



# **AEON CREDIT SERVICE**

Listing Board

**Bursa Malaysia Securities Berhad, Main Market**

Stock Name/ Code

**AEONCR/ 5139**

## **Q2 / 1H FYE20 Results Update**

26 Sept 2019

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## Financial Overview

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## Key Strategic Focus

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### **New accounting standard – MFRS 9 (Expected Credit Loss Model)**

MFRS 9 replaces MFRS 139 and revises the accounting guidance for classification and measurement of financial assets, impairment and hedge accounting. AEON Credit started the MFRS 9 adoption since FYE19. Benefiting from higher-than-required loan impairment provisions prior to the adoption, positive reversal impact was recorded during the early adoption in last financial year. Yet, a clearer impact on loan loss provisions and potential volatility following the change of this accounting standard shall be seen in FYE20. The Company is currently reviewing the reporting model under MFRS9 in order to better reflecting the results of our business operation.

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# Financial Overview

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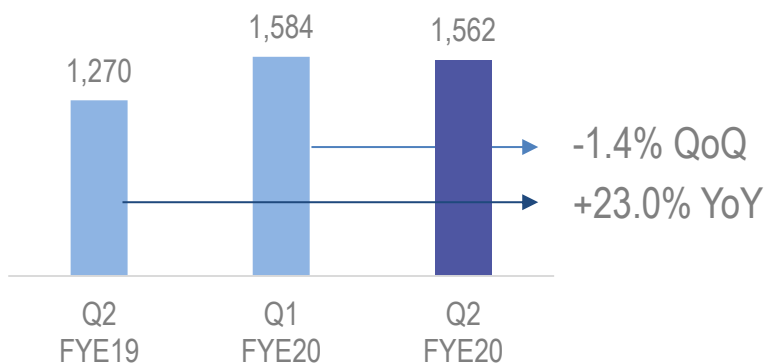
		1H FYE19	1H FYE20	YoY Change
Profitability	PAT	RM180M	RM134M	-25.6%
	PAT (prior to IL provision)	RM332M	RM382M	+15.1%
	ROE*	23.3%	18.9%	-4.4%
	ROE* (prior to IL provision)	33.5%	35.3%	+1.8%
Asset Quality	Transaction & Financing Volume	RM2.3B	RM3.1B	+34.8%
	Gross Financing Receivables	RM7.9B	RM9.6B	+21.5%
	Loan Loss Coverage Ratio	370%	342%	-28.0%
	Non-Performing Loan	2.07%	2.00%	-0.07%
	Net Credit Cost	2.19%	4.04%	+1.85%
Liquidity	Capital Adequacy Ratio	22.0%	20.6%	-1.4%
Sustainability	FTSE4GOOD	Inclusion since Dec 2015		 FTSE4Good

IL: Impairment Loss  
\* Annualised

**Uptrend Revenue moved in tandem with positive sales growth**

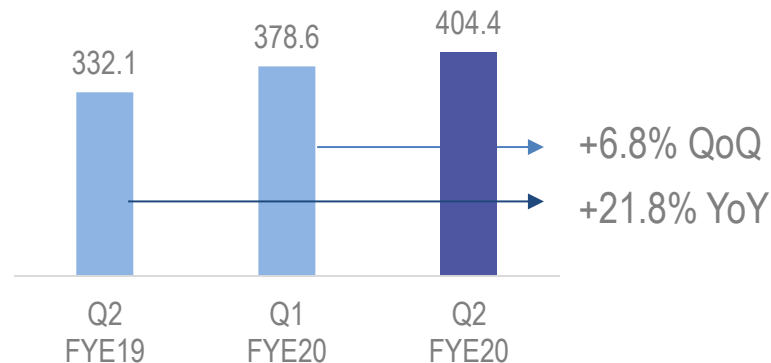
## Total Transaction & Financing Volume

(RM mil)



