RCE Capital

1HFY27 results in line; an attractive entry point

BUY (from Hold)

Share price:	Target price: ▼
RM0.81	RM1.05

Consensus: Buy: 2 Hold: 2 Reduce: 0

- RCE delivered a 1HFY3/27 core net profit of RM62.7m (+13.4% YoY), broadly within expectations at 47.2% of our and 47.5% of consensus full-year estimates. We expect higher refinancing activities in 2HFY3/27 to support financing income growth.
- We have cut our FY27/28/29F earnings forecasts by 2.9–7.3% after lowering our net financing income assumptions, in line with a measured view on receivables growth.
- Recent share price weakness has created a more attractive entry point. We upgrade RCE to Buy, though our TP is trimmed to RM1.05 (from RM1.18).

1HFY3/27 core net profit up 13.4% YoY, supported by stronger 2QFY3/27 results

RCE posted a 1HFY3/27 core net profit (CNP) of RM62.7m (+13.4% YoY), accounting for 47.2% of our and 47.5% of consensus FY3/27F estimates, respectively. The performance was broadly within expectations, underpinned by lower provisions amid improved credit controls and better fraud prevention measures, which translated into healthier asset quality. Consequently, RCE's gross impaired financing (GIF) ratio remained stable at 4.3–4.4% throughout 1HFY3/27, compared with 4.76% in 2QFY3/26.

The stronger 2QFY3/27 CNP of RM32.3m (+10.1% YoY, +6.1% QoQ) was driven largely by higher net financing income (+10.7% YoY, +11.0% QoQ), supported by stronger early settlement income arising from increased refinancing activities. Meanwhile, 1HFY3/27 CNP was underpinned by (i) a 7.1% YoY increase in net financing income (despite no meaningful growth in gross financing receivables and loans), supported by early settlement income; and (ii) a 17.6% YoY decline in provisions, translating into a lower net credit charge (NCC) of 130 basis points (bps) vs. 158.5 bps in 1HFY3/26. The positives, however, were partly offset by lower processing and payroll collection fee income. RCE has maintained a dividend per share of 3.0 sen (unchanged YoY).

Earnings forecasts lowered by 2.9%/3.9%/7.3%

We have cut our FY3/27–29F receivables growth projections to c.1.0–3.5% YoY (from +5.0% YoY previously), reflecting our more cautious stance alongside tighter lending criteria for bottom-40% income (B40) borrowers and heightened default risks among civil servants exiting the workforce. That said, we now factor in stronger early settlement income, driven by higher refinancing activity, to continue supporting net financing income and overall revenue growth.

Accordingly, our fine-tuned key FY3/27–29F assumptions are as follows: (i) net credit charge of 130 bps p.a. (vs. 120 bps previously), (ii) net financing margin of 9.26–9.40%, and (iii) average cost of funds of 5% and net debt–to-equity level of 1.5x. Overall, our FY3/27/28/29F net earnings forecasts have been revised down by 2.9%/3.9%/7.3%.

Upgrade to Buy (from Hold); target price (TP) lowered to RM1.05 (from RM1.18)

We upgrade RCE to Buy (from Hold), while lowering our TP to RM1.05 (from RM1.18), based on an FY3/27F P/BV target of 1.68x (see details in Figure 2), anchored on an FY3/27F ROE of 14.7%, cost of equity of 10% (from 9.35%), and terminal growth rate of 3.0%. Notwithstanding the lower TP, RCE's risk-reward profile has turned more favourable following a 24.1% share price correction since mid-Sep 2026, which, in our view, has already priced in concerns over weaker asset quality and a modest outlook. RCE compares favourably against peer Aeon Credit Service Malaysia (ACSM) (Reduce; TP RM4.90), with RCE posting a much lower NCC of 130 bps (vs. ACSM's FY27F NCC of 485 bps), while maintaining a payout ratio of >70% that supports an attractive yield of ~8% (outpacing ACSM's FY2/27F yield of 5.8%). In our view, notwithstanding RCE's more conservative growth profile and tighter underwriting standards, its continued investment in data management and analytics capabilities could serve as a medium-term catalyst by improving underwriting precision, strengthening portfolio oversight, and supporting sustainably lower credit cost. That said, expansion in its distribution channels and diversification beyond its traditional civil servant market could act as catalysts for the stock. Downside risks to our call include (i) asset quality pressures from its high exposure to B40 borrowers and (ii) reliance on third-party payroll-deduction platforms, which exposes the group to execution risks and fraud incidents.

Stock information

Bloomberg ticker	RCE MK
Refinitiv ticker	REDI.KL
Share price (RM)	0.81
Market cap (US$m/RMm)	287/1,182
ADTV (RMm)	0.5
Free float (%)	34.5
Upside/(downside) (%)	29.6
CIMB/consensus TP (%)	(12.5)

RCE is supported by an attractive dividend yield of ~8.0%, while net credit charge is expected stabilise following tighter underwriting standards.

