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KEY HIGHLIGHTS

Update

Aeon Thana Sinsap (Thailand)

(AEONTS TB/BUY/Bt156.00/Target: Bt190.00)

3QFY23 results preview: Conservative mode to handle asset quality.

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KEY INDICES

Symbol	Close	Chg	%Chg
SET	1,389.55	6.01	0.43
SET50	857.44	1.74	0.20
Value (Btm) - SET	34,912		
Top 5 Sector			
BANK	368.79	(0.85)	(0.23)
PETRO	737.88	10.13	1.39
PROP	227.46	0.91	0.40
ENERG	20,655.83	16.09	0.08
ICT	150.43	0.12	0.08

Source: Bloomberg

TOP VOLUME

Symbol	Close (Baht)	+/-(% Chg)	5-day ADT (BTm)
PTTEP	143.00	(1.72)	2,029.6
PTT	35.75	0.00	2,373.2
AOT	60.00	0.00	3,401.8
BDMS	25.75	(1.90)	1,422.7
KBANK	127.50	(1.16)	1,320.9

TOP GAINERS

Symbol	Close (Baht)	+/-(% Chg)	5-day ADT (BTm)
NEWS	0.02	100.00	0.1
ASAP	3.14	30.83	10.9
PPPM	0.06	20.00	0.4
ZIGA	2.86	15.32	119.9
MONO	0.96	14.29	4.5

TOP LOSERS

Symbol	Close (Baht)	+/-(% Chg)	5-day ADT (BTm)
TWZ	0.04	(20.00)	0.4
COTTO	1.50	(18.92)	10.5
CHO	1.71	(11.86)	12.7
THREL	2.40	(10.45)	1.5
CIG	0.11	(8.33)	6.8

*ADT: Average daily turnover

KEY STATISTICS

Commodity	Current Price	%Chg-----		
		1m	3M	YTD
Brent crude*	74.6	(8.2)	(15.0)	(7.6)
Dubai crude*	76.9	(12.2)	(15.7)	(2.2)
Baltic Dry Index	3,143.0	101.6	175.5	107.5
Gold Spot***	2,028.5	3.0	5.7	11.2

*(US\$/bbl), *** (US\$/toz)

FOREIGN PORTFOLIO INVESTMENT IN EQUITIES (THAILAND)

Day (Mil US\$)	MTD Net (Mil US\$)	YTD Net (Mil US\$)	YTD Net YoY%
(12.9)	7.2	(5,498.2)	(11,170.6)

Source: Bloomberg

Foreign Exchange Rate - THB/US\$ (onshore) = 35.20

Interest Rate (%) - TH 1-day RP = 1.50

Thai Lending Rate (%)* - MLR = 7.10

COMPANY UPDATE

Aeon Thana Sinsap (Thailand) (AEONTS TB)

3QFY23 Results Preview: Conservative Mode To Handle Asset Quality

We forecast a 3QFY23 net profit of Bt706m (-36% yoy, -16% qoq), and foresee a slight increase in NPL ratio, aligning with the company's guidance that NPL ratio should be around the current level until next year. In addition, management suggested that AEONTS maintain a loan portfolio as it prioritised asset quality. The government stimulus will be a short-term catalyst. We maintain BUY with a target price of Bt190.00.

3QFY23 RESULTS PREVIEW (SEP-NOV 23)

Year to 28 Feb (Btm)	3QFY23	2QFY23	3QFY22	qoq chg (%)	yoy chg (%)
Total gross loans	93,863	94,675	95,668	(0.9)	(1.9)
Net interest income	4,217	4,196	4,328	0.5	(2.6)
Non-interest income	761	907	1,016	(16.1)	(25.1)
Loan loss provision	(2,046)	(1,949)	(1,884)	5.0	8.6
Non-Interest Expenses	(2,027)	(2,071)	(2,039)	(2.1)	(0.6)
Pre-provision operating profit	2,951	3,031	3,305	(2.6)	(10.7)
Net income	706	842	1,104	(16.2)	(36.1)
EPS (Bt)	2.82	3.37	4.42	(16.2)	(36.1)
Ratio (%)					
NPL Ratio	6.3%	6.2%	5.6%		
Loan loss coverage ratio (%)	170%	174%	196%		
Net interest margin (NIM %)	18.0%	17.9%	18.3%		
Credit cost (bp)	868	824	792		
Cost to income (%)	41%	41%	38%		

