

15 Apr 2024 | 6 Pages

Aeon Credit (900.HK)

Optimistic on top-bottom line growth

Fair value revised up to HK\$13.00. We have met with the Mgt of Aeon Credit Services Asia (ACSA) post FY2/24 results and updated the model. The revenue assumptions for FY25E/26E were revised up by 14%/16%, respectively to HK\$1.77b and HK\$1.86b, respectively, driven by stronger credit demand and successful marketing in the young segment. Owing to higher economies of scale, forecast for core net profit in FY25E/26E were boosted by 18%/31%, respectively to HK\$493mn and HK\$569mn. Based on the latest DCF valuation, ACSA's fair value is at HK\$13.00, 6% higher from the previous HK\$12.24. The valuation corresponds to about 0.6x FY2/25E PB with an estimated yield of 9.9%.

Figure 1: Financial Summary

Year to Feb 28 (HK\$ m)	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue	1,050	1,232	1,623	1,771	1,860	1,953
Reported net profit	343	374	392	493	569	597
Core net Profit	343	374	392	493	569	597
EPS (HKD)	0.82	0.89	0.94	1.18	1.36	1.42
EPS growth (%)	13.6%	9.1%	5.0%	25.8%	15.3%	4.9%
Book value per share (HKD)	8.68	9.30	9.64	9.87	10.36	10.89
P/E (x)	6.9	6.3	6.0	4.8	4.2	4.0
P/B (x)	0.7	0.6	0.6	0.6	0.5	0.5
DPS(HKD)	0.44	0.44	0.48	0.52	0.52	0.56
Dividend Yield (%)	7.8%	7.8%	8.5%	9.2%	9.2%	9.9%
Underlying ROE (%)	9%	10%	10%	12%	13%	13%

Source: Bloomberg and Sunwah Kingsway Research

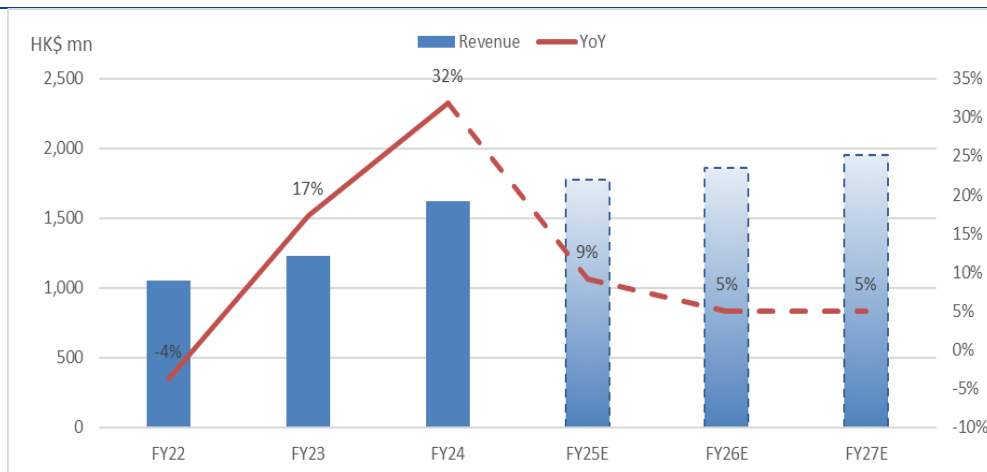
Model updates

Robust revenue growth in FY25E. The FY25/26E revenue estimate was hiked by 14%/16%, respectively mainly due to the robust credit demand in the Hong Kong market. Meanwhile, handling and late charges are expected to ease during the year on the back of asset quality improvement and less demand for cash advances as the macro economy recovers.

