

11 July 2023

AEON Credit Service (M)

Impairments Rise on Seasonal Factors

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1QFY24 net profit of RM99.3m (-39% YoY) was within expectations, with the earnings decline attributed to possibly higher seasonally skewed impairments. Financing demand is expected to be supported by general economic sustainability with the group eyeing a financing growth of at least 10% (YTD: 12%). Maintain OP and GGM-derived PBV TP of RM16.15.

1QFY24 within expectations. 1QFY24 net profit of RM99.3m came in within expectations, making up 24% each of both our full-year forecast and consensus' full-year estimate.

YoY, 1QFY24 net interest income expanded by 19% on the back of a growing financing receivables portfolio (+12%) in addition to higher net interest margins (11.82%, +94bps). Meanwhile, other operating income saw a slight dip as higher fee-based revenue was offset by slower bad debts recoveries. While cost-to-income ratio remained mostly stable as operating expenses paced with the higher top line, there was a significant surge in financing impairments (+309%). Though we anticipate possibly higher delinquencies during the earlier Raya festivities in 1QFY24, the preceding 1QFY23 also had the benefit of higher write-backs with EPF withdrawals then allowing borrowers to settle their financing obligations early. Owing to this, 1QFY24 net profits declined by 39% to RM99.4m.

Outlook. We do not see the rise in group-level impairments to be an immediate concern for now, as AEONCR typically demonstrates swings in its financing book's staging. This could be attributed to its high concentration of B40 customers who could be sensitive to reprioritising cash flow-related decisions, of which in the current period could be the earlier Raya season, in our opinion. We expect repayments to gradually resume as conditions normalise, mainly driven by the group's key motor segment (i.e. mopeds). As long as economic prospects remain intact (albeit possibly at a slower rate), demand for financing will continue to be supported. Helping the group would also be its digital on-boarding platform which smoothen the application process of new customers.

Forecasts. Post results, we leave our FY24F/FY25F earnings unchanged.

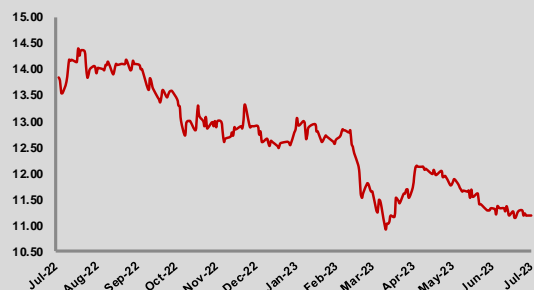
Maintain OUTPERFORM and TP of RM16.15. Our TP is based on an unchanged GGM-derived PBV of 1.44x (COE: 12.3%, TG: 1.5%, ROE: 17%) on an estimated CY24 BVPS of RM11.25. Against conventional banking institutions, AEONCR commands a leading ROE of >15% albeit with more modest dividend yields (5%). We continue to expect sentiment for the stock to improve with subsequent updates as it is a proxy to stronger GDP output while its Islamic digital banking licence extends new value propositions to customers.

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-anticipated write-backs.

OUTPERFORM ↔

Price : RM11.18
Target Price : RM16.15 ↔

Share Price Performance



KLCI 1,383.06
YTD KLCI chg -7.5%
YTD stock price chg -11.1%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	ACSM MK Equity
Market Cap (RM m)	2,854.3
Shares Outstanding	255.3
52-week range (H)	14.40
52-week range (L)	10.92
3-mth avg daily vol	63,226
Free Float	22%
Beta	0.7

Major Shareholders

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

Summary Earnings Table

FY Feb (RM m)	2023A	2024F	2025F
Net Interest Income	1,130	1,282	1,435
Other Operating Inc.	391	377	387
Total Income	1,522	1,659	1,822
Pretax Profit	547	551	631
Net profit	418	413	474
Core NP	418	413	474
Consensus NP	-	423	442
Earnings Revision (%)	-	-	-
EPS (RM)	1.64	1.62	1.86
EPS Growth (%)	14.3	-1.0	14.6
DPS (sen)	49.5	52.0	60.0
BV/Share (RM)	9.11	10.21	11.46
ROE (%)	18.0	16.8	17.1
PER (x)	6.8	6.9	6.0
Price/Book (x)	1.2	1.1	1.0
Dividend Yield (%)	4.4	4.7	5.4

