24 Jun 2025

RCE Capital

Impairments to stay elevated

Reduce

Price
RM1.18

Target Price
RM1.00 (from RM1.23)

Market Data

Bloomberg Code	RCE MK
No. of shares (m)	1,482.3
Market cap (RMm)	1,749.1
52-week high/low (RM)	1.77 / 1.16
Avg daily turnover (RMm)	0.8
KLCI (pts)	1,516.6

Source: Bloomberg, CIMB Securities

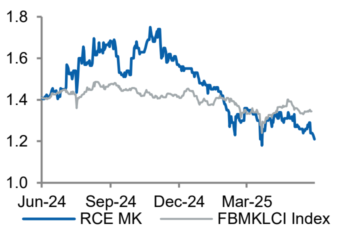
Major Shareholder (%)

Cempaka Empayar	55.6
Free Float	44.4

Source: Bloomberg, CIMB Securities

Performance

	3M	6M	12M
Absolute (%)	(11.0)	(22.9)	(15.4)
Rel Market (%)	(11.0)	(18.5)	(15.4)



Source: Bloomberg, CIMB Securities

Analyst

Nurzulaikha Azali
03 21710506
nurzulaikha@cimb.com

Following a recent update, we are cutting our FY26–28F earnings forecasts by 3.7–6.1% to incorporate lower receivables growth of 1.4–1.8% (vs. 2.0–3.0% previously) to reflect RCE's selective lending strategy and stiff competition from digital lenders. Additionally, we understand that FY26 impairment provisions are likely to stay high at above RM30m, which is in line with our forecast of RM34.7m and above the 10-year historical average of RM26.0m owing to a rise in civil servant bankruptcies following MACC's "Op Sky" investigation and Malaysia's "Second Chance Policy". We maintain our Reduce call, with a lower DDM-based TP of RM1.00 (down from RM1.23 previously) owing to risks from rising impairment provisions and slower receivables growth.

Financial highlights

FYE Mar	2024	2025	2026F	2027F	2028F
Revenue (RMm)	341.7	331.7	330.8	336.7	341.5
Core net profit (RMm)	138.8	124.5	126.2	128.0	129.7
Core EPS (Sen)	9.4	8.4	8.5	8.6	8.7
EPS growth (%)	(0.0)	(10.3)	1.3	1.4	1.3
DPS (Sen)	7.5	6.5	6.4	6.5	6.6
Div yield (%)	6.4	5.5	5.4	5.5	5.6
Core PE (x)	12.6	14.0	13.9	13.7	13.5
PBV (x)	2.1	2.1	2.0	1.9	1.9
ROE (%)	17.0	14.3	14.8	14.4	14.1

Source: Company, CIMB Securities

Goodwill write-off reflects shift toward a flexible model

RCE Capital (RCE) reported a goodwill impairment of RM19.0m in its recent 4QFY25 results. We gathered from a recent update with the company that the impairment is due to the company's decision to transition away from using the Accountant General's Department of Malaysia (AGD) as a salary deduction intermediary, shifting to utilise its two subsidiaries, Corewealth Alliance Dynamic Sdn Bhd (CAD) and RCE Marketing Sdn Bhd (RCEM), following changes in commercial terms implemented in 1QCY24 that are expected to reduce RCE's future financial returns. Based on our channel checks, the key driver of this shift was the introduction of a fixed 5% profit rate cap on RCE's personal financing products, replacing the previously uncapped structure. As a result, the goodwill impairment was recognised owing to the profit rate cap and the shift away from the AGD channel, both of which reduced expected future cash flows and diminished the asset's recoverable value. That said, RCE noted that collections via AGD — currently covering approximately 55% of financing receivables — will continue for existing customers, while all new financing will be channelled through CAD and RCEM, both of which hold Biro Perkhidmatan Angkasa (BPA) salary deduction codes that facilitate repayment directly from civil servants' monthly payroll via Angkasa's platform. This transition enables RCE to retain a secure and efficient collection channel while redirecting some cost savings that were previously incurred as AGD's upfront fee towards more flexible payout and product offerings such as competitive profit rates, cash rebates, or value-added features, as disbursements are now handled directly by its subsidiaries.

