

12 January 2023

Sector: Finance

Bloomberg ticker	AEONTS TB
Recommendation	BUY (maintained)
Current price	Bt189.50
Target price	Bt225.00 (previously "Bt200.00")
Upside/Downside	+19%
EPS revision	No change

Bloomberg target price	Bt215.86
Bloomberg consensus	Buy 9 / Hold 1 / Sell 1

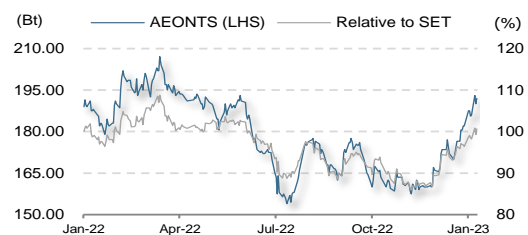
Stock data	
Stock price 1-year high/low	Bt209.00 / Bt152.00
Market cap. (Bt mn)	47,375
Shares outstanding (mn)	250
Avg. daily turnover (Bt mn)	56
Free float	31%
CG rating	Very good
ESG rating	n.a.

Financial & valuation highlights

FY: Feb (Bt mn)	2021A	2022A	2023E	2024E
Net interest income	16,491	16,158	17,016	18,134
Non NII	2,440	2,569	2,537	3,214
Pre-provision profit	10,607	10,883	11,470	12,743
Provision	(6,210)	(6,629)	(6,337)	(6,951)
Net profit	3,690	3,553	4,160	4,363
EPS (Bt)	14.76	14.21	16.64	17.45
EPS growth (%)	-7.2%	-3.7%	17.1%	4.9%
NIM (%)	18.6%	18.1%	18.1%	18.0%
BVPS (Bt)	68.23	79.55	91.13	102.74
DPS (Bt)	4.50	5.15	5.07	5.84
PER (x)	12.8	13.3	11.4	10.9
PBV (x)	2.8	2.4	2.1	1.8
Dividend yield	2.4%	2.7%	2.7%	3.1%

Bloomberg consensus

Net profit	3,690	3,553	4,092	4,548
EPS (Bt)	14.76	14.21	16.29	18.38



Source: Aspen

Price performance	1M	3M	6M	12M
Absolute	9.2%	14.2%	21.1%	1.1%
Relative to SET	5.4%	6.3%	12.8%	-0.1%

Major shareholders

	Holding
1. Aeon Financial Service Co., Ltd.	35.12%
2. ACS Capital Co., Ltd.	19.20%
3. Aeon Holding (Thailand) Co., Ltd.	8.80%

Analyst: Jutamas Temwattanangkul (Reg. no. 099971)

Aeon Thana Sinsap (Thailand)

3QFY23 net profit in line on NPL sales and higher credit card loans

We reiterate a BUY rating on AEONTS but raise a target price to Bt225.00 from Bt200.00 as we roll forward our valuation base to FY24E. Our target PBV remains unchanged at 2.2x, which is its 5-yr average. The company reported 3QFY23 earnings results that were in line with the Bloomberg consensus forecast. Net profit grew +35% YoY, +22% QoQ to Bt1.1bn, but core profit, excluding a Bt300mn gain from NPL sales, was flat YoY but declined -11% QoQ to Bt804mn. Credit card loans increased +15% YoY, +3% QoQ on seasonally higher demand and the high season in the domestic tourism sector. Bad debt recovery rose +7% YoY, but credit cost was stable at 798 bps as the NPL ratio climbed to 5.6% due to an accelerated write-off of bad debts.

We maintain FY2023E/FY2024E core profit forecast at Bt3.5bn (+16% YoY)/Bt4.4bn (+16%). The total loan amount is forecasted to grow +7% each, while the cost to income ratio would decline. In 4QFY23E, core profit will likely continue to grow YoY, QoQ in light of higher credit card spending, the government's tax deduction measure, and the prospect of the election, which will boost consumer spending. We also expect bad debt recovery to gain momentum. AEONTS has outperformed the SET Index by 5% in the past month in response to higher credit card spending. We recommend increase the position in AEONTS as we forecast the total loan amount to increase further, the NPL ratio looks poised for a reduction given the improvement in debt servicing capability and acceleration of bad debt write-off, and the latest vehicle title loan and asset management business will help boost interest and other income.

Event: 3QFY23 results review (September-November)

■ **3QFY23 net profit in line with expectations.** AEONTS reported 3QFY23 earnings results that were in line with Bloomberg consensus and our forecast. Net profit grew +35% YoY, +22% QoQ to Bt1.1bn, but core profit, excluding a Bt300mn gain from NPL sales, was flat YoY but declined -11% QoQ to Bt804mn on the back of higher credit card loans and improvement in bad debt recovery, despite an elevated credit cost due to higher NPLs and acceleration of bad debt write-off.

