

6 April 2022

Financial Services | Non-Bank Financials

Aeon Credit Service (ACSM MK)

Neutral (from Buy)

A Negative Surprise; Downgrade To NEUTRAL

Target Price (Return): MYR16.1 (5.2%)
 Price (Market Cap): MYR15.3 (USD928m)
 ESG score: 3.20 (out of 4)
 Avg Daily Turnover (MYR/USD) 1.26m/0.30m

- **D/G NEUTRAL from Buy, unchanged MYR16.10 TP, 5% upside and 3% yield.** FY22 (Feb) results were below our and Street's forecasts on higher-than-expected provisions. We continue to see financing demand picking up going forward as business sentiment improves, aided by the lifting of movement restrictions/border reopenings. We downgrade our call following stellar c.12% YTD share price performances, pricing in the recovery. This report marks the coverage transfer to Eddy Do Wey Qing.
- **FY22 below expectations.** 4QFY22 (Feb) headline PAT tapered off by a sharp 79% YoY or 77% QoQ to MYR23.4m, bringing FY22 earnings to MYR365m (+56% YoY). This missed our and Street's estimates at 94% and 89%. A final dividend of 15 sen and special dividend of 5 sen were declared, bringing FY22 total dividends to 48.5 sen (DPR: 33.9%).
- **4QFY22 earnings drivers.** PIOP improved 3.6% QoQ, as the 5% decline in operating income was offset by a lower overhead expenses (-14% QoQ). Non-IL normalised to MYR51.5m (+8% QoQ) while NII continues to trend lower on disruptions in operating activities due to flooding instances and emergence in COVID-19 variants – with sequential declines widening to 6.3% (3QFY22's -3.6%). Following the decline in staff productivity, advertising & promotional expenses shrunk 52% QoQ. Other expenses declined 30% QoQ, offset by a 20% higher personnel expenses from bonus provisions. Despite that, the main drag in earnings were the MYR116m net impairment charges driven by higher expected credit loss or ECL provisions of MYR66m (MYR24m on higher existing delinquent receivable movement and MYR42m management overlays to account for lower collection productivity) vs 3QFY22's writeback of MYR48m.
- **Business momentum picking up pace...** New sales rose 23.1% QoQ to MYR1,463m. Gross receivables grew 2.6% QoQ, marking its recovery after six consecutive quarters of decline. For FY23, Aeon Credit Service targets loans growth of >10% while keeping CIR at <60% to support a >15% ROE target (FY22: 19.2%) – a rather conservative aim, in our view.
- **...but signs of weakness in asset quality.** Gross NPL ratio widened to 2.66% in 4QFY22 (2QFY22: 1.75%), attributable to lower collection activities. LLC declined to 289% (3QFY22: 410%) and, along with receivables collection ratios, were at their lowest since FY18. Despite that, management expects normalisation – in line with the recovery in disposable income and improved market sentiment.
- **Our FY23F-24F earnings are adjusted by 1-3% after imputing the latest financials.** Despite that, we keep our key assumptions unchanged, pending the 10am results briefing. Our MYR16.10 TP is based on a GGM-derived intrinsic value of MYR15.40 and 4% premium for its 3.2 ESG score, based on our in-house methodology.

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	12.3	5.8	5.4	11.7	25.4
Relative	10.4	6.3	2.2	7.4	24.6
52-wk Price low/high (MYR)				11.6 – 15.7	

Aeon Credit Service (ACSM MK)



Source: Bloomberg

Overall ESG Score: 3.20 (out of 4)

E: GOOD

AEON Credit has reached out to the local communities and organized joint activities such as the AEON Group tree planting programmes and coastal clean-up activities. The lender has also obtained certification under the Environmental Management System (ISO 14001) standard, aimed at reducing environmental impact from operations.

S: GOOD

AEON Credit promotes inclusive finance where all segments of society have convenient access to suitable and affordable financial services. Such services provide opportunities for Malaysians, including the lower income segment (B40) to borrow for productive activities and enhance their lifestyle.

G: EXCELLENT

The Board currently consists of 11 members, comprising a non-independent non-executive Chairman, six independent directors, three non-independent non-executive directors and two executive directors. It is well represented by individuals with diverse professional backgrounds and experience in the areas of financial services, law, finance and accounting etc.