Impairment provisions show initial signs of deceleration

RCE noted early signs of moderation in impairment provisions but cautioned that it is too early to conclude that a normalisation trend is underway. The company expects impairment levels to remain elevated. RCE flagged concerns about a potential increase in civil servant bankruptcies in the wake of the Malaysian Anti-Corruption Commission (MACC)'s "Op Sky" investigation, which targets syndicates that helped blacklisted civil servants to obtain personal loans from banks using falsified documents and illicit back-channel arrangements. As of 27 May 2025, RCE disclosed that 0.1% of its financing portfolio, equivalent to RM1.96m, was identified as exposed to the probe and has already been fully impaired. In addition, RCE remains wary of the growing number of self-declared bankruptcy cases, driven by Malaysia's "Second Chance Policy", introduced in Budget 2024 (Oct 2023), which allows individuals to voluntarily file for bankruptcy and obtain financial rehabilitation. The company revealed that impairments related to bankruptcy surged 115.2% YoY in FY25. To recap, RCE's impairment losses rose sharply to RM15.0m in 4QFY25 (+79.2% QoQ, +45.5% YoY), in tandem with higher financing disbursements, updated macro assumptions in the credit cost model, rising civil servant bankruptcies, and scam-related impairments from Ops Sky. Consequently, non-performing financing (NPF) climbed 4.0% QoQ and 14.7% YoY to RM95.5m, raising the NPF ratio to 4.6% — above its historical range. For FY26F, we project total impairment provisions of RM34.7m, or RM8.7m per quarter, which would be the highest quarterly level excluding 4QFY25. This is underpinned by expectations of a continued decline in impairment provisions related to civil servants' early retirement and transition to the private sector, particularly following the recent salary adjustments.

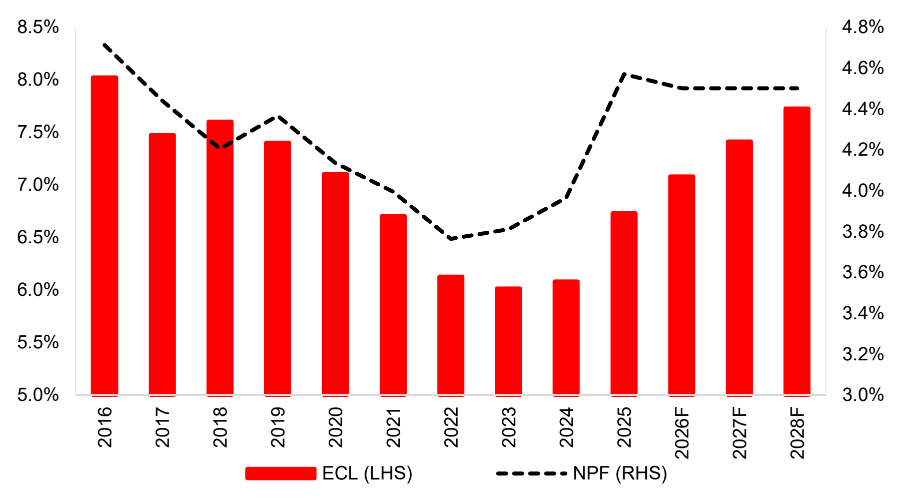
Financing receivables poised to benefit from pay hikes

RCE expects financing receivables to return to growth from FY26F onwards, recovering from a 0.5% contraction in FY25, supported by the recent 7–15% salary adjustments for civil servants. RCE highlighted a strong linkage between government emoluments and its financing receivables, noting that it is more likely to extend financing to civil servants with higher salaries, provided their debt service ratio remains within the 60% threshold set by Bank Negara Malaysia. The first phase of the adjustment — an 8% hike — was implemented on 1 Dec 2024, while the second phase, involving an additional 7% increase, is scheduled for 1 Jan 2026. Following implementation of the first phase, RCE observed a pickup in personal financing disbursements to civil servants starting from Dec 2024. In 4QFY25, financing receivables grew 1.8% QoQ. The company anticipates this positive trend to continue, supported by regular civil service salary increments scheduled in Jan, Apr, Jul, and Oct 2025, alongside the second round of salary adjustments in Jan 2026. Despite the favourable backdrop, we have revised our receivables growth forecasts downward to 1.6%, 1.8%, and 1.4% for FY26F, FY27F, and FY28F (from 2.0%, 2.5%, and 3.0%), respectively. These revised figures fall below the 5- and 10-year historical averages of 2.8% and 5.8%, respectively. The downward revisions primarily reflect RCE's continued focus on a selective lending strategy, as well as intensifying competition from digital lenders such as TnG Digital, Grab, and Shopee, which are increasingly active in the personal financing segment.