Fair Value		HKD 13.00		
Last price (12 Apr 24)		HK\$5.66		
HSI		16,721.7		
Mkt cap (HKDb/USDb)		2.35/0.3		
52 week range (HKD)		5.1 - 5.72		
Avg 6M daily trading volume (USDk)		38		
Free float		31.52%		
Source: Bloomberg				
Share Price Performance				
Source: Bloomberg				
Share Price Performance		1M	6M	12M
Absolute (%)		3	4	15
Absolute (USD,%)		3	4	15
Rel. to HSI (%)		3	10	30
Source: Bloomberg				
Company background				
<p>Aeon Credit Service (Asia) Company Limited provides a range of consumer credit finance services which include the issuance of credit cards, vehicle financing, hire purchase financing, and personal loan financing.</p>				
Source: Company data, Sunwah Kingsway Research				
<p>Ensley Liu (852) 2283 7618 ensley.liu@sunwahkingsway.com</p>				
<p>Howard Wong (852) 2283 7307 howard.wong@sunwahkingsway.com</p>				

Aeon Credit Services Asia is a research client of Kingsway Financial Services Group Limited

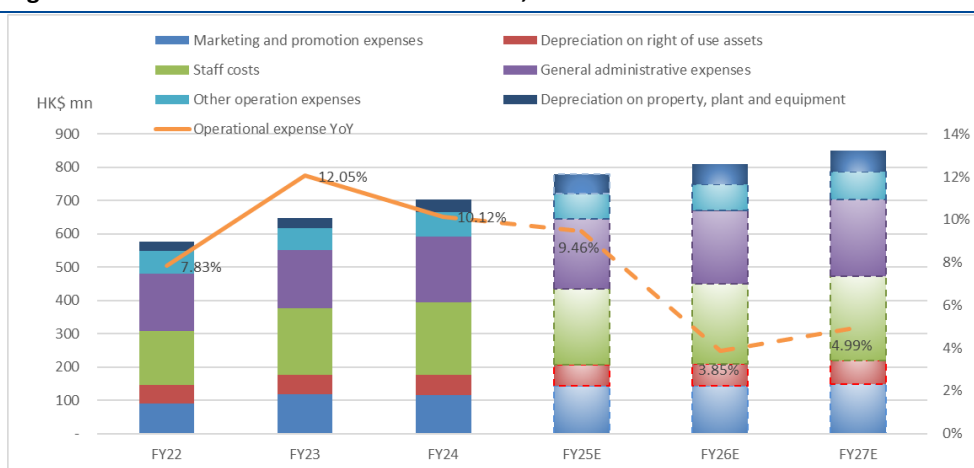
Figure 2: Revenue from FY22 to FY27E



Source: Company data, Sunwah Kingsway Research

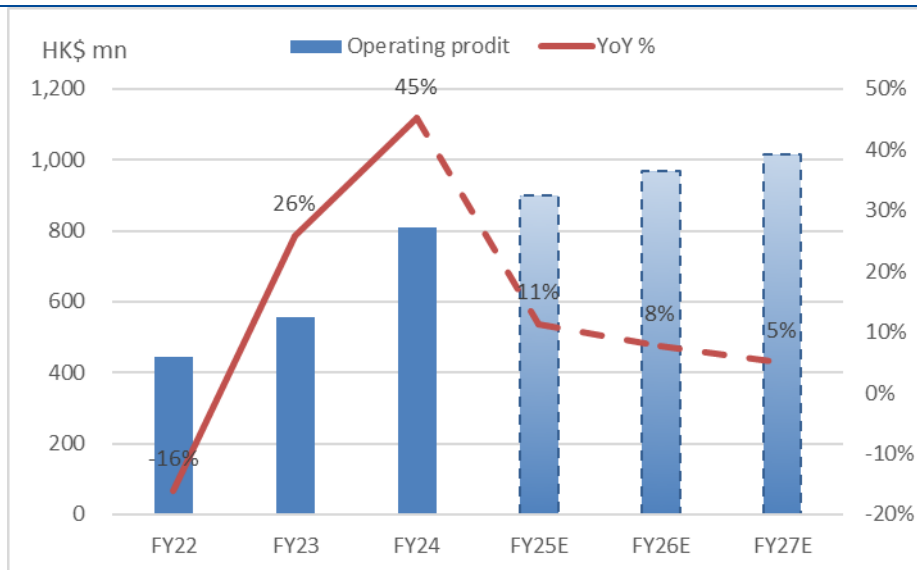
Economies of scale drive better profitability. The operating profit in FY2/24 increased by 45% YoY, showing a strong scale effect of ACSA. Looking ahead, its cost-to-income ratio is expected to gradually decline owing to effective cost controls for higher economies of scale. With a full funnel omni-channel marketing strategy, its total marketing and promotion expenses to operating income ratio is expected to decline by 0.5/1ppts to 8.5%/8.0%, respectively in FY25/26E, respectively. As the depreciation on PPE, staff costs and general administrative expenses are expected to remain stable, the total cost to income ratio is anticipated to be 46.4%/45.5%/45.5% in FY25-27E, respectively. As such, the operating profit estimate in FY25/26E is projected to grow by 25%/30% to HK\$900mn and HK\$969mn, respectively.

