

26 December 2023

Financial Services | Non-Bank Financials

AEON Credit Service (ACSM MK)

Buy (Maintained)

Still a Diamond In The Rough; Keep BUY

Target Price (Return): MYR7.00 (+25%)
 Price (Market Cap): MYR5.62 (USD620m)
 ESG score: 3.1 (out of 4)
 Avg Daily Turnover (MYR/USD) 2.66m/0.57m

- **Maintain BUY and MYR7 TP, 25% upside and 4% FY25F (Feb) yield.** Aeon Credit Service's 3QFY24 results briefing further solidifies our view that the counter's growth and asset quality prospects are promising. Management guided for its share of start-up losses from the digital bank operations to reach MYR60m pa. This would lead to negative earnings growth in FY25F, though the potential growth avenues that these open up for the parent look exciting.

- **Upside to receivables growth target.** ACSM's receivables added 12% YoY in 3QFY24, ahead of the 10% target for the year. The group's marketing and digitalisation initiatives seem to be bearing fruit, as it is receiving more financing applications among higher-quality customers. It has also launched its digital onboarding platform for personal financing facilities, which could further push growth in that segment. Management sees scope for its receivables to grow at 10-15% YoY moving forward – a positive turn from the c.10% target for FY24.

- **Credit costs to moderate.** The large write-offs in 3QFY24 were due to legacy accounts from the moped and personal financing segments that were past due by over four months. These segments have since had credit requirements tightened. Encouragingly, collection trends are stable for not-past-due accounts, and improving for accounts that are less than three months past due. With the continuous onboarding of higher-quality customers, we believe credit costs can stabilise to the pre-pandemic average of 3-4% moving forward.

- **Digital bank updates.** ACS Digital Bhd has completed its operational readiness tests, and is now awaiting the operating license from the central bank, which it expects to receive in Jan 2024. The bank will then launch its services for staff use first, before opening up to the public within two months. Acquisition strategies remain the same – the bank will focus on existing customers within the AEON ecosystem first. During the analyst briefing, we were guided for ACSM's share of start-up losses to be MYR50-60m pa (MYR100-120m total). Previously, we had assumed ACSM's share to be MYR30m pa (MYR60m total).

- **We cut FY24F net profit by 4% to factor in higher credit costs.** We also lower FY25F and FY26F net profit by MYR30m each on higher digital bank start-up losses. Our TP is maintained at MYR7 after rolling forward our valuation year to CY24, and includes an unchanged 2% ESG premium.

- **Stay BUY.** ACSM remains a sector Top Pick for its strong growth prospects and undemanding valuation – its current P/BV of 1.0x vs 14% ROE (including digital bank losses) is attractive, in our view. Notwithstanding the digital bank start-up losses, we expect ACSM to book 14% earnings growth in FY25F, driven by robust receivables growth and lower credit costs.

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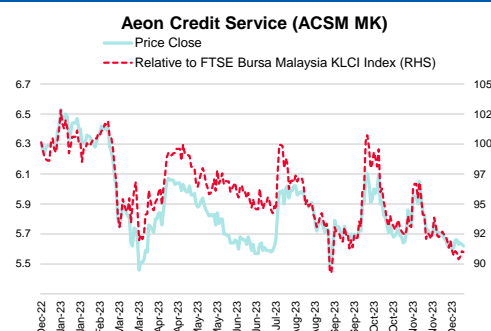


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(10.7)	(1.9)	(1.1)	(0.4)	(10.9)
Relative	(7.9)	(1.8)	(1.4)	(4.7)	(9.9)
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 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.