Maintain Reduce with lower TP of RM1.00

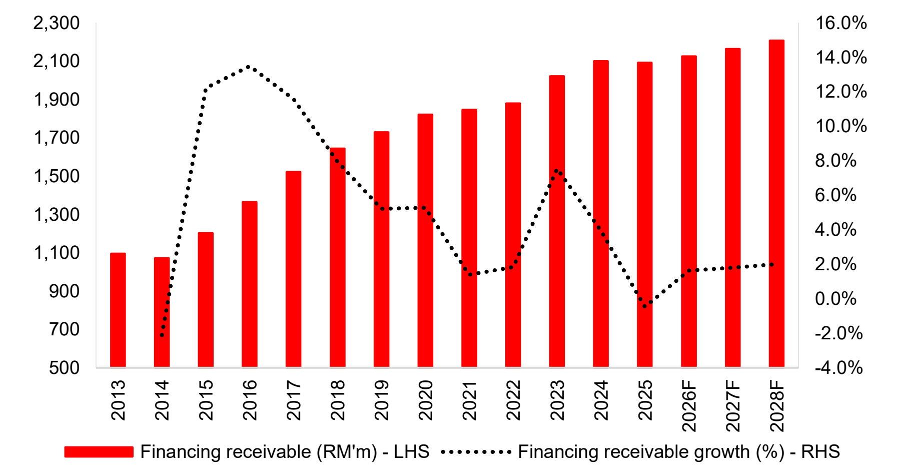
Our FY26, FY27F, and FY28F earnings forecasts have been lowered by 3.7%, 4.5%, and 6.1%, respectively, to reflect more conservative receivables growth assumptions. Subsequently, we project slower net profit growth of approximately 1.3% YoY in FY26F, followed by YoY growth of 1.4% in FY27F and 1.3% in FY28F, underpinned by higher fee-based income from the projected receivable growth and a 7.5% YoY reduction in impairment losses on receivables in FY26F following a 24.1% increase in FY25. Accordingly, we maintain our Reduce call on RCE with a lower DDM-based target price (TP) of RM1.00 (from RM1.23). Our valuation is based on an updated cost of equity of 8.0% and a slower long-term growth rate of 1.0%, owing to (i) civil servants' borrowing capacity being largely maxed out amid elevated debt and living costs, (ii) intensifying competition from digital lenders, and (iii) the absence of further salary adjustments beyond the second phase. The last salary revision for civil servants was 12 years ago, with an increase of around 13%. RCE is currently trading at a 2.0x P/BV, which is at 0.5 s.d. above its 5-year mean of 1.7x and at a premium to the banking sector P/BV average of 1.0x, which we deem overvalued owing to the continued upward trend in impairments and slower receivable growth. Key upside risks: (i) higher-than-expected receivables growth, (ii) higher-than-expected dividends. Key downside risks: (i) higher-than-expected impairment loss on receivables, (ii) lower-than-expected dividend payout.

Exhibit 1: Expected credit loss and non-performing financing (FY16–28F)



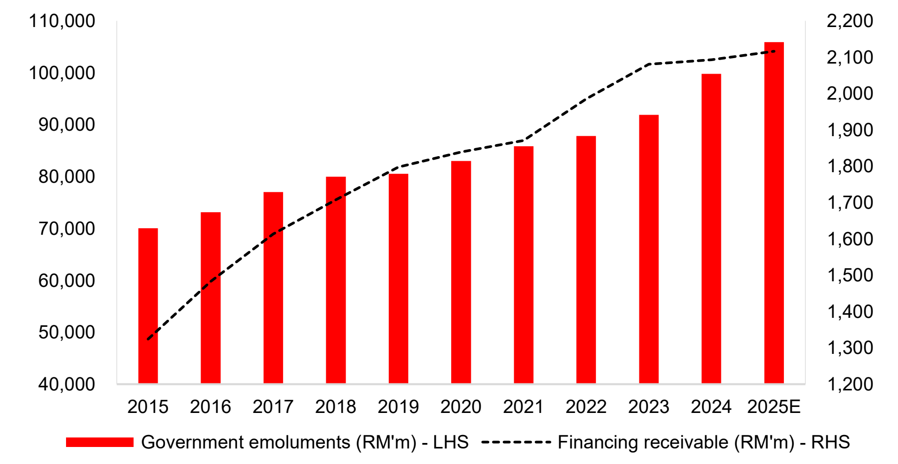
Source: Company, CIMB Securities

Exhibit 2: Financing receivable and receivable growth (FY16–28F)



