

20 December 2024

Financial Services | Non-Bank Financials

AEON Credit Service (ACSM MK)

Buy (Maintained)

Dragged Down By Elevated Credit Costs; Still BUY

Target Price (Return): MYR8.00 (+31%)
 Price (Market Cap): MYR6.10 (USD691m)
 ESG score: 3.1 (out of 4)
 Avg Daily Turnover (MYR/USD) 2.23m/0.51m

- **Maintain BUY, with new MYR8 TP from MYR8.40, 31% upside and c.6% FY26F (Feb) yield.** AEON Credit Service's 9MFY25 results broadly met expectations, albeit dragged by still-elevated credit costs. We expect a stronger 4QFY25 driven by robust financing demand, while credit costs could also moderate in line with historical trends. We continue to like ACSM for its strong growth outlook, while the current valuation also appears undemanding.
- **Results review.** ACSM's 3QFY25 net profit of MYR62.1m (-27% YoY, -13% QoQ) brought the 9MFY25 figure to MYR239.6m (-20% YoY) – this formed 66% and 60% of our and consensus full-year estimates. For 9M, total operating income growth continued its strong momentum, up 14% YoY from strong NII (+15%) and non-II (+6%), though this was offset by a 20% increase in opex. The main drag on profit, however, came from impairment allowances, where credit costs reached 5.0% in 3QFY25 (2QFY25: 4.4%, 3QFY24: 4.7%) – this brought the 9M average to 4.2% (9MFY24: 3.7%). Elsewhere, associate losses during the quarter moderated to MYR15.2m (2QFY25: MYR18.7m), with total losses for 9M of MYR45.5m falling within management's MYR60-70m guided range. All in, 9MFY25 ROE stood at 12.0%, down from the 16.5% achieved in 9MFY24 and slightly below management's target of c.13% for the year.
- **Still recording strong financing growth.** ACSM's gross financing receivables stood at MYR13.7bn in Nov 2024, up 15% YoY and 4% QoQ. Growth was broad-based, but most apparent in credit cards (+18% YoY, +7% QoQ) and personal financing (+21% YoY, +7% QoQ). On a YTD (annualised) basis, growth of 16% is ahead of management's +10% target for the year – we think this is likely to be surpassed, especially with the revisions to the minimum wage and civil servants' remuneration. Separately, management sees minimal impact arising from the proposed abolition of the Rule of 78 for interest calculation on personal finance products, as ACSM presently uses the effective interest rate model for interest income computation.
- **Asset quality still resilient.** While credit costs saw a slight QoQ spike in 2QFY25, we learnt this was largely attributable to higher BAU provisions (in line with receivables growth), as write-offs were largely stable QoQ (and down YoY). Delinquency trends also appear intact, with the NPL ratio declining 0.3ppts YoY to 2.4% (flat QoQ), while collection ratios were also stable. With the rise in provisions, the LLC ratio improved marginally to 231%, from 229% – recall that management had previously mentioned this is a comfortable level for the group.
- **We lower our FY25F-27F earnings by 4%, 3% and 3%** as we factor in higher credit cost assumptions, in line with the 9MFY25 performance. Our TP drops to MYR8 (from MYR8.40), and includes an unchanged 2% ESG premium.

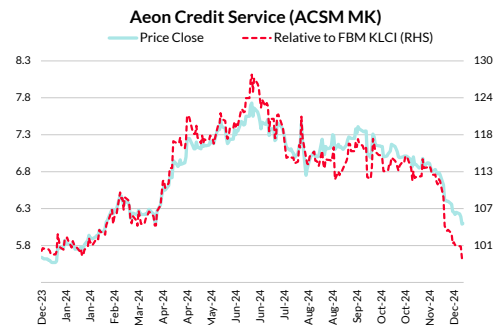
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	9.5	(11.9)	(17.7)	(21.1)	8.3
Relative	(0.5)	(11.7)	(13.8)	(21.1)	(0.9)
52-wk Price low/high (MYR)	5.57 – 7.73				



