

06 July 2022

## AEON Credit Service (M)

### Well Composed

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We maintain our GGM-derived PBV TP of RM17.20 (COE: 11.7%, TG: 2.5%, ROE: 19%) and OUTPERFORM call following our recent post-earnings upgrade. The group is confident that it will deliver a solid FY23 as asset quality looks to improve on better recoverability. Loans growth may require more aggressive efforts but AEONCR would emphasise on acquiring good quality accounts first.

AEONCR hosted its 1QFY23 results briefing which we came out feeling assured on our medium-term projections. **Key takeaways** are as follows:

- **EPF withdrawals skewed financing receivables.** Following the government relief for EPF withdrawals (up to RM10,000) in Apr 2022, certain customers took the opportunity for an early settlement of their loans, resulting in the flattish decline in gross financing receivables (-1% YoY). As the same program is not expected to be repeated, the group believes its financing growth target of >10% is back on track, capitalising on its high merchant base to push for a larger share in motor and auto financing. Broadly, a more robust economic environment would fuel demand for debt. We opine credit card spending could also see some resurgence, albeit it makes up less than 10% of total financing books.
- **Asset quality to improve in the near term.** The group credited lower net impairments seen in 1QFY23 to the same EPF withdrawals which allowed for better repayments. The better collection translated to higher writebacks for the quarter, mainly arising from the auto financing segment (28% of total receivables). Though this may be inorganically induced, we believe near-term recoverability will remain buoyant with the group's digital onboarding and credit assessment capabilities allowing it to skim for new high-quality accounts. As of May 2022, the group still holds management overlays of RM38m.
- **Funding cost under control.** With regards to the possibility of higher OPR in the following months, the group believes there is little concern to its fund cost as they are mostly supported by long-term debt financing. The group's debt profile otherwise consists of fixed rate borrowings. Meanwhile, the group has an existing cash pile of RM551m which they believe is sufficient to sustain working capital needs in the near term.

**Post update,** we make no changes to our FY23E/FY24E assumptions.

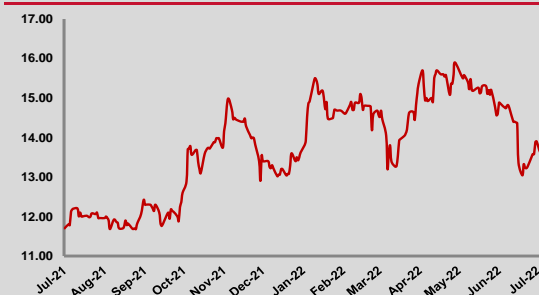
**Maintain OUTPERFORM and TP of RM17.20.** Our TP is based on a GGM-derived PBV of 1.68x (COE: 11.7%, TG: 2.5%, ROE: 19%) on its estimated CY23 BVPS of RM10.23. Against conventional banking institutions, AEONCR commands a leading ROE of >20% albeit with more moderate dividend yields (4-5%). We continue to expect sentiment for the stock to improve with subsequent updates as a proxy to better GDP output and with their Islamic digital banking license allowing them to propose new value propositions to customers in its eventual launch.

**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.

## OUTPERFORM ↔

Price : RM14.00  
Target Price : RM17.20 ↔

### Share Price Performance



KLCI 1,440.81  
YTD KLCI chg -8.1%  
YTD stock price chg 2.8%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	ACSM MK Equity
Market Cap (RM m)	3,574.3
Shares Outstanding	255.3
52-week range (H)	15.90
52-week range (L)	11.68
3-mth avg daily vol	147,470
Free Float	27%
Beta	0.9

### Major Shareholders

Aeon Financial Service Co Ltd	61.5%
Employees Provident Fund	3.9%
Kumpulan Wang Persaraan	2.4%

### Summary Earnings Table

FYE Feb (RM m)	2022A	2023E	2024E
<b>Net Interest Income</b>	<b>1,040</b>	<b>1,107</b>	<b>1,223</b>
Other Operating Inc.	335	360	368
<b>Total Income</b>	<b>1,375</b>	<b>1,467</b>	<b>1,590</b>
Pretax Profit	527	642	680
<b>Net profit (NP)</b>	<b>365</b>	<b>482</b>	<b>510</b>
<b>Core NP</b>	<b>365</b>	<b>482</b>	<b>510</b>
Consensus NP		377	449
Earnings Revision (%)		0	0
EPS (RM)	1.43	1.89	2.00
EPS Growth (%)	56.2	31.8	5.9
DPS (sen)	48.5	62.0	65.0
BV/Share (RM)	7.84	9.10	10.45
ROE (%)	21.9	22.3	20.4
PER (x)	9.8	7.4	7.0
Price/Book (x)	1.8	1.5	1.3
Dividend Yield (%)	3.5	4.4	4.6



