

19 Nov 2025

Reduce

Price
RM1.08

Target Price
RM1.00

Market Data

Bloomberg Code	RCE MK
No. of shares (m)	1,468.0
Market cap (RMm)	1,585.5
52-week high/low (RM)	1.02 / 1.75
Avg daily turnover (RMm)	0.8
KLCI (pts)	1,614.1

Source: Bloomberg, CIMB Securities

Major Shareholder (%)

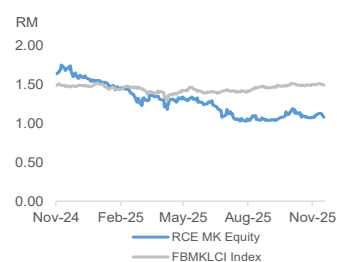
Cempaka Empayar	59.2%
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Free Float	44.4%
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Source: Bloomberg, CIMB Securities

Performance

	3M	6M	12M
Absolute (%)	2.9	(17.6)	(36.5)
Rel Market (%)	2.9	(19.7)	(36.9)



Source: Bloomberg, CIMB Securities

Analyst

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RCE Capital

2QFY3/26 results below expectations

RCE Capital (RCE)'s 1HFY3/26 net profit of RM55.3m (-5.1% YoY), accounting for 45% of our and consensus FY26F net profit estimates, fell short of expectations. Following housekeeping adjustments, we cut our FY26 and FY27 earnings forecasts by 5.4% and 2.9%, respectively. We introduce new FY26/27/28F assumptions: (i) gross financing receivables growth of 5.5–6.0%, (ii) net credit charge of 180 bps p.a., (iii) net financing margin of 9.4–9.5%, (iv) average cost of funds of 5%. We have also revised our valuation methodology from the dividend discount model (DDM) to the Gordon growth model (GGM) but maintain our TP at RM1.00. Maintain Reduce owing to RCE's expensive valuations. This report marks a transfer in coverage.

Financial highlights

FYE March	2024	2025	2026F	2027F	2028F
Operating income (RMm)	243.2	231.3	244.3	257.3	269.7
Core net profit (RMm)	138.8	105.5	117.3	123.8	129.7
EPS (sen)	9.5	7.2	8.0	8.4	8.8
EPS growth (%)	(0.0)	(24.0)	11.1	5.6	4.7
Net DPS (sen)	7.5	6.5	6.5	6.5	6.5
BV / share (RM)	0.57	0.57	0.59	0.61	0.63
ROE (%)	27.0	12.2	13.8	14.1	14.3
Net dividend yield (%)	6.9	6.0	6.0	6.0	6.0
PE (x)	11.4	15.0	13.5	12.8	12.2
P/BV (x)	1.9	1.9	1.8	1.8	1.7

Source: Company, CIMB Securities

1HFY3/26 results fall short of consensus and our estimates

RCE posted a stronger 2QFY3/26, with net profit recovering 12.8% QoQ and 5.3% YoY to RM29.3m. However, its 1HFY3/26 net profit of RM55.3m (-5.1% YoY) came in below expectations, accounting for only 45% of our and consensus full-year net profit forecasts owing to higher operating expenses and provisions.

1HFY26 financing income growth remained subdued while expenses were elevated

RCE's net financing income improved 3.1% and 2.1% YoY in 2QFY26 and 1HFY26, respectively. However, 1HFY26 net profit fell 4.9% YoY on higher pre-provision expenses and impairment provisions. On a sequential basis, net profit grew 12.8% QoQ, largely owing to the increase in net financing income (+3.7% QoQ) as well as lower provisions (-53.6% QoQ) more than offsetting the spike in pre-provision net expenses (+33% QoQ).

FY26/FY27/FY28F earnings forecasts tweaked by -5.4%/-2.9%/+0.3%

We have pencilled in the following new assumptions for our earnings forecasts: (i) gross financing receivables growth of 5.5–6.0%, (ii) net credit charge of 180 basis points (bps) p.a., (iii) net financing margin of 9.4–9.5%, and (iv) average cost of funds of 5%. Consequently, we adjusted our FY26/27/28F earnings forecasts by -5.4%/-2.9%/+0.3%, respectively.

