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KEY HIGHLIGHTS

Results

Aeon Thana Sinsap (Thailand)

(AEONTS TB/BUY/Bt152.00/Target: Bt190.00)

2QFY23: Results above consensus expectation; NPL ratio continues to increase.

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KEY INDICES

Symbol	Close	Chg	%Chg
SET	1,431.72	(6.73)	(0.47)
SET50	874.50	(2.45)	(0.28)
Value (Btm) - SET	45,016		
Top 5 Sector			
BANK	389.99	0.51	0.13
PETRO	674.81	(12.14)	(1.77)
PROP	227.17	(1.56)	(0.68)
ENERG	20,239.40	226.93	1.13
ICT	157.18	(0.72)	(0.46)

Source: Bloomberg

TOP VOLUME

Symbol	Close (Baht)	+/-(% Chg)	5-day ADT (BTm)
PTTEP	168.50	4.01	2,248.5
JMT	42.00	(9.19)	1,300.0
DELTA	79.00	(1.86)	2,157.8
BANPU	7.95	2.58	962.9
JMART	22.00	(5.58)	701.6

TOP GAINERS

Symbol	Close (Baht)	+/-(% Chg)	5-day ADT (BTm)
ALL	0.04	33.33	0.3
CV	0.86	30.30	27.8
TWZ	0.05	25.00	0.1
TFI	0.11	10.00	0.1
ROCK	10.20	6.81	0.0

TOP LOSERS

Symbol	Close (Baht)	+/-(% Chg)	5-day ADT (BTm)
NEWS	0.01	(50.00)	0.1
HYDRO	0.32	(30.43)	0.1
PRIME	0.55	(30.38)	39.0
JCKH	0.04	(20.00)	0.2
PLE	0.44	(13.73)	2.9

KEY STATISTICS

Commodity	Current Price	%Chg		
		1m	3M	YTD
Brent crude*	87.9	(2.3)	14.8	7.7
Dubai crude*	88.9	(3.0)	14.6	13.0
Baltic Dry Index	1,929.0	62.6	88.4	27.3
Gold Spot***	1,862.8	(2.9)	(3.2)	2.1

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

FOREIGN PORTFOLIO INVESTMENT IN EQUITIES (THAILAND)

Day (Mil US\$)	MTD Net (Mil US\$)	YTD Net (Mil US\$)	YTD Net YoY%
80.1	(159.1)	(4,685.7)	(8,227.6)

Source: Bloomberg

Foreign Exchange Rate - THB/US\$ (onshore) = 36.92

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

Thai Lending Rate (%) - MLR = 7.10

COMPANY RESULTS

Aeon Thana Sinsap (Thailand) (AEONTS TB)

2QFY23: Results Above Consensus Expectation; NPL Ratio Continues To Increase

AEONTS posted a 2QFY23 net profit of Bt842m, down 7% yoy but up 36% qoq. The results are higher than consensus expectation by 30%. Lower-than-expected provision expenses were the primary cause of the key earnings surprise. Nevertheless, NPL ratio continued to increase. Management mentioned that the NPL ratio will stay high for the rest of the year and will see an improvement in asset quality in 1HFY24. Maintain BUY with a lower target price of Bt190.00.

2QFY23 RESULTS

Year to 28 Feb (Btm)	2QFY23	1QFY23	2QFY22	qoq chg (%)	yoy chg (%)
Total gross loans	94,675	94,443	94,533	0.2	0.1
Net interest income	4,196	4,199	4,292	(0.1)	(2.2)
Non-interest income	907	734	715	23.6	26.8
Loan loss provision	(1,949)	(2,094)	(1,851)	(6.9)	5.3
Non-Interest Expenses	(2,071)	(2,033)	(1,986)	1.9	4.3
Pre-provision operating profit	3,031	2,899	3,021	4.6	0.3
Net income	842	617	904	36.4	(6.8)
EPS (Bt)	3.37	2.47	3.61	36.4	(6.8)
Ratio (%)					
NPL Ratio	6.2%	5.9%	5.5%		
Loan loss coverage ratio (%)	174%	184%	207%		
Net interest margin (NIM %)	17.9%	17.9%	18.4%		
Credit cost (bp)	824	886	788		
Cost to income (%)	41%	41%	40%		

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

RESULTS

- **2QFY23 results above consensus estimates.** Aeon Thana Sinsap (Thailand) (AEONTS) posted a 2QFY23 net profit of Bt842m, down 7% yoy but up 36% qoq. The results are higher than consensus expectation by 30%. The key earnings surprise came from lower-than-expected provision expenses. Provision expenses declined 7% qoq. Meanwhile, NPL ratio continued to increase to 6.2%. Excluding provisioning, the company's pre-provision operating profit was flat yoy and rose 5% qoq.

