

09 April 2021

# AEON Credit Service (M)

## Better Product Mix

By Ahmad Ramzani Ramli | [ahmadramzani@kenanga.com.my](mailto:ahmadramzani@kenanga.com.my)

AEON's FY21 results came in slightly below at 93% of our expectations. While topline was still challenging, better product mix in the 4QFY21 resulted in a gradual improvement in margins as it remained focused on the better yielding motorcycle, personal and auto financing. We look forward to broad-based improvements ahead on easing pandemic risks. Raised TP to RM13.05 while call maintained at MARKET PERFORM

**In Line.** 12MFY21 CNP of RM224m accounts for 93%/124% of our/market estimate. Net Interest margins improved sequentially in 4QFY21 coupled with lower provisionings. A Final DPS of 20 sen was declared bringing total DPS for the year at 29.2 sen (below our estimates of 37 sen) but payout ratio of 32% was similar to FY20 ratio of 31.5%

**YoY,** CNP for the full year fell 18%, as topline fell and impairment allowances surged +13% cushioned by sharp fall in operating expenses (opex) of 11%. Topline saw a -5% dipped to RM1.35b as NII fell 3% to RM1.04b. Financing receivables remained resilient falling slightly by 3% to RM10.01b with Net Interest Margin (NIM) falling by 90bps to 10.8% compounded by margin pressure in 2QFY21 (due to poor receivables mix and modification losses). Fall in receivables were broad-based mitigated by uptick in Motor Cycle financing which saw an +8% uptick. Impairment losses saw a +13% uptick to RM508 occasioned by the effects of the pandemic leading to a credit charge of 5.4%. Cost-to-Income ratio improved slightly by 2ppts to 38% as opex was well contained falling 11%.

**QoQ,** Despite the on-going lockdown, 4QFY21 saw its best performing quarter as CNP surged +156% to RM109m owing to an improvement in topline (4%) and lower provisioning (-58%). Topline was helped by a 2<sup>nd</sup> consecutive quarter NIM improvement by 50bps to 11.5% (coming from better product mix). Receivables continued to remain under pressure (-1.4%) but Motorcycle receivables remained resilient at +1%. The lower impairment allowances of RM65m were underpinned by writebacks (RM92m) offset by a RM158m write-offs (+182%).

**Gradual Recovery Ahead.** No change in our view of a gradual recovery ahead given the ease of restrictions and the gradual roll-out of the vaccination programme. While receivables saw a slight dip quarter to quarter given the prevailing lock-down Total Transaction & Financing Volume continued to remained robust at RM1.26b or +3% QoQ. Approval ratio continues to be on the uptrend - from a low of 23% (May 20) to 36% (Feb 21) - as the focus continues on the right customers and their needs. NIM continues to improve since 3QFY21 given its focus on its higher yielding and demanding segments; Motor Cycles, Personal Financing and Auto Financing. The low interest rate environment and gradual improvement in the job market looks likely to push its approval higher rate hence boosting its financing receivables further.

**Post results,** no changes to our FY22E estimates and we introduce our FY23E earnings.

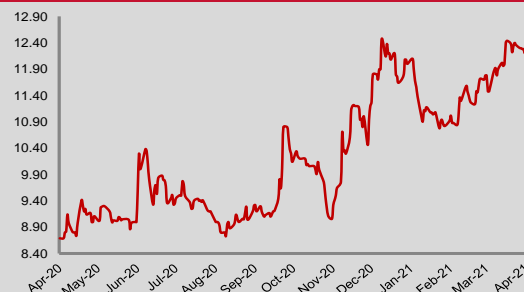
**Call maintained.** Our TP is raised to RM13.05 (from RM11.60) based on a higher 5-year mean target PER of 12.1x (from 10.7x) on easing pandemic risks as vaccine roll out gathers pace. Reiterate **Market Perform**.

**Risks to our call include:** (i) new wave of the pandemic leading to prolonged counter-measures (i.e. prolonged or enhanced movement control order).

# MARKET PERFORM ↔

Price : RM12.40  
Target Price : RM13.05 ↑

## Share Price Performance



KLCI 1,602.40  
YTD KLCI chg -1.5%  
YTD stock price chg 3.3%

## Stock Information

Shariah Compliant	No
Bloomberg Ticker	ACSM MK Equity
Market Cap (RM m)	3,165.8
Shares Outstanding	255.3
52-week range (H)	12.60
52-week range (L)	8.65
3-mth avg daily vol	97,155
Free Float	31%
Beta	1.0

## Major Shareholders

Aeon Financial Service Co Ltd	61.5%
Standard Life Aberdeen	6.3%
Employees Provident Fund	3.4%