Change in methodology from DDM to GGM

We change our valuation methodology from DDM to GGM to better reflect:

- Greater stability in RCE's long-term growth.** RCE now operates as a mature, recurring-income consumer financing business with steadily growing receivables, relatively stable net financing margin, and predictable net credit cost.
- Steady payout ratio.** RCE has maintained a steady dividend payout ratio of 60–80% since FY24. Sustainability of dividends is driven by a stable leveraged and market-based funding model.

In short, transitioning from DDM to GGM better captures RCE's (i) stable long-term ROE of about 14.0%, (ii) modestly managed receivables growth of 5.0–6.0% p.a., and (iii) consistent dividend yield of ~6.0%.

Maintain Reduce on RCE; TP unchanged at RM1.00

At our GGM-derived target price (TP) of RM1.00 (details laid out in Exhibit 2), RCE is estimated to deliver 12-month total returns of -1.2%. Our TP is based on an FY27F P/BV target of 1.65x, premised on an FY27F ROE of 14.1%, cost of equity of 9.75%, and a terminal growth rate of 3.0%. Although RCE's lending franchise remains anchored on payroll-deduction financing to civil servants, the sizeable exposure to the bottom 40% (B40) income group continues to expose RCE to vulnerable economic shocks (given the B40 group is sensitive to cost of living pressure and may have thinner financial buffers). Consequently, although RCE may continue delivering stable dividend yield of 6.0%, this stability may be at risk if RCE is unable to accurately predict structural changes in consumer behaviour and more sophisticated frauds.

Upside risks to our call: (i) recovery in bad debts and improved collections resulting in lower net credit charge, and (ii) improvements in new receivables growth credit quality under RCE's recently implemented credit scoring system resulting in lower non-performing receivables.

Exhibit 1: Quarterly results highlights

FYE March	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	QoQ %	YoY %	6MFY25	6MFY26	YoY %
(RM'm)											
Profit income	72.0	73.0	70.8	76.6	71.2	73.1	2.7	0.2	145.0	144.3	(0.5)
Profit expense	(25.5)	(25.7)	(24.2)	(24.9)	(24.2)	(24.4)	0.7	(5.1)	(51.2)	(48.5)	(5.2)
Net financing income	46.5	47.3	46.6	51.7	47.0	48.7	3.7	3.1	93.8	95.7	2.1
Other income	7.1	7.5	8.5	16.3	8.6	9.6	11.6	28.6	14.5	18.2	25.0
Operating income	53.6	54.7	55.1	67.9	55.6	58.3	4.9	6.5	108.3	113.9	5.2
Pre-provision(expenses)/income	(5.4)	(10.4)	(5.8)	(6.7)	(8.8)	(11.7)	32.9	12.3	(15.8)	(20.5)	29.4
Pre-provision profit	48.2	44.3	49.3	61.2	46.8	46.6	(0.4)	5.2	92.5	93.5	1.0
ECL allowance on receivables	(7.7)	(6.4)	(8.4)	(15.0)	(11.3)	(5.3)	(53.6)	(17.4)	(14.1)	(16.6)	17.5
Other impairments	0.0	0.0	0.0	(19.0)	0.0	0.0	<i>n.m.</i>	<i>n.m.</i>	0.0	0.0	<i>n.m.</i>
Profit after provision	40.4	38.0	40.9	27.2	35.5	41.4	16.6	9.0	78.4	76.9	(1.9)
Pre-tax profit	40.4	38.0	40.9	27.2	35.5	41.4	16.6	9.0	78.4	76.9	(1.9)
Income tax expense	(10.1)	(10.2)	(10.1)	(10.6)	(9.5)	(12.1)	27.0	19.1	(20.3)	(21.6)	6.6
PATAMI	30.3	27.8	30.8	16.6	26.0	29.3	12.8	5.3	58.2	55.3	(4.9)
Core PATAMI	30.3	27.8	30.8	16.6	26.0	29.3	12.8	5.3	58.2	55.3	(4.9)
EPS (sen)	2.1	1.9	2.1	1.1	1.8	2.0	12.8	5.2	4.0	3.8	(5.1)
Core EPS (sen)	2.1	1.9	2.1	1.1	1.8	2.0	12.8	5.2	4.0	3.8	(5.1)
DPS (sen)	-	3.0	-	3.5	-	3.00	<i>n.m.</i>	-	3.0	3.0	-
Net yield (%)	-	2.8	-	3.2	-	2.8	<i>n.m.</i>	2.8	2.8	2.8	-

Source: Company, CIMB Securities

Exhibit 2: RCE Capital: Change in TP methodology to GGM (from DDM)

Valuation Assumptions:		FY27F	Key rationale
ROE		14.1%	Based on FY27F ROE.
Beta		1.0	
Cost of Equity (CoE)		9.75%	Based on RFR of 3.5% and investor risk premium of 6.25%.
Risk-free rate (RFR)		3.5%	
Risk premium		6.25%	Terminal growth of 3% reflects maturity of Malaysia's household financing market and impact of cyclical headwinds.
Terminal growth (g)		3.0%	
Gordon Growth Model:			
<u>ROE - g</u>	P/BV multiple (x) =	1.65	
CoE - g			
BVPS (RM)		0.61	
Target Price (RM)		1.00	
Upside/(Downside)		-7.2%	

Source: Bloomberg, CIMB Securities

Financial Summary

Income Statement

FYE Dec (RMm)	2024	2025	2026F	2027F	2028F
Interest income	290.8	292.4	307.0	322.3	338.5
Interest expense	(98.5)	(100.3)	(104.0)	(107.5)	(112.5)
Net interest income	192.3	192.0	203.0	214.8	226.0
Non-interest income	50.9	39.3	41.3	42.5	43.8
Operating income	243.2	231.3	244.3	257.3	269.7
Pre-provision expenses	(28.1)	(47.3)	(49.3)	(51.3)	(53.5)
Pre-provision operating profit	215.1	184.0	195.0	206.0	216.3
Loan loss provisioning	(30.2)	(18.5)	(38.7)	(40.9)	(43.3)
Impairment & others	-	(19.0)	-	-	-
Pre-tax profit	184.8	146.5	156.4	165.1	172.9
Tax	(46.1)	(41.0)	(39.1)	(41.3)	(43.2)
Net Profit	138.8	105.5	117.3	123.8	129.7
Core net profit	138.8	105.5	117.3	123.8	129.7

Balance Sheet

FYE 31 Mar (RMm)	2024	2025	2026F	2027F	2028F
ASSETS					
Goodwill & Intangible Assets	47.3	50.2	50.2	50.2	50.2
Net Receivables	1,972.7	1,950.1	2,026.4	2,117.8	2,214.8
<i>Financing receivables</i>	<i>2,100.4</i>	<i>2,090.7</i>	<i>2,205.7</i>	<i>2,338.1</i>	<i>2,478.3</i>
<i>(Provisions)</i>	<i>(127.7)</i>	<i>(140.7)</i>	<i>(179.3)</i>	<i>(220.2)</i>	<i>(263.6)</i>
Deferred tax assets	48.4	90.7	93.4	96.2	99.1
Trade receivables	54.6	54.9	56.5	58.2	59.9
Other receivables, deposits, prepayments	21.4	65.4	58.8	57.7	58.8
Deposits pledged to financial institutions	745.0	625.6	625.0	630.0	635.0
Cash and bank balances	95.3	141.9	116.9	146.9	174.6
Total Assets	2,995.6	2,986.2	3,034.4	3,164.0	3,299.5
LIABILITIES & EQUITY					
Borrowings and financing liabilities	2,119.6	2,058.0	2,100.0	2,200.0	2,300.0
Payables, accruals and others	35.5	34.9	35.9	37.0	38.1
Lease liabilities	2.0	1.1	1.0	1.0	1.0
Deferred tax liabilities	1.0	46.4	30.0	30.0	30.0
Tax liabilities	7.7	6.3	6.0	6.0	6.0
Total Liabilities	2,165.8	2,146.6	2,172.9	2,274.0	2,375.1
Total Common Equity					
Share Capital	201.9	204.9	204.9	204.9	204.9
Treasury shares	(4.9)	(4.9)	(4.9)	(4.9)	(4.9)
Non-distributable ESS reserves	2.9	4.7	4.7	4.7	4.7
Retained Profits	629.9	634.9	656.9	685.4	719.7
Shareholders' Equity	829.8	839.5	861.5	890.0	924.4
Total Liabilities & Equity	2,995.6	2,986.2	3,034.4	3,164.0	3,299.5

Source: Company, CIMB estimates

Key Financial Ratios and Statistics

FYE 31 Mar	2024	2025	2026F	2027F	2028F
Profitability Ratios					
ROA (%) (computed)	4.67	3.53	3.90	4.00	4.01
ROE (%) (computed)	27.0	12.2	13.79	14.14	14.30
Net financing margin (%)	9.33	9.16	9.45	9.46	9.38
Cost-of-funds (%)	4.68	4.80	5.00	5.00	5.00
Gross yield on receivables (%)	27.69	13.95	14.29	14.19	14.05
Net interest income/Operating income (%)	79.1	83.0	83.1	83.5	83.8
NOII/Operating income (%)	20.9	17.0	16.9	16.5	16.2
Pre-provision CIR (%)	11.5	20.5	20.2	19.9	19.8
Post-provision CIR (%)	24.0	28.5	36.0	35.8	35.9
Dividend Payout ratio (%)	79.2	90.3	81.3	77.0	73.5
YoY Growth (%)					
Gross receivables	3.9	(0.5)	5.5	6.0	6.0
Net interest income	0.9	(0.1)	5.7	5.8	5.2
Non-Interest Income	18.6	(22.8)	5.0	3.0	3.0
Operating Income	4.1	(4.9)	5.6	5.3	4.8
Pre-Provision Op. Profit Growth	1.2	(14.4)	6.0	5.6	5.0
Profit Before Tax	0.5	(20.7)	6.7	5.6	4.7
Net Profit	(0.0)	(23.9)	11.1	5.6	4.7
Core Net Profit	(0.0)	(23.9)	11.1	5.6	4.7
Asset Quality and Liquidity					
Gross impaired financing ratio (%)	6.1	6.7	6.7	6.7	6.7
Financing Loss Coverage (%) (reported)	153.3	147.3	150.0	150.0	150.0
Net Credit Charge (bps) (computed)	146.7	88.4	180.0	180.0	180.0
Net debt-to-equity ratio (x)	1.5	1.5	1.6	1.6	1.6
Interest coverage ratio (x)	3.5	3.3	3.4	3.4	3.4
Capital adequacy ratio (CAR) (%)	79.0	40.1	40.1	39.2	38.4
Receivables Turnover (x)	0.14	0.14	0.14	0.14	0.14
Per Share					
EPS (sen)	9.5	7.2	8.0	8.4	8.8
Core EPS (sen)	9.5	7.2	8.0	8.4	8.8
BVPS (RM)	0.57	0.57	0.59	0.61	0.63
DPS (sen)	7.5	6.5	6.5	6.5	6.5
FCFF per share	0.04	-0.04	0.13	0.15	0.16
Investment Statistics					
P/E (x)	11.4	15.0	13.5	12.8	12.2
Core P/E (x)	11.4	15.0	13.5	12.8	12.2
P/E (diluted)	11.4	15.0	13.5	12.8	12.2
P/BV (x)	1.91	1.89	1.84	1.78	1.71
Dividend yield (%)	6.9	6.0	6.0	6.0	6.0

Source: Company, CIMB estimates

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Buy	The stock's total return is expected to exceed 10% over the next twelve (12) months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next twelve (12) months.
Reduce	The stock's total return is expected to fall below 0% or more over the next twelve (12) months.
	<i>Note: The total expected return of a stock is defined as the sum of:</i> <i>(a) the percentage difference between the target price and the current price; and</i> <i>(b) the forward net dividend yields of the stock. Stock price targets have an investment horizon of twelve (12) months.</i>
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Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
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