

COMPANY UPDATE

Aeon Thana Sinsap (Thailand) (AEONTS TB)

1QFY24 Results Preview: Optimistic On Asset Quality Outlook

We expect AEONTS to post a 1QFY24 net profit of Bt864m (+40% yoy, -21% qoq). The qoq drop is expected to come from the absence of gain on sale of written-off receivables. We reckon that AEONTS will maintain a conservative lending policy. As the company has cleaned up its portfolio, we expect the loan portfolio to expand again in 2H24 on an economic recovery. We are optimistic about AEONTS's asset quality outlook. Maintain BUY with a higher target price of Bt188.00.

1QFY24 RESULTS PREVIEW (MAR-MAY 24)

Year to 29 Feb (Btm)	1QFY24F	4QFY23	1QFY23	qoq chg (%)	yoy chg (%)
Total gross loans	92,775	92,206	94,443	0.6	(1.8)
Net interest income	4,066	4,072	4,199	(0.2)	(3.2)
Non-interest income	830	803	734	3.4	13.2
Loan loss provision	(1,778)	(1,298)	(2,094)	37.0	(15.1)
Non-Interest Expenses	(2,012)	(2,183)	(2,033)	(7.8)	(1.1)
Pre-provision operating profit	2,884	2,692	2,899	7.1	(0.5)
Net income	864	1,094	617	(21.0)	40.0
EPS (Bt)	3.46	4.37	2.47	(21.0)	40.0
Ratio (%)					
NPL Ratio	5.0%	5.0%	5.9%		
Loan loss coverage ratio (%)	173%	183%	184%		
Net interest margin (NIM %)	17.7%	17.6%	17.9%		
Credit cost (bp)	769	556	886		
Cost to income (%)	41%	45%	41%		

Source: Aeon Thana Sinsap (Thailand), UOB Kay Hian

WHAT'S NEW

- **Expect softer 1QFY24F earnings qoq.** We expect Aeon Thana Sinsap (Thailand) (AEONTS) to report a 1QFY24 net profit of Bt864m, up 40% yoy but down 21% qoq. The qoq drop is mainly attributed to the absence of gain on sale of written-off receivables. According to industry data from the Bank of Thailand (BOT), the industry's outstanding credit card loans contracted 5% as of Mar 24. Meanwhile, personal loans outstanding for the whole market contracted 2% as of Mar 24. Given the asset quality of the credit card business, the NPL ratio of credit cards for the whole industry rose from 2.5% in 4Q23 to 2.6% in 1Q24. However, the increase was solely from NPL of credit cards from the banking business. In terms of pre-provision operating profit (PPOP), we expect the company to post a contraction of 1% yoy (up 7% qoq) in 1QFY24.

KEY FINANCIALS

Year to 29 Feb (Btm)	2022	2023	2024F	2025F	2026F
Net interest income	17,151	16,605	16,687	17,853	19,084
Non-interest income	3,277	3,198	3,493	3,610	3,767
Net profit (rep./act.)	3,815	3,259	3,597	3,744	2,319
Net profit (adj.)	3,815	3,259	3,597	3,744	2,319
EPS (Bt)	15.3	13.0	14.4	15.0	9.3
PE (x)	9.6	11.2	10.2	9.8	15.8
P/B (x)	1.6	1.5	1.4	1.3	1.2
Dividend yield (%)	3.6	3.8	3.5	3.8	0.0
Net int margin (%)	18.5	17.9	17.7	17.8	18.0
Cost/income (%)	40.2	42.4	41.3	41.3	41.6
Loan loss cover (%)	189.6	182.8	160.0	148.0	160.0
Consensus net profit	-	-	3,620	3,905	4,019
UOBKH/Consensus (x)	-	-	0.99	0.96	0.58

Source: Aeon Thana Sinsap (Thailand) Pcl, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Bt146.50
Target Price	Bt188.00
Upside	+28.3%
(Previous TP)	Bt182.00)

COMPANY DESCRIPTION

AEONTS is a non-bank consumer finance operator that mainly provides personal loans and credit cards to customers. The company principally focuses on the middle- to lower-income groups.

