

24 December 2018 | Briefing Note

## Aeon Credit Service Bhd

*Key catalysts from M40 and overseas*

### INVESTMENT HIGHLIGHTS

- Recall 9MFY19 earnings of RM267.0m (+23.0%yoy) above our expectation
- Continuous strong sales growth from Personal, Motorcycle and Auto Financing segments
- Higher financing receivables and improved asset quality
- Revised earnings forecast upwards for FY19 and FY20
- Upgrade to BUY with an adjusted TP of RM16.50 (from RM15.40) attributable to several growth catalysts

**Riding on strong domestic demand.** We attended the Group's analyst briefing last Friday in conjunction with 3QFY19 results announcement the day prior. We summarised the key points of the briefing as follows:

- Earnings growth is expected to remain at similar level into next year, assuming demand from key segments remains unabated.
- Continuous expansion into M40 customer segment boosted sales and asset quality.
- Leveraging digitalisation and ongoing overseas expansion into emerging markets.

**Positive surprise in 3QFY19 performance.** Revenue and net profit grew by +12.0%yoy and +24.0%yoy to RM348.5m and RM87.1m. Previously we were expecting demand to be moderate in 3QFY19 compared to the preceding quarter due to the ending of the tax holiday period. However, the growth was almost doubled of that in previous quarter, indicating continued strong domestic consumption. This is in line with the sustained double digit growth in Malaysia's retail sales.

**Key segments contributed to sales growth.** Revenue in 3QFY19 recorded growth of +12.0%yoy, the highest in FY19 thus far. It was led by the stronger sales in key segments namely Personal, Motorcycle, Credit Card and Auto Financing. These increased by +122.0%yoy, +57.0%yoy, +30.0%yoy and +22.0%yoy respectively. This was also partly spurred by the Group's initiatives in developing new products and schemes tailored to the M40 customers (e.g. risk-based pricing for Personal and Super Bike Financing).

**Upgrade to BUY  
(previously NEUTRAL)**

**Adjusted Target Price (TP):RM16.50  
(previously RM15.40)**


RETURN STATS	
Price (21 December 2018)	RM15.00
Target Price	RM16.50
Expected Share Price Return	+10.0%
Expected Dividend Yield	+3.0%
<b>Expected Total Return</b>	<b>+13.0%</b>

STOCK INFO	
KLCI	1,650.56
Bursa / Bloomberg	5139/ ACSM MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	250.75
Par Value (RM)	0.50
Market cap. (RM'm)	3,761.26
Price over NTA	2.65x
52-wk price Range	RM12.1– RM16.4
Beta (against KLCI)	0.85x
3-mth Avg Daily Vol	0.09m
3-mth Avg Daily Value	RM1.53m
Major Shareholders (%)	
AEON	62.62
EPF	2.69
JP MORGAN CHASE	2.09

**Focus on M40 will bring benefits.** We view that with a key focus on expanding the M40 market segment while strengthening its B40 segment will bode well for the Group in the long run, in terms of improving customer mix and capturing a bigger market share. Additionally, the Group has launched its AEON E-Wallet and E-Money card in November, further providing impetus to grow fee-based income and expand its customer bases by tapping into the existing 6 million users of AEON Group. We expect the AEON's eco-system to provide a synergistic effect and competitive edge to AEON Credit's line of businesses, such as opportunities of cross-selling, up-selling, as well as integration of various services to serve customers better.

**Expanding to other emerging markets.** The Group has been building its presence and operations in India, Indonesia and Philippines with a focus on expanding two key financing products that are Auto Financing and Personal Financing. In fact, the group is targeting the needs of each individual emerging country by introducing different strategies. For example, in India, an instant approval mobile app is introduced to make financing more efficient and cater to the local needs. Whereas in Indonesia and Philippines, the Group continues to expand its credit card and tricycle loan financing portfolio in order to have a solid footing in the market respectively. We opine that the expansion will be a growth catalyst moving forward to AEON Credit's bottom line and the group is able to leverage on its strong base in the region.

**Earnings forecast revised upwards.** We revised our earnings forecast for FY19 and FY20 by 12.4% and 21.0% respectively in view of growth catalysts and management guidance on positive momentum. Conservatively, we have discounted the growth rate by almost half given the market uncertainties the following year. Nonetheless, we also revised growth assumption of key segments to higher level to be in line with the upward trend, notably in the Personal, Motorcycle and Auto Financing businesses.

**Recommendation.** Given the current growth trajectory and favourable market condition (i.e. firm labour market and healthy retail sales), we believe AEON Credit's earnings is poised to grow at an encouraging rate. We opine that the expansion into more populous emerging countries will provide the catalyst for future revenue growth. We also view that there will be synergies with its overseas operations (but still within the Group) as it could leverage on its experience and technologies. This will transform the Group into a more efficient organisation and achieve long-term cost savings. Thus, we upgrade our call to **BUY** with an adjusted **TP of RM16.50 (from RM15.40)**. We based our TP on pegging its FY20 BVPS of RM7.40 to PB of 2.2x (one standard deviation below of its 5 year average PB ratio). 