Figure 3: Breakdown of OPEX and OPEX ratio, FY22 to 27E



Source: Company data and Sunwah Kingsway Research

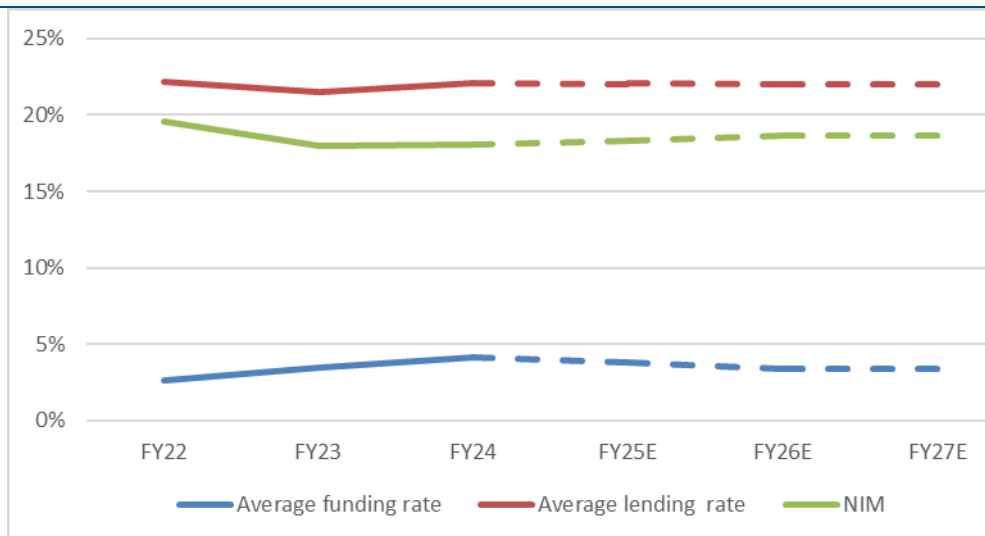
Figure 4: Operating profit, FY22 to FY27E



Source: Company data, Sunwah Kingsway Research

Expect higher NIM in FY25E. ACSA’s financing structure is largely a combination of the short-term loan from its immediate holding company and bank loans of various tenors, where the loan from its immediate holding company is charged at HIBOR. In addition, as the interest rate is expected to peak soon, the company plans to gradually lock in some long-term bank loans. As such, the funding costs in the near-term is likely to decline and resulting in a higher NIM assumptions for FY25/26E by 1.1/1.8ppts, respectively to 18.3%/18.6%, up 0.3%/0.6% compared to FY24, respectively.