Forecasts and Valuation	Feb-22	Feb-23	Feb-24F	Feb-25F	Feb-26F
Reported net profit (MYRm)	355	408	392	385	425
Net profit growth (%)	58.7	14.7	(3.9)	(1.7)	10.5
Recurring net profit (MYRm)	355	408	392	385	425
Recurring EPS (MYR)	0.70	0.80	0.77	0.75	0.83
BVPS (MYR)	3.92	4.55	5.10	5.58	6.16
DPS (MYR)	0.49	0.50	0.23	0.23	0.25
Recurring P/E (x)	8.08	7.04	7.32	7.45	6.74
P/B (x)	1.43	1.23	1.10	1.01	0.91
Dividend Yield (%)	8.6	8.8	4.1	4.0	4.4
Return on average equity (%)	19.2	18.8	15.9	14.1	14.2

Source: Company data, RHB

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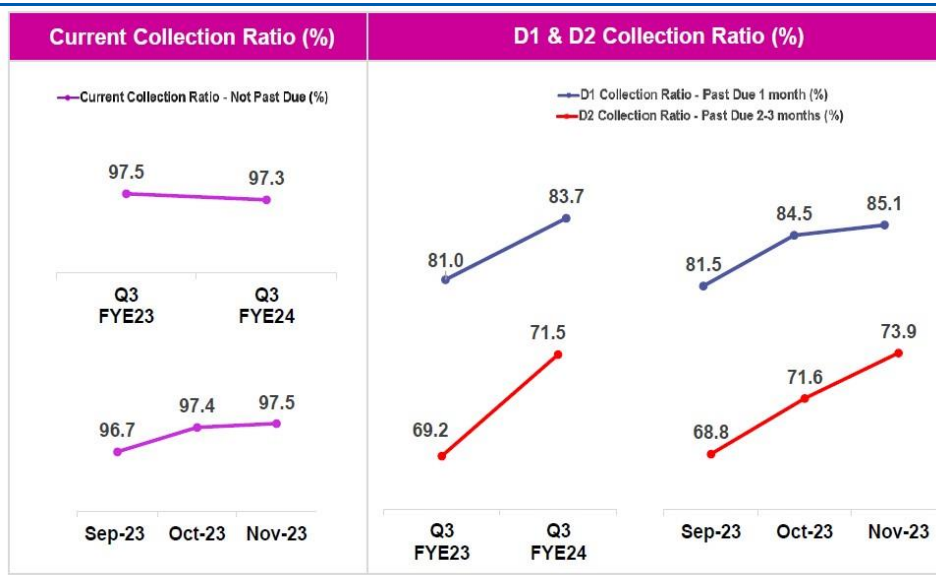
Market Dateline / PP 19489/05/2019 (035080)

Financial Exhibits

Asia	Financial summary (MYR)	Feb-22	Feb-23	Feb-24F	Feb-25F	Feb-26F
Malaysia	EPS	0.70	0.80	0.77	0.75	0.83
Financial Services	Recurring EPS	0.70	0.80	0.77	0.75	0.83
AEON Credit Service	DPS	0.49	0.50	0.23	0.23	0.25
ACSM MK	BVPS	3.92	4.55	5.10	5.58	6.16
Buy						
Valuation basis	Valuation metrics	Feb-22	Feb-23	Feb-24F	Feb-25F	Feb-26F
Our GGM assumptions include:	Recurring P/E (x)	8.08	7.04	7.32	7.45	6.74
i. COE of 12.5%;	P/B (x)	1.4	1.2	1.1	1.0	0.9
ii. 14.7% ROE;	Dividend Yield (%)	8.6	8.8	4.1	4.0	4.4
iii. 3.5% long-term growth.						
Key drivers	Income statement (MYRm)	Feb-22	Feb-23	Feb-24F	Feb-25F	Feb-26F
Our forecasts are most sensitive to:	Interest income	1,371	1,446	1,627	1,766	1,907
i. Financing receivables growth;	Interest expense	(331)	(316)	(349)	(385)	(421)
ii. Impairment allowances; and	Net interest income	1,040	1,130	1,278	1,381	1,487
iii. Interest margins.	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)	(398)	(384)	(388)
	Income from associates			-	(60)	(60)
	Pre-tax profit	527	547	529	539	592
	Taxation	(172)	(139)	(137)	(154)	(167)
	Reported net profit	355	408	392	385	425
	Recurring net profit	355	408	392	385	425
Key risks						
i. Weaker-than-expected receivables growth;						
ii. Higher-than-expected impairment allowances;						
iii. Weaker-than-expected margins.						
Company Profile	Profitability ratios	Feb-22	Feb-23	Feb-24F	Feb-25F	Feb-26F
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 (%)	3.5	3.8	3.4	3.0	3.1
	Return on average equity (%)	19.2	18.8	15.9	14.1	14.2
	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	350	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)	(842)	(890)	(950)
	Net loans to customers	9,101	10,049	11,077	11,983	12,953
	Total net IEAs	9,127	10,075	11,107	12,016	12,990
	Total non-IEAs	1,014	1,042	1,108	1,167	1,270
	Total assets	10,141	11,117	12,215	13,183	14,261
	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	2,604	2,849	3,147
	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	220.9	230.6	244.1