## INVESTMENT STATISTICS

FYE Feb	FY16	FY17	FY18	FY19F	FY20F
Revenue (RM'm)	965.2	1102.0	1235.1	1440.3	1584.4
Operating profit (RM'm)	464.8	551.2	625.7	714.5	786.0
Pre-tax Profit (RM'm)	301.6	351.2	398.4	457.9	503.7
Net Profit (RM'm)	228.2	265.0	300.1	350.0	385.0
Vs. Consensus estimate (RM'm)	-	-	-	339.8	371.8
EPS(sen)	86.3	100.2	113.5	132.3	145.6
EPS growth (%)	5.8	16.1	13.2	16.6	10.0
PER (x)	17.4	15.0	13.2	11.3	10.3
PBV (x)	4.2	3.4	2.4	2.2	2.0
Dividend (sen)	59.5	63.0	41.0	42.3	44.7
Dividend Yield (%)	4.0	4.2	2.7	2.8	3.0

Source: Company, MIDFR

## DAILY PRICE CHART



Danial Razak  
muhammad.danial@midf.com.my  
03-2173 8396

Source: Bloomberg, MIDFR

## 3QFY19 RESULTS SUMMARY

FYE Feb (RM'm)	Quarterly Results					Cumulative		
	3Q19	3Q18	2Q19	YoY	QoQ	9M19	9M18	YoY
Interest income, profit & charges	300.2	277.7	289.8	8%	4%	877.0	820.0	7%
Fee income	48.3	34.6	42.3	40%	14%	129.3	105.9	22%
<b>Revenue</b>	<b>348.5</b>	<b>312.3</b>	<b>332.1</b>	<b>12%</b>	<b>5%</b>	<b>1,006.3</b>	<b>925.9</b>	<b>9%</b>
Total operating expenses	-193.9	-190.2	-212.0	2%	-9%	-570.6	-551.1	4%
Other operating income	28.0	30.8	48.3	-9%	-42%	105.6	89.5	18%
<b>Profit from operations</b>	<b>182.6</b>	<b>152.9</b>	<b>168.4</b>	<b>19%</b>	<b>8%</b>	<b>541.3</b>	<b>464.3</b>	<b>17%</b>
Finance costs	-64.5	-57.6	-61.2	12%	5%	-184.2	-171.4	8%
<b>Profit before tax</b>	<b>118.1</b>	<b>95.3</b>	<b>107.2</b>	<b>24%</b>	<b>10%</b>	<b>357.1</b>	<b>292.9</b>	<b>22%</b>
Taxation	-30.9	-24.8	-26.6	25%	16%	-90.1	-75.2	20%
<b>Net profit</b>	<b>87.1</b>	<b>70.5</b>	<b>80.6</b>	<b>24%</b>	<b>8%</b>	<b>267.0</b>	<b>217.7</b>	<b>23%</b>
Basic EPS (sen)	33.4	28.7	31.0	16%	7%	102.8	110.9	-7%

Breakdown (RM'm)	3Q19	3Q18	2Q19	YoY	QoQ	9M19	9M18	YoY
<b>Operating income</b>								
Card Purchase	30.4	29.1	28.6	4%	6%	87.5	85.5	2%
Objective Financing	24.3	27.8	26.0	-13%	-6%	77.7	88.8	-12%
Motorcycle Easy Payment	107.9	96.7	103.4	12%	4%	313.4	260.7	20%
Automobile Financing	75.8	69.7	74.9	9%	1%	255.0	206.5	23%
Personal Financing	108.8	85.6	97.7	27%	11%	298.5	250.1	19%
SME Business	1.3	1.6	1.5	-18%	-13%	4.2	4.8	-12%
Other income	28.0	29.5	48.3	-5%	-42%	105.6	87.7	20%
<b>Total</b>	<b>376.5</b>	<b>340.0</b>	<b>380.4</b>	<b>11%</b>	<b>-1%</b>	<b>1,141.9</b>	<b>984.1</b>	<b>16%</b>
<b>Financing receivables</b>								
Credit card	701.7	610.7	662.5	15%	6%	701.7	610.7	15%
Objective Financing	360.9	419.2	386.4	-14%	-7%	360.9	419.2	-14%
Motorcycle Easy Payment	2,420.3	2,048.1	2,243.4	18%	8%	2,420.3	2,048.1	18%

Automobile Financing	2,436.3	2,159.8	2,344.6	13%	4%	2,436.3	2,159.8	13%
Personal Financing	2,329.3	1,901.5	2,095.0	22%	11%	2,329.3	1,901.5	22%
SME Business	64.7	63.9	62.9	1%	3%	64.7	63.9	1%
<b>Total</b>	<b>8,313.1</b>	<b>7,203.2</b>	<b>7,794.8</b>	<b>15%</b>	<b>7%</b>	<b>8,313.1</b>	<b>7,203.2</b>	<b>15%</b>

Key metrics	3Q19	3Q18	2Q19	+/- ppts	+/- ppts	9M19	9M18	+/- ppts
<b><u>Profitability</u></b>								
Net credit cost	2.1%	3.4%	2.2%	-1.3	-0.1	2.1%	3.4%	-1.3
ROA - annualised	4.4%	3.8%	4.6%	0.6	-0.2	4.4%	3.8%	0.6
ROE - annualised	22.8%	22.6%	23.3%	0.2	-0.5	22.8%	22.6%	0.2
<b><u>Asset quality</u></b>								
Current collection ratio	97.6%	97.6%	97.9%	0.0	-0.3	97.6%	97.6%	0.0
Non-performing loans (NPL)	2.1%	2.5%	2.1%	-0.5	0.0	2.1%	2.5%	-0.5

Source: Company, MIDF

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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.