

16 August 2023

Financial Services | Non-Bank Financials

AEON Credit Service (ACSM MK)

Buy (Maintained)

ACS Digital Bhd: What We Know So Far

Target Price (Return): MYR14.00 (+18%)
 Price (Market Cap): MYR11.80 (USD654m)
 ESG score: 3.10 (out of 4)
 Avg Daily Turnover (MYR/USD) 0.98m/0.22m

- **Keep BUY and MYR14 TP, 18% upside and c.4% FY24F (Feb) yield.** We recently met a representative from AEON Financial Service's (AFS) and AEON Credit Service's soon-to-launch digital bank, ACS Digital Bhd (ACSD). During the meeting, we were guided on the bank's prospective products and acquisition strategies, along with the initial start-up losses of MYR50-60m for Year 1. We are still confident that an expansion of product offerings via the digital bank is positive for ACSM's long term growth trajectory.
- **What we know so far.** ACSD is on track to meet a 1QCY24 launch date. An initial capital injection amounting to MYR350m will be made by the parent consortium, of which ACSM will contribute 50% of the total amount. To date, AFS (8570 JP, NR) has already injected MYR140m (of the MYR175m) into ACSD, which has largely been spent on core systems and talent acquisition. At present, ACSM has yet to inject any capital into the digital bank, but will do so in due time via internally generated funds.
- **Prospective products.** The digital bank will launch with a simple savings account as the maiden product. It will also launch its first lending product soon after, which we understand is a personal financing offering capped at MYR5k with a tenure of up to six months. Cannibalisation risk is limited, as ACSM's personal financing products have a larger ticket size of MYR15-20k, with longer tenures of up to 6-7 years. Further out, ACSD will also launch general insurance and micro investment products, mostly tailored for its retail customers.
- **Acquisition strategies.** The digital bank will leverage on its unique position within the AEON ecosystem to obtain both retail and business customers. Existing retail customers of the AEON group will be cross-sold ACSD products on the existing AEON financial mobile application. Meanwhile, ACSD will also offer tailored financing solutions for AEON group's merchants and clients, most of which fit into ACSD's customer profile of small business owners underserved by incumbent financial institutions.
- **Impact to ACSM.** As ACSM owns a 50% stake in ACSD, it will report net profits/losses from the digital bank under associate contributions. We were guided for start-up losses of MYR50-60m for the digital bank in Year 1, with narrowing losses YoY until a breakeven year in Year 4.
- **Bonus issue.** Separately, ACSM recently announced a 1-for-1 bonus issue exercise that is slated to be completed in 4QCY23.
- **We keep FY24F unchanged,** but factor in losses from associates of MYR30m for FY25F-26F. We lower our cost of equity assumption as there is now better clarity on the prospects of ACSD. Key risks to our call include weaker-than-expected receivables growth, higher-than-expected impairment allowances, and weaker-than-expected financing margins.

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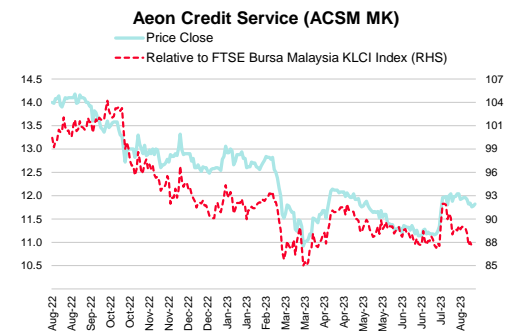


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(6.1)	4.2	0.3	(8.0)	(15.6)
Relative	(3.5)	1.0	(2.5)	(5.9)	(12.5)
52-wk Price low/high (MYR)	10.9 – 14.2				



Source: Bloomberg

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)	1.39	1.60	1.60	1.63	1.78
BVPS (MYR)	7.84	9.11	10.25	11.29	12.54
DPS (MYR)	0.49	0.50	0.48	0.49	0.54
Recurring P/E (x)	8.49	7.41	7.38	7.27	6.63
P/B (x)	1.51	1.30	1.15	1.05	0.94
Dividend Yield (%)	4.1	4.2	4.1	4.1	4.5
Return on average equity (%)	19.2	18.8	16.6	15.1	15.0

Source: Company data, RHB

Overall ESG Score: 3.1 (out of 4)

E: GOOD

ACSM has reached out to the local communities and organised 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.

