

# AEON Thana Sinsap (AEONTS TB)

## NPLs likely rose in 2Q but should ease in 2H

### Attractive valuation; expect asset quality to improve in 2HFY23

We expect economic reopening to improve personal loan demand and credit card spending in 2HFY23 (Feb year-end). However, rising inflation should reduce household income and ability to service debt, which could have led to a higher NPL ratio in 2Q23 (Jun-Aug). We like AEONTS for its cheap valuation (1.9x FY23E P/BV and 10.5x PER vs 2.8x P/BV and 22.7x industry average PER) and high NPL coverage. BUY with TP of THB240, implying 2.6x FY22E P/BV, 14.3x PER and 19.2% ROE. Key risk is deterioration in asset quality.

### Expect 2QFY23E profit to grow YoY but drop QoQ

We expect AEONTS to report THB1.0b net profit for 2Q23, up 49% YoY (on lower credit cost) but down 10% QoQ (on lower non-NII and higher credit cost). Loans should grow 8.6% YoY and 2.0% QoQ, led by credit card loans while NIM should drop 40bps QoQ to 18.2% on higher funding cost. We expect non-NII dropped 21% YoY and 8% QoQ due to lack of gains from sales of NPLs in 2Q23E. Opex should have increased 4% YoY, led by marketing expense. Hence, the cost-to-income ratio likely rose to 41.3% in 2Q23E from 40.4% in 2Q22. Overall, we expect PPOp to stay flat YoY. AEONTS will announce 2Q23E results on 4 Oct and hold an analyst meeting on 5 Oct.

### Credit cost and NPL ratio to increase QoQ

Given rising inflation and higher food and energy prices, we believe its customers, especially for personal loans, should have lower household income and less ability to service debt. So we expect AEONTS's NPL ratio increased by 20bps QoQ to 5.5% and credit cost rose 10bps QoQ to 6.9% in 2Q23E. We expect credit cost fell YoY due to the high base effect in 2QFY22. With its high provision buffer, we project NPL coverage remained high at 205% in 2QFY23E.

### Earnings and asset quality set to improve in 2H

We are positive on rising credit card spending and demand for personal loans as these should help support AEONTS's revenue and earnings growth. Moreover, we expect economic reopening and better tourism-related activities to improve asset quality in 2H23. We expect earnings to grow 18% YoY in FY23 (end Feb-23).

FYE Feb (THB m)	FY21A	FY22A	FY23E	FY24E	FY25E
Operating income	19,180	19,047	20,027	21,554	23,198
Pre-provision profit	10,857	11,203	11,948	12,990	14,035
Core net profit	3,690	3,553	4,198	4,696	5,176
Core EPS (THB)	14.8	14.2	16.8	18.8	20.7
Core EPS growth (%)	(7.2)	(3.7)	18.2	11.9	10.2
Net DPS (THB)	4.5	5.2	5.0	5.6	6.2
Core P/E (x)	13.4	13.9	10.5	9.4	8.5
P/BV (x)	2.9	2.5	1.9	1.7	1.5
Net dividend yield (%)	2.3	2.6	2.8	3.2	3.5
Book value (THB)	68.23	79.55	91.35	104.53	119.03
ROAE (%)	19.5	19.2	19.7	19.2	18.5
ROAA (%)	4.0	4.0	4.5	4.7	4.8
Consensus net profit	-	-	4,251	4,715	5,087
MKE vs. Consensus (%)	-	-	(1.2)	(0.4)	1.7

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## BUY

Share Price	THB 176.00
12m Price Target	THB 240.00 (+36%)
Previous Price Target	THB 240.00

### Company Description

AEONTS provides a variety of retail finance services including credit cards and personal loans

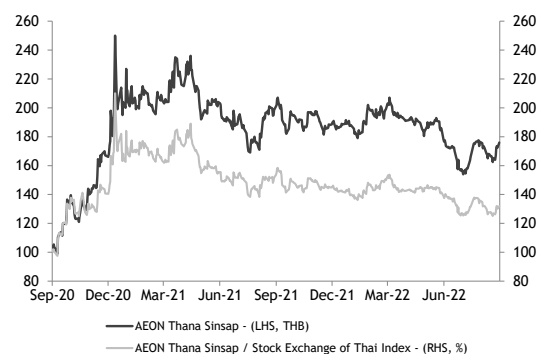
### Statistics

52w high/low (THB)	207.00/154.00
3m avg turnover (USDm)	1.3
Free float (%)	30.2
Issued shares (m)	250
Market capitalisation	THB44.0B USD1.2B