Net interest income rose +6% YoY, +1% QoQ and fee-based income increased +4% YoY, +7% QoQ as a result of higher credit card loans (+15% YoY, +3% QoQ) and cash advance on the back of seasonally higher demand and the high season in the domestic tourism sector. Bad debt recovery rose +7% YoY following the company's aggressive debt collection. However, credit cost remained stable at an elevated level of 798 bps (807 bps in 3QFY22 and 794 bps in 2QFY23) as a result of the higher NPL ratio of 5.6% (4.8% in 3QFY22 and 5.5% in 2QFY23) and the accelerated write-off of bad debts. Note that the company's overlay reduced to approx. Bt650mn at end-3QFY23 from Bt1.0bn in 2QFY23 following a reversal of some excess provision.

Implication

■ **Maintain FY2023-2024E earnings forecast.** We keep FY2023E/FY2024E net profit forecast at Bt4.2bn (+17% YoY) and Bt4.4bn (+5%). Excluding a gain from bad debt sales in FY2023E, core profit will grow 16% each to Bt3.8bn and Bt4.4bn, respectively. The total loan amount is forecasted to increase +7% each in light of customer base expansion, higher credit card spending alongside economic improvement, and a vehicle title loan set to be launched in 1QFY24E. The cost to income ratio would decline to 38% and 37% on the back of the implementation of IT system, and credit cost would reduce to 6.7% and 6.9% as we do not expect the company to set aside more overlays given its substantial loan-loss provision. The

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cost of funds would increase +12.5 bps each as the company aims to increase the proportion of long-term loans to reduce exposure to an interest rate hike era.

In 4QFY23E, core profit will likely continue to grow YoY, QoQ in light of higher credit card spending, the government's tax deduction measure, and the prospect of the general election, which generally boosts consumer spending. We also expect bad debt recovery to gain momentum.

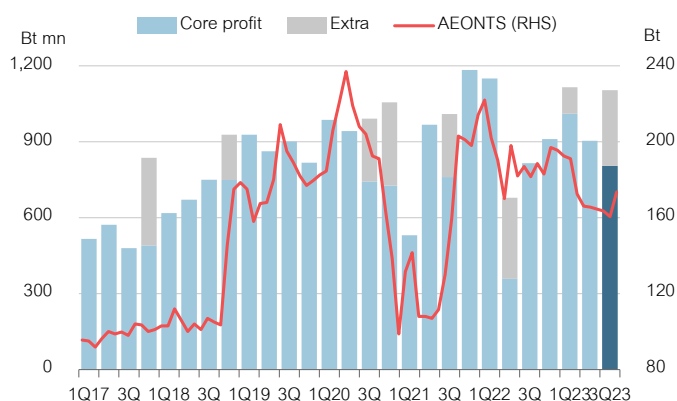
Valuation/Catalyst/Risk

Our target price increases to Bt225.00 from Bt200.00 as we roll forward our valuation base to FY2024E. Our target PBV remains unchanged at 2.2x, which is its 5-yr average. We forecast earnings to enter a new growth phase from FY2024E in the expectation that credit card spending will accelerate given the post-pandemic pent-up demand for non-essential travel, and the domestic economic recovery will gain traction, which should bode well for debt collection and thereby push the NPL ratio down. Additionally, the implementation of IT system will play a role in driving the cost to income ratio lower.

Fig 1: 3QFY23 results review

FY: Feb (Bt mn)	3Q23	3Q22	YoY	2Q23	QoQ	9M23	9M22	YoY
Interest income	4,803	4,548	5.6%	4,761	0.9%	14,269	13,421	6.3%
Interest expense	(476)	(425)	11.8%	(469)	1.5%	(1,381)	(1,327)	4.1%
Net int. income	4,328	4,122	5.0%	4,292	0.8%	12,888	12,094	6.6%
Fee & service income	231	223	3.7%	217	6.7%	683	654	4.4%
Other income	892	822	8.5%	909	-1.9%	2,625	2,221	18.2%
Total op. income	5,450	5,166	5.5%	5,417	0.6%	16,196	14,969	8.2%
Operating expense	(2,039)	(1,952)	4.5%	(1,986)	2.7%	(6,060)	(5,854)	3.5%
PPOP	3,411	3,215	6.1%	3,432	-0.6%	10,136	9,115	11.2%
Provision exp.	(1,884)	(1,780)	5.8%	(1,851)	1.8%	(5,298)	(5,011)	5.7%
Profit before tax	1,527	1,435	6.4%	1,580	-3.3%	4,838	4,104	17.9%
Norm profit	804	815	-1.3%	904	-11.0%	2,718	2,323	17.0%
Net profit	1,104	815	35.4%	904	22.2%	3,122	2,643	18.2%
EPS (Bt)	4.42	3.26	35.4%	3.61	22.2%	12.49	10.57	18.2%
Cost to income Ratio	36.9%	37.4%		36.3%		37.4%	39.1%	
NPLs ratio (%)	5.6%	4.8%		5.5%		5.6%	4.8%	
NIM (%)	18.3%	18.7%		18.4%		18.6%	18.1%	
Credit cost (%)	8.0%	8.1%		7.9%		7.7%	7.5%	