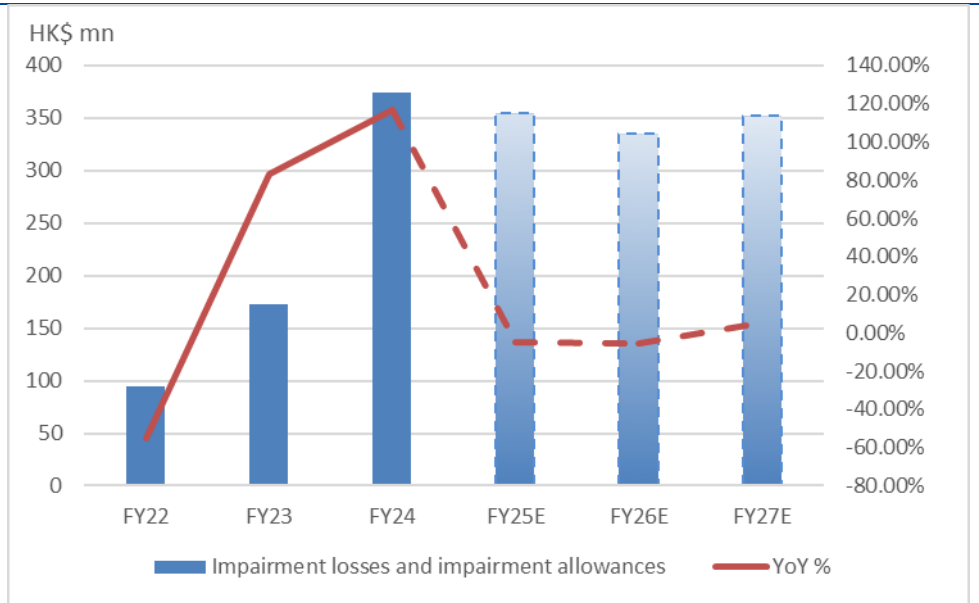
Figure 5: Net interest margin, FY22 to FY27E



Source: Company data, Sunwah Kingsway Research

Credit defaults can be a near-term swing factor. Impairment losses and allowances climbed by 116% YoY in FY2/24 and the Mgt expects that the credit defaults risk would remain high in 1Q/FY25. While the situation is expected to improve entering 2Q/FY25 as their efforts to refine its credit assessment model starts kicking in. As such, the impairment losses and allowances assumptions for FY25/26E has been revised up by 28%/17% to reflect an increase of overall credit risk.

Figure 6: Impairment losses and allowances, FY22 to FY27E



Source: Company data, Sunwah Kingsway Research

Key financial statement data (Year-ended Feb 28)

Profit & Loss (HK\$ m)	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue	1,050	1,232	1,623	1,771	1,860	1,953
Interest income	879	1,032	1,367	1,525	1,601	1,681
Interest expense	(32)	(44)	(108)	(113)	(103)	(108)
Net interest income	847	988	1,259	1,412	1,499	1,574
Fees and commissions	103	132	129	136	142	150
Handling and late charges	67	68	127	111	116	122
Operating income	1,021	1,204	1,521	1,680	1,779	1,867
Marketing expenses	(89)	(118)	(115)	(143)	(142)	(149)
Depreciation on right of use assets	(57)	(58)	(61)	(64)	(67)	(71)
Staff costs	(162)	(199)	(218)	(228)	(240)	(252)
General administrative expenses	(172)	(176)	(199)	(209)	(220)	(231)
Depreciation on property, plant and equipment	(29)	(29)	(37)	(60)	(62)	(65)
Other operation expenses	(68)	(67)	(72)	(75)	(79)	(83)
Operating profit	443	557	808	900	969	1,016
Other gains and losses	(45)	(107)	(335)	(305)	(283)	(297)
Profit before tax	398	449	473	595	686	719
Taxation	(55)	(76)	(80)	(101)	(117)	(122)
Net profit	343	374	392	493	569	597