06 July 2022

Income Statement						Financial Data & Ratios					
FY Feb (RM m)	2020A	2021A	2022A	2023E	2024E	FY Feb	2020A	2021A	2022A	2023E	2024E
Net Interest Inc.	1,079	1,046	1,040	1,107	1,223	<b>Growth (%)</b>					
Other Income	340	303	335	360	368	Net Interest	15.1%	-3.1%	-0.5%	6.4%	10.4%
<b>Total Income</b>	<b>1,419</b>	<b>1,349</b>	<b>1,375</b>	<b>1,467</b>	<b>1,590</b>	Total Income	12.1%	-5.0%	1.9%	6.7%	8.4%
Operating Exp.	-579	-516	-545	-572	-612	Operating Profit	14.0%	-6.7%	3.0%	6.2%	8.0%
Impairments	-450	-508	-303	-253	-298	PBT	-17.3%	-16.8%	62.1%	21.9%	5.9%
<b>Profit Before Tax</b>	<b>390</b>	<b>325</b>	<b>527</b>	<b>642</b>	<b>680</b>	Core Net Profit	-17.6%	-19.9%	56.2%	31.8%	5.9%
Taxation	-98	-91	-161	-161	-170	<b>Profitability (%)</b>					
Net Profit	292	234	365	482	510	Operating Margin	59.2%	61.8%	60.4%	61.0%	61.5%
<b>Core Net Profit</b>	<b>292</b>	<b>234</b>	<b>365</b>	<b>482</b>	<b>510</b>	PBT Margin	27.5%	24.1%	38.3%	43.8%	42.7%
						Core Net Margin	20.6%	17.3%	26.6%	32.8%	32.1%
						Effective Tax Rate	25.2%	28.0%	30.6%	25.0%	25.0%
						ROA	3.4%	2.6%	3.9%	4.4%	4.2%
						ROE	20.9%	16.1%	21.9%	22.3%	20.4%
						<b>DuPont Analysis</b>					
						Net Margin (%)	20.8%	16.7%	26.6%	32.8%	31.3%
						Assets Turnover (x)	0.1	0.1	0.1	0.1	0.1
						Leverage Factor (x)	6.7	6.0	5.1	5.1	4.8
						ROE (%)	20.9%	16.1%	21.9%	22.3%	20.4%
						<b>Leverage</b>					
						Debt/Asset (x)	0.8	0.8	0.7	0.7	0.7
						Debt/Equity (x)	5.3	4.5	3.7	3.8	3.5
						Net (Cash)/Debt	8,117	7,259	6,882	7,617	7,522
						Net Debt/Equity (x)	5.2	4.3	3.4	3.3	2.8
						<b>Valuations</b>					
						Core EPS (sen)	114.4	91.6	143.1	188.6	199.7
						NDPS (sen)	36.0	29.2	48.5	62.0	65.0
						BV/sh (RM)	6.1	6.6	7.8	9.1	10.5
						PER (x)	12.2	15.3	9.8	7.4	7.0

Source: Kenanga Research

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06 July 2022

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 Yld (%)	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.			
<b>NON-BANK FINANCIAL INSTITUTIONS</b>																		
AEON CREDIT SERVICE M BHD	14.00	3,574.3	N	02/2023	6.4%	10.4%	31.8%	5.9%	9.8	7.4	7.0	1.6	1.4	20.4%	4.4%	17.20	OP	
CTOS DIGITAL BHD	6.47	5,236.2	Y	12/2022	-11.7%	-2.6%	-22.8%	3.6%	14.7	19.1	18.4	6.4	6.2	33.1%	4.8%	7.05	MP	
BURSA MALAYSIA BHD	1.20	2,772.0	Y	12/2022	24.5%	15.2%	31.8%	16.7%	46.7	35.4	30.4	9.4	4.9	18.1%	1.6%	1.65	OP	
LPI CAPITAL BERHAD	13.30	5,298.5	N	12/2022	-3.7%	1.7%	-25.5%	27.4%	15.4	20.6	16.2	2.5	2.4	11.9%	4.5%	14.10	MP	
SYARIKAT TAKAFUL MALAYSIA KELUARGA BHD	3.15	2,637.5	Y	12/2022	4.3%	4.3%	-16.0%	5.2%	6.4	7.6	7.2	1.5	1.3	18.0%	4.4%	3.90	OP	
<b>Simple Average</b>					<b>4.0%</b>	<b>5.8%</b>	<b>-0.1%</b>	<b>11.8%</b>	<b>18.6</b>	<b>18.0</b>	<b>15.8</b>	<b>4.3</b>	<b>3.2</b>	<b>20.3%</b>	<b>3.9%</b>			

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:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**

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