

27 September 2024

AEON Credit Service (M)

Impairment Concerns Re-emerge

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AEONCR's 1HFY25 net profit (-19% YoY) was below expectations due to unexpected hits to credit cost in spite of new asset quality measures being implemented. We cut our FY25F/FY26F earnings by 16%/2% and lower our GGM-derived TP to RM8.35 (from RM8.55). The stock remains an OUTPERFORM as we view that its long-term ROEs (c.15%) may see further traction post maturation of its AEON Living Zone and digital banking efforts. A results briefing will be held today where we expect more details on the provisions.

1HFY25 disappointed. AEONCR's 1HFY25 net profit of RM177.6m missed expectations, making up 42% of our full-year forecast and 41% of consensus full-year estimate due to higher-than-expected impairments in 2QFY25, albeit NPL ratio continued to narrow (2.37%, -9 bps QoQ).

YoY, 1HFY25 total income increased by 15% from both higher net interest income (+15%) attributed to a larger financing book (+14%) and well as better overall fees and recoveries. That said, the group incurred higher impairment allowances (gross credit cost at 5.62%, +74 bps) on higher provisions from key motor and personal financing segments. In addition to further associate losses incurred by Aeon Bank, 1HFY25 net profit declined by 19%.

QoQ, 2QFY25 net profit plunged by 33% due to the same abovementioned reasons, although net interest income registered sequential gains (+4%) in line with sustained growth in its financing books.

Outlook. The higher credit cost during the period was a surprise to us as the group had implemented more comprehensive credit assessments via its e-KYC framework and optimisation of its merchant management network. Though this may pose near-term concerns, we opine it will still be well contained albeit with narrower improvements as compared to prior year's performance as controls are still relatively tighter.

With regards to growth strategies, wider engagement from "AEON Living Zone" offer cross selling opportunities on its captive customer base while also providing a smooth introduction of AEON Bank to the market. However, these channels are expected to carry heavier customer acquisition costs and hence will only likely be strongly accretive to earnings in the medium-term once better scale is reached.

Forecasts. We slash our FY25F earnings by 16% as we raised our prior gross credit cost assumptions from 4.25% to 5.00% to reflect higher asset quality concerns, albeit still lower than FY24's 5.15%. On a net basis, our FY25 credit cost stands at c.3.5%. Our FY26F earnings are only slightly adjusted by -2%, in anticipation of conditions to normalise in the near-term.

Maintain OUTPERFORM but with a lower TP of RM8.35 (from RM8.55). Our TP is based on an unchanged GGM-derived PBV of 1.4x (ROE: 15%, TG: 1.5%) against a revised CY25F BVPS of RM5.98. While the recent results adds on concerns for near-term earnings on top of protracted losses from AEON Bank, AEONCR's long-term fundamentals stand toe-to-toe 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) as possessing 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.

OUTPERFORM ↔

Price : RM7.35
Target Price : RM8.35 ↓

Share Price Performance



KLCI	1,671.32
YTD KLCI chg	14.9%
YTD stock price chg	32.0%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	ACSM MK Equity
Market Cap (RM m)	3,753.0
Shares Outstanding	510.6
52-week range (H)	7.73
52-week range (L)	5.57
3-mth avg. daily vol.	433,011
Free Float	23%
Beta	0.6

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	1,365	1,379
Other Operating Inc.	411	396	422
Total Income	1,748	1,761	1,801
Pretax Profit	565	479	575
Net profit	424	360	431
Core NP	424	360	431
Consensus NP	-	430	458
Earnings Revision (%)	-	-15.6	-1.6
EPS (RM)	0.83	0.70	0.84
EPS Growth (%)	1.5	-15.2	19.9
DPS (sen)	28.3	25.0	33.0
BV/Share (RM)	5.17	5.55	6.07
ROE (%)	16.1	13.1	14.5
PER (x)	8.9	10.4	8.7
Price/Book (x)	1.4	1.3	1.2
Dividend Yield (%)	3.8	3.4	4.5

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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-anticipated write-backs.

Results Highlights

	2Q	1Q	QoQ	2Q	YoY	1H	1H	YoY
FY Feb (RM m)	FY25	FY25	Chg	FY24	Chg	FY25	FY24	Chg
Net interest income	378.1	364.0	3.9%	331.6	14.0%	742.1	645.4	15.0%
Other Operating income	110.6	124.0	-10.8%	102.9	7.5%	234.6	206.2	13.8%
Total income	488.7	488.0	0.1%	434.4	12.5%	976.7	851.6	14.7%
Operating expenses	-175.2	-168.1	4.2%	-154.6	13.3%	-343.4	-287.3	19.5%
(Allowances)/ write-backs	-193.6	-163.5	18.4%	-120.6	60.6%	-357.0	-273.1	30.7%
Associates	-18.7	-11.6	61.6%	0.0	N.M.	-30.3	0.0	N.M.
Profit before tax	101.1	144.8	-30.2%	159.2	-36.5%	246.0	291.1	-15.5%
Taxation	-30.0	-38.4	-22.0%	-39.0	-23.2%	-68.4	-71.6	-4.5%
Minority Interest	0.0	0.0	N.M.	0.0	N.M.	0.0	0.0	N.M.
Net Profit	71.2	106.4	-33.1%	120.2	-40.8%	177.6	219.6	-19.1%
Core Net Profit	71.2	106.4	-33.1%	120.2	-40.8%	177.6	219.6	-19.1%
Gross Financing Receivables	13,199	12,653	4.3%	11,566	14.1%	13,199	11,566	14.1%
Net Financing Receivables	12,481	11,962	4.3%	10,811	15.4%	12,481	10,811	15.4%
BV/share (RM)	5.34	4.76	12.1%	4.90	8.9%	5.34	4.90	8.9%
Est. annualised NIM	12.60%	12.55%	+4 bps	12.49%	+10 bps	12.14%	11.96%	+18 bps
Cost-to-income ratio	35.9%	34.5%		35.6%		35.2%	33.7%	
Annualised credit cost	5.99%	5.25%		4.23%		5.62%	4.88%	
Effective tax rate	29.6%	26.5%		24.5%		27.8%	24.6%	
Annualised ROE	11.0%	16.8%		19.5%		13.2%	18.2%	

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	7.35	8.35	13.6%	3,753	N	02/2025	70.4	84.4	-15.2%	19.9%	10.4	8.7	1.3	13.1%	25.0	3.4%
BURSA MALAYSIA BHD	MP	9.81	10.00	1.9%	7,939	Y	12/2024	39.6	40.1	26.9%	1.2%	24.8	24.5	9.9	40.4%	38.0	3.9%
CTOS DIGITAL BHD	OP	1.23	2.00	62.6%	2,841	Y	12/2024	4.9	6.4	8.1%	31.2%	25.3	19.3	4.5	18.4%	3.4	2.8%
LPI CAPITAL BERHAD	OP	13.14	15.00	14.2%	5,235	N	12/2024	95.2	92.0	20.9%	-3.4%	13.8	14.3	2.3	16.9%	85.7	6.5%
SYARIKAT TAKAFUL MALAYSIA KELUARGA BHD	OP	3.91	4.35	11.3%	3,274	Y	12/2024	43.2	45.3	13.4%	4.9%	9.1	8.6	1.5	17.2%	17.0	4.3%
SECTOR AGGREGATE					23,042					8.5%	7.5%	15.0	14.0	2.6	17.6%		4.2%

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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