

05 October 2018 | 2QFY19 Results Review

Aeon Credit Service Berhad

Momentum amid uncertain market conditions

Revert to NEUTRAL
(previously BUY)

Unchanged Target Price (TP):RM15.40

INVESTMENT HIGHLIGHTS

- **Earnings of RM179.9m above expectations**
- **Attributed to higher sales, fee and other operating income**
- **Expansion into M40 segment boosted receivables**
- **Maintain FY19 earnings estimates due to taking account of seasonality factor of tax holiday**
- **Revert to NEUTRAL with unchanged TP of RM15.40 as we believe, pursuant to recent run-up, the current share price reflects its fundamental value**

Slightly above expectations. Aeon Credit recorded 1HFY19 net profit which was +22.2%yoy higher to RM179.9m. Accordingly, this translated to 57.8% and 55.6% of ours and consensus estimates.

Strong sales in 2QFY19 revenue, translated to +13.0%yoy higher income... The increase in 2QFY19's net profit was mainly attributable to growth in (1) interest income of RM289.8 (+5.1%yoy), (2) fee income of RM42.3m (+18.6%yoy), and (3) other operating income of RM48.3m (+79.7%yoy). Notably, the other operating income primarily comprised of bad debts recovered and commission income from sale of insurance related products and loyalty programme processing fees.

...with key segments firming up its contribution. The overall stronger revenue in 2QFY19, which grew by +6.7%yoy was led by the stronger sales in key segments namely Personal Financing, Credit Card Financing and Motor Financing, growing by +41.7%yoy, +27.6%yoy and +34.5%yoy respectively. We had expected the strong sales given the tax holiday period whereby the GST was zero-rated in the quarter.

Attractive product launches targeted at middle income customer segment (M40) paid off. The M40 segment now accounts for 30% of the business since it started focusing on this segment two years ago. Recall that growth was mainly accelerated by the introduction of AEON Platinum Credit Card and Personal Financing Scheme with risk-based pricing. Notably, this was evident in the increase of 2QFY19 financing receivables of Credit Card (+11.2%yoy) and Personal Financing (+14.7%yoy) while the total financing receivables grew +11.5%yoy. It is also worth noting that the M40 segment growth coincided with increased quality of receivables with Net Credit Cost of 2.2%, which was way below its historical average of 3.23% and record low of Non-performing loan of 2.07% since 1Q17, as well as improved new sales collection.

RETURN STATS	
Price (04 October 2018)	RM15.86
Target Price	RM15.40
Expected Share Price Return	-2.9%
Expected Dividend Yield	+2.8%
Expected Total Return	-0.1%


STOCK INFO	
KLCI	1,790.11
Bursa / Bloomberg	5139/ ACSM MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	250.0
Par Value (RM)	0.50
Market cap. (RM'm)	3,965.1
Price over NTA	2.90x
52-wk price Range	RM12.10– RM16.46
Beta (against KLCI)	0.79x
3-mth Avg Daily Vol	0.09m
3-mth Avg Daily Value	RM1.40m
Major Shareholders (%)	
AEON	62.89
JP MORGAN CHASE	2.17
KONG GOON KHING	2.06

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Proposed Interim Dividend. The company has declared an interim dividend of 22.25sen which represents a payout ratio of 32.0% of 1HFY19 net income.

Earnings estimates. While the results came in slightly above expectations, we are maintaining our estimates for FY19 and FY20 respectively. This is taking into account our assumption of the bump up in sales in 2QFY19, as customers made early purchases to take advantage of the zero-rated GST tax holiday, coupled with festive season in the second quarter. We believe that this should normalise in 2HFY19.

Valuation. Our outlook on the group's business remains positive, with continuous sales growth in 1HFY19 and strategic product offerings to continually expand the M40 market segment. Accordingly, this will bode well for the company in terms of capturing market share and strengthening its asset quality in the long run. However, while we remain optimistic on the prospect of AEON Credit, we believe that the run-up in share price recently indicated that the positives have already been priced in. Therefore, we are prompted to revert our call to **NEUTRAL** with an unchanged TP of **RM15.40**, pegging the group's FY20 BVPS of 7.0 to PBV of 2.2x. 