Fig 2: AEONTS share prices vs profits



Source: Aspen, DAOL

Quarterly income statement

FY: Feb (Bt mn)	2Q22	3Q22	4Q22	1Q23	2Q23
Interest income	4,439	4,548	4,482	4,705	4,761
Interest expense	(448)	(425)	(418)	(437)	(469)
Net interest income	3,990	4,122	4,065	4,268	4,292
Fee and service income	223	223	237	236	217
Other income	363	441	475	439	498
Total operating income	4,576	4,786	4,777	4,943	5,007
Operating expense	(1,980)	(1,952)	(1,990)	(2,035)	(1,986)
PPOP	2,597	2,834	2,787	2,908	3,021
Provision expense	(2,005)	(1,780)	(1,619)	(1,563)	(1,851)
Profit before tax	592	1,055	1,169	1,345	1,170
Norm profit	358	815	911	1,010	904
Net profit	678	815	911	1,115	904
EPS	2.71	3.26	3.64	4.46	3.61
Cost to income ratio	39.4%	37.4%	38.3%	37.8%	36.3%
NIM	18.4%	18.7%	18.0%	18.6%	18.4%
NPLs ratio	5.2%	4.8%	4.9%	5.3%	5.5%

Forward PBV band



Balance sheet

FY: Feb (Bt mn)	2020	2021	2022	2023E	2024E
Cash and equivalents	4,994	5,105	4,236	4,065	4,065
Investments	45	5	149	149	149
Loan to customers (net)	86,270	75,839	80,076	86,198	92,133
Other current asset	1,303	827	518	555	594
Premises and equipment	885	1,459	1,234	548	503
Other asset	1,899	4,153	4,256	4,647	5,016
Total asset	95,396	87,389	90,469	96,162	102,460
Borrowing	522	556	270	289	309
Debtenture	16,788	9,425	8,260	8,848	19,809
Loan	52,471	53,201	57,159	59,773	51,958
Other current liabilities	0	0	0	0	0
Other liabilities	4,490	6,827	4,518	4,185	4,480
Total liabilities	74,270	70,009	70,205	73,094	76,557
Paid-up capital	250	250	250	250	250
Share premium	478	478	478	478	478
Reserve	4,875	4,875	4,875	4,875	4,875
Retained earnings	15,303	12,472	14,809	17,702	20,606
Others	(178)	(1,017)	(523)	(523)	(523)
Non-controlling interest	397	322	375	286	218
Shareholders' equity	21,125	17,380	20,264	23,068	25,903

Income statement

FY: Feb (Bt mn)	2020	2021	2022	2023E	2024E
Interest income	20,348	18,587	17,903	18,926	20,222
Interest expense	(2,209)	(2,096)	(1,745)	(1,910)	(2,088)
Net interest income	18,139	16,491	16,158	17,016	18,134
Fee and service income	799	756	892	1,132	1,250
Other income	1,564	1,684	1,677	1,405	1,964
Total operating income	20,502	18,931	18,727	19,553	21,348
Operating expense	(9,289)	(8,323)	(7,844)	(8,083)	(8,604)
PPOP	11,213	10,607	10,883	11,470	12,743
Provision expense	(6,646)	(6,210)	(6,629)	(6,337)	(6,951)
Profit before tax	4,567	4,397	4,254	5,133	5,793
Income tax	(1,024)	(967)	(1,000)	(1,287)	(1,362)
Net profit before NCI	3,543	3,430	3,254	3,845	4,431
Non-controlling interest	145	(10)	21	90	68
Normalized profit	3,398	3,440	3,233	3,756	4,363
Extraordinary items	577	250	320	405	0
Net profit	3,975	3,690	3,553	4,160	4,363