KEY FINANCIALS

Year to 28 Feb (Btm)	2021	2022	2023F	2024F	2025F
Net interest income	16,158	17,151	17,250	18,441	19,977
Non-interest income	2,888	3,277	3,402	3,381	3,522
Net profit (rep./act.)	3,553	3,815	3,010	3,538	4,019
Net profit (adj.)	3,553	3,815	3,010	3,538	4,019
EPS (Bt)	14.2	15.3	12.0	14.2	16.1
PE (x)	10.7	10.0	12.6	10.7	9.5
P/B (x)	1.9	1.7	1.5	1.4	1.3
Dividend yield (%)	3.4	3.4	1.9	3.3	3.7
Net int margin (%)	18.1	18.5	17.8	17.8	18.0
Cost/income (%)	41.2	40.2	41.6	40.9	40.8
Loan loss cover (%)	247.4	189.6	160.0	167.0	172.0
Consensus net profit	-	-	3,403	3,833	4,464
UOBKH/Consensus (x)	-	-	0.88	0.92	0.90

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

BUY

(Maintained)

Share Price	Bt152.00
Target Price	Bt190.00
Upside	+25.0%
(Previous TP)	Bt211.00)

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):	38,000.0
Market cap (US\$m):	1,027.5
3-mth avg daily t'over (US\$m):	1.5

Price Performance (%)

52-week high/low			Bt206.00/Bt151.50	
1mth	3mth	6mth	1yr	YTD
(10.1)	(10.6)	(13.9)	(9.3)	(16.5)

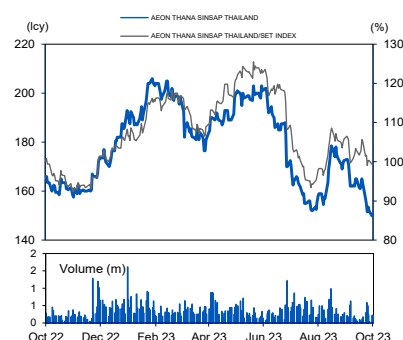
Major Shareholders

	%
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) 109.87

FY24 Solvency Ratio (%)

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

• Loan growth moderated to deal with NPL problem amid uneven economic recovery.

The company's loan growth was flat yoy and qoq. According to management, the company intends to provide loans cautiously, focusing on asset quality. Meanwhile, the industry's personal loans outstanding contracted 11% yoy in Jul 23, a negative growth yoy for three consecutive months. The industry credit card outstanding expanded by 1.4% yoy in Jul 23. Overall, AEONTS' loan growth aligned with the market's loan growth outlook.

• Credit costs fell while NPL ratio continued to rise. Despite a record-high NPL ratio of 6.2% in 2QFY23, AEONTS reported a surprisingly low credit cost of 824bp, down 62bp qoq and lower than our forecast by 21%. We believe the reason is AEONTS tried to reduce its excess loan loss reserves accumulated since the outbreak of COVID-19. As a result, its loan loss coverage (LCR) ratio dropped from 184% in 1QFY23 to 174% in 2QFY23. Management reiterated in the analyst meeting that it maintains its focus primarily on asset quality by cautiously providing loans. Although we expect AEONTS' asset quality will continue to deteriorate for the next two quarters, the new NPL formation should decelerate gradually.

• Higher funding costs pressure earnings outlook. The funding cost outlook was pressured not only by an increase in policy interest rate by the Bank of Thailand (BOT) by 25bp but also a spike in government bond yield. A fund outflow caused by a lack of confidence in government stimulus, such as the 10,000 digital money policy, resulted in the government bond yield spiking by around 63bp mom. The default on corporate debentures in 2023 also caused the overall cost of funding to be higher. Effectively, we reflect a higher cost of funding outlook in our assumption, resulting in lower earnings forecasts.

EARNINGS REVISION/RISK

- We revised AEONTS' FY23-25 earnings forecasts down by 16.2%, 14.7%, and 10.5% respectively, on the back of higher cost of funds and a worsening bad debt outlook.