Source: Bloomberg

Forecasts and Valuation	Feb-23	Feb-24	Feb-25F	Feb-26F	Feb-27F
Reported net profit (MYRm)	408	414	347	439	497
Net profit growth (%)	14.7	1.6	(16.2)	26.7	13.1
Recurring net profit (MYRm)	408	414	347	439	497
Recurring EPS (MYR)	0.80	0.81	0.68	0.86	0.97
BVPS (MYR)	4.55	5.17	5.46	5.98	6.56
DPS (MYR)	0.25	0.28	0.27	0.34	0.39
Recurring P/E (x)	7.64	7.52	8.98	7.09	6.27
P/B (x)	1.34	1.18	1.12	1.02	0.93
Dividend Yield (%)	4.1	4.6	4.5	5.6	6.4
Return on average equity (%)	18.8	16.7	12.8	15.1	15.5

Source: Company data, RHB

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.

Financial Exhibits

Asia	Financial summary (MYR)	Feb-23	Feb-24	Feb-25F	Feb-26F	Feb-27F
Malaysia	EPS	0.80	0.81	0.68	0.86	0.97
Financial Services	Recurring EPS	0.80	0.81	0.68	0.86	0.97
AEON Credit Service	DPS	0.25	0.28	0.27	0.34	0.39
ACSM MK	BVPS	4.55	5.17	5.46	5.98	6.56
Buy						
	Valuation metrics	Feb-23	Feb-24	Feb-25F	Feb-26F	Feb-27F
Valuation basis	Recurring P/E (x)	7.64	7.52	8.98	7.09	6.27
Our GGM assumptions include:	P/B (x)	1.3	1.2	1.1	1.0	0.9
i. COE of 12.5%;	Dividend Yield (%)	4.1	4.6	4.5	5.6	6.4
ii. 15.5% ROE; and						
iii. 3.5% long-term growth.						
Key drivers	Income statement (MYRm)	Feb-23	Feb-24	Feb-25F	Feb-26F	Feb-27F
Our forecasts are most sensitive to:	Interest income	1,446	1,696	1,906	2,115	2,307
i. Financing receivables growth;	Interest expense	(316)	(359)	(416)	(467)	(511)
ii. Impairment allowances;	Net interest income	1,130	1,337	1,491	1,648	1,797
iii. Interest margins.	Non interest income	210	228	239	251	263
	Total operating income	1,340	1,565	1,730	1,899	2,059
Key risks	Overheads	(527)	(597)	(691)	(757)	(815)
The downside risks to our forecasts include:	Pre-provision operating profit	813	968	1,039	1,142	1,244
i. Weaker-than-expected receivables growth;	Loan impairment allowances	(266)	(386)	(477)	(472)	(498)
ii. Higher-than-expected impairment allowances;	Income from associates	(17)	(17)	(70)	(60)	(60)
iii. Weaker-than-expected margins.	Pre-tax profit	547	565	492	610	686
	Taxation	(139)	(151)	(145)	(171)	(189)
	Reported net profit	408	414	347	439	497
	Recurring net profit	408	414	347	439	497
Company Profile	Profitability ratios	Feb-23	Feb-24	Feb-25F	Feb-26F	Feb-27F
AEON Credit Service operates a micro-financing business in Malaysia which provides easy payment schemes, personal financing and credit card facilities.	Return on average assets (%)	3.8	3.5	2.6	3.0	3.1
	Return on average equity (%)	18.8	16.7	12.8	15.1	15.5
	Return on IEAs (%)	13.9	14.6	14.5	14.5	14.5
	Cost of funds (%)	4.1	4.1	4.2	4.2	4.2
	Net interest spread (%)	9.8	10.5	10.3	10.3	10.3
	Net interest margin (%)	10.9	11.5	11.3	11.3	11.3
	Non-interest income / total income (%)	15.6	14.5	13.8	13.2	12.8
	Cost to income ratio (%)	39.3	38.1	39.9	39.9	39.6
	Credit cost (bps)	257	335	368	328	318
	Balance sheet (MYRm)	Feb-23	Feb-24	Feb-25F	Feb-26F	Feb-27F
	Total gross loans	10,836	12,232	13,700	15,070	16,275
	Other interest earning assets	27	172	193	216	227
	Total gross IEAs	10,862	12,404	13,893	15,286	16,502
	Total provisions	(787)	(696)	(846)	(960)	(1,074)
	Net loans to customers	10,049	11,536	12,854	14,110	15,202
	Total net IEAs	10,075	11,708	13,047	14,326	15,429
	Total non-IEAs	1,042	912	870	926	1,067
	Total assets	11,117	12,620	13,917	15,252	16,495
	Other interest-bearing liabilities	8,007	9,405	10,533	11,586	12,513
	Total IBLs	8,007	9,405	10,533	11,586	12,513
	Total non-IBLs	585	578	596	614	633
	Total liabilities	8,592	9,983	11,129	12,201	13,147
	Share capital	584	584	584	584	584
	Shareholders' equity	2,325	2,638	2,788	3,051	3,349
	Asset quality and capital	Feb-23	Feb-24	Feb-25F	Feb-26F	Feb-27F
	Reported NPLs / gross cust loans (%)	2.9	2.6	2.4	2.3	2.3
	Total provisions / reported NPLs (%)	251.4	221.6	257.4	276.9	286.8

