Maybank Investment Bank

Banks

Malaysia

RCE Capital Bhd (RCE MK)

Reiterate BUY for high dividend yields

BUY

Share Price	MYR 0.81
12m Price Target	MYR 1.15 (+49%)
Previous Price Target	*MYR 1.15*

Maintain BUY call and MYR1.15 TP

Earnings were within our expectations. Gross financing receivables growth remained tepid but asset quality and credit cost remained stable. We maintain our earnings estimates and expect unexciting 3-year forward EPS CAGR of 3.0% p.a. Yet, we maintain our BUY call as RCE offers very attractive dividend yields of ≥8.5% p.a. while waiting for gross financing receivables growth to recover. Our MYR1.15 TP is based on an unchanged 1.9x end-CY26E P/BV.

Earnings and dividends within our expectations

2QFY3/27 net profit of MYR32.2m (+10% YoY, +6% QoQ) brought 6MFY3/27 net profit to MYR62.6m (+13% YoY), which was in-line with our expectations at 48% of our FY estimate. An interim DPS of 3sen (2QFY3/26: 3 sen) was declared, which was also within our expectations. However, we note that 2QFY3/27 gross financing receivables eased 41bps QoQ as demand for financing levelled off after the 7% civil service salary hike in Jan 2026.

Asset quality largely stable

2QFY3/27 NPF ratio remained relatively stable QoQ at 4.3% and below the recent 1QFY3/26 high of 4.8% in (Fig. 2) while 2QFY3/27 credit cost of MYR6.2m was also relatively well contained by historical standards (Fig. 3) thanks to moderating bankruptcies, resignations and early retirements among civil servants due to the 8% civil service salary hike in Dec 2024 and another 7% hike in Jan 2026.

Maintain earnings estimates

Our estimates are premised on gross financing receivables growth of 2.0% p.a., NPF ratio of 4.3% and credit cost of c.MYR25m p.a. Going forward, we expect stable quarterly net profit of MYR30m-MYR35m as RCE priorities credit quality over strong gross financing receivables growth. Although we expect RCE to record pedestrian 3-year forward EPS CAGR of 3.0% p.a., we like its attractive dividend yields of ≥8.5% p.a. going forward.

FYE Mar (MYR m)	FY25A	FY26A	FY27E	FY28E	FY29E
Operating income	267	263	269	275	282
Pre-provision profit	203	196	202	208	214
Core net profit	125	127	130	134	138
Core FDEPS (MYR)	0.08	0.09	0.09	0.09	0.09
Core FDEPS growth(%)	(10.3)	1.8	0.4	2.9	2.9
Net DPS (MYR)	0.07	0.07	0.07	0.07	0.08
Core FD P/E (x)	15.7	12.2	9.3	9.1	8.8
P/BV (x)	2.3	1.8	1.3	1.3	1.2
Net dividend yield (%)	4.9	6.2	8.7	8.7	9.3
Book value (MYR)	0.57	0.59	0.61	0.63	0.65
ROAE (%)	14.9	14.8	14.7	14.7	14.6
ROAA (%)	4.2	4.2	4.3	4.3	4.3
Consensus net profit	-	-	129	134	138
MIBG vs. Consensus (%)	-	-	0.9	0.0	(0.0)

Company Description

RCE Capital is principally involved in the provision of general financing services.

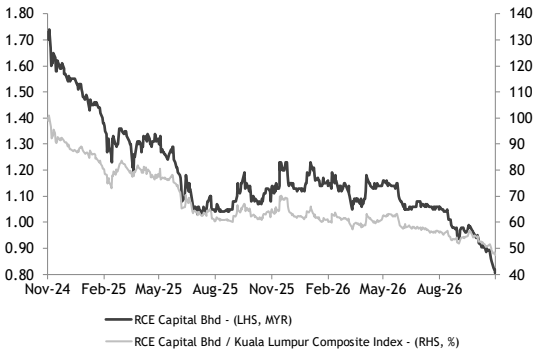
Statistics

52w high/low (MYR)	1.23/0.81
3m avg turnover (USDm)	0.1
Free float (%)	35.0
Issued shares (m)	1,501
Market capitalisation	MYR1.2B
	USD294M