Key ratios

FY: Feb	2020	2021	2022	2023E	2024E
Growth					
Credit card loan	0.7%	-2.2%	9.0%	10.9%	7.3%
Personal loan	10.1%	-5.5%	0.8%	3.8%	6.8%
Net interest income	10.1%	-9.1%	-2.0%	5.3%	6.6%
Fees and service income	2.5%	-5.4%	17.9%	26.9%	10.4%
Total operating income	11.0%	-7.7%	-1.1%	4.4%	9.2%
Pre-provision operating	15.4%	-5.4%	2.6%	5.4%	11.1%
Provision expense	25.8%	-6.6%	6.8%	-4.4%	9.7%
Normalized profit	-3.1%	1.2%	-6.0%	16.2%	16.2%
Net profit	13.4%	-7.2%	-3.7%	17.1%	4.9%
Performance					
Average asset yield	23.6%	21.0%	20.1%	20.1%	20.1%
Average cost of fund	3.3%	3.2%	2.7%	2.9%	3.0%
Net interest margin (NIM)	21.0%	18.6%	18.1%	18.1%	18.0%
Cost to income (CI)	40.9%	39.6%	38.3%	37.7%	36.7%
Credit cost (CC)	7.7%	7.0%	7.4%	6.7%	6.9%
LLR / Loan	4.4%	13.3%	12.0%	11.5%	11.6%
Bad debt recovery/LLR	26.2%	10.6%	13.0%	14.7%	13.8%
Loans to borrowings	130.3%	139.6%	139.1%	141.9%	145.3%
Return on avg assets	4.4%	4.0%	4.0%	4.5%	4.4%
Return on avg equities	20.5%	19.5%	19.2%	19.5%	18.0%
Stability					
Gross NPL ratio	3.7%	5.8%	4.9%	5.0%	5.0%
Coverage ratio	119.5%	229.9%	247.4%	231.1%	234.0%
Per Share (Bt)					
Reported EPS	15.90	14.76	14.21	16.64	17.45
Core EPS	13.59	13.76	12.93	15.02	17.45
Book value	82.91	68.23	79.55	91.13	102.74
Dividend	5.00	4.50	5.15	5.07	5.84
Valuation (x)					
PER	11.9	12.8	13.3	11.4	10.9
Core PER	13.9	13.8	14.7	12.6	10.9
P/BV	2.3	2.8	2.4	2.1	1.8
Dividend yield	2.6%	2.4%	2.7%	2.7%	3.1%

Source: Company, DAOL SEC

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Corporate governance report of Thai listed companies 2022

CG rating by the Thai Institute of Directors Association (Thai IOD)

Score	Symbol	Description	ความหมาย
90-100		Excellent	ดีเลิศ
80-89		Very Good	ดีมาก
70-79		Good	ดี
60-69		Satisfactory	ดีพอใช้
50-59		Pass	ผ่าน
< 50	No logo given	n.a.	n.a.

IOD disclaimer

The Corporate Governance Report (CGR) of Thai listed Companies is based on a survey and assessment of information that companies listed on the Stock Exchange of Thailand and the Market for Alternative Investment ("listed companies") disclose to the public. The CGR is a presentation of information from the perspective of outsiders on the standards of corporate governance of listed companies. It is not any assessment of the actual practices of the listed companies, and the CGR does not use any non-public information. The CGR is not therefore an endorsement of the practices of the listed companies. It is not a recommendation for investment in any securities of any listed companies or any recommendation whatsoever. Investors should exercise their own judgment to analyze and consider any information relating to the listed companies presented in this CGR report. No representation or warranty is made by the Institute of Directors or any of its personnel as to the completeness or accuracy of the CGR report or the information used.

DAOL SEC's stock rating definition

BUY	The stock's total return is expected to exceed 10% over the next 6-12 months. The stock has good fundamentals and attractive valuations.
HOLD	The stock's total return is expected to be between 0% and 10% over the next 6-12 months. The stock has good fundamentals but may lack near-term catalysts or its valuations are not attractive.
SELL	The stock's total return is expected to fall below 0% or more over the next 6-12 months. Stock should be sold as negative total return is anticipated due to deteriorating fundamentals compared with its valuations.

The stock's expected total return is the percentage difference between the target price and the current price, which excludes dividend yields.

ESG rating (ESG: Environmental, Social, and Governance)

DAOL SEC believes environment, social and governance (ESG) practices will help determine the sustainability and future financial performance of companies. We thus incorporate ESG into our valuation model.

- ☐ **Environment.** Environment factors relate to corporate responsibility for its actions and how it manages its impact on the environment. DAOL SEC analyzes revenue, which exposes to environment risks and opportunities.
- ☐ **Social.** Social factors deal with company's relationship with its employees and vendors. That also includes company's initiatives related to employee health and well-being, as well as community involvement. DAOL SEC's evaluation on social practices is based on Bloomberg, which measure from company's social responsibility news.
- ☐ **Governance.** Corporate government factors include company's transparency, decision-making structure, concrete risk assessment method, treatment of minority shareholders and anti-corruption practices. DAOL SEC conduct this analysis based on IOD's scores.

DAOL SEC's ESG ratings score from 1-5

1. Excellent scores at 5
2. Very Good scores at 4
3. Good scores at 3
4. Satisfactory scores at 2
5. Pass scores at 1

DAOL SEC provides "n.a." in cases of insufficient data.