Forecasts and Valuation	Feb-21	Feb-22	Feb-23F	Feb-24F	Feb-25F
Reported net profit (MYRm)	234	365	350	425	464
Net profit growth (%)	(19.9)	56.2	(4.2)	21.5	9.0
Recurring net profit (MYRm)	224	355	340	415	454
Recurring EPS (MYR)	0.88	1.39	1.33	1.63	1.78
BVPS (MYR)	6.63	7.84	8.81	9.90	11.09
DPS (MYR)	0.29	0.49	0.44	0.54	0.59
Recurring P/E (x)	17.45	10.99	11.49	9.41	8.61
P/B (x)	2.31	1.95	1.74	1.55	1.38
Dividend Yield (%)	1.9	3.2	2.9	3.5	3.8
Return on average equity (%)	14.4	19.8	16.5	17.8	17.3

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

6 April 2022

Financial Services | Non-Bank Financials

Financial Exhibits

Asia	Financial summary (MYR)	Feb-21	Feb-22	Feb-23F	Feb-24F	Feb-25F
Malaysia	EPS	0.92	1.43	1.37	1.67	1.82
Financial Services	Recurring EPS	0.88	1.39	1.33	1.63	1.78
Aeon Credit Service	DPS	0.29	0.49	0.44	0.54	0.59
ACSM MK	BVPS	6.63	7.84	8.81	9.90	11.09
Neutral						
	Valuation metrics	Feb-21	Feb-22	Feb-23F	Feb-24F	Feb-25F
	Recurring P/E (x)	17.45	10.99	11.49	9.41	8.61
	P/B (x)	2.3	2.0	1.7	1.5	1.4
	Dividend Yield (%)	1.9	3.2	2.9	3.5	3.8
Valuation basis						
Our GGM assumptions include:						
i. COE of 10.3%;						
ii. 17.8% ROE;						
iii. 2% long-term growth.						
Key drivers						
Our forecasts are most sensitive to:						
i. NIM;						
ii. Receivable growth;						
iii. Impairment charges.						
Key risks						
The downside risks to our forecasts include:						
i. Lower-than-expected NIM;						
ii. Lower-than-expected receivable growth;						
iii. Higher-than-expected impairment charges.						
The converse represents upside risks.						
Company Profile						
Aeon Credit Service operates a micro-financing business in Malaysia that provides easy payment schemes, personal financing, and credit card facilities.						
	Income statement (MYRm)	Feb-21	Feb-22	Feb-23F	Feb-24F	Feb-25F
	Interest income	1,404	1,371	1,483	1,686	1,884
	Interest expense	(358)	(331)	(338)	(380)	(424)
	Net interest income	1,046	1,040	1,145	1,307	1,460
	Non interest income	178	178	192	205	219
	Total operating income	1,224	1,219	1,337	1,512	1,679
	Overheads	(516)	(545)	(581)	(618)	(659)
	Pre-provision operating profit	708	674	756	893	1,020
	Loan impairment allowances	(383)	(147)	(295)	(334)	(410)
	Pre-tax profit	325	527	461	560	610
	Taxation	(91)	(161)	(111)	(134)	(146)
	Reported net profit	234	365	350	425	464
	Recurring net profit	224	355	340	415	454
	Profitability ratios	Feb-21	Feb-22	Feb-23F	Feb-24F	Feb-25F
	Return on average assets (%)	2.3	3.6	3.3	3.6	3.5
	Return on average equity (%)	14.4	19.8	16.5	17.8	17.3
	Return on IEAs (%)	13.7	13.7	14.0	14.1	14.2
	Cost of funds (%)	4.5	4.4	4.3	4.4	4.4
	Net interest spread (%)	9.1	9.3	9.7	9.8	9.8
	Net interest margin (%)	10.2	10.4	10.8	10.9	11.0
	Non-interest income / total income (%)	14.5	14.6	14.4	13.6	13.0
	Cost to income ratio (%)	42.1	44.7	43.4	40.9	39.2
	Credit cost (bps)	374	147	280	280	310
	Balance sheet (MYRm)	Feb-21	Feb-22	Feb-23F	Feb-24F	Feb-25F
	Total gross loans	10,078	9,857	11,237	12,586	13,844
	Other interest earning assets	28	26	29	32	36
	Total gross IEAs	10,106	9,883	11,266	12,618	13,880
	Total provisions	(842)	(756)	(806)	(866)	(976)
	Net loans to customers	9,236	9,101	10,431	11,720	12,868
	Total net IEAs	9,264	9,127	10,460	11,752	12,904
	Total non-IEAs	968	1,014	758	745	834
	Total assets	10,231	10,141	11,218	12,497	13,738
	Other interest-bearing liabilities	7,663	7,390	8,203	9,188	10,107
	Total IBLs	7,663	7,390	8,203	9,188	10,107
	Total non-IBLs	675	549	566	583	601
	Total liabilities	8,338	7,940	8,769	9,771	10,707
	Share capital	584	584	584	584	584
	Shareholders' equity	1,693	2,001	2,248	2,527	2,831
	Asset quality and capital	Feb-21	Feb-22	Feb-23F	Feb-24F	Feb-25F
	Reported NPLs / gross cust loans (%)	2.5	2.7	2.0	2.0	2.0
	Total provisions / reported NPLs (%)	339.7	288.4	358.6	344.0	333.4

