

THE EDGE BILLION RINGGIT Club 2023

HIGHEST RETURNS TO SHAREHOLDERS OVER THREE YEARS

FINANCIAL SERVICES (BELOW RM10 BILLION MARKET CAPITALISATION)

RCE Capital Bhd



Resilient income from niche customer base

BY INTAN FARHANA ZAINUL

For a second consecutive year, RCE Capital Bhd, which provides personal financing to civil servants, has bagged *The Edge* Billion Ringgit Club (BRC) award for the highest returns to shareholders over three years among its peers in financial services below RM10 billion market capitalisation.

Indeed, its niche focus in the civil servants' market provided the group with stable income amid disruptions caused by the Covid-19 pandemic, which started in early 2020. Overall, from FY2019 to FY2022, RCE Capital's net profit recorded a three-year compound annual growth rate of 8.8%.

60% to 80% of its consolidated profit after tax commencing from FY2024, provided that such distribution will not be detrimental to the company's cash flow requirements. Its previous dividend payout policy was between 20% and 40% of the group's annual profit after tax.

higher interest and profit expense driven by more borrowings and higher profit rates.

It also noted that RCE Capital's gross NPF ratio continued to improve, having eased to 3.7%, or down 22 basis points y-o-y and seven bps quarter-on-quarter.

"Last year, gross NPF ratios and allowance for impairment loss on receivables spiked, as more civil servants in the academic and healthcare sectors resigned," it added.

Commenting on the outlook in its 2023 annual report that was released on July 27 this year, RCE Capital non-executive chairman Shahman Azman said in his letter to shareholders that "there are reasons to be optimistic", even though the global economic backdrop remains challenging. At the time, in anticipation of possible further overnight policy rate adjustments in the second half of the year, he said it was "essential for the group to keep competition at bay" even as it continued to assess its products and services to stay relevant and alert in the face of competition.

"The group is seen as a niche market player in consumer financing and will proactively deliver sustainable returns to our shareholders," Shahman said, adding that the group would increase digital adoption and continue to use technology to simplify the way it operates as it builds an "agile future-fit organisation".

On the local front, RCE Capital said it remained watchful of all external economic factors, as it is vital for it to be responsive, mitigate any adverse risks to the business and seize opportunities that come its way.

"We will continue to cement our digital financing capabilities, advancing the sustainability agenda to future-proof our business and be seen as one that is trusted, purpose-driven and innovation-led," RCE Capital said in the management discussion and analysis portion of its 2023 annual report. **E**



During the awards evaluation period between March 31, 2020, and March 31, 2023, for this year's BRC, the adjusted total return for its shares averaged 46.7% a year over three years. This came as its share price almost doubled from 57.7 sen on March 31, 2020, to RM1.07 on March 31, 2021. It further jumped to RM1.59 on March 31, 2022, and increased almost 15% thereafter to RM1.82 on March 31 this year.

RCE Capital's commendable share price performance was also supported by the group's stellar earnings performance.

For the financial year ended March 31, 2020 (FY2020), the group posted a 15.8% year-on-year jump in net profit to RM110.6 million, from RM95.5 million. Its net profit then surged 12.7% y-o-y to RM124.6 million in FY2021 and then 7% y-o-y in FY2022 to RM133.2 million.

RCE Capital's net profit continued to grow in FY2023, rising 4.2% y-o-y to RM138.78 million on the back of an 8% y-o-y increase in revenue to RM323.63 million from RM299.46 million previously. The group attributed the top- and bottom-line growth to the surge in fee income, as disbursements were higher, arising from sales campaigns launched after taking into account higher profit expense and allowances for impairment losses on receivables.

In the light of the improving earnings performance, RCE Capital announced a new dividend policy that made the counter more attractive to investors.

On May 23 this year, the group announced that it would be adopting a new dividend guidance with a dividend payout ratio of

RCE Capital



Maybank IB Research foresees stable prospects for RCE Capital, expecting it to deliver a "high forecast dividend yield of more than 6% a year".

"Although marginal, the 1QFY2024 results beat our expectations and set another record. It is also good to know that NPF (non-performing financing) ratios continue to ease after surging last year. This gives us comfort that RCE's high forecast dividend yields of more than 6% a year will continue. We maintain our earnings estimates and RM2.38 target price based on 2.1 times end-calendar year 2023 estimate target price-to-book value," it said in a report dated Aug 15.

The research house pointed out that RCE Capital's 1QFY2024 net profit of RM36.9 million was above expectations, at 27% of its full financial year estimate, thanks to higher profit and fee income driven by more extended financing and lower allowances for impairment loss on receivables, but moderated by