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	AEONTS TB
Shares issued (m):	250.0
Market cap (Btm):	36,625.0
Market cap (US\$m):	1,000.9
3-mth avg daily t'over (US\$m):	1.1

Price Performance (%)

52-week high/low	Bt203.00/Bt145.00			
1mth	3mth	6mth	1yr	YTD
(7.0)	(1.0)	(6.1)	(26.8)	(8.4)

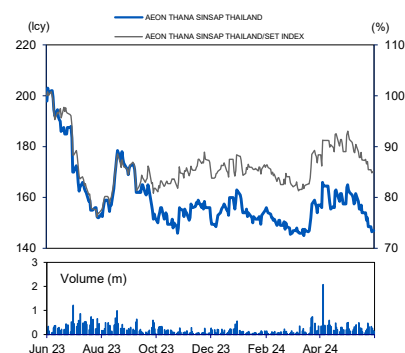
Major Shareholders

AEON Financial Service Co., Ltd. / Japan	35.1
ACS Capital Corporation Limited	19.2
AEON Holdings (Thailand) Co., Ltd	8.8

FY25 NAV/Share (Bt) 116.58

FY25 Solvency Ratio (%)

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Maintain prudent lending policy in 1QFY24.** We expect the total gross loans of AEONTS to contract 2% yoy and rise 1% qoq, amounting to Bt92.8b in 1QFY24. Management reiterated that AEONTS will maintain a conservative lending policy. As the company has cleaned up its portfolio, we expect the loan portfolio to expand again in 2H24 on an economic recovery.
- **Good asset quality outlook.** With a significant reduction in new NPL formation in 4QFY23 to 5.4% (3QFY23: 11.4%, 2QFY23: 10.5%), we expect the NPL ratio to be stable at 5% in 1QFY24. We project a credit cost of 769bp in 1QFY24, up from 556bp in 4QFY23. The rise in credit cost in 1QFY24 can be attributed to the smaller loan portfolio due to its portfolio clean-up. Meanwhile, we forecast the loan loss coverage (LLC) ratio at 173% in 1QFY24, compared with 183% in 4QFY23. We are positive on AEONTS's asset quality outlook.

EARNINGS REVISION/RISK

- We revised our FY24-26 earnings forecasts upward by 4.8%, 4.2% and 4.2% respectively on the better asset quality outlook.

NET PROFIT FORECASTS

(Btm)	2024F	2025F	2026F
Old	3,431	3,593	3,809
New	3,597	3,744	3,969
% chg	4.8%	4.2%	4.2%

Source: UOB Kay Hian

VALUATION/RECOMMENDATION

- **Maintain BUY with a higher target price of Bt188.00.** We use the Gordon Growth Model with cost of equity at 13.0% and a long-term growth rate of 3.0%. Our target price implies 1.8x 2024F P/B, which is -0.5SD to its five-year average. The current share price trades at -1.5SD to its five-year mean, which is below the pre-pandemic period.

SHARE PRICE CATALYST

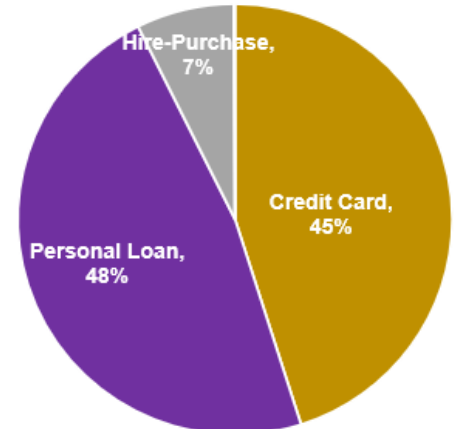
- NPL ratio peaking.
- A stimulus package from the government to improve domestic spending.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

CG Report: 5
SET ESG Rating: N/A
<ul style="list-style-type: none"> • Environmental <ul style="list-style-type: none"> - Reducing paper and plastic usage. The company plans to convince and achieve 100% of its customers to switch to e-statements in the next 3-5 years. - Waste management. AEONTS estimates waste segregation at 95% in the next 2-3 years. - Electrical energy, water, and fuel energy management. The company is focusing on clean energy consumption. • Social <ul style="list-style-type: none"> - Number of complaints and disputes with the community. The company plans to achieve a satisfaction result of 85% in the handling of complaints and disputes over the next few years. - The satisfaction rate from the financial literacy provided by AEONTS is expected to exceed 85% in the next 2-3 years. • Governance <ul style="list-style-type: none"> - The number of complaints regarding violations of the company's ethics and policies, and incidents of corporate corruption should be less than five times in the next 2-3 years. - The Corporate Governance Report (CGR) score assessed by Institute of Director (IOD) should exceed 85% in the next few years.

