps. Asset quality steadied in 4QFY3/26; based on our estimates, gross impaired financing ratio improved to 4.3% from 4.6% in 4QFY3/25, following tightening of credit risk management and measures to address unscrupulous industry financing applications.

Minor adjustments to FY3/27–28F earnings projections; introducing FY3/29F forecasts

We have made housekeeping adjustments to our FY3/27–28F forecasts, with net earnings revisions remaining minimal at -1.1% to +1.2% after updating for the company's latest annual report. We also introduce our FY29F earnings estimate. Our key assumptions for FY3/27/28/29F: (i) gross financing receivables growth of 5.0% p.a., (ii) net credit charge of 120 bps p.a., (iii) net financing margin of 9.26–9.4%, (iv) average cost of funds of 5%.

Maintain Hold; TP unchanged at RM1.18

We reiterate our Hold rating on RCE, with our target price (TP) remaining unchanged at RM1.18, based on a revised FY27F P/BV target of 1.88x (vs. 1.91x previously) following recalibrations to cost-of-equity assumptions (see details in Figure 2). This valuation is anchored on the following assumptions: FY27F ROE of 15.0%, cost of equity of 9.35%, and terminal growth rate of 3.0%. Our P/BV multiple reflects prudent credit provisioning and reduced earnings volatility following tightening of underwriting standards. RCE continues to offer a defensive income profile, supported by a sustainable dividend yield of 5.6%, which is underpinned by a >70% payout ratio alongside manageable net debt-to-equity levels (1.5x), and stable funding costs (5% p.a.) through FY3/27–29F.

That said, we believe that near-term re-rating catalysts remain limited, as several structural challenges persist, including (i) concentrated borrower exposure, particularly to civil servants and the bottom-40% income group (B40) borrowers; (ii) sensitivity to macroeconomic slowdown and shocks (which could increase asset quality pressures despite safeguards such as salary deductions); (iii) lagging digital capability; and (iv) reliance on third-party payroll-deduction platforms, which exposes the group to execution risks and fraud incidents. Nonetheless, any improvement in its distribution channels and diversification beyond its traditional civil servant segment could enhance RCE's asset quality and earnings, supporting higher ROE and dividend visibility.

HOLD (no change)

 Share price: ▶ Target price:

 RM1.16 RM1.18
Consensus: Buy: 1 Hold: 3 Reduce: 0

Stock information

Bloomberg ticker	RCE MK
Refinitiv ticker	REDI.KL
Share price (RM)	1.16
Market cap (US\$m/RMm)	429/1,703
ADTV (RMm)	0.7
Free float (%)	32.5
Upside/(downside) (%)	1.7
CIMB/consensus TP (%)	(1.7)

We continue to expect earnings uplift in FY27–29F in the absence of a non-recurring expense and a more benign credit risk outlook.

Earnings forecast

	Mar-26A	Mar-27F	Mar-28F
Core net profit (RMm)	126.6	132.8	142.0
Core EPS (sen)	8.6	9.1	9.7
Core EPS growth (%)	0.2	0.0	0.1
FD core P/E (x)	13.4	12.8	12.0
Recurring ROE (%)	14.8	14.9	15.2
P/BV (x)	2.0	2.0	1.9
DPS (sen)	6.5	6.5	6.5
Dividend yield (%)	5.6	5.6	5.6

Source: CIMB Securities

Price performance

	1M	3M	12M
Absolute (%)	(0.9)	(2.5)	(9.4)
Relative (%)	0.4	(0.1)	(18.2)

Source: Bloomberg, CIMB Securities

Research analyst(s)



