

20 December 2019

AEON Credit Service (M)

9MFY20 Below Expectations

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9MFY20 core net profit of RM191.9m (-25%) was below expectations from higher-than-expected impairments recognition. However, no dividends were declared, as expected. Primary focus remains to be targeting the M40 customer base while balancing against difficult impairment requirements under MFRS 9. Maintain UP and TP of RM13.00 for now, pending updates from today's briefing.

9MFY20 fell short. 9MFY20 core earnings of RM191.9m (-25%) missed both our/consensus expectations, making up 68%/65% of respective estimates. The negative deviation continues to be due to the underestimation of MFRS 9 impact towards provisions for impairment losses, being greater-than-expected. No dividend was declared, as expected.

YoY, 9MFY20 saw a higher total income of RM1.05b (+13%), mainly attributed by better net interest income (NII, +16%) on the back of larger gross financing receivables (+21%). Net interest margin, however, dipped to 12.1% (-0.5ppt) possibly from a poorer receivable mix arising from the portfolio's growth. Overall, 9MFY20 CNP registered 25% lower at RM191.9m, dragged by higher Cost-to-Income ratio (CIR) of 39.6% (+1.1ppt), credit charge ratio (CCR) of 5.5% (+1.6ppt) and heavier impairments on receivables (+70%) due to stricter requirements from MFRS 9. **On other key metrics,** non-performing loan (NPL) ratio stood strong at 1.93% (3Q19: 2.05%) while net credit costs was higher at 3.91% (3Q19: 2.08%).

QoQ, 3QFY20 total income was softer by 4% from weaker NIM and other operating income (possibly from commission charges). CNP however, rose by 71% thanks to lower impairment allowances made during the quarter.

Still looks trying, on paper. The group continues to strive for a greater share within the M40 consumer space which is deemed to command higher transaction values. Such initiatives include: (i) transitioning to a B2C2B business model, (ii) promoting its e-wallet platform, and (iii) driving risk-based pricing products and specific product targeting for M40 (i.e. credit cards). Revenue factors aside, it seems like it could be a new normal for the group to be hurt by the new MFRS 9 standards. Since its implementation in 4QFY19, the earlier impairment recognition required has eroded earnings and may take the full extent of FY20 for the group to recalibrate its financing strategies. Year-to-date, while gross receivables grew by 21%, total provisions for impairment losses grew by 70%.

Post-results, we make no changes for now, pending updates from management in today's briefing (likely with downside biased adjustments).

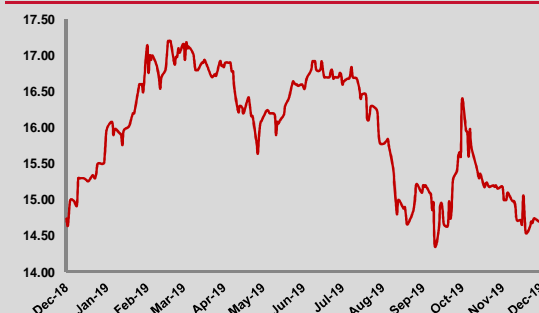
Maintain UNDERPERFORM and TP of RM13.00. Our TP is based on an unchanged 10.0x FY21E PER (0.5SD below the stock's 3-year Fwd. Avg. mean) While the group may continue to grow its market share, we believe it would come at a necessary enlarged cost of credit. Additionally, the group may take some time to properly calibrate with the new accounting standards, which may leave book-seeking investors cautious.

Risks to our call include: (i) slower-than-expected margin squeeze, (ii) better-than-expected financing receivable growth, and (iii) better-than-expected improvement in asset quality.

