

AEON Credit Service (M)

Steadier Numbers to be Expected

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1HFY23 net profit of RM238.7m (flattish YoY) is within our expectation on expectations for more balanced earnings on lower operating costs and more stable provisioning needs. An interim dividend of 28.5 sen is also within expectation. We await further updates from today's briefing but believe that the group's FY23 targets and outlook should remain intact. Maintain OP and GGM-derived PBV TP of RM17.20.

1HFY23 in line with our numbers. 1HFY23 net earnings of RM238.7m made up 50% of our full-year forecast. However, it made up 63% of consensus'. While we believe the group will deliver more normalised earnings amidst a more stable economic and business environment, the street appears to still be anticipating asset quality challenges and higher operating cost. An interim dividend of 28.5 sen (30% payout) was declared, which is also within our anticipated 62.0 sen full-year payment.

YoY, 1HFY23 net interest income was slightly lower (-2%) due to pressure in NIMs (10.98%, -17bps) but cushioned the 8% rise in financing receivables, which probably led to the jump in fee-based income by 32%. All in, total income rose by 5%. Although CIR narrowed to 32.0% (-6.3ppt) on lower personnel expenses, net impairments were bumped by 62% which we see a normalisation of credit costs (3.7%, +1.4ppt). Overall, this translates to 1HFY23 coming in flat at RM238.7m (+<1%).

Risks kept in check with tighter controls. Healthy economic growth projections are likely to drive the group's >10% loans growth target for FY23, which could also be fuelled by its more comprehensive digital offerings. Although a higher financing base may give rise to further asset quality risks, the group sought to tighten its credit policies by increasing down payments and push for shorter financing terms. Meanwhile, we opine the group would be able to sustain its CIR as a higher degree of automation (namely in credit processing) could translate to better cost savings in the near term.

Forecasts. We leave our FY23F/FY24F earnings unchanged for now, pending further updates from today's analyst briefing.

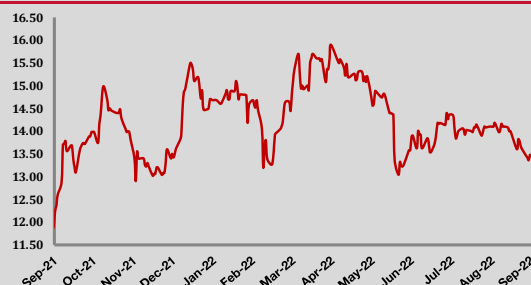
Maintain OUTPERFORM and TP of RM17.20. Our TP is based on an unchanged GGM-derived PBV of 1.68x (COE: 11.7%, TG: 2.5%, ROE: 19%) on its estimated CY23 BVPS of RM10.23. Against conventional banking institutions, AEONCR commands a leading ROE of >20% albeit with more moderate dividend yields (4-5%). We continue to expect sentiment for the stock to improve with subsequent updates as a proxy to better GDP output and with their Islamic digital banking license allowing them to propose new value propositions to customers. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us.

Risks to our call include: (i) lower-than-expected receivables growth, (ii) extension of moratorium, (iii) higher-than-expected impairment losses, and (iv) lower-than-expected write-backs.

OUTPERFORM ↔

Price : RM13.48
Target Price : RM17.20 ↔

Share Price Performance



KLCI 1,397.50
YTD KLCI chg -10.8%
YTD stock price chg -0.7%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	ACSM MK Equity
Market Cap (RM m)	3,441.5
Shares Outstanding	255.3
52-week range (H)	15.90
52-week range (L)	12.24
3-mth avg daily vol	35,937
Free Float	22%
Beta	1.0

Major Shareholders

Aeon Financial Service Co Ltd	61.5%
Employees Provident Fund	3.9%
Kumpulan Wang Persaraan	3.5%

Summary Earnings Table

FYE Feb (RM m)	2022A	2023F	2024F
Net Interest Income	1,040	1,107	1,223
Other Operating Inc.	335	360	368
Total Income	1,375	1,467	1,590
Pretax Profit	527	642	680
Net profit (NP)	365	482	510
Core NP	365	482	510
Consensus NP		381	412
Earnings Revision (%)		0	0
EPS (RM)	1.43	1.89	2.00
EPS Growth (%)	56.2	31.8	5.9
DPS (sen)	48.5	62.0	65.0
BV/Share (RM)	7.84	9.10	10.45
ROE (%)	21.9	22.3	20.4
PER (x)	9.4	7.1	6.8
Price/Book (x)	1.7	1.5	1.3
Dividend Yield (%)	3.6	4.6	4.8