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Results Highlights

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FY Feb (RM m)	FY24	FY23	Chg	FY23	Chg	FY24	FY23	Chg
Net interest income	313.8	303.9	3.3%	264.4	18.7%	313.8	264.4	18.7%
Other operating income	103.4	96.6	7.0%	107.3	-3.7%	103.4	107.3	-3.7%
Total income	417.2	400.5	4.2%	371.7	12.2%	417.2	371.7	12.2%
Operating expenses	-132.7	-153.5	-13.5%	-118.9	11.6%	-132.7	-118.9	11.6%
Financing (impairment)/writebacks	-152.5	-117.2	30.2%	-37.3	309.2%	-152.5	-37.3	309.2%
Pre-tax profit	131.9	129.8	1.6%	215.5	-38.8%	131.9	215.5	-38.8%
Taxation	-32.6	-34.5	-5.6%	-52.5	-38.0%	-32.6	-52.5	-38.0%
Net profit	99.4	95.3	4.2%	163.1	-39.1%	99.4	163.1	-39.1%
Core net profit	99.4	95.3	4.2%	163.1	-39.1%	99.4	163.1	-39.1%
Gross Financing Receivables	11,219	10,836	3.5%	9,996	12.2%	11,219	9,996	12.2%
Net Financing Receivables	10,423	10,049	3.7%	9,284	12.3%	10,423	9,284	12.3%
BV/share (RM)	9.52	9.11	4.6%	8.70	9.4%	9.52	8.70	9.4%
Est. annualised NIM	12.21%	12.11%	10 bps	10.82%	140 bps	11.82%	10.88%	94 bps
Cost-to-income ratio	31.8%	38.3%		32.0%		31.8%	32.0%	
Annualised credit cost	5.53%	4.38%		1.50%		5.53%	1.50%	
Effective tax rate	24.7%	26.6%		24.3%		24.7%	24.3%	
Annualised ROE	16.7%	16.6%		30.9%		16.7%	30.9%	

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. (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	11.18	16.15	44.5%	2,854.3	N	02/2024	161.9	185.5	-1.0%	14.6%	6.9	6.0	1.0	15.5%	52.0	4.7%
BURSA MALAYSIA BHD	MP	6.40	6.25	-2.3%	5,179.5	Y	12/2023	28.1	31.1	0.4%	10.7%	22.8	20.6	6.5	28.7%	27.0	4.2%
CTOS DIGITAL BHD	OP	1.36	1.80	32.4%	3,141.6	Y	12/2023	4.4	5.3	14.1%	20.2%	30.6	25.4	5.0	17.0%	2.7	2.0%
LPI CAPITAL BERHAD	OP	11.90	14.70	23.5%	4,740.8	N	12/2023	79.6	85.0	7.5%	6.7%	14.9	14.0	2.1	14.2%	63.7	5.4%
SYARIKAT TAKAFUL MALAYSIA KELUARGA BHD	OP	3.40	3.90	14.7%	2,846.8	Y	12/2023	38.8	41.3	5.5%	6.5%	8.8	8.2	1.9	22.6%	17.5	5.1%
SECTOR AGGREGATE					18,763.1					3.6%	10.7%	13.5	12.	2.3	16.7%		4.3%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Community Investment	★	★	★		
	Workforce Safety & Wellbeing	★	★	★	★	
	Corporate Governance	★	★	★		
	Anti-corruption Policy	★	★	★		
	Emissions Management	★	★	★	★	
SPECIFIC	Cybersecurity/Data Privacy	★	★	★		
	Digitalisation & Innovation	★	★	★	★	
	Financial Inclusion	★	★	★	☆	
	Ethical Practices	★	★	★		
	Legal & Regulatory Compliance	★	★	★		
	Customer Experience	★	★	★		
OVERALL		★	★	★		

☆ 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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