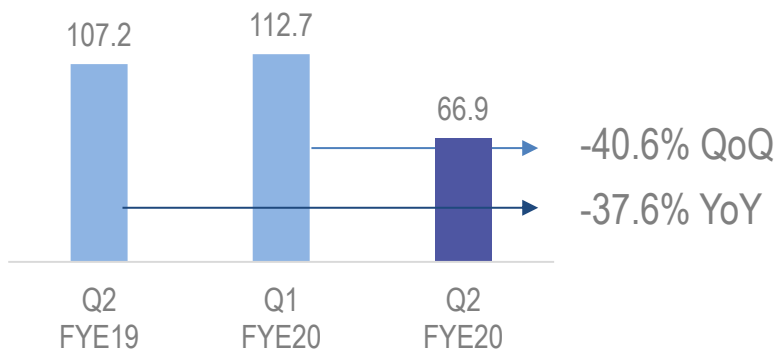
## Revenue

(RM mil)



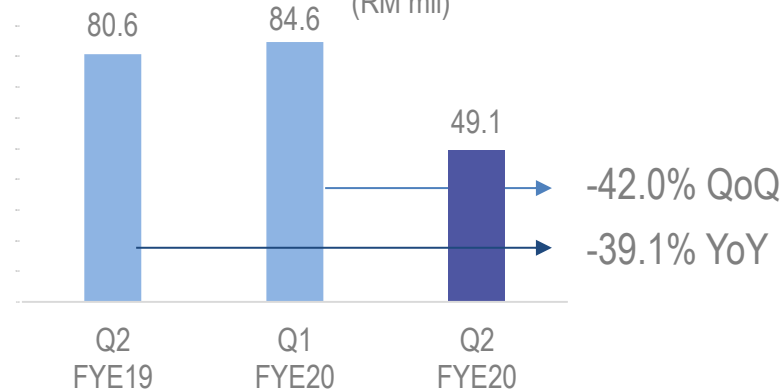
## PBT

(RM mil)



## PAT

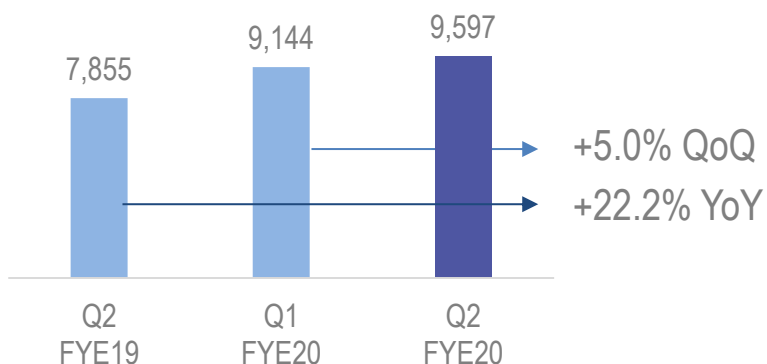
(RM mil)



## Supporting by healthy financing receivables growth

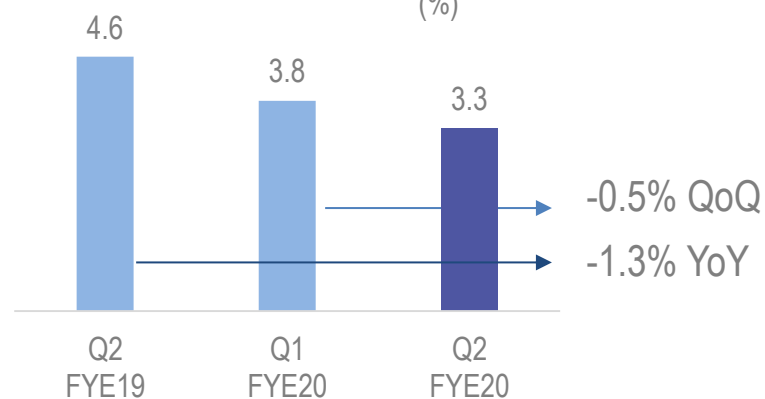
### Gross Financing Receivables

(RM mil)