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Results Highlights

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
FYE Feb (RM m)	270.6	264.4	2.3%	266.0	1.7%	535.0	547.0	-2.2%
Net interest income	97.6	107.3	-9.1%	61.9	57.7%	204.8	155.4	31.8%
Other operating income	368.2	371.7	-1.0%	327.9	12.3%	739.9	702.4	5.3%
Total income	-118.2	-118.9	-0.6%	-133.5	-11.5%	-237.1	-268.9	-11.8%
Operating expenses	-149.9	-37.3	302.2%	-92.3	62.5%	-187.2	-115.5	62.1%
Allowance for impairment losses	100.0	215.5	-53.6%	102.1	-2.1%	315.6	318.0	-0.8%
Pre-tax profit	-24.4	-52.5	-53.5%	-26.7	-8.5%	-76.9	-79.4	-3.2%
Taxation	75.6	163.1	-53.6%	75.5	0.2%	238.7	238.6	0.1%
Net profit	75.6	163.1	-53.6%	75.5	0.2%	238.7	238.6	0.1%
Core net profit	29.6	63.9	-53.6%	29.6	0.2%	93.5	93.4	0.1%
Core EPS (sen)	28.5	0.0		28.5		28.5	28.5	
DPS declared (sen)	10,381	9,996	3.9%	9,625	7.9%	10,381	9,625	7.9%
Gross financing receivables	9,547	9,284	2.8%	8,887	7.4%	9,547	8,887	7.4%
Net financing receivables	8.75	8.70		7.42		8.75	7.42	
BV/share (RM)	11.12%	10.82%	+30bps	10.88%	+24bps	10.98%	11.14%	+17bps
Est. Annualised Net Interest Margin	32.1%	32.0%		40.7%		32.0%	38.3%	
Cost-to-Income Ratio	24.4%	24.3%		26.1%		24.4%	25.0%	
Effective Tax Rate	6.0%	1.5%		3.7%		3.7%	2.3%	
Est. Annualised Credit Cost Ratio	14.4%	32.4%		17.3%		22.4%	27.3%	
Est. Annualised ROE								

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. Div. (sen)	Net Div Yld (%)	
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	
NON-BANK FINANCIAL INSTITUTIONS																		
AEON CREDIT SERVICE M BHD	OP	13.48	17.20	27.6%	3,441.5	N	02/2023	188.6	199.7	31.8%	5.9%	7.1	6.8	1.4	20.4%	62.0	4.6%	
BURSA MALAYSIA BHD	MP	6.21	6.30	1.4%	5,025.7	Y	12/2022	29.6	31.6	-32.6%	6.7%	21.0	19.7	6.0	28.9%	27.0	4.3%	
CTOS DIGITAL BHD	OP	1.29	1.55	20.2%	2,979.9	Y	12/2022	3.4	4.0	31.8%	16.7%	38.1	32.6	5.2	18.1%	1.9	1.4%	
LPI CAPITAL BERHAD	MP	12.40	14.10	13.7%	4,939.9	N	12/2022	62.9	80.1	-27.3%	27.4%	19.7	15.5	2.3	11.6%	55.0	4.4%	
SYARIKAT TAKAFUL MALAYSIA KELUARGA BHD	OP	3.35	3.90	16.4%	2,805.0	Y	12/2022	41.3	43.5	-16.0%	5.2%	8.1	7.7	1.4	18.0%	14.0	4.2%	
Simple Average												-2.5%	12.4%	18.8	16.4	3.3	19.4%	3.8%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	★	★	
	Accessibility & Transparency	★	★	★	★	
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
	OVERALL	★	★	★		
SPECIFIC	Financial Inclusion	★	★	★		
	Cybersecurity/Data Privacy	★	★	★		
	Digital Transformation	★	★	★	☆	
	Staff Welfare & Training	★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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