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

WHAT'S NEW

- **Cleaning up portfolio will drag 3QFY23 earnings.** We expect Aeon Thana Sinsap (Thailand) (AEONTS) to report a 3QFY23 net profit of Bt706m, down 36% yoy and 16% qoq. Due to an uneven economic recovery and delay of government stimulus, other consumer finance companies showed an increase in bad debt, especially in new NPL formation in 3Q23. We expect AEONTS to experience an increase in NPL ratio and new NPL formation in 3QFY23. We estimate the company's credit cost will increase to 868bp, compared with 824bp in 2QFY23. In terms of pre-provision operating profit (PPOP), we expect the company to post a contraction of 11% yoy and 3% qoq due to its restriction in the lending policy.

KEY FINANCIALS

Year to 28 Feb (Btm)	2021	2022	2023F	2024F	2025F
Net interest income	16,158	17,151	16,835	17,720	19,176
Non-interest income	2,888	3,277	3,381	3,316	3,456
Net profit (rep./act.)	3,553	3,815	2,936	3,608	4,041
Net profit (adj.)	3,553	3,815	2,936	3,608	4,041
EPS (Bt)	14.2	15.3	11.7	14.4	16.2
PE (x)	11.0	10.2	13.3	10.8	9.7
P/B (x)	2.0	1.7	1.6	1.4	1.3
Dividend yield (%)	3.4	3.3	1.9	2.8	3.6
Net int margin (%)	18.1	18.5	17.8	18.0	18.2
Cost/income (%)	41.2	40.2	41.5	41.0	40.8
Loan loss cover (%)	247.4	189.6	170.0	174.0	176.0
Consensus net profit	-	-	3,217	3,559	4,000
UOBKH/Consensus (x)	-	-	0.91	1.01	1.01

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

BUY

(Maintained)

Share Price	Bt156.00
Target Price	Bt190.00
Upside	+21.8%

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):	39,000.0
Market cap (US\$m):	1,113.0
3-mth avg daily t'over (US\$m):	0.7

Price Performance (%)

52-week high/low Bt206.00/Bt146.00

1mth	3mth	6mth	1yr	YTD
5.4	(10.1)	(21.8)	(6.6)	(14.3)

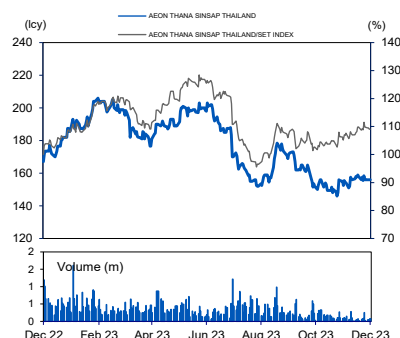
Major Shareholders

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

FY24 NAV/Share (Bt) 110.45

FY24 Solvency Ratio (%)

