AEON Credit Service (M) Berhad

(5139 | ACSM MK) Financial Services | Other Financials

Recovery of earnings on quarter-on-quarter basis

***Upgrade to* TRADING BUY**

(from NEUTRAL)

***Unchanged* Target Price: RM15.00**

KEY INVESTMENT HIGHLIGHTS

- **Earnings was above expectations**
- **Earnings recovered on quarterly basis due to better revenue and lower impairment loss**
- **Improvement in gross financing receivables**
- **NPL ratio improved quarter-on-quarter**
- **Earnings forecast maintained**
- **Upgrade to TRADING BUY with unchanged TP of RM15.00**

Above expectation. Aeon Credit Service (M) Bhd (ACSM) recorded a 1QFY23 net profit that came above our expectation at 41.9% of our full year estimate. The variance was due higher than expected other operating income.

Net profit was flat but improved quarter-on-quarter. ACSM 1QFY23 earnings was flat. While revenue fell -5%yoy, earnings was supported by lower operating expenses (-1.6%yoy) and higher other operating income (+19.4%yoy). Impairment loss were higher by +60.1%yoy to RM37.3m, but this was compensated by lower personnel cost which fell -22.2%yoy to RM43.1m. On a quaerterly basis though, earnings grew five fold on lower impairment loss.

Revenue declined. Revenue in 1QFY23 fell -5.0%yoy due to decline in revenue from motorcycle financing and personal financing. These fell -7.9%yoy to RM144.6m and -10.2%yoy to RM102.8m due to lower financing receivables.

Gross financing receivables declined. Gross financing receivables contracted -0.6%yoy to RM9.99b. However, this was an improvement of +1.4%qoq. The decline was due to early settlement following from the EPF withdrawal program, low demand for personal financing & objective financing, and supply chain shortage affecting purchase of motorcycle and auto which affects the financing.

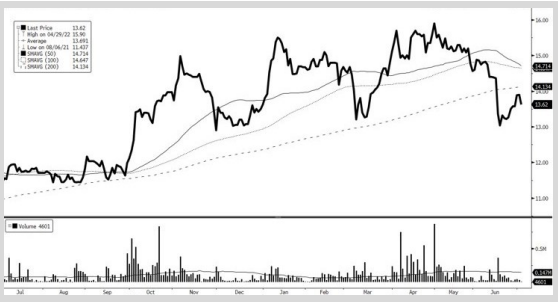
Asset quality improved slightly. Non-performing loans ratio went down 13bps on a sequential quarter basis. This was due to normalization of collection productivity and growth of receivables.

Earnings forecast revised upwards. Despite the better than expected earnings, we make no changes to our FY23 forecast due to the current economic uncertainty and worries of inflation which may see the rise of impairments in later quarters.

Valuation and recommendation. ACSM performance in 1QFY23 was commendable. We believe that the worst is behind them but we are wary of unforeseen circumstance which may affect its impairments in the coming quarters. Nevertheless, we believe that ACSM will maintain its upward earnings trajectory. With the recent share price weakness, we believe that there is a trading opportunity for ACSM. Hence, we upgrade ACSM to **TRADING BUY** (from NEUTRAL) with unchanged **TP** to **RM15.00** (from RM15.20) as we peg our forecast of ACSM's FY23 BVPS to PBV of 1.7x.

RETURN STATISTICS	
Price @ 4th July 2022 (RM)	13.62
Expected share price return (%)	+10.1
Expected dividend yield (%)	+3.6
Expected total return (%)	**+13.7**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-8.34	-1.95
3 months	-1.87	-3.64
12 months	16.41	24.09

KEY STATISTICS	
FBM KLCI	1,437.52
Syariah compliant	No
F4GBM Index	Yes
ESG Grading Band	☆☆☆☆
Issue shares (m)	255.31
Estimated free float (%)	26.93
Market Capitalisation (RM'm)	3477.29
52-wk price range	RM11.5 - RM16.4
Beta vs FBM KLCI (x)	0.94
Monthly velocity (%)	0.00
Monthly volatility (%)	11.22
3-mth average daily volume (m)	0.15
3-mth average daily value (RM'm)	2.27
Top Shareholders (%)	
AEON Financial Service Co Ltd	61.50
Employees Provident Fund Board	3.90
Standard Life Aberdeen PLC	2.36