Source: Company data, RHB

Results At a Glance

Figure 1: ACSM – summary of 3QFY25 and 9MFY25 results

FYE Feb (MYRm)	3Q24	2Q25	3Q25	QoQ (%)	YoY (%)	9M24	9M25	YoY (%)	Comments – 9M25 vs 9M24
Interest income	432.2	482.8	503.8	4	17	1,249.1	1,452.5	16	In tandem with receivables growth (+15% YoY)
Interest expense	(90.0)	(104.8)	(108.3)	3	20	(261.6)	(314.9)	20	In line with increased borrowings (+17% YoY)
Net interest income	342.1	378.1	395.5	5	16	987.5	1,137.6	15	
Non-interest income	57.2	60.7	60.5	0	6	171.4	181.1	6	
Non-ll/total income (%)	14.3	13.8	13.3			14.8	13.7		
Total operating income	399.3	438.8	456.0	4	14	1,158.9	1,318.7	14	
Overhead expenses	(150.7)	(175.2)	(184.1)	5	22	(438.1)	(527.5)	20	
CIR (%)	37.7	39.9	40.4			37.8	40.0		Reported CIR (ie including recoveries) stood at 29.4%, below management's 30% target
PIOP	248.6	263.5	271.9	3	9	720.8	791.3	10	
Loan loss provisions	(137.1)	(143.7)	(168.9)	18	23	(318.2)	(412.0)	29	Includes an estimated net ECL charge of MYR58m, vs a net writeback of MYR32m in 9MFY24
Annualised credit cost (bps)	467	445	503			373	424		
Profit before associates	111.4	119.9	103.0	-14	-8	402.6	379.3	-6	
Associate contributions	0.0	(18.7)	(15.2)	-19	nm	0.0	(45.5)	nm	Remains within the guided range of MYR60-70m
PBT	111.4	101.1	87.9	-13	-21	402.6	333.8	-17	
Tax expenses	(25.9)	(30.0)	(25.8)	-14	0	(97.5)	(94.2)	-3	
ETR (%)	23.2	29.6	29.3			24.2	28.2		
PAT	85.5	71.2	62.1	-13	-27	305.1	239.6	-21	
Distribution on perpetual notes & sukuk	0.0	0.0	0.0			(5.0)	0.0		
Net profit attributable to ordinary shareholders	85.5	71.2	62.1	-13	-27	300.1	239.6	-20	Formed 66% and 60% of our and consensus estimates, which we deem to be in line as we expect a stronger 4QFY25
Other key ratios and data									
Gross receivables	11,903	13,199	13,665	4	15				Ahead of management's c.10% guidance. Growth was broad-based with strong contributions from personal financing (+21% YoY) and credit cards (+18% YoY)
Borrowings	8,974	10,127	10,511	4	17				
Annualised ROAE (%)	13.6	10.4	9.1			16.5	12.0		
Annualised ROAA (%)	2.8	2.1	1.8			3.4	2.4		
NPL ratio (%)	2.73	2.37	2.42						
LLC ratio (%)	232.5	229.4	231.1						

Source: Company data, RHB

Earnings forecasts

We lower FY25F-27F by 4%, 4% and 3% to factor in higher credit cost assumptions, in line with the recent performance. Our 3.7% assumption for FY25F implies that credit costs moderate to c.2% in 4QFY25, ie similar to the 4QFY24 level.