### Major shareholders:

AEON Financial Service Co., Ltd.	35.1%
ACS Capital Corp. Ltd.	19.2%
AEON Co., Ltd.	8.8%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(0)	(5)	(11)
Relative to index (%)	(2)	(6)	(12)

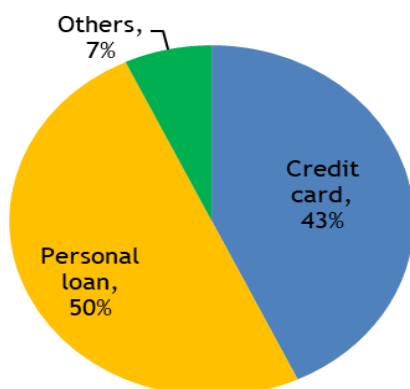
Source: FactSet

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Tear Sheet Insert

## Value Proposition

- AEON has 6%/11% market share in the credit card/personal loan business.
- Competitive in personal loans for lower-income customers (salary less than THB30k). It has c.6m accounts and most of them (70%) are in provincial areas.
- The company also has footprints in the CLMV market, providing consumer loans but business size remains small.
- Credit cards and personal loans account for 43% and 50% of loans, respectively.
- Long-term ROE remains high at 19.2% vs cost of capital of 10.4%.

### Loan breakdown

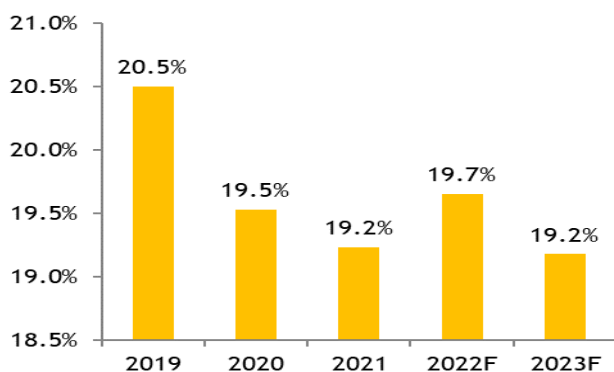


Source: Company

## Financial Metrics

- Expect 7% loan growth this year supported by credit cards and personal loans.
- NIM is projected to decline to 18.0% due to a lower interest rate charged.
- Expect NPL ratio to increase to 5.5% in FY23E from 4.9% in FY21.
- Even though the business in the CLMV market is fast growing, the total loan size compared with Thailand's market remains small, as is the income contribution.
- ROE should increase to 19.7% in FY23E.

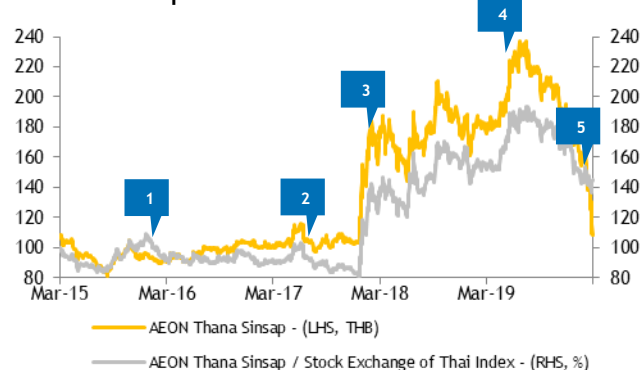
### Return on equity



Source: Company

## Price Drivers

### Historical share price trend



Source: Company, MST

1. The Bank of Thailand (BoT) in Nov 15 asked banks and credit card operators to reduce debt collection fees.
2. BoT cut interest rate charged on outstanding credit card balances to 18% from 20% p.a. in Aug 17.
3. Strong earnings from solid revenue growth after extended credit lines to existing customers.
4. Reported strong loan growth and improving asset quality
5. Concern on weakening asset quality following the renewed virus outbreak.

