

22 June 2017 | Corporate Update

AEON Credit Service (M) Berhad

Insurance business to be a core segment

Maintain BUY

Target Price (TP): RM21.40
(previously RM18.20)

INVESTMENT HIGHLIGHTS

- **Making insurance business as core segment in revenue**
- **More opportunities available to drive growth**
- **With more products expected to be introduced**
- **Better pricing will stimulate growth in underserved market**
- **Maintain BUY call with adjusted TP of RM21.40**

Proposed bonus and rights issue approved. The company announced that its shareholders had approved its proposed bonus and rights issue at an EGM yesterday. It is now expected to be completed by mid-September 2017.

Insurance business as core segment in revenue? Interestingly, from the EGM, we noted that the management had indicated its plans to boost earnings via the insurance business. The management targets for the insurance business to be one of its core segments and will embark on a 3-year development timeline. There is vast potential given the six million customer base from the sister companies of AEON Co (M) Bhd, and AEON BiG (M) Sdn Bhd.

Possible future growth driver. The company's insurance segment contributed RM11m to its overall revenue of RM1.1b (1.0% of total revenue) in FY17. We noted that insurance segment growth has been marginal and limited contributor to earnings. However, we opine opportunities will be available for the segment to be a future growth driver given the insurance industry transitioning into a new phase.

Motor detarriffication will enable the company to tap larger market base. More insurance products are expected to be introduced in the market. As such, we view that higher contribution from easy motor financing coupled with new pricing mechanism of insurance products, will enable the company to improve cross selling and tap into larger market base, diversifying its income.

Better pricing will stimulate growth in underserved market. Risk-based pricing is expected to provide better pricing for individuals. We believe that this will allow the company to tap into underserved market, taking advantage of its customers' profile. Based on the current trend, the move would be strategic for AEON as there is further room to penetrate the local insurance industry.

RETURN STATS	
Price (21 June 2017)	RM19.02
Target Price	RM21.40
Expected Share Price Return	+12.51
Expected Dividend Yield	+3.84
Expected Total Return	+16.35

STOCK INFO	
KLCI	1,775.57
Bursa / Bloomberg	5139 / ACSM MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	144.0
Par Value (RM)	0.50
Market cap. (RM'm)	2738.9
Price over NTA	2.87x
52-wk price Range	RM12.66 – RM19.84
Beta (against KLCI)	0.56x
3-mth Avg Daily Vol	0.17m
3-mth Avg Daily Value	RM3.00m
Major Shareholders (%)	
AEON	59.70
Aberdeen	3.55
Kong Goon Khing	2.38

Tie-up with big insurance players like Prudential, Chubb Insurance Malaysia Bhd and Tokio Marine will benefit AEON Credit. This is due to the fact that it has the capacity. We expect that AEON Credit with its 62 branches coupled with growing customer base and large customer profile will see higher growth in insurance contribution.

But contribution will not be immediate. Despite us being positive on the news, we do not foresee the insurance segment to be a major contributor in the near future. This is due to the fact that the company's development plan for this business is for a 3-year period. We understand the working details are also being ironed out. As such, we have yet to impute significant growth in its insurance business and make no change to our forecast for FY18 and FY19. However, with more details, we do not rule out bigger contribution from the insurance business in our FY20 forecast.

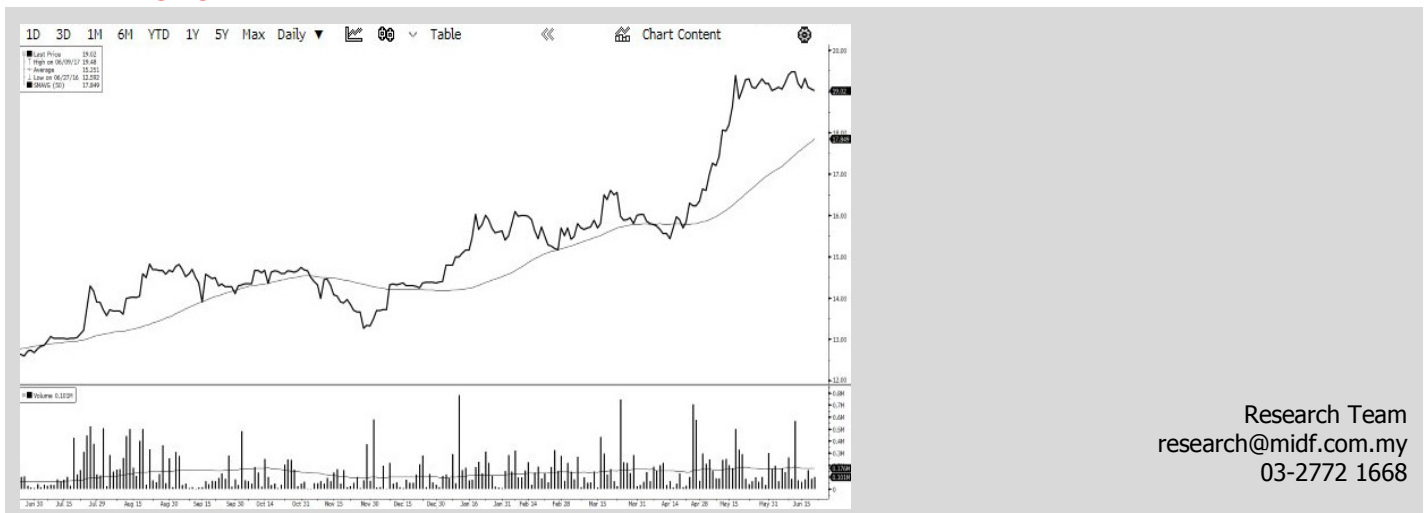
Fundamentals intact, maintain BUY. While the move to grow the contribution of the insurance business will take time, the prospect of its core business remains intact. We believe that the impact from increased productivity via Management's Value Chain Transformation program will be an earnings driver. Meanwhile loans book growth momentum will continue in FY18, given our in-house economics team expect better GDP performance for this year. Hence, we maintain our BUY call for the stock with an adjusted TP of RM21.40 (from RM18.20) as we peg its FY18 BVPS to 3-year historical average PB of 2.6x. We believe the change of our PB multiple basis (from 1 standard deviation below 5-year historical average before) is fair given the improving economic outlook. 📈

INVESTMENT STATISTICS

FYE Feb	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	965.2	1,102.00	1,258.20	1,398.80
Operating income (RM'm)	464.8	551.2	629.32	681.1
Pre-tax profit (RM'm)	301.6	351.2	374.5	404.4
Net profit (RM'm)	228.2	265	280.7	304.4
<i>Vs. Consensus estimate (RM'm)</i>	-	<i>250.7</i>	<i>271</i>	<i>302.6</i>
EPS (sen)	149.02	174.6	194.9	210
EPS growth (%)	2.1	17.2	11.6	7.7
PER (x)	12.8	10.9	9.8	9.1
PBV (x)	6.4	5.0	2.3	1.8
Dividend (sen)	59.5	63	66	73.1
Dividend Yield (%)	3.13	3.31	3.47	3.84

Source: Company, MIDFR

DAILY PRICE CHART



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Source: Bloomberg, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.