

17 May 2022

AEON Credit Service (M)

Work on Digital Bank Starts Now

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We recently met with AEONCR to discuss its recent digital banking win with its parent Aeon Financial Service and MoneyLion Inc. With the existing client base in the Aeon ecosystem and MoneyLion's expertise, being an already operating digital bank in US, the group hopes for a smooth launch within BNM's 24 month timeframe. No immediate impact is expected for the time being. Maintain OP and TP of RM16.45.

What is MoneyLion? MoneyLion (NYSE: ML) operates a digital bank in the United States (since 2013) with an estimated 2.3m customers with a FY21 revenue of USD114m, although the group has yet to break even as for most operating digital banks. The group target both consumers and enterprises and is anticipating having 99% of its processes digitalised, including seamless on-boarding. Though initially thought to be a separate applicant for the digital banking license, MoneyLion's 10%-stake participation with Aeon's digital banking consortium could be a welcomed development.

Aeon so far. The collective Aeon Group (Aeon Co [AEON] and Aeon Credit [AEONCR]) has wide access to the local population through AEON's 202 retail outlets and AEONCR's 1.1m active loan customers with an existing e-wallet ecosystem. Additionally, the Aeon brand is highly familiar amongst the B40 and underserved segments, with a sizeable portion (>50%) of AEONCR's belonging to this segment.

It is the long-term ambition of parent, Aeon Financial Service (45% digital bank stakeholder) to establish a digital banking presence in all 11 of its operating countries with Malaysia being the maiden ground. There appears to be no ownership transfer or dilution clauses to increase MoneyLion's stake from its 10% at present, ensuring Aeon's interests remain intact.

Match made in heaven? All in, we see this consortium to be in a favourable position to launch its digital bank well within the 24 months timeline set by BNM. With MoneyLion as the technology partner, its fintech knowhow and platform could be built and localised accordingly. Aeon's large data pool of consumer spending and repayment habits are also essential components to enable to digital bank to implement effective targeted marketing strategies. Meanwhile, the specific application and award for the Islamic license made sense as Aeon's financing products are already shariah compliant and are well ready to cater to market needs.

Taking steps forward. In line with BNM's initiatives, efforts would be dedicated towards offering lower ticket size financing to boost access and inclusion to underserved communities. Management opined that it may introduce attractive promotional pricing to capture consumers' attention for both lending and deposits while it finds a sweet spot in cost management. That said, losses are to be expected as with most digital banks in the near-term until they achieve profitable scale. Until then, capital obligations are fuelled by Aeon's internally generated funds with no equity fund raising to be expected as of now. Recall that during the foundational phase (3-5 years of commencement), minimum capital funds of RM100m should be maintained and RM300m post-foundational phase.

Post update, we leave our FY23E/FY24E assumptions unchanged.

Maintain OUTPERFORM and TP of RM16.45. Our TP is based on an unchanged 10.0x FY23E PER (0.5SD below mean). Digital banking prospects aside, our conservative valuations (pre-Covid: 11-12x Fwd. PER) still reflect capital gain opportunities for the stock. The stock is poised to benefit from the pacing economic recovery which should fuel demand for financing. We also anticipate softer sentiment from its 4QFY22 impairment shocks to ease with progressive updates from the digital banking front.

OUTPERFORM ↔

Price : RM15.18
Target Price : RM16.45 ↔

Share Price Performance



| | |
|---------------------|----------|
| KLCI | 1,544.41 |
| YTD KLCI chg | -1.5% |
| YTD stock price chg | 11.5% |

Stock Information

| | |
|---------------------|----------------|
| Shariah Compliant | No |
| Bloomberg Ticker | ACSM MK Equity |
| Market Cap (RM m) | 3,875.6 |
| Shares Outstanding | 255.3 |
| 52-week range (H) | 15.90 |
| 52-week range (L) | 11.38 |
| 3-mth avg daily vol | 159,509 |
| Free Float | 31% |
| Beta | 0.9 |

Major Shareholders

| | |
|--------------------------------|-------|
| Aeon Financial Service Co Ltd | 61.5% |
| Kumpulan Wang Simpanan Pekerja | 5.2% |
| JP Morgan Chase & Co | 4.4% |