## Swing Factors

### Upside

- Higher-than-expected loan growth.
- Economic recovery leading to higher credit card spending and lower provisions.
- Higher NIMs from lower funding cost.

### Downside

- Deterioration in asset quality.
- Weaker-than-expected NIMs from increases in interest rates.
- Slow loan demand and credit card spending due to weak economic growth.

Risk Rating & Score <sup>1</sup>	29.2 Medium Risk
Score Momentum <sup>2</sup>	+0.6
Last Updated	6 Sep 2021
Controversy Score <sup>3</sup> (Updated: 1 May 2022)	None - no evidence of controversies

## Business Model & Industry Issues

- AEONTS has developed and improved products, services and operation processes to become an innovative organisation and to cope with any uncertainties.
- AEONTS places importance on sustainable development as well as moral and social responsibilities within the framework of good corporate governance.
- AEONTS has improved the investor relations website and it's providing more information to facilitate shareholders and investors gaining knowledge of the company.

- AEONTS has actively campaigned to reduce the use of resources by introducing e-statement to customers.
- AEONTS has cancelled the distribution of monthly pay slips and tax withholding (50bis) slips. These can now be downloaded online.
- AEONTS supports and promotes forest preservation. In 2019, the company joined tree planting activities with government agencies and local residents.
- In 2019, AEONTS shredded 105.63 tonnes of paper under the Shred2Share Project for recycling helping reduce CO<sub>2</sub> emissions, coal and H<sub>2</sub>O use.

## Key G metrics and issues

- AEONTS has 14 board members, of which 5 or 36% are independent directors (3 in audit committee).
- There are 2 women on the board and both are directors.
- AEONTS employed 5,479 employees as of Feb 2020. Total staff remuneration was THB2.2b, or 55% of FY19 reported net profit.
- Total compensation for executives amounted to THB101.5m, or 2.5% of FY19 net profit.
- The current auditor is Deloitte. AEONTS persuades employees to make suggestions for improving the company.

AEONTS provides career development for employees, through both in-house training and public training. In 2019, 73 courses were conducted for 394 groups, and 12,267 employees from AEON group participated.

## Material S issues

- AEONTS has improved the provident fund welfare programme to promote savings among its employees and increase the level of financial security upon retirement.
- AEONTS provides employees the opportunity to propose their ideas that could contribute towards the development and improvement of operations.
- AEONTS has channelled some of the profits to support activities that benefit society in different ways through the AEON Thailand Foundation whose activities include providing AEON scholarship, promoting medical research for cancer treatment and distributing necessities to disaster victims and the elderly.

AEONTS has co-operated with other charity organisations such as the Thai Red Cross Society and the Cardiac Children Foundation of Thailand for charitable events.

<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. <sup>3</sup>**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

## We expect 2Q23E profit grew 49% YoY on lower credit cost

We expect AEONTS to report THB1.0b net profit for 2Q23E (Jun-22 to Aug-22), up 49% YoY (on lower credit cost) but down 10% QoQ (on lower non-NII and higher credit cost).

- Loan portfolio likely grew 8.6% YoY and 2.0% QoQ, driven by credit card loans. NIM is expected to have declined 40bps QoQ to 18.2% on lower loan yield and higher funding cost.
- Expect non-NII fell 21% YoY and 8% QoQ due to lack of gains from sales of NPLs in 2Q23E vs THB320m in 2Q22 and THB105m in 1Q23. On a positive note, we forecast strong bad-debt recovery of THB393m, up 27% YoY.
- Opex should have increased 4% YoY in 2Q, led by marketing expense. Hence, cost-to-income ratio likely increased to 41.3% in 2Q23E from 40.4% in 2Q22.
- Provisions should have increased 3% QoQ, in line with a higher NPL ratio of 5.5% (+20bps QoQ), mostly from personal loans. In terms of YoY comparison, provisions fell 19% YoY due to high base effect in 2Q22.