Source: Company data, RHB

Figure 1: Stable-to-improving collection trends is positive for near-term credit costs



Source: Company data, RHB

Figure 2: Management guidance and financial targets for FY24

	FY23 achieved	FY24 targets	9MFY24 achieved	Comments
Receivables growth	9.9%	±10%	+12.4%	More upside risk than downside to the full year number, given the strong financing applications received from its targeted higher-credit-quality customers
CIR	53%	<57%	57.4%	Higher due to lumpy write-offs incurred in 3QFY24. Stabilising credit costs and continued receivables/sales growth in 4Q should allow the group to achieve the full-year target
ROE	18.8%	±15%	16.5%	Guidance was maintained to remain conservative
Dividend payout	30.3%	>30%	33.1%	Based on 1HFY24 payout

Source: Company data, RHB

Figure 3: ACSM – revisions to full-year earnings forecasts

FYE Mar	Net profit (MYRm)			EPS (MYR)			DPS (MYR)		
	Previous	Revised	% Chg	Previous	Revised	% Chg	Previous	Revised	% Chg
2024F	409.1	391.8	(4.2)	0.80	0.77	(4.2)	0.24	0.23	(4.2)
2025F	415.0	385.0	(7.2)	0.81	0.75	(7.2)	0.24	0.23	(7.2)
2026F	455.5	425.5	(6.6)	0.89	0.83	(6.6)	0.27	0.25	(6.6)

Source: Company data, RHB

Valuation and TP

Our TP of MYR7 (maintained) is based on a GGM-derived fair P/BV of 1.25x (from 1.34x), near -0.75SD from its 5-year mean. Changes made to our GGM model include a lower sustainable ROE assumption of 14.7% (from 15.5%, in tandem with the lowered forecasts) and BVPS of MYR5.50 (from MYR5.12, rolled forward to CY24).

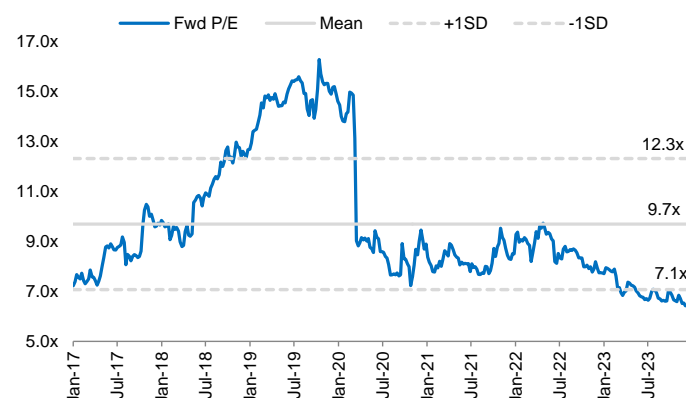
While earnings growth is forecasted to be negative in FY25F, due to the maiden start-up losses from ACSM's new digital bank, the stock's current 1.0x valuation is the lowest among the non-bank lenders under our coverage, despite having a decent ROE of c.14% (second highest in sub-sector, inclusive of expected digital bank losses). Excluding the digital bank start-up losses, we project 14% earnings growth for ACSM in FY25F, driven by robust receivables growth and lower credit costs. The counter is our sector Top Pick and a potential laggard play for CY24.