Source: Company data and Sunwah Kingsway Research

Balance Sheet (HK\$ m)	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
PP&E	100	85	172	177	186	195
Right-of-use assets	59	43	119	133	140	146
Advances and receivables	751	1,240	1,512	1,562	1,640	1,722
Prepayments, deposits and other debtors	32	64	36	44	47	49
Other non-current assets	91	158	138	137	141	147
Non-current assets	1,032	1,590	2,008	2,053	2,154	2,259
Advances and receivables	3,343	4,405	5,201	5,539	5,815	6,106
Prepayments, deposits and other debtors	64	67	79	89	93	98
Time deposits	193	13	15	13	13	13
Bank balances and cash	457	382	258	0	0	0
Current assets	4,057	4,868	5,553	5,640	5,922	6,217
Creditors and accruals	184	203	262	301	316	332
Contract liabilities	19	24	22	27	28	29
Bank borrowings	165	790	469	533	559	587
Borrowing from immediate holding company	0	0	800	852	895	939
Lease liabilities	37	34	38	53	56	59
Tax liabilities	25	94	6	44	47	49
Other current liabilities	60	46	82	51	51	51
Current liabilities	490	1,191	1,678	1,861	1,951	2,046
Bank borrowings	919	1,318	1,710	1,598	1,678	1,761
Other non-current liabilities	47	57	106	103	106	110
Non-current liabilities	966	1,374	1,816	1,700	1,784	1,871
Net assets	3,634	3,892	4,068	4,132	4,340	4,559
Total equity	3,634	3,892	4,068	4,132	4,340	4,559

Source: Company data and Sunwah Kingsway Research

Dupont Analysis	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (%)	86.1	83.2	83.0	83.0	83.0	83.0
Operating profit margin (%)	42.2	45.2	49.8	50.8	52.1	52.0
Asset turnover (x)	0.04	0.05	0.06	0.06	0.06	0.06
Underlying ROA (%)	6.7	5.8	5.2	6.4	7.0	7.0
Underlying ROE (%)	9.4	9.6	9.6	11.9	13.1	13.1

Source: Company data and Sunwah Kingsway Research

Financial Ratios	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue y-o-y growth (%)	(3.7)	17	32	9	5	5
Net profit y-o-y growth (%)	14	9.1	5.0	25.8	15.3	4.9
Operating profit margin (%)	42.2	45.2	49.8	50.8	52.1	52.0
Net profit margin (%)	32.6	30.3	24.2	27.9	30.6	30.5
Net debt (cash)/equity (%)	11.9	44.0	66.5	71.9	71.8	71.8
Net debt/total assets (%)	8.5	26.5	35.8	38.6	38.6	38.6
Current ratio (%)	827.4	408.8	331.0	303.1	303.5	303.8
Dividend payout (%)	54	49	51	44	38	39

Source: Company data and Sunwah Kingsway Research

Cash flow (HK\$ m)	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
EBT	398	449	473	595	686	719
Depreciation & amortization	84	83	95	125	129	136
Impairment losses and impairment	94	173	374	355	336	352
Dividend income and gains on disposal of financial assets	(9)	(1)	(1)	(1)	(1)	(1)
Change in working capital	(448)	(1,691)	(1,346)	(333)	(345)	(363)
Tax paid	(50)	(14)	(156)	(101)	(117)	(122)
Other operating cashflow	4	(14)	(76)	5	5	5
Operating activities	74	(1,016)	(637)	644	693	726

Source: Company data and Sunwah Kingsway Research

Capex	(31)	(57)	(91)	(98)	(106)	(112)
Decrease (increase) in time deposit	(29)	47	0	(20)	(20)	(20)
Other investing cashflow	8	1	1	1	1	1
Investing activities	(52)	(9)	(121)	(117)	(125)	(131)
New loans raised and repayment of	(78)	1,065	894	4	149	157
Repayment of lease liabilities	(52)	(52)	(53)	(52)	(52)	(52)
Dividends paid	(168)	(184)	(193)	(210)	(218)	(226)
Other financing cashflow	(2)	(1)	(4)	(1)	(1)	(1)
Financing activities	(299)	827	644	(259)	(122)	(123)
Inc/(dec) in cash	(277)	(198)	(114)	269	445	472
Cash at beginning of year	865	589	388	272	536	977
Foreign exchange effect	1	(4)	(2)	(4)	(4)	(4)
Cash at end of year	589	388	272	536	977	1,446