**Fig 1: 2QFY23E results preview (end-Aug 22)**

FYE end Feb	2Q22	3Q22	4Q22	3	2Q23E	Chg YoY	Chg QoQ
Interest income	4,439	4,548	4,483	4,705	4,730	7%	1%
Interest expenses	(448)	(426)	(418)	(437)	(462)	3%	6%
Net interest income	3,990	4,122	4,065	4,268	4,268	7%	0%
Bad debt recovery	310	381	404	385	393	27%	2%
Non-interest income	906	664	712	780	717	-21%	-8%
Total operating income	4,896	4,786	4,777	5,048	4,985	2%	-1%
Operating expenses	(1,980)	(1,952)	(1,990)	(2,035)	(2,059)	4%	1%
Operating profit	2,916	2,834	2,787	3,013	2,926	0%	-3%
Loan loss provisions	(2,005)	(1,780)	(1,619)	(1,564)	(1,616)	-19%	3%
Pre-tax profit	911	1,055	1,169	1,450	1,311	44%	-10%
Tax	(194)	(219)	(231)	(291)	(262)	35%	-10%
Minority interest	(39)	(21)	(27)	(44)	(41)	5%	-6%
<b>Net profit</b>	<b>678</b>	<b>815</b>	<b>911</b>	<b>1,115</b>	<b>1,008</b>	<b>49%</b>	<b>-10%</b>
<b>EPS</b>	<b>2.71</b>	<b>3.26</b>	<b>3.64</b>	<b>4.46</b>	<b>4.03</b>	<b>49%</b>	<b>-10%</b>
<b>Key ratios</b>							
Loan growth	0.4%	2.8%	1.7%	1.9%	2.0%		
Loans to borrowings	136.0%	135.7%	139.1%	135.0%	133.8%		
Net interest margin	18.4%	18.7%	18.0%	18.6%	18.2%		
Cost to income	40.4%	40.8%	41.7%	40.3%	41.3%		
NPL - gross (THBm)	4,493	4,328	4,428	4,912	5,212		
NPL/ Gross loans	5.2%	4.8%	4.9%	5.3%	5.5%		
LLR/ Gross loans	12.6%	12.3%	12.0%	11.6%	11.3%		
NPL coverage	243%	255%	247%	219%	205%		
Credit cost	9.23%	8.06%	7.17%	6.81%	6.90%		

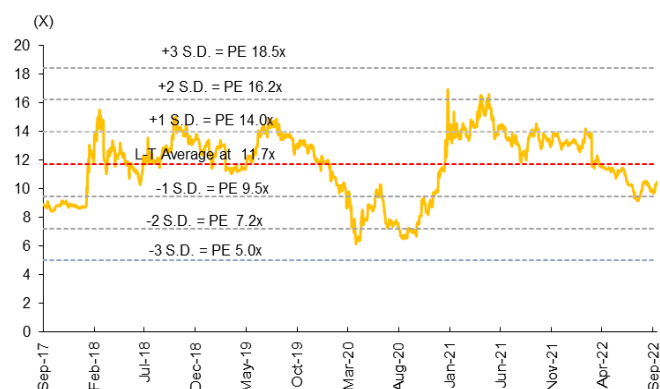
Source: Company, MST

**Fig 2: Gordon Growth Model valuation**

Sustainable ROE (%)	19.2	Risk free rate (%)	2.0
Cost of equity (%)	10.4	Equity premium (%)	8.0
Long-term nominal growth (g)	5.0	Equity Beta (x)	1.0
Target PBV (x)	2.6	Cost of equity (%)	10.4
Target PE (x)	14.3		
2022 BV (THB)	91.3		
Fair value (THB/share)	240.0		

