

17 May 2022

Financial Services | Non-Bank Financials

## Aeon Credit Service (ACSM MK)

**Neutral** (Maintained)

### Driving Financial Inclusion

- Stay NEUTRAL and GGM-derived MYR16.20 TP, 7% upside and 3% FY23F (Feb) yield.** We are positive on Aeon Credit Service's foray into the Islamic digital banking space as a way to expand its products offerings and earnings base. However, near-to-mid-term losses are expected from its 45% JV stake in the AEON consortium. At 1.7x P/BV against a ROE of 17.3%, we think the valuation is fair, with recovery prospects well priced in. We advocate investors to nibble on share price weakness.
- Islamic digital banking license winner.** The AEON consortium comprises ACSM, its holding company AEON Financial Services (AFS), and technology partner MoneyLion (MLI) (Figure 1). AEON Credit and AFS will each hold 45% stake in the proposed Islamic digital bank JV, with the remaining 10% equity held by MLI. The Islamic digital bank license vs the conventional counterpart better complements ACSM's existing clientele base as the majority of its customers are Muslim. Its existing financing products are also based on *shariah* principles.
- Strategy.** Once operational, the immediate-term strategy is to tap into the strengths of AEON Co M (AEON MK, NEUTRAL, TP: MYR1.41) and ACSM's existing ecosystem, ie the AEON Living Zone (Figure 2). The consortium will leverage off MLI's experiences and technologies in the digital banking space while further localising the latter to cater for the local market and comply with regulations. Management is fairly confident on ACSM's targeted 13-15 months' time to market vs the 24 months set by Bank Negara Malaysia.
- Prospective products.** We understand the digital bank will offer micro lending (small ticket sizes with high frequency) and wealth management products (data-driven hyper-personalised services) that reduces cannibalisation risk across ACSM's existing products, given the different target markets and product offerings. Conversely, deposits could be sourced from existing customers on loyalty programmes (mainly retail clients) and customers from AEON's other business lines, eg merchants. With this, management expects acquisition costs for the digital bank to be lower vis-à-vis competitors without existing clientele.
- Impact.** ACSM is likely to record near-mid-term losses from its JV stake in the consortium. Despite that, management targets to the digital bank to break even by Year 5 and turn around the accumulated losses by Year 8. Initial capital raised will be via internally generated funds.
- No changes to our forecast and TP.** At this juncture, the potential earnings impact from the digital bank JV has not been factored into our forecast. Our MYR16.20 TP takes into account a 4% ESG premium for ACSM's 3.2 ESG score based on our in-house methodology.

Target Price (Return):	MYR16.20 (6.6%)
Price (Market Cap):	MYR15.20 (USD881m)
ESG score:	3.20 (out of 4)
Avg Daily Turnover (MYR/USD)	2.25m/0.53m

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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	11.5	(2.1)	2.0	5.1	23.6
Relative	13.0	1.2	4.2	4.2	26.0
52-wk Price low/high (MYR)					11.6 – 15.9

Aeon Credit Service (ACSM MK)



Source: Bloomberg

Forecasts and Valuation	Feb-21	Feb-22	Feb-23F	Feb-24F	Feb-25F
Reported net profit (MYRm)	234	365	363	440	480
Net profit growth (%)	(19.9)	56.2	(0.7)	21.2	9.1
Recurring net profit (MYRm)	224	355	353	430	470
Recurring EPS (MYR)	0.88	1.39	1.38	1.68	1.84
BVPS (MYR)	6.63	7.84	8.84	9.97	11.20
DPS (MYR)	0.29	0.49	0.46	0.56	0.61
Recurring P/E (x)	17.32	10.91	10.99	9.02	8.25
P/B (x)	2.29	1.94	1.72	1.52	1.36
Dividend Yield (%)	1.9	3.2	3.0	3.7	4.0
Return on average equity (%)	14.4	19.8	17.0	18.3	17.8

Source: Company data, RHB

#### Overall ESG Score: 3.20 (out of 4)

##### E: GOOD

ACSM 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

ACSM 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 lifestyles.