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Restrict lending policy to prioritise good asset quality.** We expect the total gross loans of AEONTS will contract 2% yoy and 1% qoq. Management guided that AEONTS will remain conservative on lending policy and maintain a near-current loan amount as the company prioritises cleaning up a portfolio to escalate the portfolio's asset quality. Credit cards and personal loans clients continue to grow, but at a slower pace to keep screening quality. The cause of the steady gross loan will come from the outflow that AEONTS tried to clean up. The company will control loan growth by at least 1HFY24 or sooner due to a cloudy economic condition.
- **NPL ratio will increase slightly.** We estimate that the company's NPL ratio will increase slightly from 6.2% to 6.3% in 3QFY23, which is different from management's view that NPL ratio should maintain at the current level. Despite the NPL ratio not significantly changing, we foresee that the new NPL formation will increase higher than the previous quarter as peers experience an increase in new NPL formation. The aggressive cleaning up of portfolio will also support steady NPL ratio, as the company signals that it will focus on portfolio quality and does not intend to expand loans. In addition, AEONTS expects NPL ratio will remain at this level until 1HFY24.
- **Prepare to mitigate impact of increasing minimum payment on credit cards.** The Bank of Thailand (BOT) will terminate the COVID-19 relaxation measures in Dec 23. The BOT will increase the minimum payment on credit cards from 5% to 8% in Jan 24 and 10% in Jan 25. The overall credit card payment above 10% is around 80%. Meanwhile, the street estimates that increasing the minimum payment to 8% will incur an additional payment of around Bt1,000 a month, a low portion compared with a minimum salary of Bt15,000 a month. The company has already prepared a care loan by extending the term, reducing monthly payments, and restructuring the loans to mitigate this increasing impact. AEONTS' credit card contribution was 35% as of 1HFY23.
- **Indirect benefit from loan sharks' resolution.** The government intends to resolve the informal debt problem or loan shark issues, which is calculated to be around 30% of Thailand's GDP. The Ministry of Interior has already opened for registration, the target being informal debtors. The Ministry of Interior will cooperate with the police to mediate with informal creditors. In addition, the government will let Government Saving Bank (GSB) lend to a person who is indebted to a loan shark to borrow Bt50,000 for five years with a lending rate of 0.75% a month, with a non-collateral. After resolving informal debt, we expect an indirect benefit from higher purchasing power, including better credit. Therefore, it should improve AEONTS's asset quality. The result of the measure is expected to be in Mar-Aug 24 after consolidating the informal debt database.

EARNINGS REVISION/RISK

- We fine-tune our AEONTS' FY23-25 earnings forecasts by -2.4%, 2.0%, and 0.6%, respectively, on the restriction of lending policy during 3QFY23-1QFY24, and the improvement in asset quality to encourage a better performance in FY24-25.

NET PROFIT FORECASTS

(Btm)	2023F	2024F	2025F
Old	3,010	3,538	4,019
New	2,936	3,608	4,041
% chg	-2.4%	2.0%	0.6%

Source: UOB Kay Hian

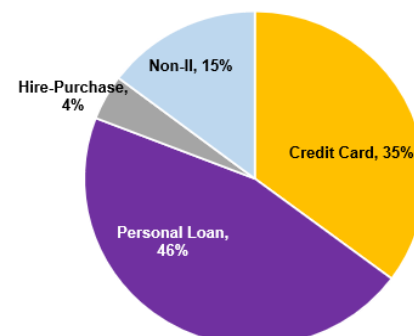
VALUATION/RECOMMENDATION

- **Maintain BUY with an unchanged target price of Bt190.00** using the Gordon Growth Model. Our target price implies 1.9x 2023F P/B, which is -0.5SD to its five-year average.

SHARE PRICE CATALYST

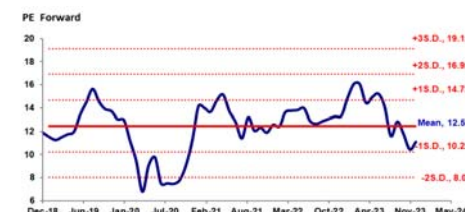
- NPL ratio peaking, including an improvement in asset quality.
- The government stimulus to encourage domestic spending power.