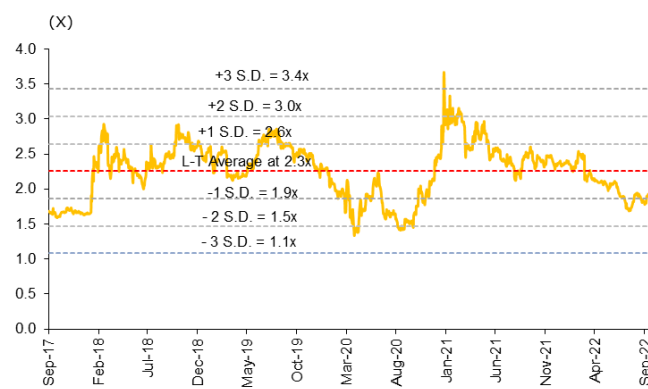
Source: Company, MST

**Fig 3: PER band**



Source: Bloomberg, MST

**Fig 4: PBV band**



Source: Bloomberg, MST

**Fig 5: Peer comparisons**

Ticker	Name	P/E (x)		P/BV (x)		ROE (%)		Yield (%)	
		FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
AEONTS TB	AEON THANA SINSAP THAILAND	10.2	9.3	1.9	1.7	19.7	19.2	3.0	3.3
ASK TB	ASIA SERMKIJ LEASING PCL	12.4	10.4	1.9	1.7	15.8	17.5	4.0	4.8
KTC TB	KRUNGTHAI CARD PCL	22.6	20.2	5.1	4.4	24.3	23.2	1.9	2.1
MICRO TB	MICRO LEASING PCL	28.8	18.2	2.3	2.1	8.5	12.3	1.2	1.8
MTC TB	MUANGTHAI CAPITAL PCL	16.7	13.4	3.1	2.6	20.4	21.3	0.9	1.6
SAK TB	SAKSIAM LEASING PCL	21.7	17.6	3.0	2.7	14.4	16.1	1.6	2.5
SAWAD TB	SRISAWAD CORP PCL	15.4	13.1	2.6	2.4	17.6	19.1	3.2	3.7
SINGER TB	SINGER THAILAND PUB CO LTD	33.4	23.3	2.4	2.3	7.6	9.6	1.5	2.1
THANI TB	RATCHTHANI LEASING PCL	14.1	12.5	2.1	2.0	16.1	16.4	4.0	4.4
TIDLOR TB	NGERN TID LOR PCL	19.4	15.8	2.9	2.5	15.8	17.0	1.2	1.5
JMT TB	JMT NETWORK SERVICES PCL	54.5	38.9	4.9	4.5	9.9	12.0	1.3	1.7
BAM TB	BANGKOK COMMERCIAL ASSET MAN	19.3	15.4	1.4	1.3	7.2	8.5	4.0	4.9
CHAYO TB	CHAYO GROUP PCL	26.8	25.6	2.9	2.3	13.2	11.0	0.9	1.1
Average - Bloomberg consensus		22.7	18.0	2.8	2.5	14.6	15.6	2.2	2.7

Source: Bloomberg, MST

FYE 28 Feb	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Metrics</b>					
Core P/E (x)	13.4	13.9	10.5	9.4	8.5
Core FD P/E (x)	13.4	13.9	10.5	9.4	8.5
P/BV (x)	2.9	2.5	1.9	1.7	1.5
P/NTA (x)	3.0	2.6	2.0	1.7	1.5
Net dividend yield (%)	2.3	2.6	2.8	3.2	3.5