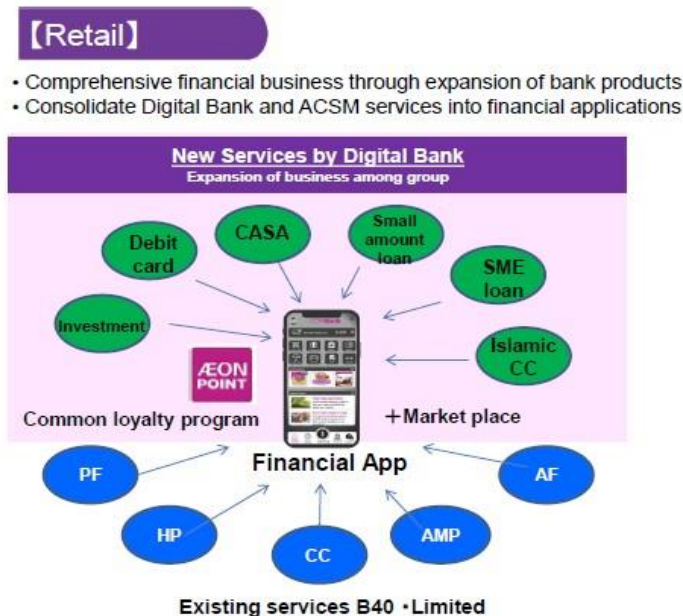
Financial Exhibits

Asia	Financial summary (MYR)	Feb-22	Feb-23	Feb-24F	Feb-25F	Feb-26F
Malaysia	EPS	1.39	1.60	1.60	1.63	1.78
Financial Services	Recurring EPS	1.39	1.60	1.60	1.63	1.78
AEON Credit Service	DPS	0.49	0.50	0.48	0.49	0.54
ACSM MK	BVPS	7.84	9.11	10.25	11.29	12.54
Buy						
	Valuation metrics	Feb-22	Feb-23	Feb-24F	Feb-25F	Feb-26F
Valuation basis	Recurring P/E (x)	8.49	7.41	7.38	7.27	6.63
Our GGM assumptions include:	P/B (x)	1.5	1.3	1.2	1.0	0.9
i. COE of 12.5%;	Dividend Yield (%)	4.1	4.2	4.1	4.1	4.5
ii. 15.5% ROE; and						
iii. 3.5% long-term growth.						
	Income statement (MYRm)	Feb-22	Feb-23	Feb-24F	Feb-25F	Feb-26F
Key drivers	Interest income	1,371	1,446	1,627	1,766	1,907
Our forecasts are most sensitive to:	Interest expense	(331)	(316)	(349)	(385)	(421)
i. Financing receivables growth;	Net interest income	1,040	1,130	1,278	1,381	1,487
ii. Impairment allowances;	Non interest income	178	210	226	233	244
iii. Interest margins.	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
Key risks	Loan impairment allowances	(147)	(266)	(375)	(384)	(388)
Downside risks to our forecasts include:	Income from associates			-	(30)	(30)
i. Weaker-than-expected receivables growth;	Pre-tax profit	527	547	552	569	622
ii. Higher-than-expected impairment allowances;	Taxation	(172)	(139)	(143)	(154)	(167)
iii. Weaker-than-expected margins.	Reported net profit	355	408	409	415	455
	Recurring net profit	355	408	409	415	455
Company Profile	Profitability ratios	Feb-22	Feb-23	Feb-24F	Feb-25F	Feb-26F
AEON Credit Service operates a microfinancing business in Malaysia which provides easy payment schemes, personal financing and credit card facilities.	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 IEs (%)	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 IEs	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 IEs	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

Figure 1: ACSD’s retail offerings – first products would be debit cards, CASA accounts and small-ticket financing

Figure 2: ACSD aims to be “the banker for the AEON group”



Source: Company data



Source: Company data

Figure 3: ACSM – Revisions in full-year earnings forecasts

FYE Feb	Net profit (MYRm)			EPS (MYR)			DPS (MYR)		
	Previous	Revised	% Chg	Previous	Revised	% Chg	Previous	Revised	% Chg
2024F	409.1	409.1	0.0	1.60	1.60	0.0	0.48	0.48	0.0
2025F	445.0	415.0	(6.7)	1.74	1.62	(6.7)	0.52	0.49	(6.7)
2026F	485.5	455.5	(6.2)	1.89	1.78	(6.2)	0.57	0.54	(6.2)

Source: Company data, RHB

Valuation and TP

Our unchanged TP of MYR14.00 is based on a GGM-derived fair value P/BV of 1.34x. Our ROE assumption is tweaked downwards to 15.5% (from 16.2%) in tandem with the changes in forecasts. As there is now greater clarity on the impact of the digital banking operations on ACSM, we also lower our cost of equity assumption to 12.5% (from 13.0%).