UNDERPERFORM ↔

Price : RM14.72
Target Price : RM13.00 ↔

Share Price Performance



KLCI 1,596.36
YTD KLCI chg -5.6%
YTD stock price chg -3.8%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	ACSM MK Equity
Market Cap (RM m)	3,733.2
Shares Outstanding	253.6
52-week range (H)	17.20
52-week range (L)	14.36
3-mth avg daily vol	107,435
Free Float	29%
Beta	0.7

Major Shareholders

Aeon Financial Service Co Ltd	61.9%
Kumpulan Wang Simpanan Pekerja	2.0%
Standard Life Aberdeen	1.9%

Summary Earnings Table

FYE Feb (RM'm)	2019A	2020E	2021E
Net Interest Income	937	1,081	1,266
Other Operating Inc.	329	337	348
Total Income	1,267	1,418	1,614
Pretax Profit	472	393	460
Net profit (NP)	355	295	345
Core NP	341	281	331
Consensus NP		297	351
Earnings Revision (%)		0.0%	0.0%
EPS (RM)	1.34	1.10	1.30
EPS Growth (%)	-4.1	-17.5	17.8
DPS (RM)	0.45	0.45	0.45
BV/Share (RM)	5.87	6.58	7.48
ROE (%)	19.0	15.0	15.9
PER (x)	11.0	13.4	11.3
Price/Book (x)	2.5	2.2	2.0
Dividend Yield (%)	3.0%	3.1%	3.1%

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Results Highlights

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Feb (RM'm)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Net interest income	272.5	278.0	-2.0%	235.6	15.7%	804.0	692.8	16.1%
Other operating income	78.4	88.2	-11.0%	76.3	2.7%	248.0	234.9	5.6%
Total income	351.0	366.2	-4.2%	312.0	12.5%	1,051.9	927.7	13.4%
Operating expenses	-143.6	-144.6	-0.7%	-132.4	8.5%	-417.0	-356.8	16.9%
Allowance for impairment losses	-114.5	-154.7	26.0%	-61.5	86.1%	-362.5	-213.8	69.5%
Pre-tax profit	92.9	66.9	38.9%	118.1	-21.3%	272.4	357.1	-23.7%
Taxation	-22.9	-17.7	29.2%	-30.9	-25.9%	-68.8	-90.1	-23.7%
Net profit	69.9	49.1	42.3%	87.1	-19.7%	203.7	267.0	-23.7%
Core net profit*	69.9	40.9	70.8%	83.5	-16.3%	191.9	256.6	-25.2%
Core EPS (sen)	27.4	16.0	70.8%	33.3	-17.9%	75.2	101.2	-25.7%
DPS declared (sen)	-	22.3		-		22.25	22.25	
Gross financing receivables	10,033	9,598	4.5%	8,313	20.7%	10,033	8,313	20.7%
Net financing receivables	9,330	8,941	4.4%	7,737	20.6%	9,330	7,737	20.6%
BV/share (RM)	6.00	5.97	0.5%	5.67	5.8%	6.00	5.67	5.8%
Est. Annualised Net Interest Margin	12.3%	13.2%		12.8%		12.1%	12.6%	
Cost-to-Income Ratio	40.9%	39.5%		42.4%		39.6%	38.5%	
Effective Tax Rate	24.7%	26.5%		26.2%		25.2%	25.2%	
Est. Annualised Credit Charge Ratio	5.5%	6.0%		3.9%		5.5%	3.9%	
Est. Annualised ROE	18.3%	10.9%		23.2%		25.1%	23.8%	

Note:

* Core net profit is adjusted for distribution on perpetual notes and sukuk

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)		Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
NON-BANK FINANCIAL INSTITUTIONS																			
AEON CREDIT SERVICE M BHD	14.70	3,728.2	N	02/2020	12.0%	13.8%	-17.5%	17.8%	11.0	13.3	11.3	2.5	2.2	17.7%	3.1%	13.00	UP		
BURSA MALAYSIA BHD	6.05	4,891.4	Y	12/2019	-9.0%	1.7%	-17.5%	4.6%	21.7	26.4	25.2	5.5	5.4	20.7%	3.6%	6.00	MP		
LPI CAPITAL BHD	14.74	5,872.2	N	12/2019	15.3%	8.2%	1.8%	2.8%	18.7	18.4	17.9	2.7	2.8	15.1%	4.9%	16.00	MP		
SYARIKAT TAKAFUL MALAYSIA KELUARGA BHD	5.77	4,770.6	Y	12/2019	19.7%	10.0%	31.5%	4.4%	17.1	13.0	12.5	4.8	4.0	33.6%	3.3%	6.85	OP		
Simple Average					9.5%	8.4%	-0.4%	7.4%	17.1	17.8	16.7	3.9	3.6	21.8%	3.7%				

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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