**INCOME STATEMENT (THB m)**

Interest income	18,587.0	17,903.0	18,705.1	20,064.8	21,523.3
Interest expense	(2,096.3)	(1,744.7)	(1,740.1)	(1,848.2)	(1,962.8)
<b>Net interest income</b>	<b>16,490.8</b>	<b>16,158.3</b>	<b>16,965.0</b>	<b>18,216.6</b>	<b>19,560.5</b>
Net insurance income	245.8	209.7	191.6	208.9	227.7
Net fees and commission	510.2	682.0	722.9	788.0	858.9
Other income	703.8	573.3	485.3	528.9	576.5
<b>Total non-interest income</b>	<b>2,689.5</b>	<b>2,888.5</b>	<b>3,061.8</b>	<b>3,337.3</b>	<b>3,637.7</b>
<b>Income from depositors' funds</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Income from shareholders' fund:</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Income distributable to depositors</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Operating income</b>	<b>19,180.2</b>	<b>19,046.8</b>	<b>20,026.7</b>	<b>21,553.9</b>	<b>23,198.1</b>
Staff costs	(8,323.4)	(7,843.6)	(8,078.9)	(8,563.6)	(9,163.1)
Other operating expenses	0.0	0.0	0.0	0.0	0.0
<b>Operating expenses</b>	<b>(8,323.4)</b>	<b>(7,843.6)</b>	<b>(8,078.9)</b>	<b>(8,563.6)</b>	<b>(9,163.1)</b>
<b>Pre-provision profit</b>	<b>10,856.8</b>	<b>11,203.2</b>	<b>11,947.8</b>	<b>12,990.3</b>	<b>14,035.1</b>
Loan impairment allowances	(6,209.6)	(6,629.4)	(6,669.9)	(7,086.4)	(7,528.5)
Other allowances	0.0	0.0	0.0	0.0	0.0
Associates & JV income	0.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>4,647.2</b>	<b>4,573.8</b>	<b>5,277.9</b>	<b>5,903.9</b>	<b>6,506.5</b>
Income tax	(967.1)	(999.9)	(1,055.6)	(1,180.8)	(1,301.3)
Minorities	9.6	(20.9)	(24.1)	(26.9)	(29.7)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
<b>Reported net profit</b>	<b>3,689.7</b>	<b>3,553.1</b>	<b>4,198.3</b>	<b>4,696.2</b>	<b>5,175.6</b>
<b>Core net profit</b>	<b>3,689.7</b>	<b>3,553.1</b>	<b>4,198.3</b>	<b>4,696.2</b>	<b>5,175.6</b>

**BALANCE SHEET (THB m)**

Cash & deposits with banks	5,105.2	4,235.6	2,982.3	2,685.1	3,144.9
Sec. under resale agreements	0.0	0.0	0.0	0.0	0.0
Derivatives financial assets	0.0	0.0	0.0	0.0	0.0
Dealing securities	0.0	0.0	0.0	0.0	0.0
Available-for-sale securities	0.0	0.0	0.0	0.0	0.0
Investment securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	75,839.0	80,076.4	86,981.9	93,799.9	100,342.3
Financing and advances	0.0	0.0	0.0	0.0	0.0
Central bank deposits	0.0	0.0	0.0	0.0	0.0
Investment in associates/JVs	0.0	0.0	0.0	0.0	0.0
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	793.5	622.9	666.5	713.2	763.1
Intangible assets	696.6	920.4	984.8	1,053.8	1,127.5
Other assets	4,954.2	4,614.0	4,936.9	5,282.5	5,652.3
<b>Total assets</b>	<b>87,388.5</b>	<b>90,469.2</b>	<b>96,552.5</b>	<b>103,534.5</b>	<b>111,030.1</b>
Deposits from customers	0.0	0.0	0.0	0.0	0.0
Deposits from banks & FIs	0.0	0.0	0.0	0.0	0.0
Derivatives financial instruments	0.0	0.0	0.0	0.0	0.0
Subordinated debt	0.0	0.0	0.0	0.0	0.0
Other securities in issue	9,425.4	8,259.6	8,672.6	9,106.2	9,561.5
Other borrowings	53,200.7	57,158.6	60,016.5	63,017.3	66,168.2
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	7,383.1	4,787.1	5,026.5	5,277.8	5,541.7
<b>Total liabilities</b>	<b>70,009.2</b>	<b>70,205.3</b>	<b>73,715.5</b>	<b>77,401.3</b>	<b>81,271.4</b>
Share capital	250.0	250.0	250.0	250.0	250.0
Reserves	16,807.8	19,638.7	22,587.0	25,883.2	29,508.7
Shareholders' funds	17,057.8	19,888.7	22,837.0	26,133.2	29,758.7
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	321.9	375.3	0.0	0.0	0.0
Total equity	17,379.7	20,264.0	22,837.0	26,133.2	29,758.7
<b>Total liabilities &amp; equity</b>	<b>87,388.9</b>	<b>90,469.3</b>	<b>96,552.5</b>	<b>103,534.5</b>	<b>111,030.1</b>

