

22 December 2023

Financial Services | Non-Bank Financials

AEON Credit Service (ACSM MK)

Buy (Maintained)

Quality And Quantity; Keep BUY

Target Price (Return): MYR7.00 (+24%)
 Price (Market Cap): MYR5.63 (USD617m)
 ESG score: 3.1 (out of 4)
 Avg Daily Turnover (MYR/USD) 2.64m/0.57m

- **Keep BUY and MYR7 TP, 24% upside and c.4% FY25F (Feb) yield.** AEON Credit Service's 9MFY24 results were in line with expectations. While higher bad debt write-offs in 3QFY24 subdued the bottomline performance, strong income growth and the subsequent improvement in the NPL ratio are positive takeaways from the set. We maintain our forecasts and MYR7 TP (includes a 2% ESG premium) pending the analyst briefing later today.
- **Results review.** ACSM's 9MFY24 net profit of MYR300.1m (-5% YoY) came in at 73% and 72% of our and Street full-year estimates – in line, pending a seasonally strong 4Q. Total operating income surged 18% YoY on robust receivables growth (+12%), but was met with greater credit costs of 3.7% (9MFY23: 2.5%) – recall that there was a net write-back in 1QFY23. On a quarterly basis, PIOP increased 6% QoQ (YoY: +21%) on income growth of 3% (YoY: +17%) and lower opex by 3% (YoY: +11%). However, credit costs jumped >2ppts sequentially to 4.7% in 3QFY24 due to higher write-offs. 9MFY24 ROE of 16.5% (9MFY23: 19.9%) is tracking ahead of the 15% guidance.
- **Robust receivables growth.** YoY growth of 12% (QoQ: +3%) is above the target level of c.10% for the year. The growth predominantly came from objective financing and personal financing (both >20% YoY), while growth was deliberately slower for motorcycle financing (+4% YoY), due to its weaker asset quality tendencies. We foresee the group surpassing its 10% target for the full year, particularly as its strategic marketing campaigns have generated decent success at garnering financing applications among higher credit-score customers. Coupled with its digital credit assessment and onboarding initiatives, disbursements could accelerate and keep the receivables growth momentum going for longer.
- **Asset quality – continued drop in NPLs.** The sequentially higher credit costs of 4.7% in 3QFY24 (2Q: 2.6%) was largely due to a 12% QoQ increase in write-offs of legacy bad debts. As a result, the NPL ratio dropped further to 2.7% (2Q: 3.0%), and now falls below the guidance of 3-4%. Consequently, LLC improved to 233% (2Q: 219%), and remains within the group's 200-250% comfort range. ACSM's focus on higher credit score customers appears to be bearing fruit, and credit costs could stabilise to the pre-pandemic average of 3-4% in the near future.
- **Forecasts and TP maintained,** pending the analyst briefing later today. The counter's current P/BV of 1.0x is a far cry from its peers' 1.2-2.6x – unjustified in our view, given its strong ROE generation of >15% and bright growth prospects among higher quality customers. ACSM is a Top Pick within the non-banking financial institution or NBFi sector, and could potentially see laggard share price improvements in CY24, especially if startup losses from its digital banking venture turn out lower than expected. Our forecasts bake in MYR30m in startup losses for FY25F and FY26F.

Analysts

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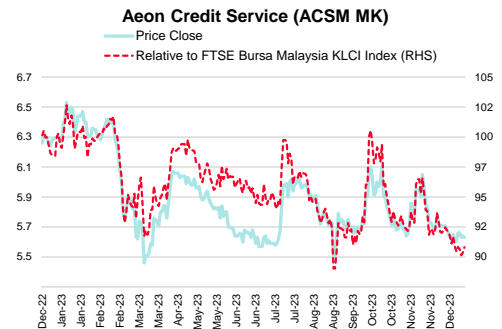


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(10.5)	(1.8)	(0.7)	(0.9)	(10.1)
Relative	(7.8)	(1.3)	(1.2)	(5.4)	(9.6)
52-wk Price low/high (MYR)	5.46 – 6.53				



Source: Bloomberg

Overall ESG Score: 3.1 (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 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-22	Feb-23	Feb-24F	Feb-25F	Feb-26F
Reported net profit (MYRm)	355	408	409	415	455
Net profit growth (%)	58.7	14.7	0.4	1.4	9.8
Recurring net profit (MYRm)	355	408	409	415	455
Recurring EPS (MYR)	0.70	0.80	0.80	0.81	0.89
BVPS (MYR)	3.92	4.55	5.12	5.64	6.27
DPS (MYR)	0.49	0.50	0.24	0.24	0.27
Recurring P/E (x)	8.09	7.05	7.03	6.93	6.31
P/B (x)	1.44	1.24	1.10	1.00	0.90
Dividend Yield (%)	8.6	8.8	4.3	4.3	4.8
Return on average equity (%)	19.2	18.8	16.6	15.1	15.0