Source: Company data and Sunwah Kingsway Research

Disclaimer

This document is not an offer to sell or the solicitation of an offer to buy or subscribe for any securities. The securities referred to in this document may not be eligible for sale in some jurisdiction. Neither this document nor any portion hereof may be taken distributed or transmitted directly or indirectly into such jurisdiction nor to any resident thereof. Any failure to comply with this restriction may constitute a violation of the applicable laws and regulations and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. This document has been produced for private circulation and may not be copied, photocopied, duplicated, or redistributed without prior written consent of Kingsway Financial Services Group Limited (“KFS”) and its affiliated companies (collectively, “Kingsway Group”).

This report is distributed in Hong Kong Special Administrative Region of the People’s Republic of China (“Hong Kong”) by KFS which is registered as a licensed corporation under the Securities and Futures Ordinance (Cap.571 of The Laws of Hong Kong) with the Securities and Futures Commission of Hong Kong (“SFC”) and its SFC CE number is ADF346.

The information contained in this report has been taken from sources believed to be reliable but no representation or warranty expressed or implied is made as to their accuracy or correctness. This report is published for the assistance of recipients but is not to be relied upon as authoritative or taken in substitution for the exercise of judgment by any recipient. It is not to be construed as an offer, invitation or solicitation to buy or sell any securities of the company or companies covered herein. Any recommendation contained in this report does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. All opinions and estimates reflect our judgment on the date of this report and are subject to change without notice.

KFS, including its parent, subsidiaries and/or affiliates, may act as lead or co-manager in an offering of the securities of any issuer discussed herein, may from time to time perform financial services or other advisory services for, or solicit financial services or other business from, any issuer.

Within the past year, KFS, including its parent, subsidiaries and/or affiliates, may have acted as market maker or traded on a principal basis in the financial instruments of any issuer discussed herein and may act as underwriter, placement agent, advisor or lender to such issuer.

KFS, including its parent, subsidiaries, affiliates, shareholders, officers, directors, and employees may have long or short positions in, and buy or sell, the securities, commodities or derivatives (including options) or any other financial instruments thereof, of any issuers.

An employee of KFS, including its parent, subsidiaries and/or affiliates, may act as director, or be represented on the boards of directors, of any such entities or issuers.

This research report is commissioned and compensated by Aeon Credit (900.HK).

Additional information is available upon request.

Copyright 2024 Kingsway Group. All rights reserved.

Head Office

Hong Kong

Kingsway Financial Services Group Limited
7/F, Tower One, Lippo Centre,
89 Queensway, Hong Kong
Tel: 852-2877-7000
Fax: 852-2877-2665

Affiliated & Overseas Offices

Canada

Kingsway Capital of Canada Inc.,
8 King Street. East
Suite 1201
Toronto ON M5C 1B5
Canada
Tel: 416-861-3099
Fax: 416-861-9027

China

Kingsway Financial Services Group Limited
Beijing Representative Office

Beijing Kingsway Financial Consultancy Limited
18/F, Block 1,
Henderson Centre,
18 Jianguomenneida Street,
Dongcheng District, Beijing,
100005, PRC
Tel: 8610-6518-2813
Fax: 8610-6518-2448

Shanghai Kingsway Financial Consultancy Limited
8F BEA Finance Tower,
66 Huayuanshiqiao Road, Pudong,
Shanghai, 200120 PRC
Tel: 8621-5049-0358
Fax: 8621-5049-0358

Shenzhen Kingsway Financial Consultancy Limited
701, Tower A,
Aerospace Skyscraper,
4019 Shennan Road,
Futian District, Shenzhen,
518048, PRC
Tel: 86-755-3333-6539
Fax: 86-755-3333-6536