Summary Earnings Table

| FYE Feb (RM'm) | 2022A | 2023E | 2024E |
|------------------------|--------------|--------------|--------------|
| Net Interest Income | 1,040 | 1,153 | 1,231 |
| Other Operating Inc. | 335 | 330 | 330 |
| Total Income | 1,375 | 1,483 | 1,561 |
| Profit Before Tax | 527 | 619 | 714 |
| Net profit (NP) | 365 | 420 | 483 |
| Core NP | 355 | 420 | 483 |
| Consensus NP | | 377 | 449 |
| Earnings Revision (%) | | 0% | 0% |
| EPS (RM) | 1.39 | 1.65 | 1.89 |
| EPS Growth (%) | 59% | 18% | 15% |
| DPS (RM) | 48.5 | 50.0 | 55.0 |
| BV/Share (RM) | 7.84 | 8.68 | 10.03 |
| ROE (%) | 19.8 | 19.9 | 20.2 |
| PER (x) | 10.9 | 9.2 | 8.0 |
| Price/Book (x) | 1.9 | 1.7 | 1.5 |
| Dividend Yield (%) | 3.2 | 3.3 | 3.6 |

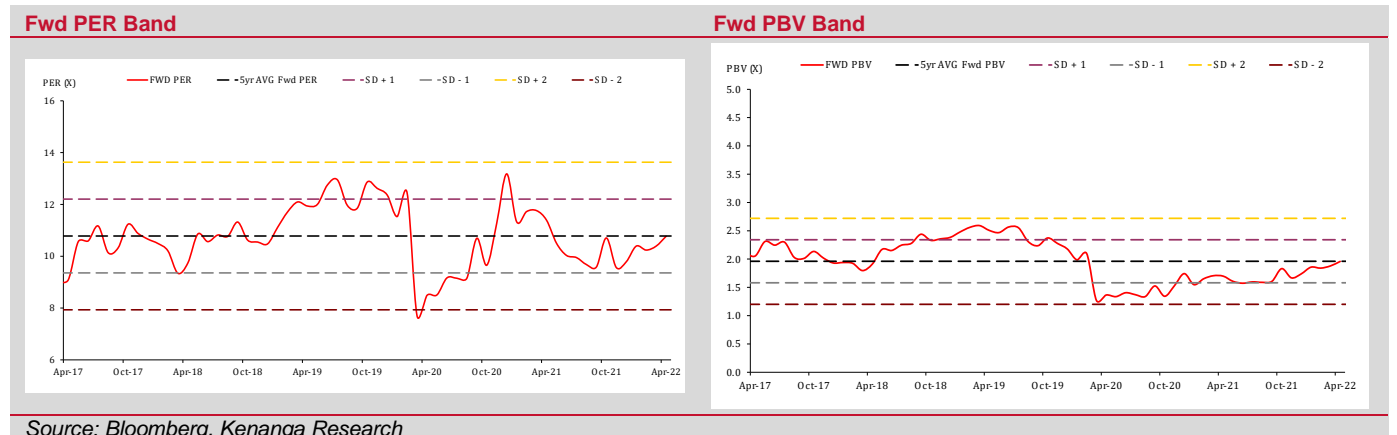


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Risks to our call include: (i) lower-than-expected receivables growth, (ii) extension of moratorium, (iii) higher-than-expected impairment losses, and (iv) lower-than-expected write-backs.

