

# AEON Credit Service (M)

## Minor Headwinds But Still On Course

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We maintain our OUTPERFORM call but trim our GGM-derived PBV TP from RM17.20 to RM16.95 (COE: 12.3%, TG: 2.5%, ROE: 19%) on slightly more conservative credit cost inputs post analyst briefing. We still opine the group could deliver sustainable earnings as it balances against slightly more conservative quality expectations with stable expansion in its financing books. Meanwhile, the group's digital banking roll-out timeline appears promising, indicated to be ahead of BNM's target.

AEONCR hosted its 2QFY23 results briefing from which we came out cautious on possible near-term hurdles. **Key takeaways are as follows:**

- **Inflationary pressures may narrow financing prospects.** 1HFY23's 8% financing growth is short of 10% full-year target due to softer growth in auto financing (+2%) whereas motorcycle (+10%) and personal financing (+12%) books were highly supportive. With the group predominantly catering to the B40 segment (est. 65% of clientele), inflationary pressures may result in lower 2HFY23 growth performance, mainly in the auto segment. That said, we believe that the increase in minimum wages (RM1,500 since May 2022) could sustain the group's market share in the less committal personal financing segment. Additionally, the Oct 2022 launch of new e-wallet and iAEON finance interface should boost the group's mix of higher income customers, while further updates in 2023 could introduce more seamless onboarding processes.
- **Closer purview to keep asset quality manageable.** The abovementioned inflationary pressures bring rise to delinquency concerns, particularly in the same B40 portfolio. While this has not translated meaningfully into impairment provisions, the group did book in higher impairments in line with its expansion in receivables (2QFY23: RM150m vs 1QFY23: RM81m, not accounting for writebacks). Additional management overlays of RM11.1m have also been booked in 2QFY23, indicative of a more guarded mindset. To mitigate asset quality risks, the group opts to decline applicants not meeting a certain income level while increasing down payments in auto financing to secure better recoverability.
- **Digital banks may come way ahead of April 2024 deadline.** With regards to its Islamic digital banking timeline, the group aspires to commence operations by October 2023, ahead of BNM's April 2024 target. As AEONCR only holds 45% of the entity, it would only inject up to RM90m for capital. Additionally, the group seeks to appoint a separate team of vendors and consultants in the development of the digital bank, owing to different expertise required. That said, it would not leave any impact to earnings in the near-term.

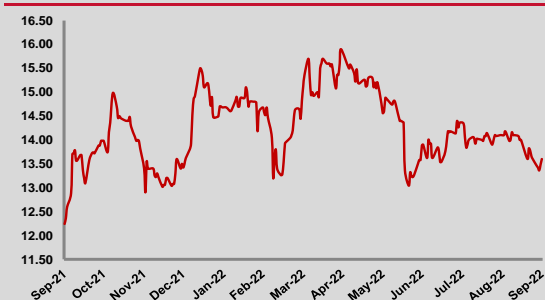
**Forecasts.** We cut our FY23F earnings by 8% as we factor in higher credit costs (to 3.0% from 2.5%) against possibly higher B40 defaults arising from inflationary pressures. That said, our 9% financing growth expectation for FY23 is behind the group's 10% target but is fairly reflected in year-to-date performance. Meanwhile, our FY24F numbers are relatively unchanged.

**Maintain OUTPERFORM with lower TP of RM16.95 (from RM17.20, previously).** Our TP is based on a 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.

## OUTPERFORM ↔

Price : RM13.60  
Target Price : RM16.95 ↓

### Share Price Performance



KLCI 1,390.91  
YTD KLCI chg -11.0%  
YTD stock price chg 0.2%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	ACSM MK Equity
Market Cap (RM m)	3,472.2
Shares Outstanding	255.3
52-week range (H)	15.90
52-week range (L)	12.36
3-mth avg daily vol	36,500
Free Float	22%
Beta	1.0

### Major Shareholders

Aeon Financial Service Co Ltd	61.5%
Employees Provident Fund	3.9%
Citibank	3.5%

### Summary Earnings Table

FYE Feb (RM m)	2022A	2023F	2024F
Net Interest Income	1,040	1,100	1,208
Other Operating Inc.	335	360	368
<b>Total Income</b>	<b>1,375</b>	<b>1,460</b>	<b>1,576</b>
Pretax Profit	527	591	677
<b>Net profit (NP)</b>	<b>365</b>	<b>443</b>	<b>508</b>
<b>Core NP</b>	<b>365</b>	<b>443</b>	<b>508</b>
Consensus NP		381	412
Earnings Revision (%)		-8%	0%
EPS (RM)	1.43	1.74	1.99
EPS Growth (%)	56.2	21.3	14.7
DPS (sen)	48.5	62.0	65.0
BV/Share (RM)	7.84	8.95	10.29
ROE (%)	21.9	20.7	20.7
PER (x)	9.5	7.8	6.8
Price/Book (x)	1.7	1.5	1.3
Dividend Yield (%)	3.6%	4.6%	4.8%



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**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.

