

18 July 2024

AEON Credit Service (M)

Digital Banking on the Right Path

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We maintain our OUTPERFORM call and GGM-derived PBV TP of RM8.55 for AEONCR and keeping our forecast. Insights from Aeon Bank reflect challenges faced by the industry with collaboration between license holders and regulators being key to ensure long-term agendas are met. That said, we maintain our 3-star ESG rating on AEONCR (with no ESG-premium to valuations), subject to further assessment on Aeon Bank and the industry's medium-term ability to cater to the unserved/underserved communities.

We met with Aeon Bank (50%-owned by AEONCR) to obtain updates on its progress and challenges faced in meeting Bank Negara's objectives for digital banks. Key takeaways from our meeting are as follows:

Within the landscape

- **Infrastructure continues to be a limiting factor.** A key goal for digital banks is to improve basic financial services access and inclusion to the unserved/underserved communities, where it is hoped that a more mobile-centric approach could assist with penetrating these markets. We learned that while the digital banks have developed a robust digital framework to onboard customers (i.e. facial recognition, e-KYC), the lack of existing basic infrastructure has led to several complications.

As digital apps or platforms are developed in accordance to the latest mobile operating systems (Apple or Android), there still exist pockets of customers whom still depend on older, outdated devices which are not supported and hence are unable to install newer applications. Meanwhile, part of the verification and onboarding process requires new users to be able to deposit money into Aeon Bank (and other digital banks) via bank transfer. Unfortunately, the unserved communities too may not have access to these basic facilities to be able to tap into digital banking propositions.

We understand that as an association, Aeon Bank and other players have shared these complications to Bank Negara. While we do not expect this to lead to any changes in objectives for the digital bank, we take comfort that regulators are actively supporting the relatively new industry and are in tune to develop solutions together.

- **Greater use may remain untouched by target markets.** It is expected that early adopters of digital banking products (especially deposits) would mostly comprise of M40 and T20 customers. When financing products are eventually launched (Aeon Bank is hopeful to introduce in 4QCY24), credit assessments criteria may be more available to the same more affluent users as they may dominate transactional volumes.

With fewer data available for consideration (deposit amount, average tenure, spending habits), it may be challenging to ascribe a favourable credit rate to non-frequent B40 customers which are not reflective of their supposed credit risk, hence further keeping these products out of reach. To circumvent this, Aeon Bank may consider blended financing products in the future (subject to the review and approval of Bank Negara).

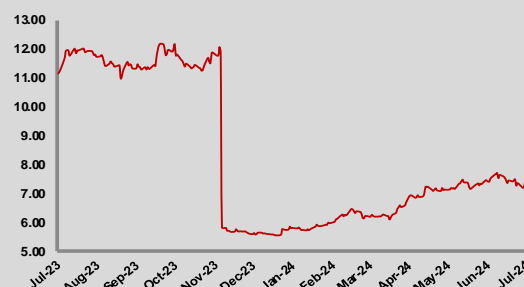
Aeon Bank's drivers

- **Tapping on existing channels for a head start.** Publicly launching on 26 May, Aeon Bank started building its depositors base with the added incentive of loyalty points to be spent in Aeon shopping malls. It appears Aeon Bank has total of 65k sign ups since launch with 45% being new-to-Aeon.

OUTPERFORM ↔

Price : **RM7.30**
Target Price : **RM8.55** ↔

Share Price Performance



KLCI	1,633.54
YTD KLCI chg	12.3%
YTD stock price chg	31.1%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	ACSM MK Equity
Market Cap (RM m)	3,727.5
Shares Outstanding	510.6
52-week range (H)	12.20
52-week range (L)	5.57
3-mth avg. daily vol.	444,444
Free Float	23%
Beta	0.7

Major Shareholders

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

Summary Earnings Table

FYE 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	568	584
Net profit (NP)	424	426	438
Core NP	424	426	438
Consensus NP	-	404	423
Earnings Revision (%)	-	-	-
EPS (RM)	0.83	0.83	0.86
EPS Growth (%)	1.5	0.5	2.8
DPS (sen)	28.3	32.0	33.0
BV/Share (RM)	5.17	5.68	6.21
ROE (%)	16.1	15.4	14.4
PER (x)	8.8	8.9	8.7
Price/Book (x)	1.4	1.3	1.2
Dividend Yield (%)	3.9	4.4	4.5

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- **Competing with functionality.** Although Aeon Bank does not appear to offer the highest deposit rate and at a monthly rest (as opposed to daily rest from its peer), the group opines that it provides more use case within its platform (i.e. integration with Aeon retail, budgeting) which could make customers more sticky. It also plans to expand its enterprise-focused use cases with the onboarding of more business-centric accounts in the future.
- **Joint ecosystem helps all.** While digital banks do not have any physical presence through branches, Aeon Bank could capitalise on the footprint of the Aeon retail malls and AEONCR's branch network to strengthen market awareness. Meanwhile, as certain customers may have opted away from AEONCR's financing products after establishing a CCRIS record, Aeon Bank's eventual lending propositions could close the lapse in terms of ease in accessibility. Additionally, as the group builds its AEON Living Zone ecosystem, more opportunities to cross sell products may materialise with its captive markets of Aeon customer and possibly increase overall transactions across all brands.

Forecasts. Maintained.