Major shareholders:

Cempaka Empayar Sdn. Bhd.	58.6%
Public Mutual Bhd.	3.5%
Lembaga Tabung Haji	3.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(14)	(24)	(29)
Relative to index (%)	(13)	(16)	(26)

Source: FactSet

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Figure 1: Summary Results Table

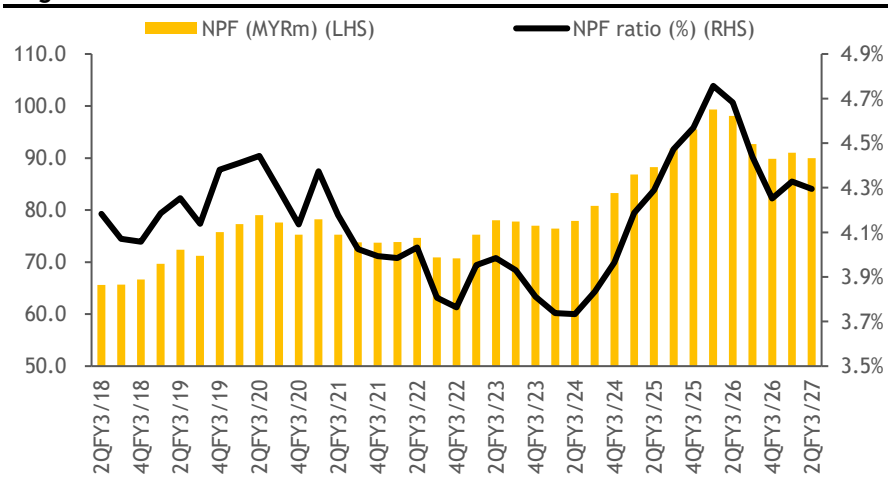
FY Mar (MYRm)	2QFY3/27	2QFY3/26	% YoY	1QFY3/27	% QoQ	6MFY3/27	6MFY3/26	% YoY
Interest/profit income	75.6	73.1	*3.4*	70.9	*6.5*	146.5	144.3	*1.5*
Other revenue	8.5	9.6	*(11.7)*	7.4	*13.7*	15.9	18.2	*(12.5)*
Revenue	**84.0**	**82.7**	***1.6***	**78.4**	***7.2***	**162.4**	**162.5**	***(0.0)***
Other income	7.3	8.8	*(16.7)*	7.9	*(7.4)*	15.2	16.8	*(9.2)*
Interest/profit expense applicable to revenue	(21.6)	(24.4)	*(11.3)*	(22.3)	*(3.3)*	(43.9)	(48.5)	*(9.5)*
Directors' remuneration and staff costs	(9.8)	(10.6)	*(7.4)*	(8.6)	*13.9*	(18.5)	(18.1)	*1.7*
Allowances for impairment loss on receivables, net	(6.2)	(5.3)	*17.8*	(7.5)	*(17.1)*	(13.7)	(16.6)	*(17.6)*
Depreciation and amortisation	(1.5)	(1.4)	*7.3*	(1.3)	*14.0*	(2.9)	(2.7)	*5.3*
Other expenses	(9.1)	(8.4)	*8.7*	(6.1)	*48.7*	(15.2)	(16.2)	*(6.4)*
Finance costs	(0.1)	(0.0)	*53.2*	(0.1)	*(2.7)*	(0.1)	(0.1)	*49.0*
Profit before tax	**43.0**	**41.4**	***4.0***	**40.3**	***6.7***	**83.4**	**76.9**	***8.4***
Taxation	(10.8)	(12.1)	*(10.4)*	(9.9)	*9.3*	(20.7)	(21.6)	*(4.0)*
Net profit	**32.2**	**29.3**	***9.9***	**30.4**	***5.9***	**62.6**	**55.3**	***13.3***
Core net profit	**32.2**	**29.3**	***9.9***	**30.4**	***5.9***	**62.6**	**55.3**	***13.3***
Financing & loans receivables, gross	2,094.7	2,095.3	*(0.0)*	2,103.4	*(0.4)*	2,094.7	2,095.3	*(0.0)*
(Allowance for impairment)	(135.2)	(141.9)	*(4.8)*	(136.6)	*(1.1)*	(135.2)	(141.9)	*(4.8)*
Financing & loans receivables, net	**1,959.5**	**1,953.4**	***0.3***	**1,966.7**	***(0.4)***	**1,959.5**	**1,953.4**	***0.3***
Tax rate (%)	25.2	29.2	*(4.0)*	24.6	*0.6*	24.9	28.1	*(3.2)*
Gross NPF ratio (%)	4.3	4.7	*(0.4)*	4.3	*(0.0)*	4.3	4.7	*(0.4)*
Financing & loans loss coverage ratio (%)	150.2	144.7	*5.6*	150.1	*0.1*	150.2	144.7	*5.6*
Net gearing (%)	142.0	152.4	*(10.4)*	152.9	*(10.9)*	142.0	152.4	*(10.4)*