Source: Company data, RHB

Results At a Glance

Figure 1: ACSM – summary of 4QFY22 and FY22 results

FYE Feb (MYRm)	4Q FY21	3Q FY22	4Q FY22	QoQ (%)	YoY (%)	FY21	FY22	YoY (%)	Comments: FY22 vs FY21
Interest income	361.9	337.4	316.2	-6.3	-12.6	1,403.8	1,371.4	-2.3	
Interest expense	(83.7)	(81.0)	(79.1)	-2.4	-5.5	(357.9)	(330.9)	-7.5	
NII	278.1	256.4	237.1	-7.5	-14.8	1,045.9	1,040.5	-0.5	Lower average financing receivable base.
Non-II	49.8	47.8	51.5	7.7	3.3	177.9	178.5	0.3	Fee income was flattish due to the subdued business environment.
Non-II/Total income (%)	15.2	15.7	17.8			14.5	14.6		
Operating income	328.0	304.2	288.5	-5.2	-12.0	1,223.8	1,219.0	-0.4	
Overhead expenses	(150.7)	(148.8)	(127.5)	-14.3	-15.4	(515.7)	(545.2)	5.7	YoY increase was led by higher personnel expenses (+15% YoY) and other operating expenses (+5% YoY).
CIR (%)	45.9	48.9	44.2			42.1	44.7		
PIOP	177.3	155.4	161.0	3.6	-9.2	708.1	673.7	-4.9	
Impairments losses on loans	(23.7)	8.6	(116.2)	-	391.4	(383.2)	(146.9)	-61.7	Down YoY, impairment charges fell 40% YoY while recoveries normalised.
Annualised credit cost (bps)	93	-36	478			499	197		
Pre-tax profit	153.6	164.0	44.8	-72.7	-70.8	324.9	526.8	62.1	
Tax	(39.9)	(60.6)	(21.4)	-64.7	-46.4	(91.0)	(161.4)	77.5	Higher on additional taxes due to Cukai Makmur.
Effective tax rate (%)	26.0	36.9	47.8			28.0	30.6		
Profit after tax	113.7	103.5	23.4	-77.4	-79.4	234.0	365.4	56.2	
Distribution on perpetual notes and sukuk	(5.1)	0.0	(5.1)	#DIV/0!	0.0	(10.1)	(10.1)	-0.3	
Net profit attributable to ordinary shareholders	108.7	103.5	18.3	-82.3	-83.1	223.8	355.3	58.7	
Other key data and ratios									
Gross receivables	10,078	9,605	9,857	2.6	-2.2				Receivables contracted as branch operations were impacted by the nationwide MCO 3.0.
Borrowings	7,663	7,548	7,390	-2.1	-3.6				
ROAA (%)	26.9	21.5	3.7			18.4	25.6		
ROAE (%)	4.3	4.0	0.7			2.9	4.7		
NPL ratio (%)	2.46	1.75	2.66						
LLC ratio (%)	339.7	409.8	288.3						

Source: Company data, RHB

6 April 2022

Financial Services | Non-Bank Financials

Recommendation Chart

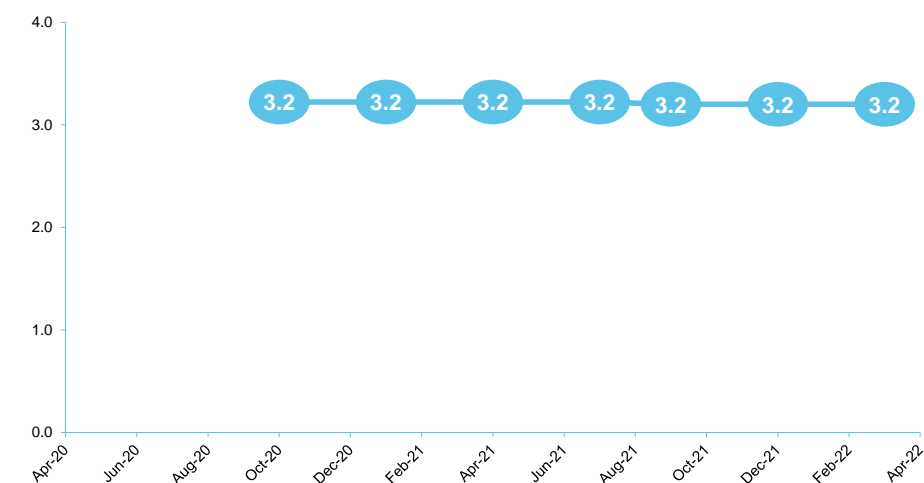


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-09-28	Buy	16.1	11.9
2021-07-07	Buy	14.8	12.1
2021-04-08	Buy	14.5	12.4
2021-01-21	Buy	13.3	11.1
2020-12-21	Neutral	13.3	12.2
2020-09-29	Neutral	10.3	10.6
2020-06-26	Neutral	9.0	9.4
2020-04-10	Neutral	9.3	9.0
2019-12-20	Neutral	13.7	14.7
2019-09-27	Neutral	14.2	14.4
2019-06-28	Neutral	15.8	16.8
2019-04-17	Neutral	17.4	16.9

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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Malaysia

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