

11 July 2023

# Aeon Credit Service (ACSM MK)

## A Mixed Start To The Year; Stay BUY

- **Maintain BUY, new MYR14.60 TP (from MYR14.90), 31% upside and c.4% yield.** Aeon Credit's 1QFY24 (Feb) results broadly met our estimates. As expected, credit costs ticked upwards, though improving net interest and non-interest income along with prudent cost controls ensured earnings delivery was sustained. Aeon Credit is our Top Pick among the non-bank lenders, given its sector-best ROE and undemanding valuation.
- **1QFY24 results review.** Net profit of MYR99.4m (-39% YoY) came in within expectations at 23% and 24% of ours and Street's full-year forecasts. Strong NII (+19% YoY) and non-interest income (+10% YoY) led to total operating income growth of 17% YoY, though this was mitigated by higher impairment charges in the absence of large write-backs (key profit driver in 1QFY23). Net profit was up 10% QoQ, largely from greater operating income growth (+4%) and lower opex (-14%), despite credit costs being higher at 3.9% (4QFY23: 2.7%). 1QFY24 ROE stood at 16.7%, ahead of the 15% target for the year.
- **Financing growth tracking ahead.** Gross financing of MYR11.2bn was up 12% YoY and 4% QoQ. Growth was seen across the board, with vehicle financing (+8% YoY, +3% QoQ) and personal financing (+20% YoY, +5% QoQ) being key drivers. We understand that the strong growth was partly due to seasonality factors, as the group saw encouraging demand for vehicle and personal financing products during the festive season. Regardless, management's gross financing growth target of 10% in FY24 appears achievable, especially as the group is seeing greater financing applications from customers with good credit scores.
- **Asset quality stress within guidance, for now.** The NPL ratio rose to 3.1% at end-May 2023 (Feb 2023: 2.9%, May 2022: 2.5%) – this falls within management's guidance of 3-4% for FY24. 1QFY24 credit cost of 3.9% was ahead of our expectations, and compares against guidance for stable-to-slightly-higher credit cost YoY for FY24 (FY23: 2.6%). We await management's asset quality updates at the analysts' briefing, though we believe a weakening macroeconomic environment – including higher cost of living from a weakened MYR – provides downside risks to the group's asset quality outlook.
- **Other highlights.** 1QFY24 total transaction and financing volume of MYR1.83bn was a 23% increase YoY (QoQ: +15%), which is positive for future NII growth. The group's strong capital adequacy ratio of 27.1% is also supportive of further financing growth.
- **No changes to our forecasts** as we await the analysts' briefing later today. Our TP drops to MYR14.60 as we incorporate a lower ESG premium of 2% (from 4%) per our updated ESG scoring methodology. We see downside risks to our forecasts as credit costs were higher-than-expected, though the impact could be softened by greater NII and non-II forecasts.

Forecasts and Valuation	Feb-22	Feb-23	Feb-24F	Feb-25F	Feb-26F
Reported net profit (MYRm)	365	418	434	468	500
Net profit growth (%)	56.2	14.3	3.8	8.0	6.9
Recurring net profit (MYRm)	355	408	423	458	490
Recurring EPS (MYR)	1.39	1.60	1.66	1.79	1.92
BVPS (MYR)	7.84	9.11	10.19	11.45	12.79
DPS (MYR)	0.49	0.50	0.50	0.54	0.58
Recurring P/E (x)	8.03	7.00	6.74	6.23	5.82
P/B (x)	1.43	1.23	1.10	0.98	0.87
Dividend Yield (%)	4.3	4.4	4.5	4.8	5.2
Return on average equity (%)	19.8	19.3	17.6	16.9	16.2

Source: Company data, RHB

# Malaysia Results Review

Financial Services | Non-Bank Financials

**Buy** (Maintained)

Target Price (Return): MYR14.60 (30.6%)  
 Price (Market Cap): MYR11.20 (USD611m)  
 ESG score: 3.1 (out of 4)  
 Avg Daily Turnover (MYR/USD) 0.67m/0.15m

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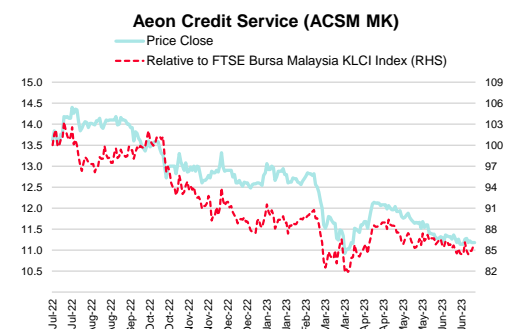


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## Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(11.1)	(1.2)	(4.6)	(12.9)	(17.9)
Relative	(3.6)	(1.7)	(1.4)	(6.0)	(14.9)
52-wk Price low/high (MYR)	10.9 – 14.4				



Source: Bloomberg

## Overall ESG Score: 3.1 (out of 4)

### E: GOOD

AEON Credit 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

AEON Credit 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.