Source: Company

Results analysis

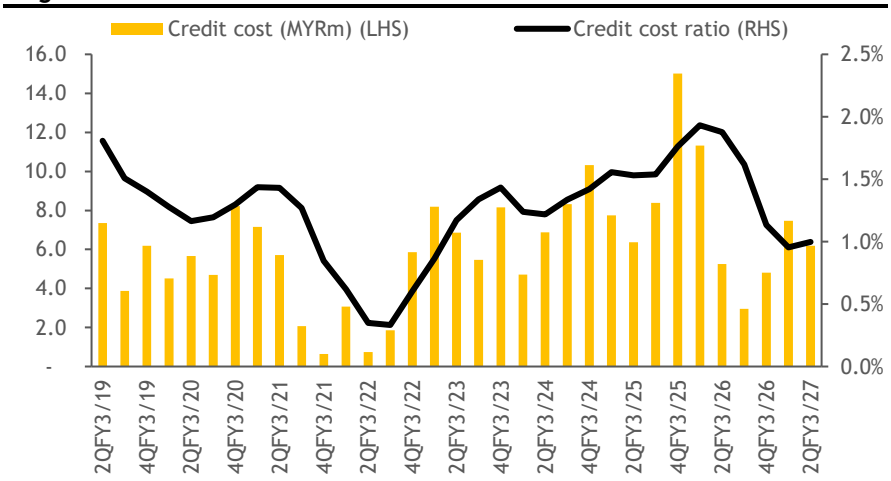
- 2QFY3/27 net profit grew 10% YoY largely due to higher early settlement income arising from higher refinancing activities by customers and lower profit expense.
- 2QFY3/27 net profit grew 6% QoQ largely due to higher fee income from more disbursements and higher early settlement income arising from higher refinancing activities by customers.
- 6MFY3/27 net profit grew 13% YoY largely due to lower profit expense and credit costs.