Source: Company data, RHB

See important disclosures at the end of this report

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

Financial Exhibits

Asia	Financial summary (MYR)	Feb-22	Feb-23	Feb-24F	Feb-25F	Feb-26F
Malaysia	EPS	0.70	0.80	0.80	0.81	0.89
Financial Services	Recurring EPS	0.70	0.80	0.80	0.81	0.89
AEON Credit Service	DPS	0.49	0.50	0.24	0.24	0.27
ACSM MK	BVPS	3.92	4.55	5.12	5.64	6.27
Buy						
	Valuation metrics	Feb-22	Feb-23	Feb-24F	Feb-25F	Feb-26F
	Recurring P/E (x)	8.09	7.05	7.03	6.93	6.31
	P/B (x)	1.4	1.2	1.1	1.0	0.9
	Dividend Yield (%)	8.6	8.8	4.3	4.3	4.8
	Income statement (MYRm)	Feb-22	Feb-23	Feb-24F	Feb-25F	Feb-26F
	Interest income	1,371	1,446	1,627	1,766	1,907
	Interest expense	(331)	(316)	(349)	(385)	(421)
	Net interest income	1,040	1,130	1,278	1,381	1,487
	Non interest income	178	210	226	233	244
	Total operating income	1,219	1,340	1,503	1,614	1,731
	Overheads	(545)	(527)	(576)	(631)	(690)
	Pre-provision operating profit	674	813	927	983	1,040
	Loan impairment allowances	(147)	(266)	(375)	(384)	(388)
	Income from associates			-	(30)	(30)
	Pre-tax profit	527	547	552	569	622
	Taxation	(172)	(139)	(143)	(154)	(167)
	Reported net profit	355	408	409	415	455
	Recurring net profit	355	408	409	415	455
	Profitability ratios	Feb-22	Feb-23	Feb-24F	Feb-25F	Feb-26F
	Return on average assets (%)	3.5	3.8	3.5	3.3	3.3
	Return on average equity (%)	19.2	18.8	16.6	15.1	15.0
	Return on IEAs (%)	13.7	13.9	14.3	14.2	14.2
	Cost of funds (%)	4.4	4.1	4.2	4.2	4.3
	Net interest spread (%)	9.3	9.8	10.1	10.0	10.0
	Net interest margin (%)	10.4	10.9	11.2	11.1	11.1
	Non-interest income / total income (%)	14.6	15.6	15.0	14.4	14.1
	Cost to income ratio (%)	44.7	39.3	38.3	39.1	39.9
	Credit cost (bps)	147	257	330	310	290
	Balance sheet (MYRm)	Feb-22	Feb-23	Feb-24F	Feb-25F	Feb-26F
	Total gross loans	9,857	10,836	11,919	12,873	13,903
	Other interest earning assets	26	27	30	33	37
	Total gross IEAs	9,883	10,862	11,949	12,906	13,940
	Total provisions	(756)	(787)	(820)	(868)	(927)
	Net loans to customers	9,101	10,049	11,100	12,005	12,975
	Total net IEAs	9,127	10,075	11,130	12,039	13,013
	Total non-IEAs	1,014	1,042	1,098	1,177	1,302
	Total assets	10,141	11,117	12,227	13,216	14,315
	Other interest-bearing liabilities	7,390	8,007	8,808	9,512	10,273
	Total IBLs	7,390	8,007	8,808	9,512	10,273
	Total non-IBLs	549	585	603	621	640
	Total liabilities	7,940	8,592	9,411	10,134	10,914
	Share capital	584	584	584	584	584
	Shareholders' equity	2,001	2,325	2,617	2,882	3,201
	Asset quality and capital	Feb-22	Feb-23	Feb-24F	Feb-25F	Feb-26F
	Reported NPLs / gross cust loans (%)	2.7	2.9	3.2	3.0	2.8
	Total provisions / reported NPLs (%)	288.4	251.4	214.9	224.7	238.2