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## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Feb-22</b>	<b>Feb-23</b>	<b>Feb-24F</b>	<b>Feb-25F</b>	<b>Feb-26F</b>
Malaysia	EPS	1.43	1.64	1.70	1.83	1.96
Financial Services	Recurring EPS	1.39	1.60	1.66	1.79	1.92
<b>Aeon Credit Service</b>	DPS	0.49	0.50	0.50	0.54	0.58
ACSM MK	BVPS	7.84	9.11	10.19	11.45	12.79
Buy						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Feb-22</b>	<b>Feb-23</b>	<b>Feb-24F</b>	<b>Feb-25F</b>	<b>Feb-26F</b>
Our GGM assumptions include:	Recurring P/E (x)	8.03	7.00	6.74	6.23	5.82
i. COE of 13.0%;	P/B (x)	1.4	1.2	1.1	1.0	0.9
ii. 16.5% ROE; and	Dividend Yield (%)	4.3	4.4	4.5	4.8	5.2
iii. 3.5% long-term growth.						
<b>Key drivers</b>	<b>Income statement (MYRm)</b>	<b>Feb-22</b>	<b>Feb-23</b>	<b>Feb-24F</b>	<b>Feb-25F</b>	<b>Feb-26F</b>
Our forecasts are most sensitive to :	Interest income	1,371	1,446	1,589	1,726	1,899
i. Financing receivables growth;	Interest expense	(331)	(316)	(344)	(378)	(419)
ii. Impairment allowances;	<b>Net interest income</b>	<b>1,040</b>	<b>1,130</b>	<b>1,245</b>	<b>1,348</b>	<b>1,480</b>
iii. Interest margins.	Non interest income	178	210	226	233	244
	<b>Total operating income</b>	<b>1,219</b>	<b>1,340</b>	<b>1,470</b>	<b>1,581</b>	<b>1,724</b>
	Overheads	(545)	(527)	(562)	(615)	(673)
	<b>Pre-provision operating profit</b>	<b>674</b>	<b>813</b>	<b>908</b>	<b>965</b>	<b>1,051</b>
	Loan impairment allowances	(147)	(266)	(337)	(349)	(392)
	<b>Pre-tax profit</b>	<b>527</b>	<b>547</b>	<b>571</b>	<b>616</b>	<b>659</b>
	Taxation	(161)	(129)	(137)	(148)	(158)
	<b>Reported net profit</b>	<b>365</b>	<b>418</b>	<b>434</b>	<b>468</b>	<b>500</b>
	<b>Recurring net profit</b>	<b>355</b>	<b>408</b>	<b>423</b>	<b>458</b>	<b>490</b>
<b>Key risks</b>	<b>Profitability ratios</b>	<b>Feb-22</b>	<b>Feb-23</b>	<b>Feb-24F</b>	<b>Feb-25F</b>	<b>Feb-26F</b>
The downside risks to our forecasts include:	Return on average assets (%)	3.6	3.9	3.7	3.7	3.6
i. Weaker-than-expected receivables growth;	Return on average equity (%)	19.8	19.3	17.6	16.9	16.2
ii. Higher-than-expected impairment allowances;	Return on IEAs (%)	13.7	13.9	14.1	14.0	14.0
iii. Weaker-than-expected margins.	Cost of funds (%)	4.4	4.1	4.1	4.2	4.2
The opposite represents upside risks.	Net interest spread (%)	9.3	9.8	9.9	9.8	9.8
	Net interest margin (%)	10.4	10.9	11.0	10.9	10.9
	Non-interest income / total income (%)	14.6	15.6	15.4	14.7	14.2
	Cost to income ratio (%)	44.7	39.3	38.2	38.9	39.1
	Credit cost (bps)	147	257	299	284	290
<b>Company Profile</b>	<b>Balance sheet (MYRm)</b>	<b>Feb-22</b>	<b>Feb-23</b>	<b>Feb-24F</b>	<b>Feb-25F</b>	<b>Feb-26F</b>
AEON Credit operates a micro-financing business in Malaysia which provides easy payment schemes, personal financing and credit card facilities.	Total gross loans	9,857	10,836	11,703	12,873	14,160
	Other interest earning assets	26	27	30	33	37
	Total gross IEAs	9,883	10,862	11,732	12,906	14,198
	Total provisions	(756)	(787)	(854)	(905)	(960)
	Net loans to customers	9,101	10,049	10,848	11,968	13,200
	Total net IEAs	9,127	10,075	10,878	12,002	13,238
	Total non-IEAs	1,014	1,042	1,174	1,254	1,332
	Total assets	10,141	11,117	12,052	13,256	14,569
	Other interest-bearing liabilities	7,390	8,007	8,648	9,512	10,464
	Total IBLs	7,390	8,007	8,648	9,512	10,464
	Total non-IBLs	549	585	603	621	640
	Total liabilities	7,940	8,592	9,251	10,134	11,104
	Share capital	584	584	584	584	584
	Shareholders' equity	2,001	2,325	2,602	2,922	3,266
	<b>Asset quality and capital</b>	<b>Feb-22</b>	<b>Feb-23</b>	<b>Feb-24F</b>	<b>Feb-25F</b>	<b>Feb-26F</b>
	Reported NPLs / gross cust loans (%)	2.7	2.9	3.2	3.0	2.8
	Total provisions / reported NPLs (%)	288.4	251.4	228.1	234.3	242.1