Maintain OUTPERFORM and TP of RM8.55. Our TP is based on an unchanged GGM-derived PBV of 1.4x (ROE: 15%, TG: 1.5%) against a CY25F BVPS of RM6.12. We continue to laud AEONCR's fundamentals as they stand out against conventional banking institutions with ROE prospects of c.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 micro-lending in mind, it could see strong traction in an eventual strong economic growth environment. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5), as we believe better scoring may only be rewarded upon the successful implementation and results in meeting the needs of the unserved/underserved markets.

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.

Income Statement

FY Feb (RM m)	2022A	2023A	2024A	2025F	2026F
Net Interest Income	1,040	1,130	1,337	1,366	1,394
Other Income	335	391	411	396	422
Total Income	1,375	1,522	1,748	1,762	1,815
Operating Expense	-545	-527	-597	-634	-654
Impairments	-303	-448	-570	-500	-518
Associate Cont.	0	0	-17	-60	-60
Profit Before Tax	527	547	565	568	584
Taxation	-161	-129	-141	-142	-146
Net Profit	365	418	424	426	438
Core Net Profit	365	418	424	426	438

Balance Sheet

FY Feb (RM m)	2022A	2023A	2024A	2025F	2026F
Fixed Assets	144	115	105	74	42
Intangible Assets	1	1	1	1	1
Other FA	282	262	389	389	389
Inventories	0	0	0	0	0
Receivables	9,101	10,049	11,536	11,896	12,037
Cash	509	391	144	706	1,501
Other CA	104	299	446	450	455
Total Assets	10,141	11,117	12,620	13,516	14,425
Payables	365	439	432	490	535
ST Borrowings	599	1,828	2,802	2,802	2,802
Other ST Liability	158	126	118	118	118
LT Borrowings	6,792	6,179	6,603	7,178	7,772
Other LT Liability	27	20	28	28	28
Net Asset	2,201	2,525	2,638	2,900	3,170
Common Equity	2,001	2,325	2,638	2,900	3,170
Sukuk	200	200	0	0	0
Total Equity	2,201	2,525	2,638	2,900	3,170

Financial Data & Ratios

FY Feb	2022A	2023A	2024A	2025F	2026F
Growth					
Net Interest	-0.5%	8.6%	18.3%	2.1%	2.0%
Total Income	1.9%	10.6%	14.9%	0.8%	3.0%
Operating Profit	3.0%	6.7%	14.5%	2.2%	3.0%
PBT	62.1%	3.8%	3.3%	0.5%	2.8%
Core Net Profit	56.2%	14.3%	1.5%	0.5%	2.8%
Profitability					
Operating Margin	60.4%	65.4%	65.9%	64.0%	64.0%
PBT Margin	38.3%	35.9%	32.3%	32.2%	32.2%
Core Net Margin	26.6%	27.5%	24.3%	24.2%	24.1%
Effective Tax Rate	30.6%	23.6%	25.0%	25.0%	25.0%
ROA	3.9%	4.1%	3.9%	3.3%	3.1%
ROE	18.3%	18.0%	16.1%	15.4%	14.4%
DuPont Analysis					
Net Margin	26.6%	28.9%	25.0%	24.2%	24.0%
Assets Turnover (x)	0.1	0.1	0.1	0.1	0.1
Leverage Factor (x)	5.1	4.8	4.8	4.7	4.6
ROE	18.3%	18.0%	16.1%	15.4%	14.4%
Leverage					
Debt/Asset (x)	0.7	0.7	0.7	0.7	0.7
Debt/Equity (x)	3.7	3.4	3.6	3.4	3.3
Net (Cash)/Debt (RM m)	6,882	7,616	9,261	9,273	9,073
Net Debt/Equity (x)	3.4	3.3	3.5	3.2	2.9
Valuations					
Core EPS (sen)	143.1	81.8	83.0	83.4	85.8
NDPS (sen)	48.5	24.8	28.3	32.0	33.0
BV/share (RM)	7.8	4.6	5.2	5.7	6.2
PER (x)	5.1	8.9	8.8	8.9	8.7
Div. Yield (%)	6.6%	3.4%	3.9%	4.4%	4.5%
PBV (x)	0.9	1.6	1.4	1.3	1.2

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.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
NON-BANK FINANCIAL INSTITUTIONS																	
AEON CREDIT SERVICE (M) BHD	OP	7.30	8.55	17.1%	3,727.5	N	02/2025	83.4	85.8	0.5%	2.8%	8.7	8.5	1.3	15.4%	32.0	4.4%
BURSA MALAYSIA BHD	MP	10.10	9.90	-2.0%	8,173.9	Y	12/2024	39.0	39.7	25.2%	1.6%	25.9	25.4	10.2	39.8%	37.0	3.7%
CTOS DIGITAL BHD	OP	1.45	2.00	37.9%	3,349.5	Y	12/2024	5.4	6.4	20.8%	17.7%	26.7	22.7	5.3	20.5%	3.8	2.6%
LPI CAPITAL BERHAD	OP	12.38	15.00	21.2%	4,932.0	N	12/2024	95.2	92.0	20.9%	-3.4%	13.0	13.5	2.2	16.9%	85.7	6.9%
SYARIKAT TAKAFUL MALAYSIA KELUARGA BHD	OP	3.76	4.35	15.7%	3,148.3	Y	12/2024	43.2	45.3	13.4%	4.9%	8.7	8.3	1.4	17.2%	17.0	4.5%
SECTOR AGGREGATE					23,331					13.9%	2.8%	14.5	14.1	2.7	18.3%		4.4%

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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