Figure 2: ACSM – revisions to earnings forecasts

FYE Dec (MYRm)	Previous FY25F	Previous FY26F	Previous FY27F	Revised FY25F	Revised FY26F	New FY27F	Change FY25F	Change FY26F	Change FY27F
Net interest income	1,491	1,648	1,797	1,491	1,648	1,797	0%	0%	0%
Non-interest income	239	251	263	239	251	263	0%	0%	0%
Operating expenses	(691)	(757)	(815)	(691)	(757)	(815)	0%	0%	0%
PIOP	1,039	1,142	1,244	1,039	1,142	1,244	0%	0%	0%
Impairment charges	(454)	(446)	(470)	(477)	(472)	(498)	5%	6%	6%
Associates	(70)	(60)	(60)	(70)	(60)	(60)	0%	0%	0%
Pretax profit	585	696	774	562	670	746	-4%	-4%	-4%
Net profit	365	459	518	347	439	497	-5%	-4%	-4%
EPS (MYR)	0.71	0.90	1.01	0.68	0.86	0.97	-5%	-4%	-4%
DPS (MYR)	0.29	0.36	0.41	0.27	0.34	0.39	-5%	-4%	-4%
Financing receivables growth (%)	12.0%	10.0%	8.0%	12.0%	10.0%	8.0%	Oppts	Oppts	Oppts
CIR (%) – derived	39.9	39.9	39.6	39.9	39.9	39.6	Oppts	Oppts	Oppts
Credit cost (%)	3.5	3.1	3.0	3.7	3.3	3.2	0.2ppts	0.2ppts	0.2ppts

Source: Company data, RHB

Valuation and TP

Our GGM-derived TP of MYR8 (from MYR8.40) is based on a fair P/BV of 1.34x (previously 1.39x), with a 2% premium included to account for its ESG score of 3.1, according to our in-house proprietary methodology. Key changes to our GGM model include to sustainable ROE (15.5% from 16.0%) and CY25F BVPS (MYR5.89 from MYR5.93), both in line with our above earnings forecast changes.

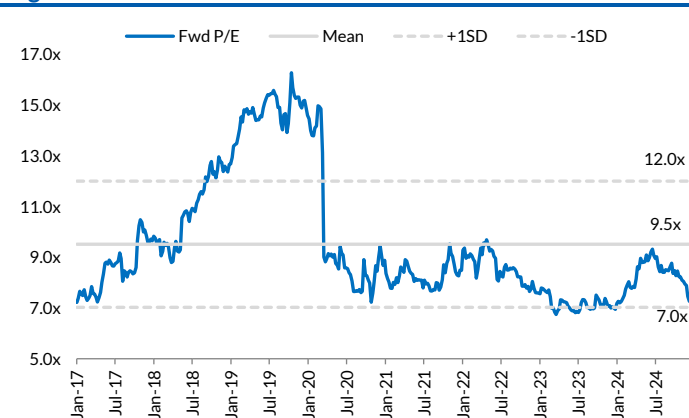
ACSM remains our Top Pick among the non-bank lenders under our coverage, for its strong growth outlook powered by diversified offerings, which now includes an up-and-running digital bank. It also commands the lowest forward P/E in the subsector of about 7x, vs its peers' 13-16x range.

Figure 3: 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 - CY25F	MYR5.89
		Intrinsic value	7.87
ESG premium/(discount) (%)	2.0	ESG premium/(discount)	MYR0.16
		TP (rounded)	MYR8.00