##### 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, accounting, etc.

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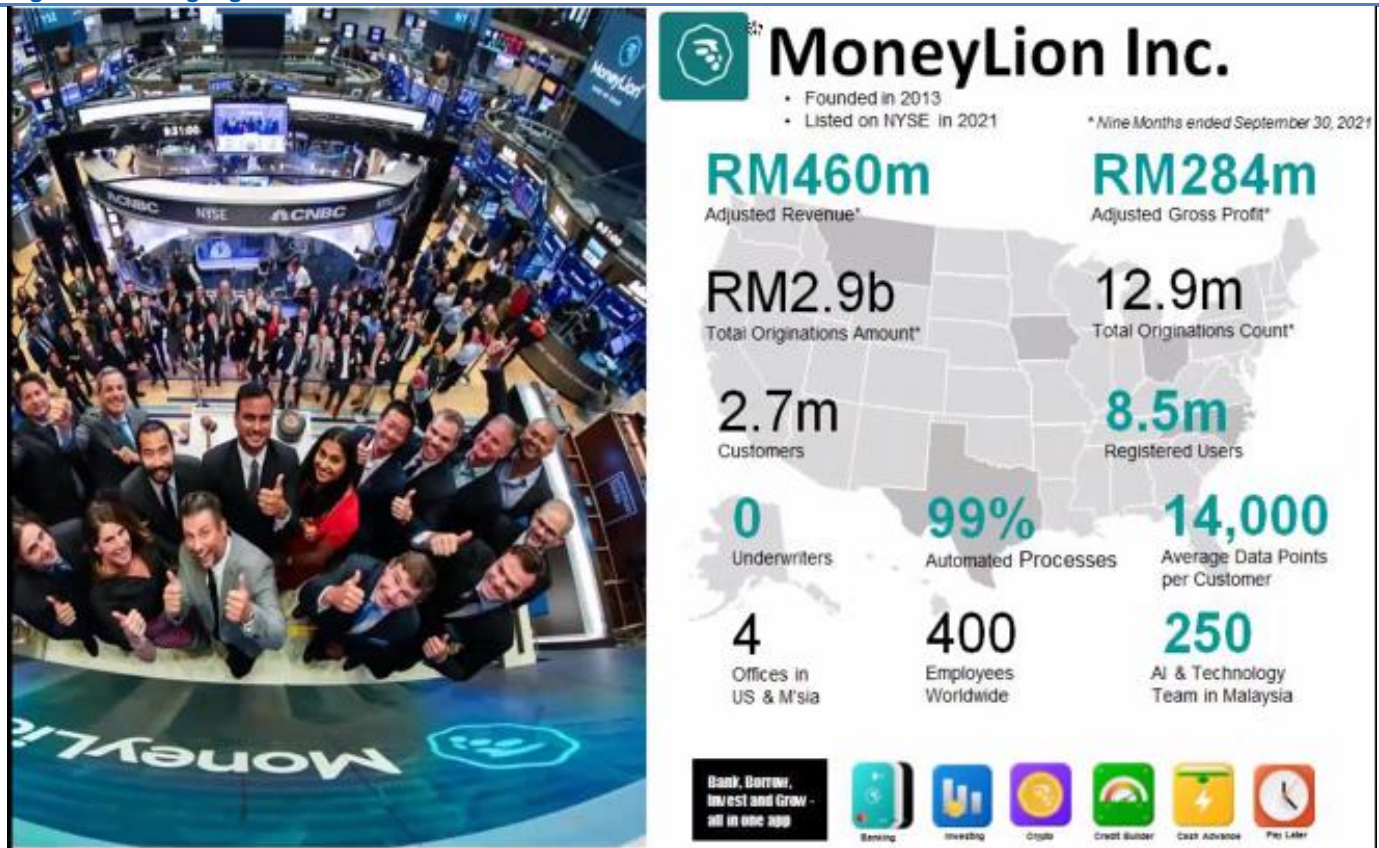
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## Financial Exhibits