Source: Company data, RHB

Results At a Glance

Figure 1: ACSM – summary of 3QFY24 and 9MFY24 results

FYE Feb (MYRm)	3QFY23	2QFY24	3QFY24	QoQ (%)	YoY (%)	9MFY23	9MFY24	YoY (%)	Comments
Interest income	370.2	418.4	432.2	3.3	16.8	1,061.6	1,249.1	17.7	Driven by robust receivables growth of 12% YoY
Interest expense	(78.8)	(86.8)	(90.0)	3.7	14.3	(235.2)	(261.6)	11.2	In tandem with increased borrowings (+16%), though new borrowings were likely made on better rates
Net interest income	291.4	331.6	342.1	3.2	17.4	826.4	987.5	19.5	
Non-interest income	50.9	56.6	57.2	1.0	12.4	157.1	171.4	9.1	
<i>Non-ll/total income (%)</i>	<i>14.9</i>	<i>14.6</i>	<i>14.3</i>			<i>16.0</i>	<i>14.8</i>		
Total operating income	342.3	388.2	399.3	2.9	16.7	983.6	1,158.9	17.8	
Overhead expenses	(136.3)	(154.6)	(150.7)	-2.5	10.6	(373.4)	(438.1)	17.3	
<i>CIR (%)</i>	<i>39.8</i>	<i>39.8</i>	<i>37.7</i>			<i>38.0</i>	<i>37.8</i>		Including impairment losses, CIR stood at 57.4%, slightly above the <57% target
PIOP	206.0	233.6	248.6	6.4	20.7	610.2	720.8	18.1	
Loan loss provisions	(104.4)	(74.3)	(137.1)	84.5	31.4	(193.1)	(318.2)	64.8	Higher YoY from the low base effect, as 1QFY23 saw a net write-back of MYR18m
<i>Annualised credit cost (bps)</i>	<i>398</i>	<i>261</i>	<i>467</i>			<i>252</i>	<i>373</i>		
PBT	101.6	159.2	111.4	-30.0	9.7	417.2	402.6	-3.5	
Tax expenses	(18.0)	(39.0)	(25.9)	-33.7	44.2	(94.8)	(97.5)	2.8	
<i>ETR (%)</i>	<i>17.7</i>	<i>24.5</i>	<i>23.2</i>			<i>22.7</i>	<i>24.2</i>		
PAT	83.6	120.2	85.5	-28.8	2.3	322.3	305.1	-5.4	
Distribution on perpetual notes & sukuk	0.0	(5.0)	0.0			(5.0)	(5.0)		
Net profit attributable to ordinary shareholders	83.6	115.1	85.5	-25.7	2.3	317.3	300.1	-5.4	73% and 72% of our and Street full-year estimates
<u>Other key ratios and data</u>									
Gross receivables	10,592	11,566	11,903	2.9	12.4				Above the c.10% target for the full year
Borrowings	7,721	8,643	8,974	3.8	16.2				
Annualised ROAE (%)	14.9	18.7	13.6			19.9	16.5		Above the c.15% target for the full year
Annualised ROAA (%)	3.2	3.9	2.8			4.1	3.4		
NPL ratio (%)	2.54	2.98	2.73						Below the 3-4% guidance, and within management's <3% target
LLC ratio (%)	296.7	219.0	232.5						

Source: Company data, RHB

Valuation and TP

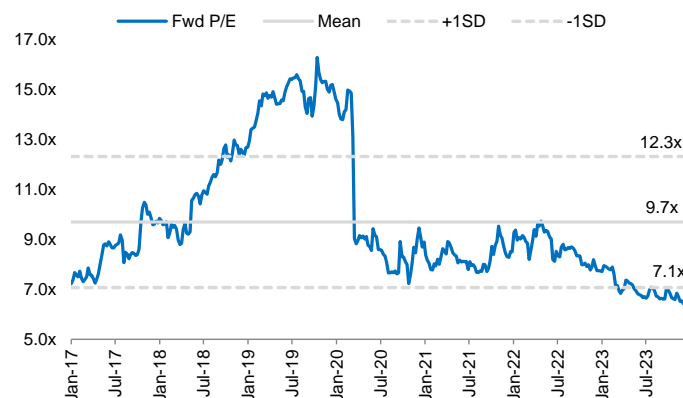
Our TP of MYR7 (adjusted for a 1-for-1 bonus issue, otherwise maintained) is based on a GGM-derived fair P/BV of 1.34x – near -0.5SD from the counter’s 5-year mean, with a 2% ESG premium embedded. ACSM’s current 1.0x valuation is the lowest among the non-bank lenders under our coverage, despite having a decent ROE of c.15% (second highest in the sub-sector, inclusive of expected digital bank losses). The counter is still our sector’s Top Pick and a potential laggard play for CY24.