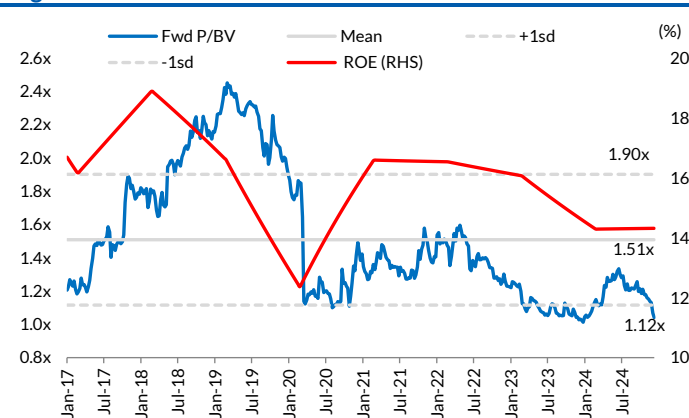
Source: Company data, RHB

Figure 4: ACSM's 12-month forward P/E



Source: Bloomberg, RHB

Figure 5: ACSM's 12-month forward P/BV vs ROE



Source: Bloomberg, RHB

Emissions And ESG

Trend analysis

FY24 GHG emissions includes carbon offsets amounting to 877.5 tCO2e from renewable energy use.

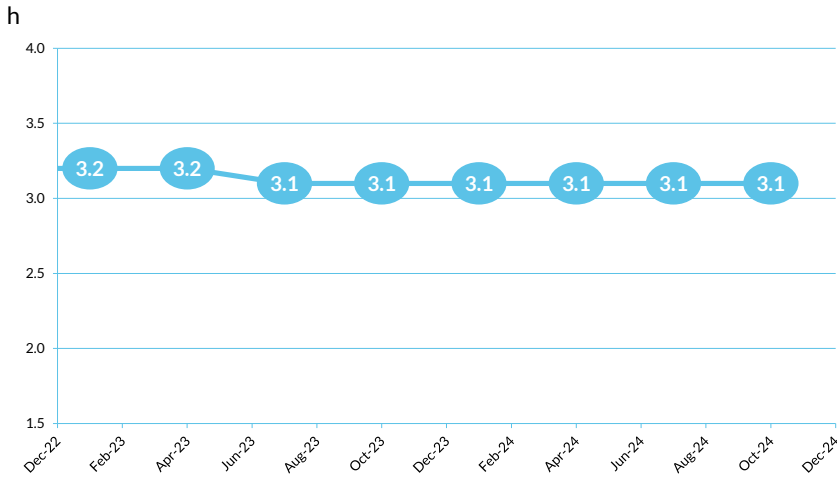
Emissions (tCO2e)	Feb-22	Feb-23	Feb-24
Scope 1	108	172	200
Scope 2	2,255	2,295	1,440
Scope 3	-	-	-
Total emissions	2,363	2,467	1,640

Source: Company data, RHB

Latest ESG-Related Developments

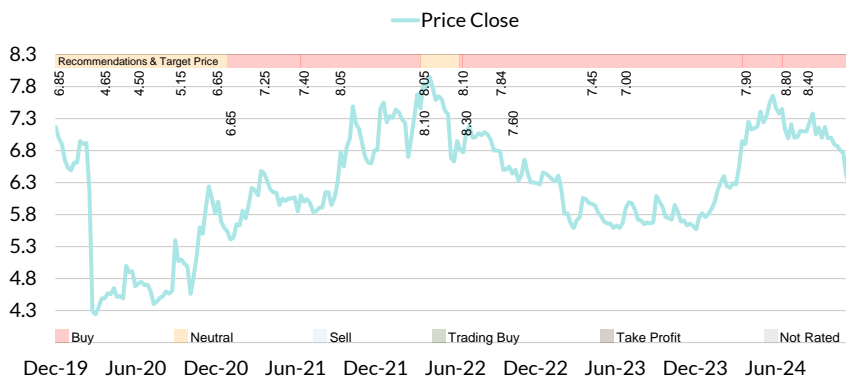
- Secures sustainability-linked loan:** AEON Credit secured a MYR600m SSL earlier this year; the proceeds will be used to extend financing facilities to micro-SMEs and purchases of electric motorcycles and scooters - as at 1HFY25, it had disbursed MYR15m of the proceeds.
- Electric motorcycle financing facility:** AEON Credit 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
2024-09-29	Buy	8.40	7.05
2024-07-12	Buy	8.80	7.45
2024-04-12	Buy	7.90	6.95
2024-04-09	Buy	7.00	6.72
2023-12-25	Buy	7.00	5.62
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

Source: RHB, Bloomberg

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