Source: Company data, RHB

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## Results At a Glance

Figure 1: ACSM – summary of 1QFY24 results

FYE Feb (MYRm)	1Q FY23	4Q FY23	1Q FY24	QoQ (%)	YoY (%)	Comments
Interest income	342.0	384.6	398.5	3.6	16.5	In tandem with growth in financing receivables.
Interest expense	(77.6)	(80.8)	(84.7)	4.9	9.2	Up from an increase in borrowings to fund financing growth, though average cost of funds remained stable.
<b>NII</b>	<b>264.4</b>	<b>303.9</b>	<b>313.8</b>	<b>3.3</b>	<b>18.7</b>	
Non-II	52.3	52.5	57.6	9.7	10.2	
Non-II/Total income (%)	16.5	14.7	15.5			
<b>Operating income</b>	<b>316.7</b>	<b>356.4</b>	<b>371.4</b>	<b>4.2</b>	<b>17.3</b>	
Overhead expenses	(118.9)	(153.5)	(132.7)	-13.5	11.6	Down from a high base QoQ as bonus payments are made in 4Q each year.
CIR (%)	37.5	43.1	35.7			CIR including impairment losses stood at 56.8%, near the <57% target for the year.
<b>PIOP</b>	<b>197.8</b>	<b>202.9</b>	<b>238.7</b>	<b>17.6</b>	<b>20.7</b>	
Impairments losses on loans	17.8	(73.1)	(106.8)	46.0	-701.4	
Annualised credit cost (bps)	(72)	273	387			
<b>Pre-tax profit</b>	<b>215.5</b>	<b>129.8</b>	<b>131.9</b>	<b>1.6</b>	<b>-38.8</b>	
Tax	(52.5)	(34.5)	(32.6)	-5.6	-38.0	
Effective tax rate (%)	24.3	26.6	24.7			
<b>Profit after tax</b>	<b>163.1</b>	<b>95.3</b>	<b>99.4</b>	<b>4.2</b>	<b>-39.1</b>	
Distribution on perpetual notes and <i>sukuk</i>	0.0	(5.1)	0.0	-100.0	#DIV/0!	
<b>Net profit attributable to ordinary shareholders</b>	<b>163.1</b>	<b>90.2</b>	<b>99.4</b>	<b>10.1</b>	<b>-39.1</b>	23%/24% of our/Street full-year estimates.
<b>Other key data and ratios</b>						
Gross receivables	9,997	10,836	11,219	3.5	12.2	YoY growth is ahead of the c.10% target for the year.
Borrowings	7,504	8,007	8,359	4.4	11.4	
ROAE (%)	30.9	15.7	16.7			Ahead of management's 15% target for the year.
ROAA (%)	6.3	3.3	3.5			
NPL ratio (%)	2.53	2.89	3.13			Management expects the NPL ratio to hover between 3-4% throughout the year.
LLC ratio (%)	281.7	251.4	226.8			

