

09 April 2024

AEON Credit Service (M)

Hopeful For Supportive Pipeline

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AEONCR's FY24 net profit (+2% YoY) met expectations but its total dividend was a positive surprise due to higher-than-expected payout. The group may see its financing portfolio benefiting from improving economic and income prospects, with its upcoming digital bank widening its outreach to prospective depositors and borrowers. Maintain OP with forecasts relatively unchanged and a slightly higher GGM-derived PBV TP of RM8.55 (from RM8.48) on earnings model updates to the group's books.

FY24 met expectations. AEONCR's FY24 net profit of RM424.0m was within both our full-year forecast and consensus full-year estimates. Meanwhile, a final dividend of 14.0 sen (full-year payment of 28.25 sen, post-bonus issue) was above our expectations of 26.0 sen due to a higher payout of 34% from our anticipated c.30%.

YoY, FY24 net interest income increased by 18% on the back of a 13% increase in gross financing receivables alongside an 82 bps rise in NIMs. Cost-to-income ratio was somewhat stable at 34.2% (-0.4ppt) as higher expenses could be tied to the higher transaction volumes. On the flipside, impairments also rose with credit cost coming at 4.93% (+ 60 bps) as staging requirements were more stressed during the year. Including its first reported losses from associates in relation to its digital bank, FY24 net profit was slightly flattish at RM424.0m (+2%).

QoQ, 4QFY24 net interest income only increased by 2% following some NIM compression (-8 bps) on stabilising rates while gross financing receivables also gained a modest 3%. That said, given the relative higher motor financing impairments seen in the previous quarter (-37%), 4QFY24 net profit surged by 39%.

Outlook. AEONCR could likely see sustained growth in its financing books as economic prospects are expected to pick up. We opine its key segments of motorcycle, auto and personal financing could see support from better disposable income outlook. This could also translate to fewer delinquencies going forward. Meanwhile, the group has also been outsourcing its collection processes to ensure better returns. Given its digital bank (Aeon Bank) looking to be launched to the public soon, AEONCR may have access to cheaper funds in the near-term; albeit this will be restrained by Bank Negara Malaysia's RM3b asset limit during its foundational phase.

Forecasts. Post results, we slightly tweak our FY25F earnings by -0.5% as we incorporate FY24A numbers into our model. Meanwhile, we introduce our FY26F numbers.

Maintain OUTPERFORM with a slightly higher TP of RM8.55 (from RM8.48), following our abovementioned adjustments. Our TP is based on an unchanged GGM-derived PBV of 1.50x (COE: 11.8%, TG: 1.5%, ROE: 17.0%) against a CY24F BVPS of RM5.67.

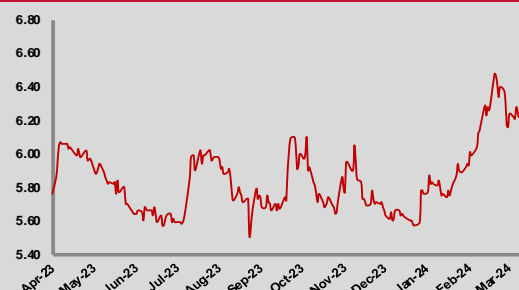
We continue to see strength in AEONCR's fundamentals as they stand out against conventional banking institutions with ROE prospects of over 15% with more modest dividend yields (c.5%). As the digital banking space grows, we believe investors may see such license holders (i.e. Aeon Bank) to possess more value propositions that may embolden the stock attractiveness. Specifically with microlending in mind, it could see strong traction in an eventual strong economic growth environment.