| Income Statement | | | | | | Financial Data & Ratios | | | | | |
|-------------------------|------------|------------|------------|------------|------------|----------------------------|--------|--------|--------|--------|--------|
| FY Feb (RM m) | 2020A | 2021A | 2022A | 2023E | 2024E | FY Feb (RM m) | 2020A | 2021A | 2022A | 2023E | 2024E |
| Revenue | 1,404 | 1,404 | 1,371 | 1,508 | 1,614 | Growth | | | | | |
| Net interest | -325 | -358 | -331 | -355 | -382 | Revenue | 18.0% | 0.0% | -2.3% | 10.0% | 7.0% |
| Operating Profit | 390 | 325 | 527 | 619 | 714 | Operating Profit | 7.7% | -0.9% | -0.4% | 4.7% | 5.1% |
| Other Inc / (Exp) | 0 | 0 | 0 | 0 | 0 | PBT | -17.3% | -16.8% | 62.1% | 17.6% | 15.3% |
| PBT | 390 | 325 | 527 | 619 | 714 | Core PATAMI | -17% | -17% | 62% | 18% | 15% |
| Taxation | -98 | -91 | -161 | -199 | -231 | Profitability (%) | | | | | |
| PAT | 292 | 234 | 365 | 420 | 483 | Operating Margin | 27.8% | 23.1% | 38.4% | 41.1% | 44.3% |
| CNP | 274 | 224 | 355 | 420 | 483 | PBT Margin | 27.8% | 23.1% | 38.4% | 41.1% | 44.3% |
| | | | | | | CNP Margin | 19.5% | 15.9% | 25.9% | 27.9% | 30.0% |
| | | | | | | Effective Tax Rate | -25.2% | -28.0% | -30.6% | -28.0% | -28.0% |
| | | | | | | ROE | 19.1% | 14.4% | 19.8% | 19.9% | 20.2% |
| | | | | | | ROA | 3.1% | 2.3% | 3.6% | 3.9% | 4.1% |
| | | | | | | DuPont Analysis (%) | | | | | |
| | | | | | | Net Margin (%) | 19.5% | 15.9% | 25.9% | 27.9% | 30.0% |
| | | | | | | Asset Turnover (x) | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| | | | | | | Leverage Factor (x) | 5.9 | 5.4 | 4.6 | 4.8 | 4.4 |
| | | | | | | ROE (%) | 19.1% | 14.4% | 19.8% | 19.9% | 20.2% |
| | | | | | | Leverage | | | | | |
| | | | | | | Debt/Asset (x) | 0.8 | 0.8 | 0.7 | 0.8 | 0.7 |
| | | | | | | Debt/Equity (x) | 4.7 | 4.1 | 3.4 | 3.7 | 3.2 |
| | | | | | | Net Debt | 8,117 | 7,259 | 6,882 | 8,258 | 8,258 |
| | | | | | | N.Debt/Equity (x) | 4.6 | 3.8 | 3.1 | 3.4 | 3.0 |
| | | | | | | Valuations | | | | | |
| | | | | | | Core EPS (sen) | 107.5 | 87.7 | 139.2 | 164.5 | 189.4 |
| | | | | | | NDPS (sen) | 36.0 | 29.2 | 48.5 | 50.0 | 55.0 |
| | | | | | | BV/share (RM) | 6.9 | 7.4 | 8.6 | 9.5 | 10.8 |
| | | | | | | Core PER (x) | 14.1 | 17.3 | 10.9 | 9.2 | 8.0 |

Source: Kenanga Research



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Peer Comparison

| Name | Last Price (RM) | Market Cap (RM'm) | Shariah Compliant | Current FYE | Revenue Growth | | Core Earnings Growth | | PER (x) - Core Earnings | | | PBV (x) | | ROE (%) | | Net Div Ylc (%) | Target Price (RM) | Rating |
|--|-----------------|-------------------|-------------------|-------------|----------------|-------------|----------------------|--------------|-------------------------|-------------|-------------|------------|------------|--------------|-------------|-----------------|-------------------|--------|
| | | | | | 1-Yr. Fwd. | 2-Yr. Fwd. | 1-Yr. Fwd. | 2-Yr. Fwd. | Hist. | 1-Yr. Fwd. | 2-Yr. Fwd. | Hist. | 1-Yr. Fwd. | 1-Yr. Fwd. | 1-Yr. Fwd. | | | |
| NON-BANK FINANCIAL INSTITUTIONS | | | | | | | | | | | | | | | | | | |
| AEON CREDIT SERVICE M BHD | 15.18 | 3,875.6 | N | 02/2023 | 10.0% | 7.0% | 18.2% | 15.1% | 10.9 | 9.2 | 8.0 | 1.9 | 1.7 | 19.9% | 3.3% | 16.45 | OP | |
| CTOS DIGITAL BHD | 6.80 | 5,503.2 | Y | 12/2022 | -11.7% | -2.6% | -22.8% | 3.6% | 15.5 | 20.1 | 19.4 | 6.7 | 6.5 | 33.1% | 4.6% | 7.05 | MP | |
| BURSA MALAYSIA BHD | 1.37 | 3,164.7 | Y | 12/2022 | 24.5% | 15.2% | 31.8% | 16.7% | 53.3 | 40.4 | 34.7 | 10.7 | 5.6 | 18.1% | 1.4% | 2.00 | OP | |
| LPI CAPITAL BERHAD | 13.64 | 5,433.9 | N | 12/2022 | -3.7% | 1.7% | -25.5% | 27.4% | 15.8 | 21.2 | 16.6 | 2.5 | 2.5 | 11.9% | 4.4% | 14.10 | MP | |
| SYARIKAT TAKAFUL MALAYSIA KELUARGA BHD | 3.49 | 2,922.2 | Y | 12/2022 | 4.3% | 4.3% | -16.0% | 5.2% | 7.1 | 8.4 | 8.0 | 1.6 | 1.4 | 18.0% | 4.0% | 4.25 | OP | |
| Simple Average | | | | | 4.7% | 5.1% | -2.9% | 13.6% | 20.5 | 19.9 | 17.3 | 4.7 | 3.6 | 20.2% | 3.5% | | | |

Source: Bloomberg, Kenanga Research

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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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Published and printed by:

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