### Income Statement

FY Feb (RM m)	2020A	2021A	2022A	2023F	2024F
Net Interest Income	1,079	1,046	1,040	1,100	1,208
Other Income	340	303	335	360	368
<b>Total Income</b>	<b>1,419</b>	<b>1,349</b>	<b>1,375</b>	<b>1,460</b>	<b>1,576</b>
Operating Expense	-579	-516	-545	-569	-607
Impairments	-450	-508	-303	-300	-292
<b>Profit Before Tax</b>	<b>390</b>	<b>325</b>	<b>527</b>	<b>591</b>	<b>677</b>
Taxation	-98	-91	-161	-148	-169
Net Profit	292	234	365	443	508
<b>Core Net Profit</b>	<b>292</b>	<b>234</b>	<b>365</b>	<b>443</b>	<b>508</b>

### Balance Sheet

FY Feb (RM m)	2020A	2021A	2022A	2023F	2024F
Fixed Assets	212	191	144	104	64
Intangible Assets	0	0	1	1	1
Other FA	262	275	282	282	282
Inventories	0	0	0	0	0
Receivables	9,704	9,236	9,101	9,865	10,176
Cash	133	440	509	904	1,521
Other CA	123	89	104	112	117
<b>Total Assets</b>	<b>10,435</b>	<b>10,231</b>	<b>10,141</b>	<b>11,268</b>	<b>12,161</b>
Payables	237	248	365	191	210
ST Borrowings	2,600	1,120	599	599	599
Other ST Liability	190	392	158	158	158
LT Borrowings	5,650	6,579	6,792	7,808	8,339
Other LT Liability	0	0	27	27	27
<b>Net Asset</b>	<b>1,757</b>	<b>1,893</b>	<b>2,201</b>	<b>2,486</b>	<b>2,828</b>
Common Equity	1,557	1,693	2,001	2,286	2,628
Sukuk	200	200	200	200	200
<b>Total Equity</b>	<b>1,757</b>	<b>1,893</b>	<b>2,201</b>	<b>2,486</b>	<b>2,828</b>

### Financial Data & Ratios

FY Feb	2020A	2021A	2022A	2023F	2024F
<b>Growth (%)</b>					
Net Interest	15.1%	-3.1%	-0.5%	5.8%	9.8%
Total Income	12.1%	-5.0%	1.9%	6.2%	7.9%
Operating Profit	14.0%	-6.7%	3.0%	5.7%	7.5%
PBT	-17.3%	-16.8%	62.1%	12.2%	14.7%
Core Net Profit	-17.6%	-19.9%	56.2%	21.3%	14.7%
<b>Profitability (%)</b>					
Operating Margin	59.2%	61.8%	60.4%	61.0%	61.5%
PBT Margin	27.5%	24.1%	38.3%	40.5%	43.0%
Core Net Margin	20.6%	17.3%	26.6%	30.4%	32.2%
Effective Tax Rate	25.2%	28.0%	30.6%	25.0%	25.0%
ROA	3.4%	2.6%	3.9%	4.1%	4.3%
ROE	20.9%	16.1%	21.9%	20.7%	20.7%
<b>DuPont Analysis</b>					
Net Margin (%)	20.8%	16.7%	26.6%	30.6%	31.9%
Assets Turnover (x)	0.1	0.1	0.1	0.1	0.1
Leverage Factor (x)	6.7	6.0	5.1	4.9	4.6
ROE (%)	20.9%	16.1%	21.9%	20.7%	20.7%
<b>Leverage</b>					
Debt/Asset (x)	0.8	0.8	0.7	0.7	0.7
Debt/Equity (x)	5.3	4.5	3.7	3.7	3.4
Net (Cash)/Debt	8,117	7,259	6,882	7,502	7,417
Net Debt/Equity (x)	5.2	4.3	3.4	3.3	2.8
<b>Valuations</b>					
Core EPS (sen)	114.4	91.6	143.1	173.6	199.0
NDPS (sen)	36.0	29.2	48.5	62.0	65.0
BV/sh (RM)	6.1	6.6	7.8	9.0	10.3
PER (x)	11.8	14.7	9.4	7.8	6.8

Source: 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. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
NON-BANK FINANCIAL INSTITUTIONS																	
AEON CREDIT SERVICE M BHD	OP	13.60	16.95	25.0%	3,472.2	N	02/2023	173.6	199.0	21.3%	14.7%	7.8	6.8	1.4	18.9%	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	1.34	1.55	15.7%	3,095.4	Y	12/2022	3.4	4.0	31.8%	16.7%	39.5	33.9	5.4	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	3.30	3.90	18.2%	2,763.1	Y	12/2022	41.3	43.5	-16.0%	5.2%	8.0	7.6	1.4	18.0%	14.0	4.2%
Simple Average								62.1	71.6	-4.6%	14.1%	19.2	16.7	3.3	19.1%		3.8%

Source: Kenanga Research

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**Stock ESG Ratings:**

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

☆ 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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