Earnings forecast

	Mar-26A	Mar-27F	Mar-28F
Core net profit (RMm)	126.6	130.5	135.0
Core EPS (sen)	8.6	8.9	9.2
Core EPS growth (%)	19.9	3.1	3.4
FD core P/E (x)	9.3	9.0	8.7
Recurring ROE (%)	14.8	14.7	14.6
P/BV (x)	1.4	1.4	1.3
DPS (sen)	6.5	6.5	6.5
Dividend yield (%)	8.1	8.1	8.1

Source: CIMB Securities

Price performance

	1M	3M	12M
Absolute (%)	(14.4)	(24.1)	(28.8)
Relative (%)	(12.7)	(16.0)	(26.1)

Source: Bloomberg, CIMB Securities

Research analyst(s)



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Figure 1: Financial results

FYE March	2QFY27	2QFY26	YoY %	1QFY27	QoQ %	1HFY27	1HFY26	YoY %	CIMB's FY27F	Comments
RM'm										
Net financing income	**54.0**	**48.7**	*10.7*	**48.6**	*11.0*	**102.6**	**95.7**	*7.1*	**200.6**	1HFY3/27 net financing income rose +7.1% YoY, underpinned by an increase in 'early settlement income' following higher refinancing activities in 2QFY3/27.
Non-interest Income	8.5	9.6	*(11.7)*	7.4	*13.7*	15.9	18.2	*(12.5)*	39.8	Partially offset by lower processing and administration of payroll collection fee income.
Operating income	**62.4**	**58.3**	*7.0*	**56.1**	*11.4*	**118.5**	**113.9**	*4.0*	**240.4**	
Overhead expenses	(13.1)	(11.7)	*12.5*	(8.3)	*59.0*	(21.4)	(20.5)	*4.6*	(37.3)	
Pre-provision profit	**49.3**	**46.6**	*5.7*	**47.8**	*3.1*	**97.1**	**93.5**	*3.9*	**203.1**	
Allowance for ECLs	(6.2)	(5.3)	*17.8*	(7.5)	*(17.1)*	(13.7)	(16.6)	*(17.6)*	(26.0)	2QFY3/27 provisions fell 17.1% QoQ. As such, 1HFY3/27 NCC was lower at 130 bps vs. 158.5 bps in 1HFY3/26, in line with improvement in asset quality.
Other impairments	0.0	0.0	*n.m.*	0.0	*n.m.*	0.0	0.0	*n.m.*	0.0	
Profit after	43.1	41.4	*4.1*	40.3	*6.9*	83.4	76.9	*8.5*	**177.1**	
Pre-tax profit	43.1	41.4	*4.1*	40.3	*6.9*	83.4	76.9	*8.5*	177.1	
Net profit	**32.3**	**29.3**	*10.1*	**30.4**	*6.1*	**62.7**	**55.3**	*13.4*	**132.8**	1HFY3/27 accounted for 47.2% of our and 47.5% of consensus estimates.
Core Net profit	**32.3**	**29.3**	*10.1*	**30.4**	*6.1*	**62.7**	**55.3**	*13.4*	**132.8**	
Core EPS (sen)	**2.2**	**2.0**	*10.1*	**2.1**	*6.1*	**4.3**	**3.8**	*13.4*	**9.1**	
DPS (sen)	3.0	3.0	-	-	*n.m.*	3.0	3.0	-	6.5	1st interim dividend maintained at 3.0 sen (flat YoY).
Net yield (%)	3.0	3.0	-	-	*n.m.*	3.7	3.7	-	8.0	

Source: CIMB Securities estimates

Figure 2: RCE Capital — Gordon growth model–derived TP trimmed to RM1.18

Valuation Assumptions:	FY27F	Key rationale
ROE	14.7%	Lowered from previous ROE assumption of 15.0%.
Beta	1.0	
Cost of Equity (CoE)	10.0%	Raised from 9.3%, pegged to RFR of 4.0% anda higher risk premium of 6%.
Risk-free rate (RFR)	4.0%	Maintained.
Risk premium	6.0%	Raised from 5.5%.
Terminal growth (g)	3.0%	Terminal growth of 3% reflects maturity of Malaysia's household financing market and impact of cyclical headwinds.
Gordon Growth Model:		
ROE - g / CoE - g , P/BV multiple (x) =	**1.68**	Lowered from a previous multiple of 1.88x.
BVPS (RM)	**0.62**	
Target Price (RM)	**1.05**	
Upside/(Downside)	*29.3%*	

