

30 April 2018 | 4QFY18 Results Review

Aeon Credit Service Bhd

Slightly above estimates

Maintain BUY

Adjusted Target Price (TP): RM14.30

(from RM14.75)

INVESTMENT HIGHLIGHTS

- **FY18 earnings came in above estimates**
- **Attributable to better operating income in major segments**
- **Earnings estimates for FY19 are revised slightly higher, while introducing our FY20 forecasts**
- **We maintain our BUY recommendation with adjusted TP of RM14.30 (from RM14.75) as we ascribed a lower PBV**

Broadly in-line. Aeon Credit's FY18 earnings climbed +13.0%yoy higher to RM300.1m. The group's cumulative earnings accounted for 106.9% and 119.4% of ours and consensus' expectations respectively, supported by steady progression in interest income of +13.6%. Notably, its biggest segments namely Automobile Financing, Personal Financing and Motorcycle Easy Payment grew at an average of +15.0%yoy. On quarterly basis, the group's 3QFY18 net profit grew by +2.8%yoy.

Key segments steered earnings higher. Personal financing which accounted for approximately 24% of operating income, recorded a strong growth of +23.2%yoy. Meanwhile, both Automobile Financing's and Motorcycle Easy Payment's operating income displayed the same trend, climbing higher by +13.5%yoy and +9.6%yoy respectively. We believe this healthy improvement stemmed from higher consumer spending during the quarter due to seasonality factors. Overall, the income from the group's core business grew mostly in tandem with our assumption of +14.2% in FY18. In FY19, we are ascribing high single-digit growth assumption to its net interest income. We believe this achievable considering the group's consistent performance of expanding its core income over the years.


Growth in opex should be slower in the long run. Earnings in FY18 were moderated by higher overall opex which increased +9.7%yoy. This was primarily driven by higher funding cost, due to increase in borrowings of +2.7% in parallel with the growth of receivables. Despite the higher opex, we took comfort to see its ratio against revenue still trended down, although slightly by -0.3ppts yoy. Moving forward, we believe the group will continue to strive for a leaner opex management, coming from its value chain transformation. Key to achieving this will be improvement of its branch operation costs, which have been displayed by the significant reduction in overtime (-18.4%yoy) and money collection expenses (-91.1%yoy).

Final Dividend of RM0.20. This added to a total dividend of RM0.41, which constitutes about 95.3% of our forecast. Accordingly, total dividend paid out was 34.0% of the group's earnings.

RETURN STATS	
Price (27 April 2018)	RM12.82
Target Price	RM14.30
Expected Share Price Return	+11.5%
Expected Dividend Yield	+3.3%
Expected Total Return	+14.8%

STOCK INFO	
KLCI	1,863.47
Bursa / Bloomberg	5139/ ACSM MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	248.8
Par Value (RM)	0.50
Market cap. (RM'm)	3,189.1
Price over NTA	2.12x
52-wk price Range	RM10.87– RM14.60
Beta (against KLCI)	1.15x
3-mth Avg Daily Vol	0.16m
3-mth Avg Daily Value	RM2.09m
Major Shareholders (%)	
AEON	63.12
JP MORGAN CHASE	2.31
STD. LIFE ABERDEEN	2.14

Revising our estimates slightly upwards. Given that the results were above our expectations, we are revising our estimates for FY19. This is taking into account our assumption of +8.4%yoy on the growth of operating income, lifting its net profit by +1.0%yoy from our previous estimate.

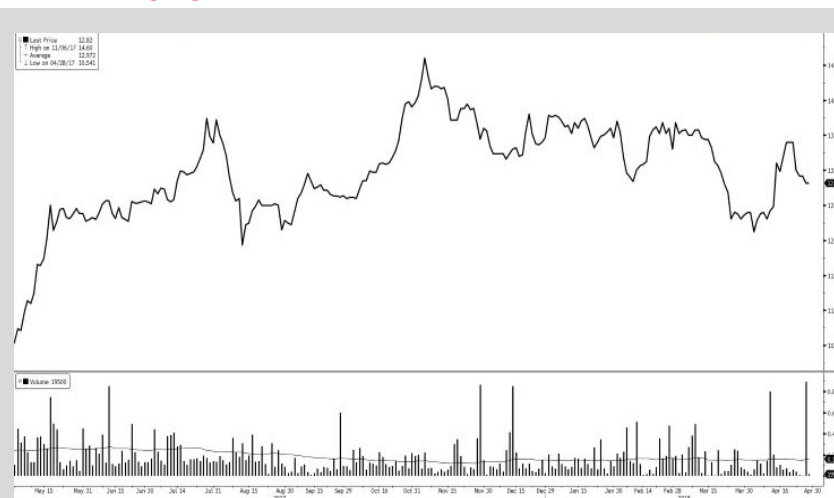
Valuation. We maintain our **BUY** recommendation on Aeon Credit with an adjusted **TP** of **RM14.30 (from RM14.75)**, pegging the group's **FY19 BVPS of 6.5** to **PBV of 2.2x**. We are ascribing a lower multiple to reflect the potential dilution from ICULS conversion which could potentially put continuous downward pressure to the share price. However, we continue to be optimistic on the outlook of the group's business based on its value chain transformation journey. In addition, we are positive on the group's initiatives to improve customer experience via the introduction of e-wallet and e-money cards, in which we opine, will improve the customers' brand loyalty with Aeon Credit. Potential re-rating for the group's earnings would be 1) the outcome of upcoming proceedings between IRB and Aeon Credit, and 2) lower than expected future earnings (FY20 onwards). 