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Figure 1: Financial results

FYE March	4QFY26	4QFY25	YoY %	3QFY26	QoQ %	FY26	FY25	YoY %	CIMB's FY26F	Comments
RM'm										
Net financing income	49.1	51.7	<i>(5.1)</i>	48.7	<i>0.8</i>	193.5	192.0	<i>0.7</i>	203.0	FY26 net financing income growth +0.7% YoY, reflecting a subdued receivables and loans portfolio expansion, +1.1% YoY, due to management's cautious stance.
Non-interest Income	9.1	16.3	<i>(43.9)</i>	8.8	<i>3.8</i>	36.1	39.3	<i>(8.2)</i>	41.3	YoY decline in early settlement fees due to slower refinancing activities.
Operating income	58.2	67.9	<i>(14.4)</i>	57.4	<i>1.3</i>	229.5	231.3	<i>(0.8)</i>	244.3	
Overhead expenses	(6.8)	(6.7)	<i>1.4</i>	(5.9)	<i>14.8</i>	(33.1)	(28.3)	<i>17.0</i>	(35.5)	
Pre-provision profit	51.4	61.2	<i>(16.1)</i>	51.5	<i>(0.3)</i>	196.4	203.0	<i>(3.3)</i>	208.8	
Allowance for ECLs	(4.8)	(15.0)	<i>(68.0)</i>	(3.0)	<i>62.3</i>	(24.3)	(37.5)	<i>(35.1)</i>	(38.7)	NCC in FY3/26 declined significantly to 116 bps from 179bps (FY25).
Other impairments	0.0	(19.0)	<i>n.m.</i>	0.0	<i>n.m.</i>	0.0	(19.0)	<i>n.m.</i>	0.0	Absence of a non-recurring goodwill impairment (RM19m) in FY26.
Profit after Pre-tax profit	46.6	27.2	<i>71.1</i>	48.6	<i>(4.1)</i>	172.1	146.5	<i>17.4</i>	170.1	
Net profit	34.7	16.6	<i>108.3</i>	36.6	<i>(5.4)</i>	126.6	105.5	<i>19.9</i>	127.6	Within our and consensus estimates.
Core Net profit	34.7	16.6	<i>108.3</i>	36.6	<i>(5.4)</i>	126.6	105.5	<i>19.9</i>	127.6	
Core EPS (sen)	2.4	1.1	<i>>100</i>	2.5	<i>(5.4)</i>	8.6	7.2	<i>19.7</i>	8.0	
DPS (sen)	3.5	1.1	<i>>100</i>	-	<i>n.m.</i>	6.5	6.5	-	6.5	A final DPS of 3.5, with FY3/26 DPS of 5.5
Net yield (%)	3.5	3.5	-	-	<i>n.m.</i>	5.5	5.5	-	5.5	6.5 sen unchanged YoY.

Source: CIMB Securities estimates

Figure 2: RCE Capital — Gordon growth model-derived TP maintained at RM1.18, with minor recalibrations

Valuation Assumptions:	FY27F	Key rationale
ROE	15.0%	Based on sustainable ROE of 15.0%.
Beta	1.0	
Cost of Equity (CoE)	9.6%	Recalibrated based on RFR of 4.0% and risk premium of 5.6%.
Risk-free rate (RFR)	4.0%	Raised to 4.0% from 3.5% to reflect higher longer-term inflation.
Risk premium	5.60%	
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:		
$\frac{ROE - g}{CoE - g} \times P/BV \text{ multiple (x)}$	1.88	
BVPS (RM)	0.62	
Target Price (RM)	1.18	
<i>Upside/(Downside)</i>	<i>1.4%</i>	

Source: CIMB Securities estimates

Financial Information

Figure 3: Profit and Loss

	Mar-25A	Mar-26A	Mar-27F	Mar-28F	Mar-29F
Interest income	292	287	302	317	332
Interest expense	(100)	(94)	(101)	(103)	(108)
Net interest income	192	193	201	214	225
Non-interest income	39	36	40	42	42
Operating income	231	230	240	256	267
Staff costs	(34)	(34)	(37)	(39)	(41)
Other (expenses)/income	(13)	1	0	0	0
Pre-provision expenses	(47)	(33)	(37)	(39)	(41)
Pre-Provision Profit	184	196	203	217	226
ECL allowance on receivables	(19)	(24)	(26)	(27)	(29)
Other impairments	(19)	0	0	0	0
Share of associate profit/(loss)	0	0	0	0	0
Pretax Profit	147	172	177	189	197
Income tax expense	(41)	(45)	(44)	(47)	(49)
Minority interest	0	0	0	0	0
Net profit	106	127	133	142	148
Core net profit	106	127	133	142	148

Source: CIMB Securities, Company

Figure 4: Key Ratios

	Mar-25A	Mar-26A	Mar-27F	Mar-28F	Mar-29F
ROA (%)	3.5	4.2	4.4	4.6	4.6
ROE (%)	12.2	14.8	14.9	15.2	15.1
Net financing margin (%)	9.2	9.2	9.3	9.4	9.4
Net interest income/Operating income	83.0	84.3	83.4	83.7	84.2
NOII/Operating income	17.0	15.7	16.6	16.3	15.8
Pre-provision CIR (%)	20.5	14.4	15.5	15.3	15.4
Post-provision CIR (%)	28.5	25.0	26.3	26.0	26.2
Gross impaired financing ratio (%)	4.6	4.3	4.5	4.5	4.5
Financing loss coverage (%)	147.3	151.9	144.4	144.4	146.7
Net credit charge (bps)	88.4	115.8	120.0	120.0	120.0
Net debt-to-equity ratio (x)	1.5	1.5	1.5	1.5	1.5
Interest coverage ratio (x)	3.30	3.45	3.38	3.49	3.48
Capital adequacy ratio (CAR) (%)	40.1	41.4	41.9	42.0	42.1
Dividend payout ratio	90.3	75.3	71.8	67.1	64.4

Source: CIMB Securities, Company

Financial Information

Figure 5: Balance Sheet

(RMm)	Mar-25A	Mar-26A	Mar-27F	Mar-28F	Mar-29F
Plant and equipment	7	9	9	9	9
Goodwill and intangible assets	50	68	68	68	68
Investments in JVs/Associates	0	0	0	0	0
Net Receivables	1,950	1,977	2,075	2,179	2,296
Other investments	0	0	0	0	0
Deferred tax assets	91	94	96	99	102
Trade and other receivables	120	92	92	95	97
Deposits pledged to financial institutions	626	681	630	635	640
Cash and bank balances	142	82	13	47	73
Total Assets	2,986	3,004	2,984	3,132	3,286
Borrowings and financing liabilities	2,058	2,036	2,000	2,100	2,200
Payables, accruals and others	35	38	39	40	41
Lease liabilities	1	3	1	1	1
Deferred tax liabilities	46	50	30	30	30
Tax liabilities	6	7	6	6	6
Total liabilities	2,147	2,133	2,076	2,177	2,278
Share capital	205	205	205	205	205
Reserves	635	666	703	750	803
Shareholders' funds	840	871	908	955	1,008
Minority interest	0	0	0	0	0
Total equity and liabilities	2,986	3,004	2,984	3,132	3,286

Source: CIMB Securities, Company

Figure 6: Key Drivers

	Mar-25A	Mar-26A	Mar-27F	Mar-28F	Mar-29F
Gross receivables (RMm)	2,090.7	2,113.8	2,219.5	2,330.4	2,458.6
Gross yield on receivables (%)	14.0	13.7	13.9	13.9	13.9
Cost-of-funds (%)	4.8	4.6	5.0	5.0	5.0
Gross receivables growth (%)	(0.5)	1.1	5.0	5.0	5.5
Net interest income growth (%)	(0.1)	0.7	3.7	6.7	5.1
Non-interest income growth (%)	(22.8)	(8.2)	10.3	5.0	1.0
Operating Income growth (%)	(4.9)	(0.8)	4.7	6.4	4.4
PPOP growth (%)	(14.4)	6.7	3.4	6.7	4.3
Profit before tax growth (%)	(20.7)	17.4	2.9	6.9	4.1
Net profit growth (%)	(23.9)	19.9	4.9	6.9	4.1

Source: CIMB Securities, Company

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<i>Reduce</i>	<i>The stock's total return is expected to fall below 0% or more over the next twelve (12) months.</i>
	<i>Note: The total expected return of a stock is defined as the sum of: the percentage difference between the target price and the current price; and the forward net dividend yields of the stock. Stock price targets have an investment horizon of twelve (12) months.</i>
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