Asia	Financial summary (MYR)	Feb-21	Feb-22	Feb-23F	Feb-24F	Feb-25F
Malaysia	EPS	0.92	1.43	1.42	1.72	1.88
Financial Services	Recurring EPS	0.88	1.39	1.38	1.68	1.84
<b>Aeon Credit Service</b>	DPS	0.29	0.49	0.46	0.56	0.61
ACSM MK	BVPS	6.63	7.84	8.84	9.97	11.20
Neutral						
	<b>Valuation metrics</b>	<b>Feb-21</b>	<b>Feb-22</b>	<b>Feb-23F</b>	<b>Feb-24F</b>	<b>Feb-25F</b>
	Recurring P/E (x)	17.32	10.91	10.99	9.02	8.25
	P/B (x)	2.3	1.9	1.7	1.5	1.4
	Dividend Yield (%)	1.9	3.2	3.0	3.7	4.0
	<b>Income statement (MYRm)</b>	<b>Feb-21</b>	<b>Feb-22</b>	<b>Feb-23F</b>	<b>Feb-24F</b>	<b>Feb-25F</b>
	Interest income	1,404	1,371	1,493	1,698	1,897
	Interest expense	(358)	(331)	(332)	(373)	(416)
	<b>Net interest income</b>	<b>1,046</b>	<b>1,040</b>	<b>1,161</b>	<b>1,326</b>	<b>1,481</b>
	Non interest income	178	178	192	205	219
	<b>Total operating income</b>	<b>1,224</b>	<b>1,219</b>	<b>1,353</b>	<b>1,531</b>	<b>1,700</b>
	Overheads	(516)	(545)	(581)	(618)	(659)
	<b>Pre-provision operating profit</b>	<b>708</b>	<b>674</b>	<b>773</b>	<b>912</b>	<b>1,041</b>
	Loan impairment allowances	(383)	(147)	(295)	(334)	(410)
	<b>Pre-tax profit</b>	<b>325</b>	<b>527</b>	<b>478</b>	<b>579</b>	<b>631</b>
	Taxation	(91)	(161)	(115)	(139)	(152)
	<b>Reported net profit</b>	<b>234</b>	<b>365</b>	<b>363</b>	<b>440</b>	<b>480</b>
	<b>Recurring net profit</b>	<b>224</b>	<b>355</b>	<b>353</b>	<b>430</b>	<b>470</b>
	<b>Profitability ratios</b>	<b>Feb-21</b>	<b>Feb-22</b>	<b>Feb-23F</b>	<b>Feb-24F</b>	<b>Feb-25F</b>
	Return on average assets (%)	2.3	3.6	3.4	3.7	3.7
	Return on average equity (%)	14.4	19.8	17.0	18.3	17.8
	Return on IEAs (%)	13.7	13.7	14.1	14.2	14.3
	Cost of funds (%)	4.5	4.4	4.3	4.3	4.3
	Net interest spread (%)	9.1	9.3	9.9	9.9	10.0
	Net interest margin (%)	10.2	10.4	11.0	11.1	11.2
	Non-interest income / total income (%)	14.5	14.6	14.2	13.4	12.9
	Cost to income ratio (%)	42.1	44.7	42.9	40.4	38.8
	Credit cost (bps)	374	147	280	280	310
	<b>Balance sheet (MYRm)</b>	<b>Feb-21</b>	<b>Feb-22</b>	<b>Feb-23F</b>	<b>Feb-24F</b>	<b>Feb-25F</b>
	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)	(784)	(818)	(901)
	Net loans to customers	9,236	9,101	10,454	11,767	12,944
	Total net IEAs	9,264	9,127	10,482	11,800	12,980
	Total non-IEAs	968	1,014	744	716	787
	Total assets	10,231	10,141	11,226	12,516	13,767
	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	2,257	2,545	2,860
	<b>Asset quality and capital</b>	<b>Feb-21</b>	<b>Feb-22</b>	<b>Feb-23F</b>	<b>Feb-24F</b>	<b>Feb-25F</b>
	Reported NPLs / gross cust loans (%)	2.5	2.7	2.0	2.0	2.0
	Total provisions / reported NPLs (%)	339.7	288.4	348.6	325.0	325.2

Source: Company data, RHB

Figure 1: MLI highlight



Source: Company, RHB

Figure 2: AEON Living Zone



Source: Company, RHB

## Recommendation Chart

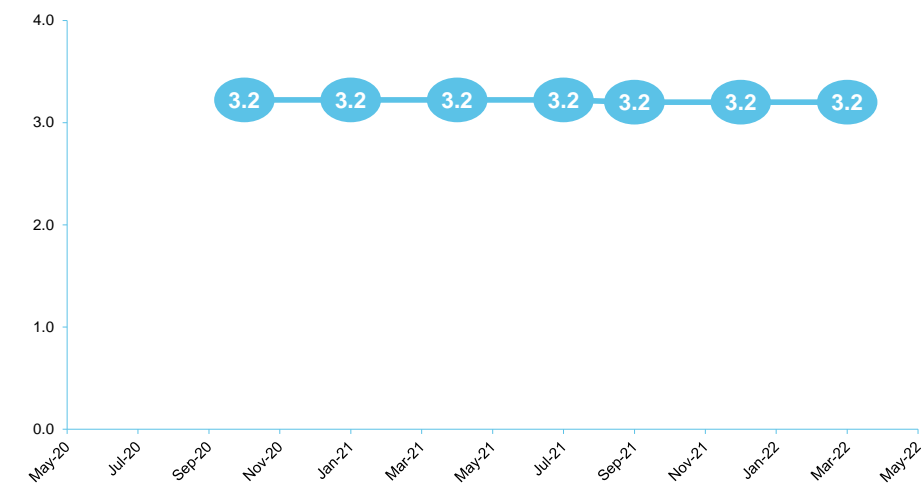


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-04-07	Neutral	16.2	15.0
2022-04-06	Neutral	16.1	14.9
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

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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