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 : RM6.61
Target Price : RM8.55 ↑

Share Price Performance



KLCI	1,559.98
YTD KLCI chg	7.2%
YTD stock price chg	18.7%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	ACSM MK Equity
Market Cap (RM m)	3,375.2
Shares Outstanding	510.6
52-week range (H)	6.61
52-week range (L)	5.50
3-mth avg daily vol	359,773
Free Float	22%
Beta	0.8

Major Shareholders

Aeon Financial Service Co Ltd	61.5%
Employees Provident Fund	3.9%
Citibank Berhad	3.4%

Summary Earnings Table

FY Feb (RM m)	2024A	2025F	2026F
Net Interest Income	1,337	1,366	1,394
Other Operating Inc.	411	396	422
Total Income	1,748	1,762	1,815
Pretax Profit	565	628	644
Net profit	424	471	483
Core NP	424	471	483
Consensus NP	-	439	466
Earnings Revision (%)	-	-0.5	NEW
EPS (RM)	0.83	0.92	0.95
EPS Growth (%)	1.5	11.1	2.5
DPS (sen)	28.3	32.0	34.0
BV/Share (RM)	5.17	5.77	6.37
ROE (%)	16.1	16.9	15.6
PER (x)	8.0	7.2	7.0
Price/Book (x)	1.3	1.1	1.0
Dividend Yield (%)	4.3	4.8	5.1

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Results Highlights

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FY Feb (RM m)	FY24	FY24	Chg	FY23	Chg	FY24	FY23	Chg
Net interest income	350	342	2.2%	304	15.1%	1,337	1,130	18.3%
Other operating income	102	103	-0.8%	97	5.7%	411	391	5.1%
Total income	452	445	1.5%	400	12.8%	1,748	1,522	14.9%
Operating expenses	-159	-152	4.4%	-153	3.3%	-598	-527	13.5%
Financing (impairment)/writebacks	-114	-182	-37.3%	-117	-2.7%	-569	-448	27.0%
Pre-tax profit	179	111	60.8%	130	38.0%	582	547	6.4%
Taxation	-44	-26	68.7%	-34	26.7%	-141	-129	9.2%
Net profit	119	86	39.0%	95	24.7%	424	418	1.5%
Core net profit	119	86	39.0%	95	24.7%	424	418	1.5%
Gross Financing Receivables	12,232	11,903	2.8%	10,836	12.9%	12,232	10,836	12.9%
Net Financing Receivables	11,536	11,147	3.5%	10,049	14.8%	11,536	10,049	14.8%
BV/share (RM)	5.17	4.90	5.4%	4.55	13.5%	5.17	4.55	13.5%
Est. annualised NIM	12.41%	12.49%	-8 bps	12.11%	30 bps	12.09%	11.27%	82 bps
Cost-to-income ratio	35.1%	34.1%		38.3%		34.2%	34.6%	
Annualised credit cost	3.78%	6.19%		4.38%		4.93%	4.33%	
Effective tax rate	24.4%	23.2%		26.6%		24.3%	23.6%	
Annualised ROE	18.5%	13.7%		16.6%		17.1%	19.3%	

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.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
NON-BANK FINANCIAL INSTITUTIONS																	
AEON CREDIT SERVICE (M) BHD	OP	6.61	8.55	29.3%	3,375.2	N	02/2025	92.2	94.6	11.1%	2.5%	7.2	7.0	1.1	16.9%	32.0	4.8%
BURSA MALAYSIA BHD	UP	7.45	6.45	-13.4%	6,029.3	Y	12/2024	31.2	32.1	0.2%	2.8%	23.8	23.2	7.6	31.9%	30.0	4.0%
CTOS DIGITAL BHD	UP	1.37	1.15	-16.1%	3,164.7	Y	12/2024	5.4	6.4	20.8%	17.7%	25.2	21.4	5.0	20.5%	3.8	2.8%
LPI CAPITAL BERHAD	OP	12.06	14.70	21.9%	4,804.5	N	12/2024	84.3	88.5	7.1%	5.0%	14.3	13.6	2.1	15.0%	75.9	6.3%
SYARIKAT TAKAFUL MALAYSIA KELUARGA BHD	MP	3.54	3.85	8.8%	2,964.1	Y	12/2024	43.2	45.3	13.4%	4.9%	8.2	7.8	1.3	17.2%	17.0	4.8%
SECTOR AGGREGATE					20,338					9.5%	4.9%	13.1	12.5	2.3	17.5%		4.5%

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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