FYE 28 Feb	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Ratios</b>					
<b>Growth (%)</b>					
Net interest income	(9.1)	(2.0)	5.0	7.4	7.4
Non-interest income	(8.5)	7.4	6.0	9.0	9.0
Operating expenses	(10.4)	(5.8)	3.0	6.0	7.0
Pre-provision profit	(7.9)	3.2	6.6	8.7	8.0
Core net profit	(7.2)	(3.7)	18.2	11.9	10.2
Gross loans	(3.1)	4.1	7.0	7.0	7.0
Customer deposits	na	na	na	na	na
Total assets	(8.4)	3.5	6.7	7.2	7.2
<b>Profitability (%)</b>					
Non-int. income/Total income	14.0	15.2	15.3	15.5	15.7
Average lending yields	20.92	20.06	19.85	19.90	19.95
Average financing yields	0.00	0.00	0.00	0.00	0.00
Average cost of funds	3.18	2.73	2.60	2.63	2.66
Net interest margin	18.56	18.11	18.01	18.07	18.13
Net income margin	17.34	17.09	19.29	20.07	20.57
Cost/income	43.4	41.2	40.3	39.7	39.5
<b>Liquidity (%)</b>					
Loans/customer deposits	nm	nm	nm	nm	nm
<b>Asset quality (%)</b>					
Net NPL	0.0	0.0	0.0	0.0	0.0
Gross NPL	5.8	4.9	5.0	5.3	5.5
Net NPF	0.0	0.0	0.0	0.0	0.0
Gross NPF	0.0	0.0	0.0	0.0	0.0
(SP+GP)/average gross loans	7.0	7.4	7.1	7.0	7.0
(SP+GP)/average gross financing	0.0	0.0	0.0	0.0	0.0
Loan loss coverage	229.9	247.4	213.8	188.6	182.1
<b>Capital adequacy (%)</b>					
CET1	0.0	0.0	0.0	0.0	0.0
Tier 1 capital	0.0	0.0	0.0	0.0	0.0
Risk-weighted capital	0.0	0.0	0.0	0.0	0.0
<b>Returns (%)</b>					
ROAE	19.5	19.2	19.7	19.2	18.5
ROAA	4.0	4.0	4.5	4.7	4.8
Shareholders equity/assets	19.5	22.0	23.7	25.2	26.8

Source: Company; Maybank IBG Research



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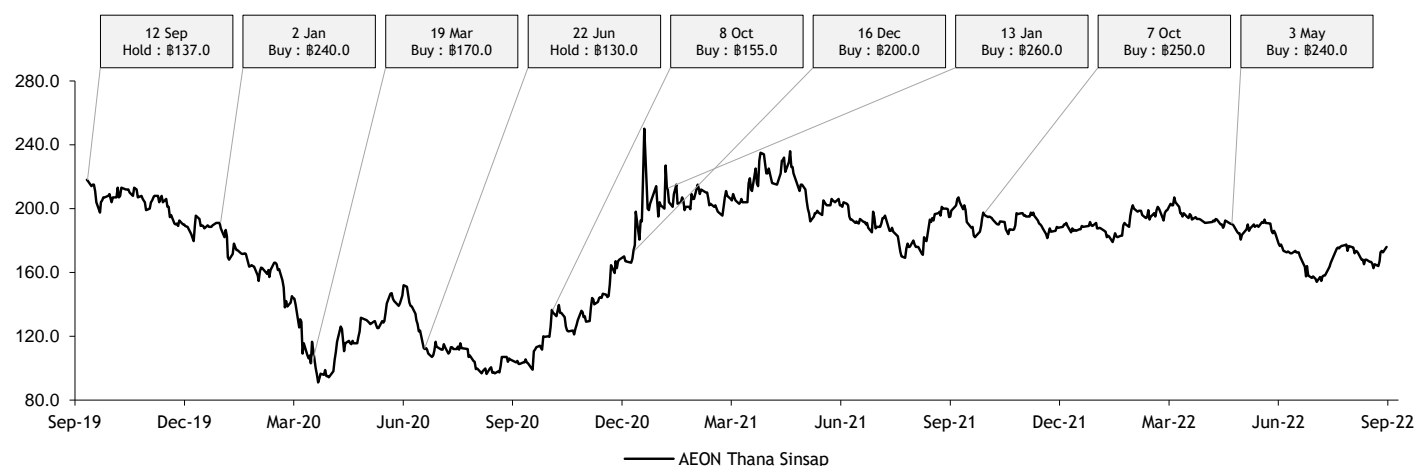
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