## Summary Earnings Table

FYE Feb (RM m)	2021A	2022E	2023E
Net Interest Income	1,046	1,098	1,251
Other Operating Inc.	303	325	335
<b>Total Income</b>	<b>1,349</b>	<b>1,423</b>	<b>1,586</b>
Pre-tax Profit	325	396	443
<b>Net profit (NP)</b>	<b>234</b>	<b>285</b>	<b>319</b>
<b>Core NP</b>	<b>224</b>	<b>275</b>	<b>309</b>
Consensus NP	181	262	327
Earnings Revision (%)	-7.1%	-0.8%	N.a
Core EPS (RM)	0.88	1.08	1.21
Core EPS Growth (%)	-18.4	22.7	12.4
DPS (RM)	0.29	0.36	0.40
BV/Share (RM)	6.63	7.39	8.24
ROE (%)	12.8	14.3	14.5
PER (x)	14.1	11.5	10.2
Price/Book (x)	1.9	1.7	1.5
Dividend Yield (%)	2.4%	2.9%	3.2%

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Results Highlights								
FYE Feb (RM m)	4Q21	3Q21	QoQ Chg.	4Q20	YoY Chg.	12M21	12M20	YoY Chg.
Net interest income	278.1	268.3	3.7%	275.2	1.1%	1,045.9	1,079.2	-3.1%
Other operating income	91.3	83.6	9.2%	92.4	-1.1%	303.2	340.3	-10.9%
<b>Total income</b>	<b>369.5</b>	<b>351.9</b>	<b>5.0%</b>	<b>367.5</b>	<b>0.5%</b>	<b>1,349.1</b>	<b>1,419.5</b>	<b>-5.0%</b>
Operating expenses	-150.7	-137.3	9.8%	-161.7	-6.8%	-515.7	-578.7	-10.9%
Allowance for impairment losses	-65.1	-156.9	-58.5%	-87.8	-25.8%	-508.4	-450.3	12.9%
<b>Pre-tax profit</b>	<b>153.6</b>	<b>57.7</b>	<b>166.2%</b>	<b>118.0</b>	<b>30.2%</b>	<b>324.9</b>	<b>390.4</b>	<b>-16.8%</b>
Taxation	-39.9	-15.6	156.6%	-29.6	34.6%	-91.0	-98.4	-7.6%
<b>Net profit</b>	<b>113.7</b>	<b>42.1</b>	<b>169.8%</b>	<b>88.4</b>	<b>28.7%</b>	<b>234.0</b>	<b>292.0</b>	<b>-19.9%</b>
<b>Core net profit</b>	<b>108.7</b>	<b>42.1</b>	<b>157.8%</b>	<b>80.1</b>	<b>35.7%</b>	<b>223.8</b>	<b>274.4</b>	<b>-18.4%</b>
Core EPS (sen)	42.6	16.5	157.8%	31.4	35.7%	87.7	107.5	-18.4%
DPS declared (sen)	20.00	0.0		14.00		29.20	36.25	
Gross financing receivables	10,078	10,222	-1.4%	9,762	3.2%	10,078	9,762	3.2%
Net financing receivables	9,236	9,287	-0.6%	9,704	-4.8%	9,236	9,704	-4.8%
<b>BV/share (RM)</b>	<b>6.63</b>	<b>6.04</b>	<b>9.8%</b>	<b>6.10</b>	<b>8.7%</b>	<b>6.63</b>	<b>6.10</b>	<b>8.7%</b>
Est. Annualised Net Interest Margin	11.5%	11.0%		11.9%		10.8%	11.7%	
Cost-to-Income Ratio	40.8%	39.0%		44.0%		38.2%	40.8%	
Effective Tax Rate	26.0%	27.0%		25.1%		28.0%	25.2%	
Est. Annualised Credit Charge Ratio	2.8%	6.6%		3.8%		5.4%	4.9%	
Est. Annualised ROE	27.7%	11.0%		20.7%		14.3%	17.8%	

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.				
<b>NON-BANK FINANCIAL INSTITUTIONS</b>																			
AEON CREDIT SERVICE M BHD	12.40	3,165.8	N	02/2022	5.5%	11.5%	22.7%	12.4%	14.1	11.5	10.2	1.9	1.7	15.9%	2.9%	13.05	MP		
BURSA MALAYSIA BHD	8.80	7,119.4	Y	12/2021	2.4%	-2.5%	-7.2%	0.6%	18.7	20.2	20.1	7.9	7.6	38.4%	4.6%	9.65	MP		
LPI CAPITAL BERHAD	13.78	5,489.7	N	12/2021	2.9%	4.0%	2.4%	2.9%	16.3	15.9	15.5	2.6	2.5	16.3%	5.4%	15.10	OP		
SYARIKAT TAKAFUL MALAYSIA KELUARGA BHD	4.68	3,910.7	Y	12/2021	4.9%	1.7%	3.9%	-9.2%	10.7	10.3	11.3	2.6	2.3	23.3%	4.3%	6.00	OP		
<b>Simple Average</b>					<b>3.9%</b>	<b>3.7%</b>	<b>5.5%</b>	<b>1.7%</b>	<b>15.0</b>	<b>14.5</b>	<b>14.3</b>	<b>3.7</b>	<b>3.5</b>	<b>23.5%</b>	<b>4.3%</b>				

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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Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