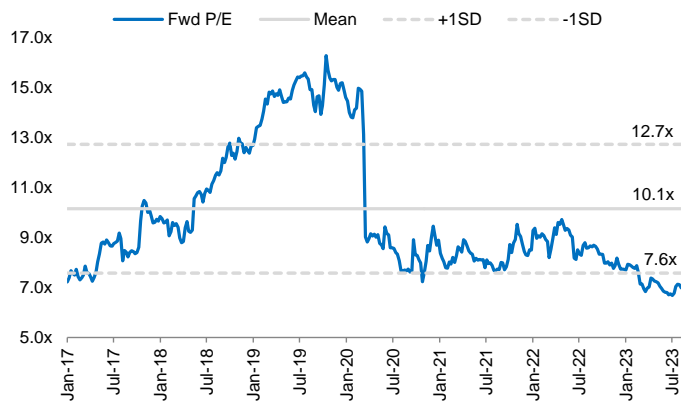
We continue to like ACSM for its strong receivables and earnings growth trajectory. While the launch of the digital bank should be earnings dilutive in the medium term, we are positive on the long term ability of the digital bank to add value to the group. The stock is also trading at an attractive valuation of 1.1x, near -1.5SD from its 5-year mean, and the lowest among its peers.

Figure 4: ACSM – GGM valuation summary

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 – FY24F	MYR10.25
		Intrinsic value	MYR13.74
ESG premium/(discount) (%)	2.0	ESG premium/(discount)	MYR0.27
		TP (rounded)	MYR14.00

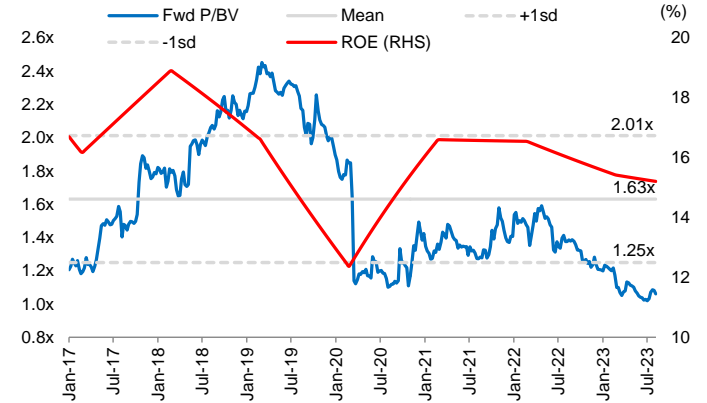
Source: Company data, RHB

Figure 5: 12-month forward P/E



Source: Bloomberg, RHB

Figure 6: 12-month forward P/BV vs ROE



Source: Bloomberg, RHB

Recommendation Chart

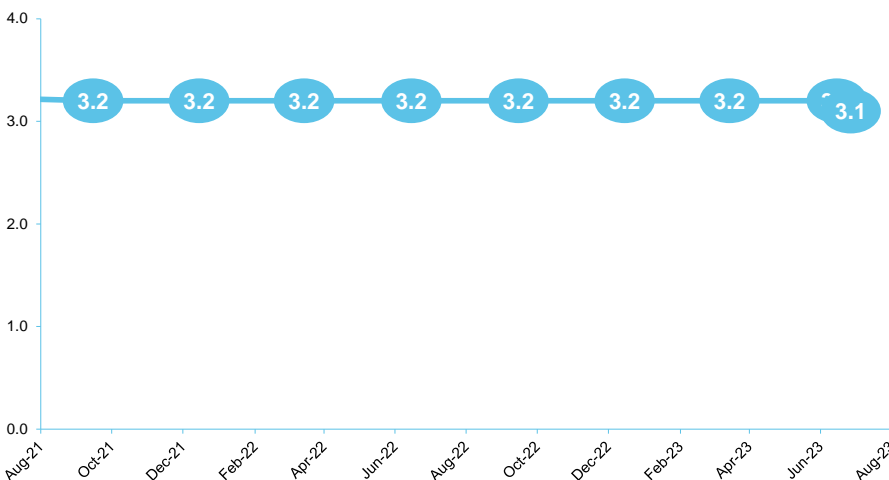


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-07-12	Buy	14.0	11.2
2023-07-11	Buy	14.6	11.2
2023-04-25	Buy	14.9	12.0
2023-04-11	Buy	15.2	11.9
2022-10-27	Buy	15.2	13.3
2022-09-30	Buy	15.7	13.6
2022-07-12	Buy	16.6	13.8
2022-07-04	Buy	16.2	13.6
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

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Analyst	Company
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