Source: CIMB Securities estimates

Financial Information

Figure 3: Profit and Loss

	Mar-25A	Mar-26A	Mar-27F	Mar-28F	Mar-29F
Interest income	292	287	302	312	323
Interest expense	(100)	(94)	(91)	(92)	(97)
Net interest income	**192**	**193**	**211**	**220**	**226**
Non-interest income	39	36	33	34	34
Operating income	**231**	**230**	**244**	**253**	**260**
Staff costs	(34)	(34)	(42)	(44)	(46)
Other (expenses)/income	(13)	1	0	0	0
Pre-provision expenses	(47)	(33)	(42)	(44)	(46)
Pre-Provision Profit	**184**	**196**	**202**	**210**	**214**
ECL allowance on receivables	(19)	(24)	(28)	(30)	(29)
Other impairments	(19)	0	0	0	0
Share of associate profit/(loss)	0	0	0	0	0
Pretax Profit	**147**	**172**	**174**	**180**	**185**
Income tax expense	(41)	(45)	(43)	(45)	(46)
Minority interest	0	0	0	0	0
Net profit	**106**	**127**	**130**	**135**	**139**
Core net profit	**106**	**127**	**130**	**135**	**139**

Source: CIMB Securities, Company

Figure 4: Key Ratios

	Mar-25A	Mar-26A	Mar-27F	Mar-28F	Mar-29F
ROA (%)	3.5	4.2	4.4	4.4	4.4
ROE (%)	12.2	14.8	14.7	14.6	14.4
Net financing margin (%)	9.2	9.2	9.7	9.7	9.4
Net interest income/Operating income	83.0	84.3	86.3	86.7	86.9
NOII/Operating income	17.0	15.7	13.7	13.3	13.1
Pre-provision CIR (%)	20.5	14.4	17.2	17.3	17.7
Post-provision CIR (%)	28.5	25.0	28.7	29.0	28.8
Gross impaired financing ratio (%)	4.6	4.3	4.5	4.5	4.5
Financing loss coverage (%)	147.3	151.9	144.4	144.4	146.7
Net credit charge (bps)	88.4	115.8	130.0	130.0	120.0
Net debt-to-equity ratio (x)	1.5	1.5	1.5	1.5	1.5
Interest coverage ratio (x)	330.6	345.0	368.7	374.8	369.0
Capital adequacy ratio (CAR) (%)	40.1	41.4	41.8	41.6	41.3
Dividend payout ratio	90.3	75.3	73.0	70.6	68.6

Source: CIMB Securities, Company

Financial Information

Figure 5: Balance Sheet

(RMm)	Mar-25A	Mar-26A	Mar-27F	Mar-28F	Mar-29F
Plant and equipment	7	9	9	9	9
Goodwill and intangible assets	50	68	68	68	68
Investments in JVs/Associates	0	0	0	0	0
Net Receivables	1,950	1,977	2,075	2,179	2,296
Other investments	0	0	0	0	0
Deferred tax assets	91	94	96	99	102
Trade and other receivables	120	92	92	95	97
Deposits pledged to financial institutions	626	681	630	635	640
Cash and bank balances	142	82	11	37	54
Total Assets	**2,986**	**3,004**	**2,982**	**3,123**	**3,268**
Borrowings and financing liabilities	2,058	2,036	2,000	2,100	2,200
Payables, accruals and others	35	38	39	40	41
Lease liabilities	1	3	1	1	1
Deferred tax liabilities	46	50	30	30	30
Tax liabilities	6	7	6	6	6
Total liabilities	**2,147**	**2,133**	**2,076**	**2,177**	**2,278**
Share capital	205	205	205	205	205
Reserves	635	666	701	741	784
Shareholders' funds	**840**	**871**	**906**	**946**	**989**
Minority interest	0	0	0	0	0
Total equity and liabilities	**2,986**	**3,004**	**2,982**	**3,123**	**3,268**

Source: CIMB Securities, Company

Figure 6: Key Drivers

	Mar-25A	Mar-26A	Mar-27F	Mar-28F	Mar-29F
Gross receivables (RMm)	2,090.7	2,113.8	2,219.5	2,330.4	2,458.6
Gross yield on receivables (%)	14.0	13.7	13.9	13.7	13.5
Cost-of-funds (%)	4.8	4.6	4.5	4.5	4.5
Gross receivables growth (%)	(0.5)	1.1	5.0	5.0	5.5
Net interest income growth (%)	(0.1)	0.7	8.9	4.3	2.9
Non-interest income growth (%)	(22.8)	(8.2)	(7.6)	1.0	1.0
Operating Income growth (%)	(4.9)	(0.8)	6.3	3.9	2.7
PPOP growth (%)	(14.4)	6.7	2.9	3.6	2.2
Profit before tax growth (%)	(20.7)	17.4	1.1	3.4	3.0
Net profit growth (%)	(23.9)	19.9	3.1	3.4	3.0

Source: CIMB Securities, Company

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Reduce	The stock's total return is expected to fall below 0% or more over the next twelve (12) months.
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