Source: Company data, RHB

## Valuation and TP

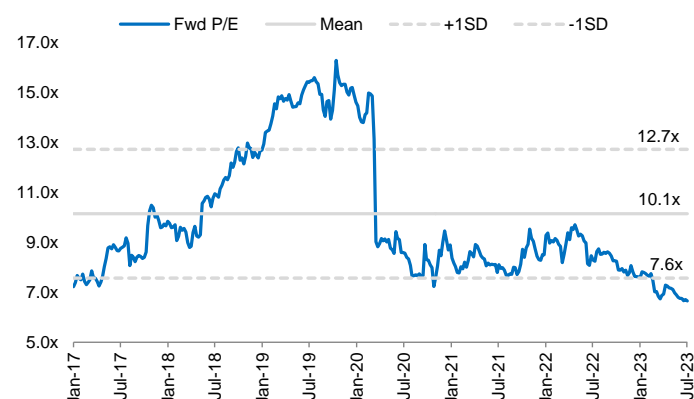
Our TP of MYR14.60 (from MYR14.90) is based on an unchanged GGM-derived fair value P/BV of 1.38x. The slight decrease in the TP is a result of our new ESG score of 3.1 (from 3.2) for the group, in line with our refreshed ESG scoring methodology (as per our 2 May 2023 thematic report [Envisioning a Better Future](#)). While credit costs could remain volatile throughout the year given the challenging macroeconomic outlook, we are confident in the group's ability to deliver consistent earnings, given its strong NII and non-interest income trajectory. We believe the current P/BV valuation of 1.0x (near -2SD from its 5-year mean) is attractive for the most profitable non-bank lender under our coverage – our forecast ROE of 16-17% is the highest among the players in the sub-sector.

**Figure 2: Aeon Credit – GGM valuation summary**

<b>Cost of equity (COE) computation:</b>		Sustainable ROE (%)	16.5
Risk free rate (%)	4.0	COE (%)	13.0
Equity premium (%)	7.5	Long-term growth (g)	3.5
Beta (x)	1.2	Implied P/BV (x)	1.38
Cost of equity - CAPM (%)	13.0	BVPS – 12-month forward	MYR10.40
		Intrinsic value	MYR14.34
ESG premium/(discount) (%)	2.0	ESG premium/(discount)	MYR0.29
		<b>TP (rounded)</b>	<b>MYR14.60</b>

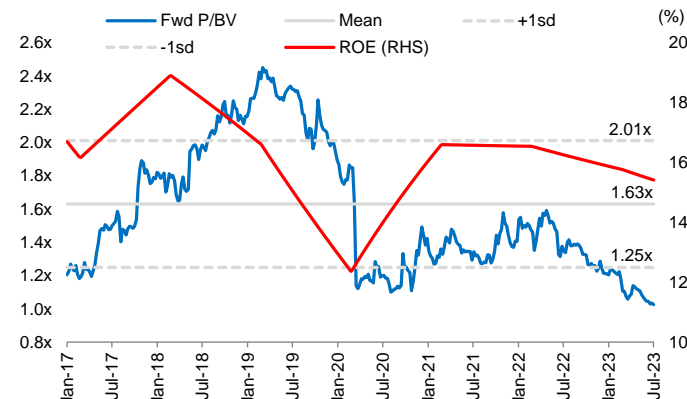
Source: Company data, RHB

**Figure 3: Aeon Credit's 12-month forward P/E**



Source: Bloomberg, RHB

**Figure 4: Aeon Credit's 12-month forward P/BV vs ROE**



Source: Bloomberg, RHB

## Recommendation Chart

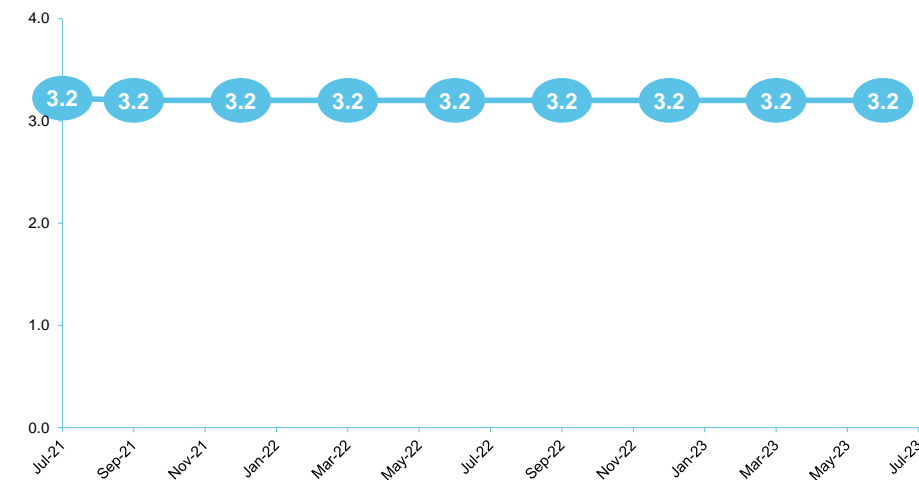


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2020-09-29	Neutral	10.3	10.6
2020-06-26	Neutral	9.0	9.4

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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