Figure 2: ACSM – GGM valuation with ESG overlay

Cost of equity (COE) computation:		Sustainable ROE (%)	15.5
Risk free rate (%)	4.0	COE (%)	12.5
Equity premium (%)	7.1	Long-term growth (g)	3.5
Beta (x)	1.2	Implied P/BV (x)	1.34
Cost of equity - CAPM (%)	12.5	BVPS – 12-month forward	MYR5.12
		Intrinsic value	MYR6.87
ESG premium/(discount) (%)	2	ESG premium/(discount)	MYR0.14
		TP (rounded)	MYR7.00

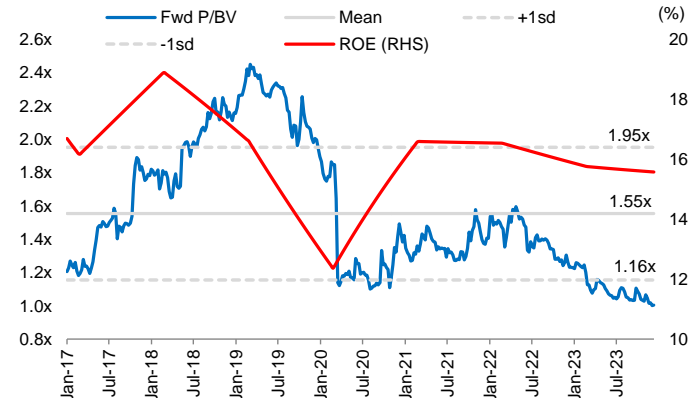
Source: Company data, RHB

Figure 3: ACSM’s 12-month forward P/E



Source: Bloomberg, RHB

Figure 4: ACSM’s 12-month forward P/BV vs ROE



Source: Bloomberg, RHB

Emissions And ESG

Trend analysis

AEON Credit Service's increase in total emissions is due to the full reopening of the economy post-pandemic.

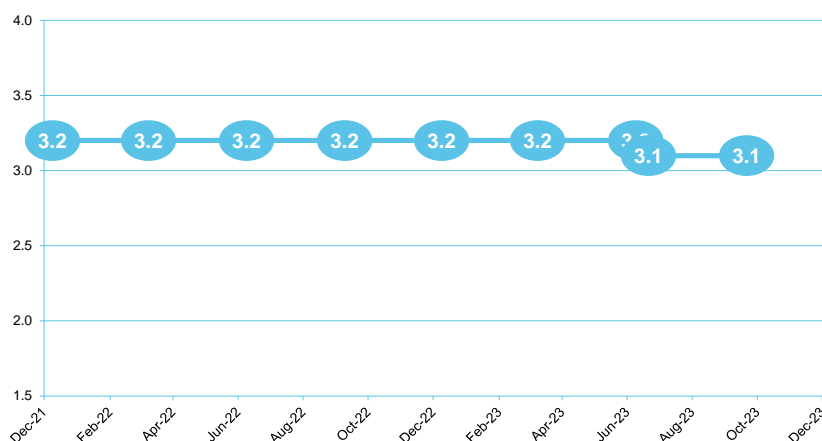
Emissions (tCO2e)	Feb-21	Feb-22	Feb-23
Scope 1	na	108	167
Scope 2	na	2,255	2,295
Scope 3	na	-	-
Total emissions	na	2,363	2,462

Source: Company data, RHB

Latest ESG-Related Developments

- **Secures sustainability-linked loan (SSL):** AEON Credit Service secured a MYR600m SSL, earlier this year; proceeds will be used to extend financing facilities to micro-SMEs and purchases of electric motorcycles and scooters.
- **Electric motorcycle financing facility:** AEON Credit Service recently introduced its maiden electric motorcycle financing facility, which at present, is available for Blueshark electric motorcycles.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-12-12	Buy	7.00	5.65
2023-08-15	Buy	7.00	5.91
2023-07-12	Buy	7.00	5.59
2023-07-11	Buy	7.30	5.58
2023-04-25	Buy	7.45	5.99
2023-04-11	Buy	7.60	5.96
2022-10-27	Buy	7.60	6.65
2022-09-30	Buy	7.84	6.80
2022-07-12	Buy	8.30	6.92
2022-07-04	Buy	8.10	6.81
2022-04-07	Neutral	8.10	7.50
2022-04-06	Neutral	8.05	7.47
2021-09-28	Buy	8.05	5.94
2021-07-07	Buy	7.40	6.06
2021-04-08	Buy	7.25	6.20

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

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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