NET PROFIT FORECASTS

(Btm)	2023F	2024F	2025F
Old	3,591	4,148	4,492
New	3,010	3,538	4,019
% chg	-16.2%	-14.7%	-10.5%

Source: UOB Kay Hian

VALUATION/RECOMMENDATION

- **Maintain BUY with a lower target price of Bt190.00.** We use the Gordon Growth Model with cost of equity at 13.0% and long-term growth rate at 3.0%. The stock trades at FY23F PE of 9.4x, which is approximately -1SD to its five-year mean, and FY23F P/B of 1.4x, which is approximately -1.5SD to its five-year mean.

SHARE PRICE CATALYST

- A recovery of domestic economy.
- NPL ratio peaking.
- A stimulus package from government will improve domestic spending.

TH BOND YIELD

	6-Oct-23	6-Sep-23	6-Jul-23	1M	3M
TH10Y	3.36%	2.73%	2.46%	+63bp	+90bp

Source: Bloomberg, 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	19,589	21,079	22,548
Interest expense	(1,904)	(2,339)	(2,637)	(2,571)
Net interest income	17,151	17,250	18,441	19,977
Fees & commissions	915	997	1,161	1,305
Other income	2,362	2,405	2,221	2,217
Non-interest income	3,277	3,402	3,381	3,522
Total income	20,428	20,652	21,823	23,499
Staff costs	(8,061)	(8,401)	(8,745)	(9,396)
Other operating expense	(155)	(180)	(189)	(199)
Pre-provision profit	12,213	12,071	12,889	13,904
Loan loss provision	(7,263)	(8,196)	(8,352)	(8,750)
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	3,875	4,537	5,154
Tax	(996)	(777)	(907)	(1,031)
Minorities	(139)	(89)	(92)	(104)
Net profit	3,815	3,010	3,538	4,019
Net profit (adj.)	3,815	3,010	3,538	4,019

BALANCE SHEET

Year to 28 Feb (Btm)	2022	2023F	2024F	2025F
Cash with central bank	3,816	3,809	4,097	4,390
Govt treasury bills & securities	0	0	0	0
Interbank loans	0	0	0	0
Customer loans	83,812	89,286	95,984	102,944
Investment securities	0	0	0	0
Derivative receivables	0	0	0	0
Associates & JVs	0	0	0	0
Fixed assets (incl. prop.)	523	341	211	192
Other assets	7,055	7,056	7,451	7,869
Total assets	95,207	100,491	107,743	115,395
Interbank deposits	0	0	0	0
Customer deposits	0	0	0	0
Derivative payables	0	0	0	0
Debt equivalents	9,580	8,969	9,648	10,337
Other liabilities	62,278	65,783	70,166	74,604
Total liabilities	71,859	74,752	79,813	84,941
Shareholders' funds	22,821	25,187	27,468	30,097
Minority interest - accumulated	527	553	461	357
Total equity & liabilities	95,207	100,492	107,743	115,395

OPERATING RATIOS

Year to 28 Feb (%)	2022	2023F	2024F	2025F
Capital Adequacy				
Total assets/equity (x)	4.2	4.0	3.9	3.8
Tangible assets/tangible common equity (x)	4.3	4.1	4.0	3.9
Asset Quality				
NPL ratio	5.6	6.1	5.9	5.7
Loan loss coverage	189.6	160.0	167.0	172.0
Loan loss reserve/gross loans	7.7	8.2	7.8	7.6
Increase in NPLs	20.6	13.8	4.0	3.5
Credit cost (bp)	780.1	844.1	807.5	788.1
Liquidity				
Loan/deposit ratio	141.2	142.8	144.0	145.0
Liquid assets/short-term liabilities	6.8	6.4	6.4	6.5
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	0.6	6.9	8.3
Fees & commissions, yoy chg	2.6	9.1	16.4	12.4
Pre-provision profit, yoy chg	9.0	(1.2)	6.8	7.9
Net profit, yoy chg	7.4	(21.1)	17.5	13.6
Net profit (adj.), yoy chg	7.4	(21.1)	17.5	13.6
Customer loans, yoy chg	4.7	6.5	7.5	7.3
Profitability				
Net interest margin	18.5	17.8	17.8	18.0
Cost/income ratio	40.2	41.6	40.9	40.8
Adjusted ROA	4.1	3.1	3.4	3.6
Reported ROE	17.9	12.5	13.4	14.0
Adjusted ROE	17.9	12.5	13.4	14.0
Valuation				
P/BV (x)	1.7	1.5	1.4	1.3
P/NTA (x)	1.7	1.6	1.4	1.3
Adjusted P/E (x)	10.0	12.6	10.7	9.5
Dividend Yield	3.4	1.9	3.3	3.7
Payout ratio	34.2	24.6	35.5	34.6

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