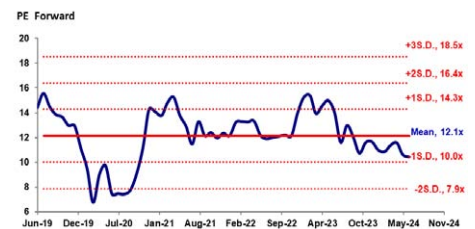
Source: AEONTS, SET, UOB Kay Hian

LOAN PORTFOLIO BREAKDOWN (4QFY23)



Source: AEONTS, UOB Kay Hian

PE BAND



Source: AEONTS, UOB Kay Hian

P/B BAND



Source: AEONTS, UOB Kay Hian

PROFIT & LOSS

Year to 29 Feb (Btm)	2023	2024F	2025F	2026F
Interest income	18,767	19,043	20,224	21,484
Interest expense	(2,162)	(2,356)	(2,371)	(2,400)
Net interest income	16,605	16,687	17,853	19,084
Fees & commissions	864	1,148	1,291	1,369
Other income	2,334	2,344	2,319	2,399
Non-interest income	3,198	3,493	3,610	3,767
Total income	19,803	20,179	21,463	22,851
Staff costs	(8,219)	(8,143)	(8,664)	(9,290)
Other operating expense	(183)	(192)	(202)	(212)
Pre-provision profit	11,402	11,844	12,597	13,349
Loan loss provision	(7,240)	(7,239)	(7,803)	(10,379)
Other provisions	0	0	0	0
Associated companies	0	0	0	0
Other non-operating income	0	0	0	0
Pre-tax profit	4,161	4,606	4,794	2,970
Tax	(824)	(921)	(959)	(594)
Minorities	(79)	(88)	(91)	(56)
Net profit	3,259	3,597	3,744	2,319
Net profit (adj.)	3,259	3,597	3,744	2,319

BALANCE SHEET

Year to 29 Feb (Btm)	2023	2024F	2025F	2026F
Cash with central bank	2,797	3,707	3,939	4,187
Govt treasury bills & securities	0	0	0	0
Interbank loans	0	0	0	0
Customer loans	83,017	89,039	96,237	101,829
Investment securities	0	0	0	0
Derivative receivables	0	0	0	0
Associates & JVs	0	0	0	0
Fixed assets (incl. prop.)	530	274	220	215
Other assets	6,156	6,681	6,936	7,241
Total assets	92,499	99,701	107,332	113,472
Interbank deposits	0	0	0	0
Customer deposits	0	0	0	0
Derivative payables	0	0	0	0
Debt equivalents	8,453	8,729	9,276	9,860
Other liabilities	58,984	63,683	68,502	71,795
Total liabilities	67,437	72,413	77,778	81,655
Shareholders' funds	24,472	26,787	29,144	31,463
Minority interest - accumulated	589	502	411	354
Total equity & liabilities	92,499	99,701	107,332	113,472

OPERATING RATIOS

Year to 29 Feb (%)	2023	2024F	2025F	2026F
Capital Adequacy				
Total assets/equity (x)	3.8	3.7	3.7	3.6
Tangible assets/tangible common equity (x)	3.9	3.8	3.7	3.7
Asset Quality				
NPL ratio	4.9	4.6	4.0	4.0
Loan loss coverage	182.8	160.0	148.0	160.0
Loan loss reserve/gross loans	7.9	7.5	7.6	9.5
Increase in NPLs	(15.1)	(1.6)	(8.8)	6.3
Credit cost (bp)	775.4	765.2	780.1	976.3
Liquidity				
Loan/deposit ratio	146.1	143.6	141.9	143.8
Liquid assets/short-term liabilities	5.2	6.4	6.3	6.4
Liquid assets/total assets	3.0	3.7	3.7	3.7

KEY METRICS

Year to 29 Feb (%)	2023	2024F	2025F	2026F
Growth				
Net interest income, yoy chg	(3.2)	0.5	7.0	6.9
Fees & commissions, yoy chg	(5.5)	32.9	12.4	6.0
Pre-provision profit, yoy chg	(6.6)	3.9	6.4	6.0
Net profit, yoy chg	(14.6)	10.4	4.1	(38.1)
Net profit (adj.), yoy chg	(14.6)	10.4	4.1	(38.1)
Customer loans, yoy chg	(0.9)	7.3	8.1	5.8
Profitability				
Net interest margin	17.9	17.7	17.8	18.0
Cost/income ratio	42.4	41.3	41.3	41.6
Adjusted ROA	3.5	3.7	3.6	2.1
Reported ROE	13.8	14.0	13.4	7.7
Adjusted ROE	13.8	14.0	13.4	7.7
Valuation				
P/BV (x)	1.5	1.4	1.3	1.2
P/NTA (x)	1.6	1.4	1.3	1.2
Adjusted P/E (x)	11.2	10.2	9.8	15.8
Dividend Yield	3.8	3.5	3.8	0.0
Payout ratio	42.3	35.7	37.0	0.0

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