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	637.6	634.7
Pre-tax Profit (RM'm)	301.6	351.2	398.4	408.1	423.1
Net Profit (RM'm)	228.2	265.0	300.1	306.8	318.1
Vs. Consensus estimate (RM'm)	-	-	-	295.0	301.0
EPS(sen)	92.1	107.0	121.2	123.9	128.4
EPS growth (%)	5.8	16.1	13.2	2.2	3.7
PER (x)	13.9	12.0	10.6	10.4	10.0
PBV (x)	4.2	3.4	2.0	1.9	1.8
Dividend (sen)	59.5	63.0	41.0	42.3	44.7
Dividend Yield (%)	4.6	4.9	3.2	3.3	3.5

Source: Company, MIDFR

DAILY PRICE CHART



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Source: Bloomberg, MIDFR

4QFY18 RESULTS SUMMARY

FYE Feb (RM'm)	Quarterly Results					Cumulative		
	4Q18	4Q17	3Q18	YoY	QoQ	FY18	FY17	YoY
Interest income, profit & charges	276.7	254.7	277.7	8.6%	-0.4%	1,096.7	965.2	13.6%
Fee income	32.5	36.1	34.6	-10.0%	-6.1%	138.4	136.8	1.2%
Revenue	309.2	290.8	312.3	6.3%	-1.0%	1,235.1	1,102.0	12.1%
Total operating expenses	-184.9	-174.7	-190.2	5.9%	-2.8%	-736.0	-671.0	9.7%
Other operating income	38.8	39.2	29.5	-1.2%	31.4%	126.5	120.2	5.2%
Profit from operations	163.0	155.4	151.6	4.9%	7.6%	625.6	551.2	13.5%
Finance costs	-57.7	-52.4	-56.3	10.2%	2.5%	-227.3	-200.0	13.6%
Profit before tax	105.4	103.1	95.3	2.2%	10.6%	398.3	351.2	13.4%
Taxation	-23.1	-23.0	-24.8	0.2%	-7.0%	-98.3	-86.1	14.1%
Net profit	82.3	80.1	70.5	2.8%	16.7%	300.1	265.0	13.2%
Basic EPS (sen)	31.9	53.4	27.0	-40.3%	18.0%	143.0	174.6	-18.1%

Breakdown (RM'm)	4Q18	4Q17	3Q18	YoY	QoQ	FY18	FY17	YoY
Operating income								
Card Purchase	29.9	29.2	29.1	2.5%	2.8%	115.4	108.0	6.9%
General Easy Payment	28.0	29.9	27.8	-6.4%	0.8%	118.7	122.0	-2.7%
Motorcycle Easy Payment	96.0	90.9	96.7	5.6%	-0.7%	384.5	350.8	9.6%
Automobile Financing	70.1	65.0	69.7	7.8%	0.6%	276.6	243.6	13.5%
Personal Financing	83.6	74.2	85.6	12.6%	-2.4%	333.7	270.8	23.2%
SME Business	1.5	1.6	1.6	-2.7%	-4.0%	6.3	6.8	-7.3%
Other income	38.8	39.2	29.5	-1.2%	31.4%	126.5	120.2	5.2%
Total	347.9	330.1	340.0	5.4%	2.3%	1,361.6	1,222.2	11.4%
Financing receivables								
Credit card	639.9	586.7	576.9	9.1%	10.9%	639.9	586.7	9.1%
General Easy Payment	399.6	424.9	414.3	-6.0%	-3.5%	399.6	424.9	-6.0%
Motorcycle Easy Payment	2,051.0	1,882.5	2,029.3	9.0%	1.1%	2,051.0	1,882.5	9.0%
Automobile Financing	2,193.8	1,957.2	2,142.2	12.1%	2.4%	2,193.8	1,957.2	12.1%
Personal Financing	1,915.7	1,626.7	1,883.4	17.8%	1.7%	1,915.7	1,626.7	17.8%
SME Business	61.0	56.5	63.5	8.1%	-3.9%	61.0	56.5	8.1%
Total	7,261.0	6,534.5	7,109.6	11.1%	2.1%	7,261.0	6,534.5	11.1%

Key metrics	4Q18	4Q17	3Q18	+/- ppts	+/- ppts	FY18	FY17	+/- ppts
Profitability								
Net credit cost	3.3%	3.3%	3.4%	0.0	-0.1	3.3%	3.3%	0.0
ROA - annualised	4.0%	4.0%	3.8%	0.0	0.2	4.0%	4.0%	0.0
ROE - annualised	22.6%	28.9%	22.6%	-6.3	0.0	22.6%	28.9%	-6.3
Asset quality								
Current collection ratio	97.6%	97.4%	97.6%	0.2	0.0	97.6%	97.4%	0.2
Non-performing loans (NPL)	2.3%	2.3%	2.5%	0.1	-0.2	2.3%	2.3%	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.