

RCE Capital's growth prospects seen to be intact despite stock's sharp fall

BY **ADELINE PAUL RAJ**

After a strong run in its share price over the last year, RCE Capital Bhd — a non-bank lender that tends to be well liked by investors for its uninterrupted earnings growth and

dividends over the last 10 years — seems to have lost some steam.

The stock, which hit a more than five-year high of RM3.36 on Jan 23, was sitting on 80.7% gains over 12 months as at end-January. This month, however, its share price shed 11% as at its Feb 22 close, falling a particularly

steep 8.71% from the previous day to close at RM2.83, giving the company a market value of RM2.07 billion.

Analysts say RCE Capital's growth prospects are intact but believe its valuation has caught up with its fundamentals. The group provides personal financing products

at fixed rates to civil servants, who make their monthly repayments through direct salary deductions, which makes it a relatively stable business.

"Our stance on the counter remains — while the group continues to be fundamentally sound, its valuation still appears stretched," RHB Research says in a Feb 9 report, in which it maintained its "sell" call but raised its target price by 10 sen to RM2.40. "At 2.6 times price-to-book value versus 17% to 18% return on equity, we believe the stock's valuation is over-stretched."

Maybank IB Research recently downgraded the stock to a "sell" from a "hold", but maintained its target price at RM2.59. "While we acknowledge that RCE Capital's returns on average equity are about 80% higher than the banking industry's average, we are unsure if it should be trading at three times the average price-to-book value multiples [of 0.9 times] the banking industry is trading at," it says in a Feb 9 report.

Apart from Maybank IB Research and RHB Research, the only other research house that tracks the company, KAF Equities, had a "hold" call, Bloomberg data shows at the time of writing. The average 12-month target price for the stock was RM2.65, which suggests further downside from its Feb 22 closing of RM2.83.

RCE Capital's financing growth consistently outpaces that of the banking industry. As at the third quarter (ended Dec 31) of its financial year ending March 31, 2024, its financing receivables grew 6.5% year on year to RM2.11 billion, versus the industry's 5.3% growth. On a quarterly basis, however, the growth decelerated to 1%, from 2% in 2QFY2024.

A low-profile firm, RCE Capital typically declines to disclose its annual targets, including those of financing growth, to the investment community. A company spokesperson, who declines to be named, tells *The Edge*: "As we tell analysts, we always anticipate that our financing growth will be in line with that of industry trends. What is important to us is ensuring quality financing. We don't just grow [receivables] for the sake of growing them." Analysts expect the banking industry to grow at a slower pace of between 4% and 5% this year.

As at 3QFY2024, the group's non-performing financing (NPF) ratio had crept up by 10 basis points to 3.8% from a quarter earlier, mainly because of an uptick in civil servants moving to the private sector and more cases of bankruptcies in the country, the spokesperson says. Consequently, its net allowance for impairment loss on receivables rose 21% y-o-y to RM8.3 million, the highest level since 3QFY2018.

"We saw [the NPF ratio] peak in 1QFY2024 and, until now, the numbers are still elevated. We need to continue to observe, but we think, overall, the ratio will remain stable," says the spokesperson.

"An important thing to note is that our financing loss coverage, at 155%, remains above the banking industry average [of 117%]."

The group's 3QFY2024 net profit fell 1.7% y-o-y and 9.6% q-o-q to RM34.56 million, owing to higher directors' remuneration and staff costs as well as higher allowances for impairment loss on receivables. For the cumulative nine months, net profit grew 5.5% to RM109.69 million, within analysts' expectations.

MAZDA SHOWCASE



VISIT US AT :

1 Utama Shopping Centre (Oval Concourse)
28 February - 3 March



**5 YEARS WARRANTY &
5 YEARS FREE SERVICE
MAINTENANCE***



**DRAGON PROSPERITY
LUCKY DIP TOTALLING
UP TO RM300,000^**



**SIGN-UP
GIFTS^**

Prima merdu / bermaz | MAZDA.COM.MY | MAZDA.COM.MY/MAZDA-ANSHIN | MAZDA.MY | MAZDA ZOOM-ZOOM LINE: 1800-22-8080
FRANCHISE HOLDER/IMPORTER: PRIMA MERDU SDN BHD 200801002202 (803486-M) SOLE DISTRIBUTOR: BERMAZ MOTOR SDN BHD 198801006297 (173654-K)

*5 years manufacturer warranty and 5 years free scheduled maintenance, for first 100,000km or whichever comes first. Terms & conditions apply.
^Terms & conditions apply. Images shown are for illustration purposes only, actual car may vary.

**5 YEARS WARRANTY
5 YEARS FREE MAINTENANCE**
including labour, parts and lubricants*