REVENUE BREAKDOWN (1HFY23)



Source: AEONTS, UOB Kay Hian

PE BAND



Source: AEONTS, UOB Kay Hian

P/B BAND



Source: AEONTS, UOB Kay Hian

PROFIT & LOSS

Year to 28 Feb (Btm)	2022	2023F	2024F	2025F
Interest income	19,055	19,086	20,192	21,589
Interest expense	(1,904)	(2,251)	(2,472)	(2,412)
Net interest income	17,151	16,835	17,720	19,176
Fees & commissions	915	997	1,161	1,305
Other income	2,362	2,383	2,155	2,151
Non-interest income	3,277	3,381	3,316	3,456
Total income	20,428	20,216	21,036	22,632
Staff costs	(8,061)	(8,219)	(8,427)	(9,046)
Other operating expense	(155)	(180)	(189)	(199)
Pre-provision profit	12,213	11,817	12,420	13,387
Loan loss provision	(7,263)	(8,035)	(7,794)	(8,205)
Other provisions	0	0	0	0
Associated companies	0	0	0	0
Other non-operating income	0	0	0	0
Pre-tax profit	4,950	3,781	4,626	5,182
Tax	(996)	(758)	(925)	(1,036)
Minorities	(139)	(87)	(94)	(105)
Net profit	3,815	2,936	3,608	4,041
Net profit (adj.)	3,815	2,936	3,608	4,041

BALANCE SHEET

Year to 28 Feb (Btm)	2022	2023F	2024F	2025F
Cash with central bank	3,816	3,624	3,882	4,159
Govt treasury bills & securities	0	0	0	0
Interbank loans	0	0	0	0
Customer loans	83,812	84,351	90,483	97,260
Investment securities	0	0	0	0
Derivative receivables	0	0	0	0
Associates & JVs	0	0	0	0
Fixed assets (incl. prop.)	523	337	205	185
Other assets	7,055	6,800	7,146	7,538
Total assets	95,207	95,112	101,716	109,142
Interbank deposits	0	0	0	0
Customer deposits	0	0	0	0
Derivative payables	0	0	0	0
Debt equivalents	9,580	8,535	9,140	9,795
Other liabilities	62,278	60,910	64,503	68,749
Total liabilities	71,859	69,444	73,643	78,543
Shareholders' funds	22,821	25,113	27,612	30,242
Minority interest - accumulated	527	555	461	357
Total equity & liabilities	95,207	95,113	101,716	109,142

OPERATING RATIOS

Year to 28 Feb (%)	2022	2023F	2024F	2025F
Capital Adequacy				
Total assets/equity (x)	4.2	3.8	3.7	3.6
Tangible assets/tangible common equity (x)	4.3	3.9	3.8	3.7
Asset Quality				
NPL ratio	5.6	6.1	5.9	5.7
Loan loss coverage	189.6	170.0	174.0	176.0
Loan loss reserve/gross loans	7.7	8.5	7.7	7.5
Increase in NPLs	20.6	8.3	3.6	3.5
Credit cost (bp)	780.1	848.7	793.7	780.0
Liquidity				
Loan/deposit ratio	141.2	146.6	148.1	148.9
Liquid assets/short-term liabilities	6.8	6.5	6.6	6.7
Liquid assets/total assets	4.0	3.8	3.8	3.8

KEY METRICS

Year to 28 Feb (%)	2022	2023F	2024F	2025F
Growth				
Net interest income, yoy chg	6.1	(1.8)	5.3	8.2
Fees & commissions, yoy chg	2.6	9.1	16.4	12.4
Pre-provision profit, yoy chg	9.0	(3.2)	5.1	7.8
Net profit, yoy chg	7.4	(23.0)	22.9	12.0
Net profit (adj.), yoy chg	7.4	(23.0)	22.9	12.0
Customer loans, yoy chg	4.7	0.6	7.3	7.5
Profitability				
Net interest margin	18.5	17.8	18.0	18.2
Cost/income ratio	40.2	41.5	41.0	40.8
Adjusted ROA	4.1	3.1	3.7	3.8
Reported ROE	17.9	12.3	13.7	14.0
Adjusted ROE	17.9	12.3	13.7	14.0
Valuation				
P/BV (x)	1.7	1.6	1.4	1.3
P/NTA (x)	1.8	1.6	1.5	1.3
Adjusted P/E (x)	10.2	13.3	10.8	9.7
Dividend Yield	3.3	1.9	2.8	3.6
Payout ratio	34.2	25.2	30.7	34.9

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