Figure 4: ACSM – GGM valuation summary

Cost of equity (COE) computation:		Sustainable ROE (%)	14.7
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)	1.25
Cost of equity - CAPM (%)	12.5	BVPS – CY24F	MYR5.50
		Intrinsic value	MYR6.88
ESG premium/(discount) (%)	2.0	ESG premium/(discount)	MYR0.14
		TP (rounded)	MYR7.00

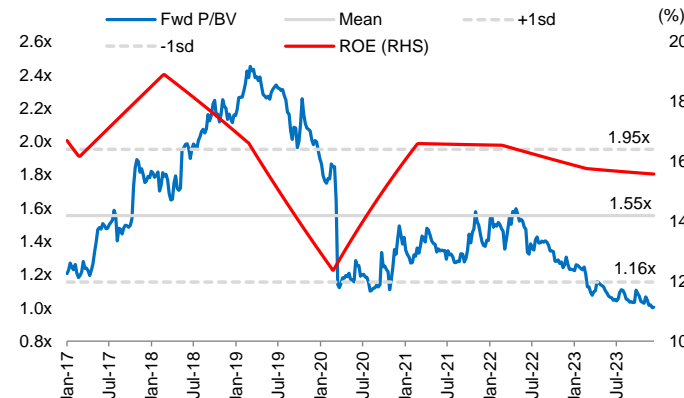
Source: Company data, RHB

Figure 5: ACSM's 12-month forward P/E



Source: Bloomberg, RHB

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



Source: Bloomberg, RHB

Emissions And ESG

Trend analysis

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

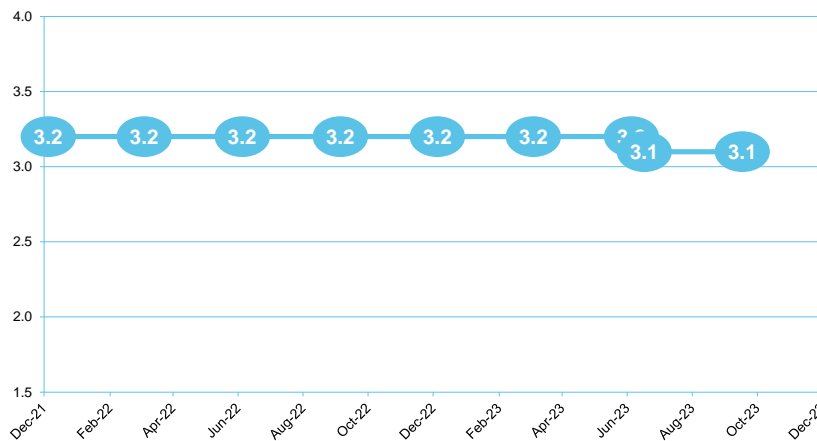
Emissions (tCO2e)	Feb-21	Feb-22	Feb-23
Scope 1	na	108	167
Scope 2	na	2,255	2,295
Scope 3	na	-	-
Total emissions	na	2,363	2,462

Source: Company data, RHB

Latest ESG-Related Developments

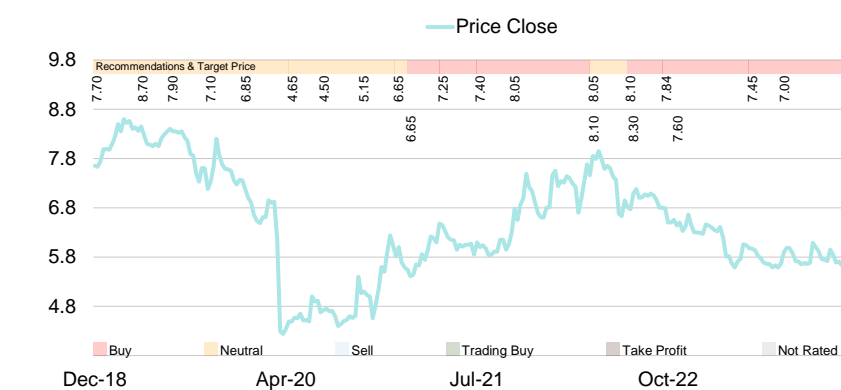
- **Secures sustainability-linked loan (SSL):** ACSN secured a MYR600m SSL earlier this year; the proceeds will be used to extend financing facilities to micro-SMEs and purchases of electric motorcycles and scooters.
- **Electric motorcycle financing facility:** ACSM recently introduced its maiden electric 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

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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
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