Analyst
Imran Yassin Yusof
imran.yassin@midf.com.my
03-2173 8395

INVESTMENT STATISTICS

Financial year ending 28 February (in RM'm, unless otherwise stated)	2021A	2022A	2023E	2024F	2025F
Revenue (RM'm)	1,561.7	1,524.9	1,612.3	1,633.6	1,699.2
Operating profit (RM'm)	682.8	857.7	849.2	943.9	1014.8
Pre-tax Profit (RM'm)	324.9	526.8	533.4	628.6	758.4
Net Profit (RM'm)	234.0	365.4	389.4	458.9	553.6
EPS(sen)	86.3	139.2	147.1	174.4	211.0
EPS growth (%)	-21.4	61.3	5.7	18.5	21.0
PER (x)	15.8	9.8	9.3	7.8	6.5
BVPS	6.63	7.84	8.88	10.16	11.64
PBV	2.1	1.7	1.5	1.3	1.2
Dividend (sen)	29.2	48.5	48.6	52.4	63.4
Dividend Yield (%)	2.1	3.6	3.6	3.8	4.7

Source: Company, MIDFR

1QFY23 RESULTS SUMMARY

FYE Feb (RM'm)	Quarterly Results				
	1Q23	1Q22	4Q21	YoY	QoQ
Interest income, profit & charges	342.0	366.6	316.2	-6.7%	8.2%
Fee income	48.6	44.4	46.8	9.4%	3.8%
Revenue	**390.6**	**411.0**	**363.0**	**-5.0%**	**7.6%**
Total operating expenses	(156.2)	(158.7)	(282.2)	-1.6%	-44.7%
Other operating income	58.7	49.2	43.1	19.4%	36.2%
Profit from operations	**293.1**	**301.5**	**123.9**	**-2.8%**	**>100%**
Finance costs	(77.6)	(85.6)	(79.1)	-9.4%	-1.9%
Profit before tax	**215.5**	**215.9**	**44.8**	**-0.1%**	**>100%**
Taxation	(52.5)	(52.8)	(21.4)	-0.6%	>100%
Net profit	**163.1**	**163.1**	**23.4**	**0.0%**	**>100%**
Basic EPS (sen)	63.9	63.9	7.2	0.0%	>100%

FYE Feb (RM'm)	Quarterly Results				
	1Q23	1Q22	4Q21	YoY	QoQ
Operating income					
Card Purchase	34.0	35.9	3.8%	-1.7%	34.0
General Easy Payment	17.8	17.5	21.9%	24.0%	17.8
Motorcycle Easy Payment	157.0	128.9	-7.9%	12.2%	157.0
Automobile Financing	84.5	74.0	-6.0%	7.3%	84.5
Personal Financing	114.5	99.1	-10.2%	3.7%	114.5
SME Business	0.5	0.6	-40.0%	-50.0%	0.5
Other income	51.9	50.1	25.6%	30.1%	51.9
Total	**460.2**	**406.1**	**-2.4%**	**10.6%**	**460.2**
Financing receivables					
Credit card	756	722	-10.6%	-6.4%	756
General Easy Payment	300	370	30.3%	5.7%	300
Motorcycle Easy Payment	3,578	3,435	-1.1%	3.0%	3,578
Automobile Financing	2,840	2,738	-2.3%	1.3%	2,840
Personal Financing	2,557	2,574	1.9%	1.2%	2,557
SME Business	27	18	-48.1%	-22.2%	27
Total	**10,058**	**9,857**	**-0.6%**	**1.4%**	**10,058**
Key Metrics					
Net credit cost	-0.81%	1.47%	0.09	-2.19	-0.81%
ROE - annualised	36.1%	19.2%	-5.40	11.50	36.1%
Current collection ratio	98.3%	96.8%	-0.60	0.90	98.3%
Non-performing loans (NPL)	1.75%	2.66%	0.78	-0.13	1.75%

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 *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology