Aeon Credit Service Bhd

(5139 | ACSM MK) Financial Services | Other Financials

Strong revenue growth

***Upgrade to* BUY**

(previously TRADING BUY)

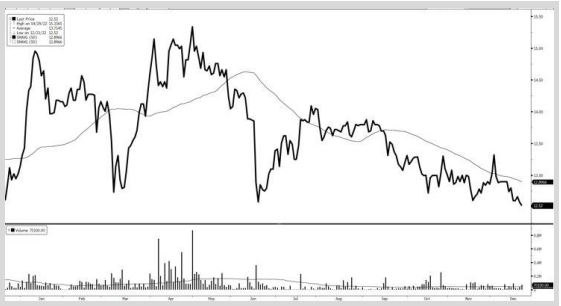
***Unchanged* Target Price: RM15.00**

KEY INVESTMENT HIGHLIGHTS

- **Earnings was above expectations**
- **Lower earnings due to higher impairments**
- **Gross financing receivables saw growth**
- **NPL ratio improved quarter-on-quarter**
- **Earnings forecast maintained**
- **Upgrade to BUY with unchanged TP of RM15.00**

RETURN STATISTICS	
Price @ 21 Dec. 2022 (RM)	12.52
Expected share price return (%)	+19.8
Expected dividend yield (%)	+3.9
Expected total return (%)	**+23.7**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-2.0	-3.5
3 months	-7.9	-9.8
12 months	-3.9	-1.5

KEY STATISTICS	
FBM KLCI	1,462.55
Syariah compliant	No
F4GBM Index	Yes
ESG Grading Band	☆☆☆☆
Issue shares (m)	255.31
Estimated free float (%)	21.84
Market Capitalisation (RM'm)	3,196.45
52-wk price range	RM12.5 - RM16.3
Beta vs FBM KLCI (x)	0.75
3-mth average daily volume (m)	0.05
3-mth average daily value (RM'm)	0.63
Top Shareholders (%)	
AEON Financial Service Co Ltd	61.50
Employees Provident Fund Board	3.90
Citibank Bhd	3.50

Above expectation. Aeon Credit Service (M) Bhd (ACSM) recorded a 9MFY23 net profit that came above our expectation at 82.8% of our full year estimate. The variance was due higher than expected other operating income.

Net profit declined… ACSM 3QFY23 earnings was lower by -19.2%yoy but was better on sequential quarter basis, by +10.5%qoq. Higher opex and lower other operating income was the difference when compared against same quarter last year. This moderated the higher revenue and lower tax expense. As a result, the 9MFY23 earnings fell by -5.8%yoy.

…but improved quarter-on-quarter. On the sequential quarter basis, the improvement to earnings was due to higher revenue and lower tax expenses.

Higher OPEX on higher impairments. Pre-provisioning OPEX fell -8.4%yoy to RM136.3m for 3QFY23 and -10.6%yoy to RM373.3m for 9MFY23 due to prudent cost management. Personnel cost fell -6.7%yoy to RM152.0m for 9MFY23. However, the drag came from higher impairments, where it rose +122.5%yoy to RM330.6m for 9MFY23. This was due to higher YTD receivables movement of RM735m which led to higher new sales impairment loss provision of RM78.1m.

Strong revenue growth. Revenue in 3QFY23 was strong, growing by +11.0%yoy, while cumulative 9MFY23 revenue rose +3.9%yoy. This was due to interest income from vehicle and personal financing. It was a further improvement from revenue in 2QFY23 (+4.7%qoq). We noted that revenue improvement started in 2QFY23. The cumulative revenue thus far had been within our expectation at 74.9% of our full year estimate.

Gross financing receivables expanded. Gross financing receivables grew +10.3%yoy to RM10.6b. We are not surprised by the strong receivables growth given that the economy was growing better-than-expected. Besides this, strong marketing campaigns was also a factor.

Asset quality deteriorated. Non-performing loans ratio went up by +79bps yoy to 2.54%. However, it was an improvement of -37bps on sequential quarter basis due to improved collection productivity.

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Earnings forecast revised upwards. Despite the better-than-expected earnings, we make no changes to our FY23 forecast as we are wary of any rise in impairments in 4QFY23 as what was observed in 4QFY22.

Valuation and recommendation. We believe that ACSM's performance is in-line with the overall better economic performance. We believe that ACSM will maintain its upward earnings trajectory as we believe that next year economy will be supported by robust domestic demand. With the recent share price weakness, we believe that there is a trading opportunity for ACSM. Hence, we upgrade ACSM further to **BUY** (from TRADING BUY) with unchanged **TP** to **RM15.00** as we peg our forecast of ACSM's FY24 BVPS to PBV of 1.5x which is -1 SD below its 5-year historical average.

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	890.4	914.3
Pre-tax Profit (RM'm)	324.9	526.8	533.4	575.9	660.1
Net Profit (RM'm)	234.0	365.4	389.4	420.4	481.8
EPS(sen)	86.3	139.2	147.1	159.3	183.0
EPS growth (%)	-21.4	61.3	5.7	8.3	14.9
PER (x)	14.5	9.0	8.5	7.9	6.8
BVPS	6.63	7.84	8.88	9.97	11.17
PBV	1.9	1.6	1.4	1.3	1.1
Dividend (sen)	29.2	48.5	48.6	55.8	64.1
Dividend Yield (%)	2.3	3.9	3.9	4.5	5.1

Source: Company, MIDFR

3QFY23 RESULTS SUMMARY

FYE Feb (RM'm)	Quarterly Results					Cumulative Results		
	3Q23	3Q22	2Q22	YoY	QoQ	9MFY23	9MFY22	YoY
Interest income, profit & charges	370.2	337.4	349.4	9.7%	5.9%	1,061.6	1,055.2	0.6%
Fee income	47.7	39.0	49.8	22.2%	-4.2%	146.0	106.7	36.8%
Revenue	**417.8**	**376.5**	**399.2**	**11.0%**	**4.7%**	**1,207.6**	**1,161.9**	**3.9%**
Total operating expenses	(279.7)	(181.9)	(268.1)	53.8%	4.3%	(704.0)	(566.3)	24.3%
Other operating income	42.2	50.5	47.8	-16.4%	-11.7%	148.7	138.2	7.6%
Profit from operations	**180.3**	**245.0**	**178.9**	**-26.4%**	**0.8%**	**652.3**	**733.8**	**-11.1%**
Finance costs	(78.8)	(81.0)	(78.8)	-2.8%	-0.1%	(235.2)	(251.8)	-6.6%
Profit before tax	**101.6**	**164.0**	**100.0**	**-38.1%**	**1.5%**	**417.2**	**482.0**	**-13.5%**
Taxation	(18.0)	(60.6)	(24.4)	-70.4%	-26.4%	(94.8)	(140.0)	-32.3%
Net profit	**83.6**	**103.5**	**75.6**	**-19.2%**	**10.5%**	**322.3**	**342.0**	**-5.8%**
Basic EPS (sen)	32.8	40.5	27.7	-19.2%	18.4%	124.3	132.0	-5.8%

FYE Feb (RM'm)	Quarterly Results					Cumulative Results		
	3Q23	3Q22	2Q22	YoY	QoQ	9MFY23	9MFY22	YoY
Operating income	38.2	34.1	36.2	12.0%	5.5%	109.9	98.6	11.5%
Card Purchase	24.7	18.7	22.3	32.1%	10.8%	68.7	54.3	26.5%
General Easy Payment	154.5	140.7	148.6	9.8%	4.0%	447.7	437	2.4%
Motorcycle Easy Payment	80.6	78.6	79.5	2.5%	1.4%	239.5	242.9	-1.4%
Automobile Financing	113.6	99.8	106.9	13.8%	6.3%	323.3	317.3	1.9%
Personal Financing	0.2	0.3	0.2	-33.3%	0.0%	0.6	1.3	-53.8%
SME Business	48.2	54.7	53.3	-11.9%	-9.6%	166.6	148.7	12.0%
Other income	**460.0**	**426.9**	**447.0**	**7.8%**	**2.9%**	**1,356.3**	**1,300.1**	**4.3%**
Total								
Financing receivables	689	720	675	-4.3%	2.1%	689	720	-4.3%
Credit card	461	342	419	34.8%	10.0%	461	342	34.8%
General Easy Payment	3,757	3,389	3,723	10.9%	0.9%	3,757	3,389	10.9%
Motorcycle Easy Payment	2,813	2,713	2,807	3.7%	0.2%	2,813	2,713	3.7%
Automobile Financing	2,862	2,420	2,746	18.3%	4.2%	2,862	2,420	18.3%
Personal Financing	10	21	11	-52.4%	-9.1%	10	21	-52.4%
SME Business	**10,592**	**9,605**	**10,381**	**10.3%**	**2.0%**	**10,592**	**9,605**	**10.3%**
Total								
Key Metrics	2.52%	0.42%	1.75%	2.10	0.77	2.52%	0.42%	2.1
Net credit cost	19.7%	24.5%	22.3%	-4.80	-2.60	19.7%	24.5%	-4.8
ROE - annualised	97.5%	98.5%	97.3%	-1.00	0.20	97.5%	98.5%	-1.0
Current collection ratio	2.54%	1.75%	2.91%	0.79	-0.37	2.54%	1.75%	0.8
Non-performing loans (NPL)	38.2	34.1	36.2	12.0%	5.5%	109.9	98.6	11.5%

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