Figure 2: RCE NPF



Source: Company

Figure 3: RCE credit cost

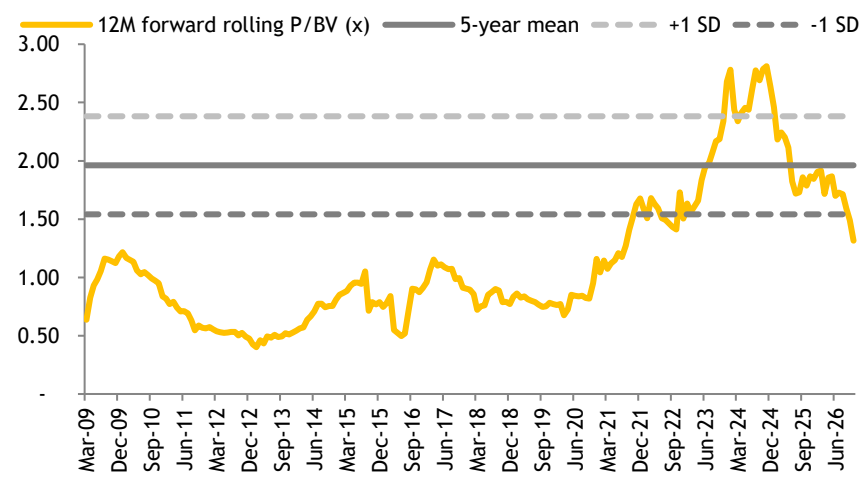


Source: Company

Valuation and recommendation

Our TP of MYR1.15 TP is based on 1.9x end-CY26E P/BV. We derive a target end-CY26E P/BV of 1.9x via the following assumptions: - (i) 2 year forward ROE of 14.9%; (ii) terminal growth rate of 2.0% as government emoluments have grown at 1.8% CAGR over the last 10 years; and (iii) cost of equity of 8.6% based on risk free rate of 4.2%, market risk premium of 6.3% and Beta of 0.70 (5-year historical Beta: 0.60).

Figure 4: RCE rolling 12M forward P/BV (x)

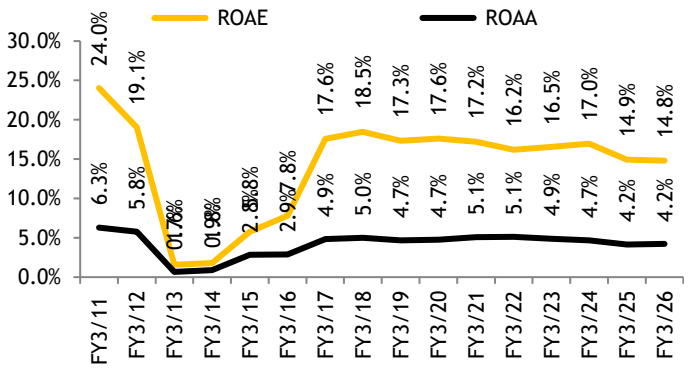


Source: Company, Maybank IBG Research, Bloomberg

Value Proposition

- RCE Capital provides personal financing, the ultimate customers being civil servants.
- With a gross financing balance of just MYR2.1b, we estimate that its market share is only 2%.
- Non-performing financing kept in check thanks to nondiscretionary direct salary deductions.
- Competitive advantage lies in fast financing processing turnaround time of 48 hours.
- ROE generation surpasses that of the average for the overall banking industry.

ROAE and ROAA



Source: Company

Price Drivers

Historical share price trend



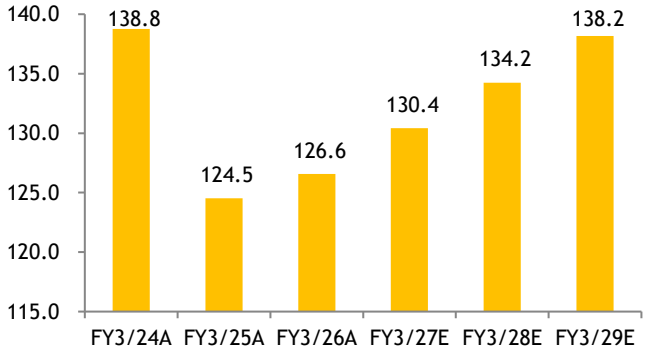
Source: Company, Maybank IBG Research

1. nnounced share DPS of 1 treasury share for 20 shares held and bonus issue of 19 shares for 21 shares held.
2. Bank Negara Malaysia raised Overnight Policy Rate by 25bps for the first time since Jul 2020.
3. Announced a huge special DPS of 18sen and higher-than expected interim DPS of 5sen.
4. Announced that it raised its dividend policy from 20-40% DPR to 60-80% DPR.
5. Gross financing receivables growth slows despite civil service salary hikes.

Financial Metrics

- Introduced better credit scoring model in 2013. We forecast gross financing CAGR of 2% p.a. over the next 3 years.
- Average cost of funds is rising but so is average financing yields.
- Asset quality better than before. New financings are smaller in size (<2%).
- Forecast 3-year forward core net profit CAGR of 3% p.a. Recently raised DPR policy from 20-40% to 60-80%.