INVESTMENT STATISTICS

FYE Feb	FY16	FY17	FY18	FY19F	FY20F
Revenue (RM'm)	965.2	1102.0	1235.1	1364.1	1468.0
Operating profit (RM'm)	464.8	551.2	625.7	647.0	634.7
Pre-tax Profit (RM'm)	301.6	351.2	398.4	414.1	423.1
Net Profit (RM'm)	228.2	265.0	300.1	311.3	318.1
Vs. Consensus estimate (RM'm)	-	-	-	295.0	301.0
EPS(sen)	92.1	107.0	121.2	125.7	128.4
EPS growth (%)	5.8	16.1	13.2	3.7	2.2
PER (x)	16.7	14.4	12.7	12.3	12.0
PBV (x)	4.2	3.4	2.4	2.3	2.2
Dividend (sen)	59.5	63.0	41.0	42.3	44.7
Dividend Yield (%)	3.9	4.1	2.7	2.7	2.9

Source: Company, MIDFR

DAILY PRICE CHART



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Source: Bloomberg, MIDFR

2QFY19 RESULTS SUMMARY

FYE Feb (RM'm)	Quarterly Results					Cumulative		
	2Q19	2Q18	1Q19	YoY	QoQ	1H19	1H18	YoY
Interest income, profit & charges	289.8	275.7	287.0	5.1%	1.0%	576.8	542.3	6.4%
Fee income	42.3	35.7	38.7	18.6%	9.2%	81.0	71.3	13.6%
Revenue	332.1	311.3	325.7	6.7%	2.0%	657.8	613.6	7.2%
Total operating expenses	-212.0	-184.7	-164.7	14.8%	28.7%	-376.7	-360.7	4.4%
Other operating income	48.3	26.9	29.3	79.7%	65.2%	77.6	58.5	32.7%
Profit from operations	168.4	153.5	190.3	9.7%	-11.5%	358.7	311.4	15.2%
Finance costs	-61.2	-57.7	-58.5	6.1%	4.6%	-119.7	-113.7	5.2%
Profit before tax	107.2	95.8	131.8	11.9%	-18.6%	239.0	197.7	20.9%
Taxation	-26.6	-24.4	-32.5	9.0%	-18.2%	-59.1	-50.5	17.2%
Net profit	80.6	71.4	99.2	13.0%	-18.7%	179.9	147.2	22.2%
Basic EPS (sen)	31.0	27.3	37.6	13.7%	-17.4%	69.5	56.2	23.5%

Breakdown (RM'm)	2Q19	2Q18	1Q19	YoY	QoQ	1H19	1H18	YoY
Operating income								
Card Purchase	28.629	28.8	28.4	-0.5%	0.7%	57.1	56.4	1%
Cash Advance		-		-				
General Easy Payment	26.0	30.7	27.5	-15.5%	-5.5%	53.4	61.0	-12%
Motorcycle Easy Payment	103.4	96.6	102.1	7.1%	1.2%	205.5	191.8	7%
Superbike Easy Payment		-		-				
Automobile Financing	74.9	69.2	74.3	8.3%	0.8%	149.3	136.8	9%
Personal Financing	97.7	84.5	92.0	15.5%	6.2%	189.6	164.5	15%
SME Business	1.5	1.6	1.4	-3.8%	7.4%	2.9	3.2	-8%
Other income	48.3	27.0	29.3	78.7%	65.2%	77.6	58.2	33%
Total	380.4	338.4	355.0	12.4%	7.2%	678.3	619.5	9%
Financing receivables								
Credit card	662.5	589.3	635.7	12%	4%	662.5	589.3	12%
General Easy Payment	386.4	431.6	397.6	-10%	-3%	386.4	431.6	-10%
Motorcycle Easy Payment	2,243.4	1,993.6	2,131.8	13%	5%	2,243.4	1,993.6	13%
Superbike Easy Payment		-						
Automobile Financing	2,344.6	2,089.7	2,262.3	12%	4%	2,344.6	2,089.7	12%
Personal Financing	2,095.0	1,827.1	1,959.9	15%	7%	2,095.0	1,827.1	15%
SME Business	62.9	59.1	62.6	6%	0%	62.9	59.1	6%
Total	7,794.8	6,990.4	7,449.9	12%	5%	7,794.8	6,990.4	12%

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.