



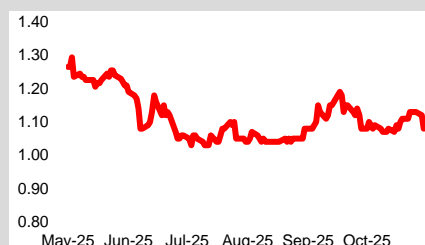
#### DESCRIPTION

RCE Capital is mainly involved in the general financing services to civil servants

12-month Target Price	RM1.22
Current Price	RM1.08
Expected Return	13.0%
Previous Target Price	RM1.22

Market	Main
Sector	Consumer Finance
Bursa Code	9296
Bloomberg Ticker	RCE MK
Shariah-compliant	Yes

#### SHARE PRICE CHART



52 Week Range (RM)	1.02-1.75
3-Month Average Vol ('000)	682.1

#### SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	0.0	2.9	-15.2
Relative Returns	-0.4	2.3	-21.1

#### KEY STOCK DATA

Market Capitalisation (RMm)	1,585.5
No. of Shares (m)	1,468.0

#### MAJOR SHAREHOLDERS

	%
Cempaka Empayar SB	59.2
Employees Providend Fund	4.1
Lembaga Tabung Haji	3.8

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## Sequential Improvement in Impairments

RCE's 2QFY26 net profit rose 5.3% YoY to RM29.3m, mainly lifted by lower impairment allowances and staff cost. Cumulative 1HFY26 net profit of RM55.3m came in within ours but above consensus estimates at 46% and 44% respectively. Financing receivables growth remain muted (+0.4% QoQ), however, we foresee an improvement in credit demand in 4QFY26, driven by the upcoming civil servant salary revision. We upgrade our call on RCE from Neutral to **Outperform**, with an unchanged TP of RM1.22 as we believe that the worse may be over, given the sequential decrease in impairments as bankruptcy rate and early retirement cases within the civil service are tapering off. In addition, we believe RCE's earnings will be supported by NIM expansion, following the recent OPR cut in July. On a side note, RCE declared a first interim dividend of 3sen.

§ **Results review.** 2QFY26 revenue rose 2.8% YoY, driven by higher fee income from increased financing disbursement. Core net profit grew 5.3% YoY to RM29.3m, on lower staff cost and impairment cost. YTD, RCE posted a 4.8% decline in net profit, mainly dragged by higher impairment cost.

§ **Financing receivables growth muted.** RCE's financing receivables growth increased marginally by 0.4% QoQ. Going forward, we foresee an improvement in credit demand in 4QFY26, mainly driven by the upcoming civil servant salary adjustment in Jan 2026, as historically, RCE's financing receivables is closely related to government emoluments. We believe that as the bankruptcy rate and early retirement cases within the civil service is showing signs of improvement, it may lead to an increase in financing disbursements.

§ **The worse may be over.** Impairment losses continued to ease sequentially, down by 53.6% QoQ, as bankruptcy rate and early retirement cases within the civil service seem to have tapered off from its peak. Non-performing financing (NPF) ratio has tapered off slightly to 4.7% from its record high of 4.8%. We believe the upcoming civil servant salary adjustment will enhance financial stability among public sector employees, which should reduce early retirements and curb job migration from the public to the private sector.

#### KEY FINANCIAL SUMMARY

FYE Mar (RM'm)	2024A	2025A	2026F	2027F	2028F	CAGR
Operating Income	281.1	259.5	257.5	273.9	288.5	3.6%
Pre-provision profit	215.1	195.0	195.0	207.8	220.0	4.1%
Pre-tax profit	184.8	146.5	159.2	172.1	184.2	7.9%
Core net profit	138.8	105.5	121.0	130.8	140.0	9.9%
EPS (sen)	9.5	7.2	8.2	8.9	9.5	
P/E (x)	11.4	15.0	13.1	12.1	11.3	
DPS (sen)	7.5	6.5	5.8	6.2	6.7	
Dividend Yield (%)	6.9	6.0	5.3	5.8	6.2	

Source: Company, PublicInvest Research estimates

**Table 1: Results Summary**

<b>FYE Mar (RM'm)</b>	<b>2Q26</b>	<b>2Q25</b>	<b>1Q26</b>	<b>YoY chg (%)</b>	<b>QoQ chg (%)</b>	<b>YTD FY26</b>	<b>YTD FY25</b>	<b>YoY chg (%)</b>	<b>Comments</b>
Interest income	73.1	73.0	71.2	0.2	2.7	144.3	145.0	-0.5	
Interest expense	-24.4	-25.7	-24.2	-5.1	0.7	-48.5	-51.2	-5.2	
Net interest income	48.7	47.3	47.0	3.1	3.7	95.7	93.8	2.1	
Other non-profit income	18.4	17.9	16.6	2.6	10.8	34.9	33.8	3.3	
Operating income	67.1	65.2	63.6	2.9	5.5	130.7	127.6	2.4	YoY growth on higher fee income due to higher disbursements
Directors' remuneration and staff cost	-10.6	-12.4	-7.5	-14.4	40.9	-18.1	-19.7	-7.9	
Allowances for impairment loss	-5.3	-6.4	-11.3	-17.4	-53.6	-16.6	-14.1	17.5	Improvement in credit cost as early retirements and bankruptcy cases seem to be tapering off
Impairment of goodwill on consolidation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Depreciation and amortisation	-1.4	-1.0	-1.3	39.3	9.5	-2.7	-2.1	31.4	
Other expenses	-8.4	-7.3	-7.9	14.0	6.2	-16.2	-13.2	23.4	
Finance cost	0.0	-0.1	0.0	-51.0	>100	-0.1	-0.1	-61.4	
<b>Profit before tax</b>	<b>41.4</b>	<b>38.0</b>	<b>35.5</b>	<b>9.0</b>	<b>16.4</b>	<b>76.9</b>	<b>78.4</b>	<b>-1.9</b>	
Taxation	-12.1	-10.2	-9.5	19.1	27.0	-21.6	-20.3	6.6	
<b>Net profit</b>	<b>29.3</b>	<b>27.8</b>	<b>26.0</b>	<b>5.3</b>	<b>12.6</b>	<b>55.3</b>	<b>58.1</b>	<b>-4.8</b>	
<b>Core net profit</b>	<b>29.3</b>	<b>27.8</b>	<b>26.0</b>	<b>5.3</b>	<b>12.6</b>	<b>55.3</b>	<b>58.1</b>	<b>-4.8</b>	
Gross financing receivables	2095.3	2057.4	2087.4	1.8	0.4				
Allowance for impairment	-141.9	-129.9	-144.2	9.3	-1.6				
Net financing receivables	1953.4	1927.5	1943.2	1.3	0.5				
Gross NPF ratio (%)	4.7	4.3	4.8						
Total borrowings	2111.2	2050.6	2202.5	3.0	-4.1				

Source: Company, PublicInvest Research

## KEY FINANCIAL DATA

### INCOME STATEMENT DATA

FYE Mar (RM'm)	2024A	2025A	2026F	2027F	2028F
Interest income	290.8	284.3	280.9	298.9	315.1
Interest expense	-98.5	-100.3	-100.3	-103.3	-106.4
<b>Net Interest Income</b>	<b>192.3</b>	<b>184.0</b>	<b>180.6</b>	<b>195.6</b>	<b>208.7</b>
Non-interest income	88.8	75.5	76.9	78.3	79.7
Staff costs	-32.2	-33.9	-32.2	-34.1	-35.9
Other operating expenses	-33.6	-30.5	-30.2	-31.7	-32.4
Pre-provision profit	215.1	195.0	195.0	207.8	220.0
Allowance for impairment	-30.2	-37.5	-35.7	-35.7	-35.7
Profit Before Tax	184.8	146.5	159.2	172.1	184.2
Income tax	-46.1	-41.0	-38.2	-41.3	-44.2
<b>Net profit</b>	<b>138.8</b>	<b>105.5</b>	<b>121.0</b>	<b>130.8</b>	<b>140.0</b>
<b>Core net profit</b>	<b>138.8</b>	<b>124.5</b>	<b>121.0</b>	<b>130.8</b>	<b>140.0</b>

#### Growth

Interest income (%)	3.6	-2.2	-1.2	6.4	5.4
Pre-provision Profit (%)	1.2	-9.3	0.0	6.6	5.8
Net Profit (%)	0.0	-23.9	14.7	8.1	7.1

Source: Company, PublicInvest Research estimates

### BALANCE SHEET DATA

FYE Mar (RM'm)	2024A	2025A	2026F	2027F	2028F
Property, Plant and Equipment	7.3	4.9	6.6	6.6	7.6
Financial Receivables	2100.4	2090.7	2111.6	2143.3	2186.2
Cash and Deposits with Banks	840.2	767.5	846.9	919.1	984.6
Other Assets	47.7	123.0	119.1	118.0	116.2
<b>Total Assets</b>	<b>2995.6</b>	<b>2986.2</b>	<b>3084.2</b>	<b>3187.0</b>	<b>3294.5</b>
Trade and Other Payables	34.6	34.3	34.3	34.3	34.3
Interest-bearing Debt	2119.6	2058.0	2119.8	2183.4	2248.9
Other Liabilities	11.7	54.3	54.3	54.3	54.3
Total Liabilities	2165.8	2146.6	2208.4	2272.0	2337.5
Shareholders' Equity and Minority	829.8	839.5	875.8	915.1	957.1
<b>Total Equity and Liabilities</b>	<b>2995.6</b>	<b>2986.2</b>	<b>3084.2</b>	<b>3187.0</b>	<b>3294.5</b>

Source: Company, PublicInvest Research estimates

### PER SHARE DATA & RATIOS

FYE Mar	2024A	2025A	2026F	2027F	2028F
Book Value Per Share (RM)	0.6	0.6	0.6	0.6	0.7
P/BV	1.9	1.9	1.8	1.8	1.7
EPS (Sen)	9.5	7.2	8.2	8.9	9.5
DPS (Sen)	7.5	6.5	5.8	6.2	6.7
Payout Ratio (%)	79.4	90.4	70.0	70.0	70.0
ROA (%)	4.6	3.5	3.9	4.1	4.3
ROE (%)	16.7	12.6	13.8	14.3	14.6

Source: Company, PublicInvest Research estimates

## RATING CLASSIFICATION

### STOCKS

<b>OUTPERFORM</b>	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
<b>NEUTRAL</b>	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
<b>UNDERPERFORM</b>	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
<b>TRADING BUY</b>	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
<b>TRADING SELL</b>	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
<b>NOT RATED</b>	The stock is not within regular research coverage.

### SECTOR

<b>OVERWEIGHT</b>	The sector is expected to outperform a relevant benchmark over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform a relevant benchmark over the next 12 months.

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