

Aeon Credit Service Bhd

(5139 | ACSM MK) Financial Services | Other Financials

A shade above expectation but uncertainty prevails

KEY INVESTMENT HIGHLIGHTS

- **Earnings a shade above expectations**
- **Revenue continued to be strong on higher receivables**
- **Higher operating expenses due to higher provisions from strong growth in financing receivables**
- **Asset quality solid**
- **FY21 and FY22 earnings forecast revised downwards by -4.3% and -5.7% respectively**
- **Maintain NEUTRAL with revised TP of RM9.45 (from RM15.50) due revision of earnings and lower PBV to take into account heighten uncertainty.**

A shade above expectations. Aeon Credit Service (M) Bhd (ACSM) recorded a FY20 net profit decline of -17.6%yoy, which was slight above our expectations at 106% of our full year estimate. Improvement came in 4QFY20 as net profit grew +26.5%qoq and +0.9%yoy.

Revenue continued to be strong. Revenue in FY20 expanded +17.1%yoy. Main contributor were incomes from motorcycle financing, personal financing and automobile financing. These grew +21.4%, +24.6% and +12.5% respectively.

Gross financing receivables growth remains solid. Gross financing receivables expanded +19.6%yoy to RM10.4b as at end 4QFY20. The main drivers were the strong expansion in credit cards, motorcycle, car and personal financing. These grew +20.4%yoy to RM0.92b, +25.8%yoy to RM3.23b, +18.7%yoy to RM2.98b and +17.0%yoy to RM2.86b respectively.

Higher provisions from higher financing receivables. Operating expenses for FY20 grew +29.5%yoy due to higher impairment loss. This was the result of early recognition of impaired receivables as required under MFRS 9. Provisions came in +46.1%yoy higher to RM450.3m. However, the higher provisions were due to the strong expansion in financing receivables.

Asset quality improved and better collection as well. Non-performing loans ratio improved by -12bp yoy to 1.92%. We noted that asset quality have been very healthy for the past couple of years. Meanwhile, current collection ratio remains high at 98.1%.

Earnings forecast revised downwards. In light of the expected economic impact coming from Covid-19 pandemic, we are revising downwards our forecast for FY21 and FY22 by -4.3% and -5.7% respectively. We also introduce our FY23 forecast.

Valuation and recommendation. While we noted that ACSM managed to maintain its strong revenue growth momentum, its high operating expenses continue weigh to its earnings. Furthermore, the Covid-19 pandemic and subsequent economic impact may put a dampener to earnings and asset quality. Hence, we maintain our **NEUTRAL** call. We revised our **TP** to **RM9.45** (from RM15.50) due to our revision in earnings and lower PBV as we take into account the heighten uncertainty. We peg ACSM's FY21 BVPS of RM7.27 to PBV of 1.3x.



Maintain NEUTRAL

Revised Target Price: RM9.45

(from RM15.50)

RETURN STATISTICS

Price @ 9 th April 2020 (RM)	9.15
Expected share price return (%)	+3.4
Expected dividend yield (%)	+3.9
Expected total return (%)	+7.3

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-33.1	-29.4
3 months	7.1	-23.4
12 months	-46.2	-34.9

KEY STATISTICS

FBM KLCI	1354.52
Syariah compliant	No
Issue shares (m)	253.62
Estimated free float (%)	28.97
Market Capitalisation (RM'm)	2282.62
52-wk price range	RM7.7 - RM17.1
Beta vs FBM KLCI (x)	0.94
Monthly velocity (%)	11.02
Monthly volatility (%)	10.43
3-mth average daily volume (m)	0.25
3-mth average daily value (RM'm)	2.70
Top Shareholders (%)	
AEON Financial Service Co Ltd	61.91
Standard Life Aberdeen PLC	2.34
Employees Provident Fund Board	1.95

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INVESTMENT STATISTICS

Financial year ending 28 February (in RM'm, unless otherwise stated)	2019A	2020A	2021E	2022F	2023F
Revenue (RM'm)	1,365.8	1,598.8	1,630.8	1,712.3	1,917.8
Operating profit (RM'm)	725.1	715.7	644.1	676.3	723.6
Pre-tax Profit (RM'm)	472.2	390.4	378.7	409.0	441.7
Net Profit (RM'm)	354.6	292.0	289.1	312.3	337.2
EPS(sen)	133.6	107.5	115.3	124.5	134.5
EPS growth (%)	11.6	-19.6	7.3	8.0	8.0
PER (x)	6.8	8.5	7.9	7.3	6.8
Dividend (sen)	45	36.25	36	38	44
Dividend Yield (%)	4.9	4.0	3.9	4.2	4.8

Source: Company, MIDFR

3QFY20 RESULTS SUMMARY

FYE Feb (RM'm)	Quarterly Results					Cumulative Results		
	4Q20	4Q19	3Q20	YoY	QoQ	FY20	FY19	YoY
Interest income, profit & charges	362.6	313.4	355.2	15.7%	2.1%	1,404.4	1,190.4	18.0%
Fee income	50.7	46.1	47.3	10.0%	7.2%	194.4	175.5	10.8%
Revenue	413.3	359.5	402.5	14.9%	2.7%	1,598.8	1,365.8	17.1%
Total operating expenses	(249.5)	(223.9)	-258.1	11.4%	-3.3%	(1,029.0)	(794.5)	29.5%
Other operating income	41.6	48.1	31.2	-13.5%	33.4%	145.9	153.7	-5.1%
Profit from operations	205.4	183.8	175.5	11.8%	17.0%	715.7	725.1	-1.3%
Finance costs	(87.4)	(68.7)	-82.7	27.2%	5.7%	(325.2)	(252.9)	28.6%
Profit before tax	118.0	115.1	92.9	2.5%	27.1%	390.4	472.2	-17.3%
Taxation	(29.6)	(27.5)	-22.9	7.8%	29.4%	(98.4)	(117.6)	-16.3%
Net profit	88.4	87.6	69.9	0.9%	26.5%	292.0	354.6	-17.6%
Basic EPS (sen)	31.4	33.0	27.4	-5.1%	14.5%	107.5	133.6	-19.5%

Source: Company, MIDFR

FYE Feb (RM'm)	Quarterly Results					Cumulative Results		
	4Q20	4Q19	3Q20	YoY	QoQ	FY20	FY19	YoY
<u>Operating income</u>								
Card Purchase	37.9	31.8	33.2	19.2%	14.2%	134.6	118.8	13.3%
General Easy Payment	21.3	22.5	20.8	-5.3%	2.4%	85.6	100	-14.4%
Motorcycle Easy Payment	134.4	112.3	131.2	19.7%	2.4%	517.1	425.8	21.4%
Automobile Financing	87.8	77.0	85.6	14.0%	2.6%	340.1	302.2	12.5%
Personal Financing	129.3	114.6	130.5	12.8%	-0.9%	515.1	413.3	24.6%
SME Business	1.0	1.4	1.1	-28.6%	-9.1%	4.7	5.6	-16.1%
Other income	43.2	48.1	31.2	-10.2%	38.5%	147.5	154	-4.2%
Total	454.9	407.7	433.6	11.6%	4.9%	1,744.7	1,519.7	14.8%
<u>Financing receivables</u>								
Credit card	916.9	761.6	883.8	20.4%	3.7%	916.9	761.6	20.4%
General Easy Payment	352.3	339.4	346.4	3.8%	1.7%	352.3	339.4	3.8%
Motorcycle Easy Payment	3,231.2	2,568.4	3,083.5	25.8%	4.8%	3,231.2	2,568.4	25.8%
Automobile Financing	2,977.5	2,509.1	2,849.9	18.7%	4.5%	2,977.5	2,509.1	18.7%
Personal Financing	2,864.4	2,448.7	2,813.5	17.0%	1.8%	2,864.4	2,448.7	17.0%
SME Business	52.3	65.1	56.0	-19.7%	-6.6%	52.3	65.1	-19.7%
Total	10,394.6	8,692.3	10,033.0	19.6%	3.6%	10,394.6	8,692.3	19.6%
<u>Key Metrics</u>								
Net credit cost	3.41%	2.16%	3.90%	1.25	-0.49	3.59%	2.03%	1.6
ROE - annualised	22.7%	23.4%	17.3%	-0.68	5.40	18.0%	22.1%	-4.1
Current collection ratio	98.1%	98.0%	98.0%	0.09	0.06	98.1%	98.0%	0.1
Non-performing loans (NPL)	1.92%	2.04%	1.90%	-0.12	0.02	1.92%	2.04%	-0.1

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.