Core net profit (MYRm)



Source: Company (historical), Maybank IBG Research (forecasts)

Swing Factors

Upside

- Easing competition – competitors have been reducing their exposure to personal financing.
- Lower cost of funds - we estimate that every 25bps reduction in cost of funds will accrete 3% to earnings.
- Access to CCRIS – if RCE Capital gains access to CCRIS, it can better assess customers' total indebtedness

Downside

- High household debt – Household debt to GDP is elevated at >80% and may crimp customers' repayment ability.
- Need to leverage – RCE Capital cannot take deposits and thus, has to assume debt to finance its financing.
- Asset-liability duration mismatch – customers' repayment may not match RCE's debt repayment.

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FYE 31 Mar	FY25A	FY26A	FY27E	FY28E	FY29E
Key Metrics					
Core P/E (x)	15.7	12.2	9.0	8.8	8.5
Core FD P/E (x)	15.7	12.2	9.3	9.1	8.8
P/BV (x)	2.3	1.8	1.3	1.3	1.2
P/NTA (x)	2.5	1.9	1.4	1.4	1.3
Net dividend yield (%)	4.9	6.2	8.7	8.7	9.3
INCOME STATEMENT (MYR m)					
Islamic banking income	219.6	219.7	225.0	230.5	236.1
Other income	47.8	42.8	43.7	44.6	45.4
Total non-interest income	**267.4**	**262.5**	**268.7**	**275.0**	**281.6**
Operating income	**267.4**	**262.5**	**268.7**	**275.0**	**281.6**
Staff costs	(33.9)	(34.3)	(34.9)	(35.5)	(36.2)
Other operating expenses	(30.5)	(31.8)	(31.8)	(31.8)	(31.8)
Operating expenses	**(64.3)**	**(66.1)**	**(66.7)**	**(67.3)**	**(68.0)**
Pre-provision profit	**203.0**	**196.4**	**202.0**	**207.7**	**213.5**
Other allowances	(37.5)	(24.3)	(24.7)	(25.2)	(25.7)
Associates & JV income	0.0	0.0	0.0	0.0	0.0
Pretax profit	**146.5**	**172.1**	**177.3**	**182.5**	**187.8**
Income tax	(41.0)	(45.5)	(46.9)	(48.2)	(49.7)
Reported net profit	**105.5**	**126.6**	**130.4**	**134.2**	**138.2**
Core net profit	**124.5**	**126.6**	**130.4**	**134.2**	**138.2**
BALANCE SHEET (MYR m)					
Cash & deposits with banks	767.5	763.4	791.5	823.5	852.4
Sec. under resale agreements	0.0	0.0	0.0	0.0	0.0
Derivatives financial assets	0.0	0.0	0.0	0.0	0.0
Dealing securities	0.0	0.0	0.0	0.0	0.0
Available-for-sale securities	0.0	0.0	0.0	0.0	0.0
Investment securities	0.0	0.0	0.0	0.0	0.0
Financing and advances	2,004.9	2,021.7	2,061.2	2,101.6	2,142.7
Fixed assets	4.9	4.4	4.0	3.7	3.4
Intangible assets	50.2	68.4	68.4	68.4	68.4
Other assets	158.6	146.0	146.0	146.0	146.0
Total assets	**2,986.2**	**3,003.8**	**3,071.1**	**3,143.1**	**3,212.8**
Derivatives financial instruments	0.0	0.0	0.0	0.0	0.0
Subordinated debt	0.0	0.0	0.0	0.0	0.0
Other securities in issue	979.7	1,035.9	1,035.9	1,035.9	1,035.9
Other borrowings	578.9	539.6	578.9	619.0	660.3
Other liabilities	588.1	557.7	557.9	558.1	558.3
Total liabilities	**2,146.6**	**2,133.1**	**2,172.7**	**2,213.0**	**2,254.5**
Share capital	204.9	204.9	204.9	204.9	204.9
Reserves	634.6	665.8	693.6	725.2	753.5
Shareholders' funds	839.5	870.7	898.5	930.1	958.3
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	0.0	0.0	0.0	0.0	0.0
Total equity	839.5	870.7	898.5	930.1	958.3
Total liabilities & equity	**2,986.2**	**3,003.8**	**3,071.1**	**3,143.1**	**3,212.8**

FYE 31 Mar	FY25A	FY26A	FY27E	FY28E	FY29E
Key Ratios					
Growth (%)					
Net interest income	na	na	na	na	na
Non-interest income	(4.8)	(1.8)	2.3	2.4	2.4
Operating expenses	(2.2)	2.8	0.8	1.0	1.0
Pre-provision profit	(5.6)	(3.3)	2.9	2.8	2.8
Core net profit	(10.3)	1.6	3.0	2.9	2.9
Gross loans	(0.5)	1.1	2.0	2.0	2.0
Customer deposits	na	na	na	na	na
Total assets	(0.3)	0.6	2.2	2.3	2.2
Profitability (%)					
Non-int. income/Total income	100.0	100.0	100.0	100.0	100.0
Cost/income	24.1	25.2	24.8	24.5	24.2
Liquidity (%)					
Loans/customer deposits	na	na	na	na	na
Asset quality (%)					
Gross NPF	4.6	4.3	4.3	4.3	4.3
Capital adequacy (%)					
CET1	na	na	na	na	na
Tier 1 capital	na	na	na	na	na
Risk-weighted capital	na	na	na	na	na
Returns (%)					
ROAE	14.9	14.8	14.7	14.7	14.6
ROAA	4.2	4.2	4.3	4.3	4.3
Shareholders equity/assets	28.1	29.0	29.3	29.6	29.8

Source: Company; Maybank IBG Research

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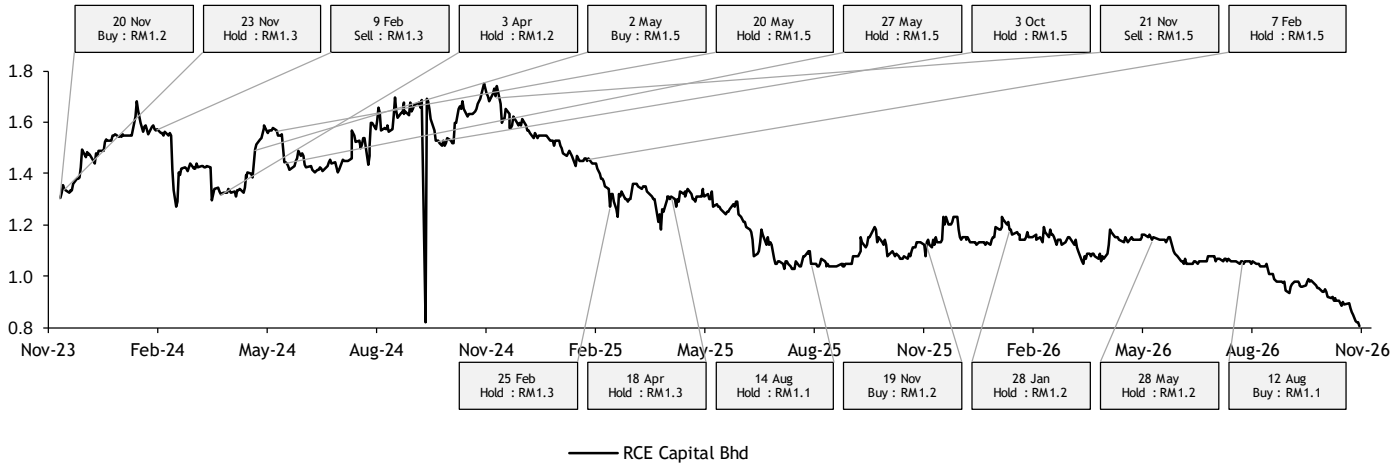
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