Source: Company, CIMB Securities

Exhibit 3: Government emoluments and RCE's financing receivables (CY15–25)



Source: Company, CIMB Securities

Income statement

FYE Mar (RMm)	2024	2025	2026F	2027F	2028F
Net interest income	192.3	192.0	190.1	192.7	195.2
Non-interest income	88.8	75.5	77.2	78.6	79.7
Total income	**281.1**	**267.6**	**267.3**	**271.3**	**274.9**
Operating costs	(66.0)	(64.6)	(64.4)	(65.4)	(66.2)
Pre-provision operating profit	**215.1**	**203.0**	**202.9**	**206.0**	**208.7**
Provision charges	(30.2)	(37.5)	(34.7)	(35.3)	(35.8)
Pre-tax profit	**184.8**	**146.5**	**168.2**	**170.6**	**172.9**
Taxation	(46.1)	(41.0)	(42.1)	(42.7)	(43.2)
Net Profit	**138.8**	**124.5**	**126.2**	**128.0**	**129.7**

Balance sheet

FYE Mar (RMm)	2024	2025	2026F	2027F	2028F
Consumer financing	1,972.7	1,950.1	1,981.8	2,017.4	2,045.7
Deposits with financial institutiona	745.0	625.6	757.8	775.6	791.4
Plant and equipment	11.0	7.4	11.2	11.4	11.7
Investment in properties	0.0	0.0	0.0	0.0	0.0
Goodwill on consolidation	47.3	50.2	50.2	50.2	50.2
Other investments	0.0	0.0	0.0	0.0	0.0
AFS financial assets	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	48.4	90.7	49.2	50.4	51.4
Other receivables and deposits	21.4	65.4	65.4	65.4	65.4
Asset held for sale	0.0	0.0	0.0	0.0	0.0
Cash and bank balances	95.3	141.9	131.8	148.4	166.7
Total Assets	**2,995.6**	**2,986.2**	**3,047.4**	**3,118.8**	**3,182.6**
Borrowings	2,119.6	2,058.0	2,129.3	2,167.6	2,198.0
Payables and accruals	34.2	34.0	34.8	35.6	36.3
Hire purchase	1.3	0.9	1.3	1.4	1.4
Deferred tax liabilities	2.0	1.1	2.1	2.1	2.2
Tax liabilities	8.7	52.7	8.9	9.1	9.3
Total Liabilities	**2,165.8**	**2,146.6**	**2,176.4**	**2,215.8**	**2,247.1**
Share capital	201.9	204.9	204.9	204.9	204.9
Reserves	627.0	634.0	666.0	698.0	730.0
Total Shareholders' Equity	**829.8**	**839.5**	**871.1**	**903.1**	**935.5**
Total Liabilities & Equity	**2,995.6**	**2,986.2**	**3,047.4**	**3,118.8**	**3,182.6**

ROE composition

FYE Mar	2024	2025	2026F	2027F	2028F
a. Net interest income/Avg. assets (%)	6.5%	6.4%	6.3%	6.3%	6.2%
b. Non-Interest Income/Avg. Assets (%)	3.0%	2.5%	2.6%	2.5%	2.5%
c. Income Yield (%)	9.5%	8.9%	8.9%	8.8%	8.7%
d. Cost/Avg. Assets (%)	2.2%	2.2%	2.1%	2.1%	2.1%
f. Cost/Income (d/c)	23.5%	24.1%	24.1%	24.1%	24.1%
g. Underlying Profitability (c-d)	**7.2%**	**6.8%**	**6.7%**	**6.7%**	**6.6%**
a. Underlying Profitability (%)	7.2%	6.8%	6.7%	6.7%	6.6%
b. B&DD Expense (%)	1.0%	1.3%	1.1%	1.1%	1.1%
c. Pre-tax ROA (a-b)	6.2%	5.5%	5.6%	5.5%	5.5%
d. Tax Retention Rate (%)	75.1%	72.0%	75.0%	75.0%	75.0%
e. Post tax ROA (c*d)	4.7%	4.0%	4.2%	4.2%	4.1%
f. Leverage	3.6	3.6	3.5	3.5	3.4
g. ROE (e*g)	**17.0%**	**14.3%**	**14.8%**	**14.4%**	**14.1%**

Source: Bloomberg, CIMB Securities

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