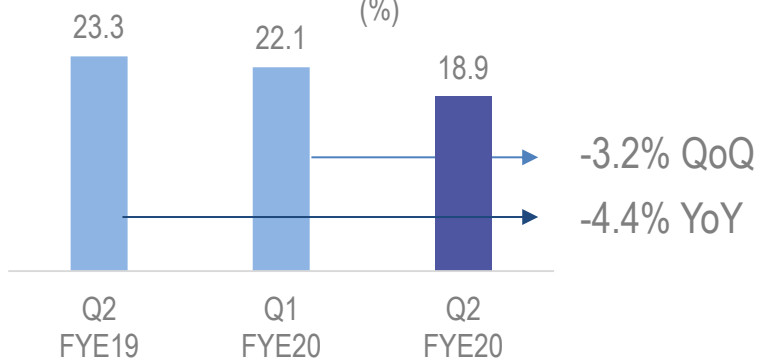
### ROA\*

(%)



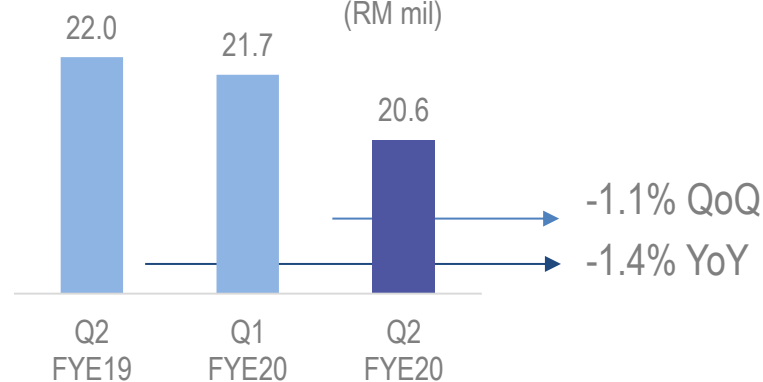
### ROE\*

(%)



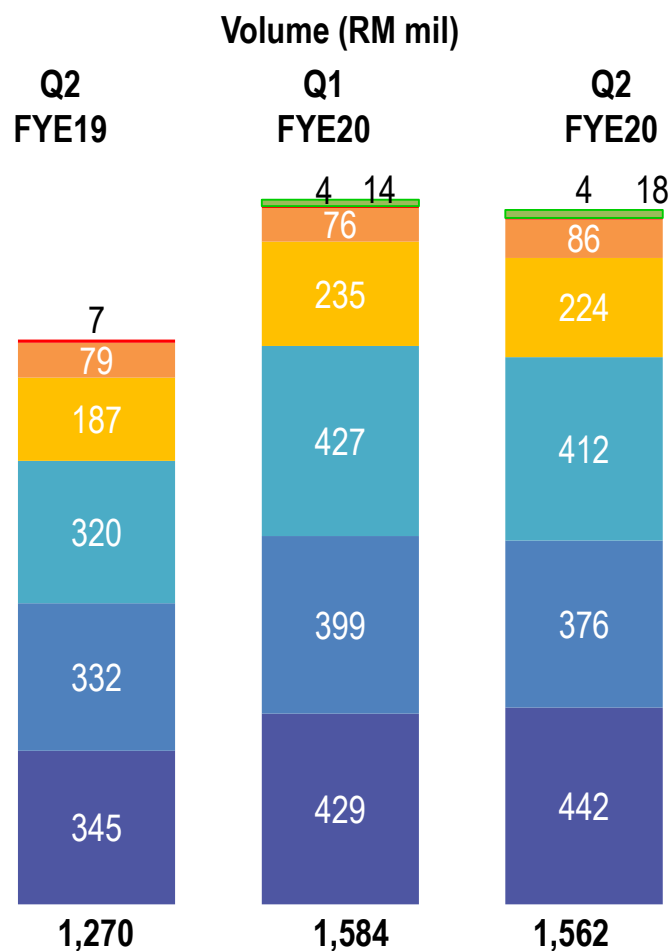
### CAR

(RM mil)



\* Annualised

Mainly contributed by Vehicle Financing

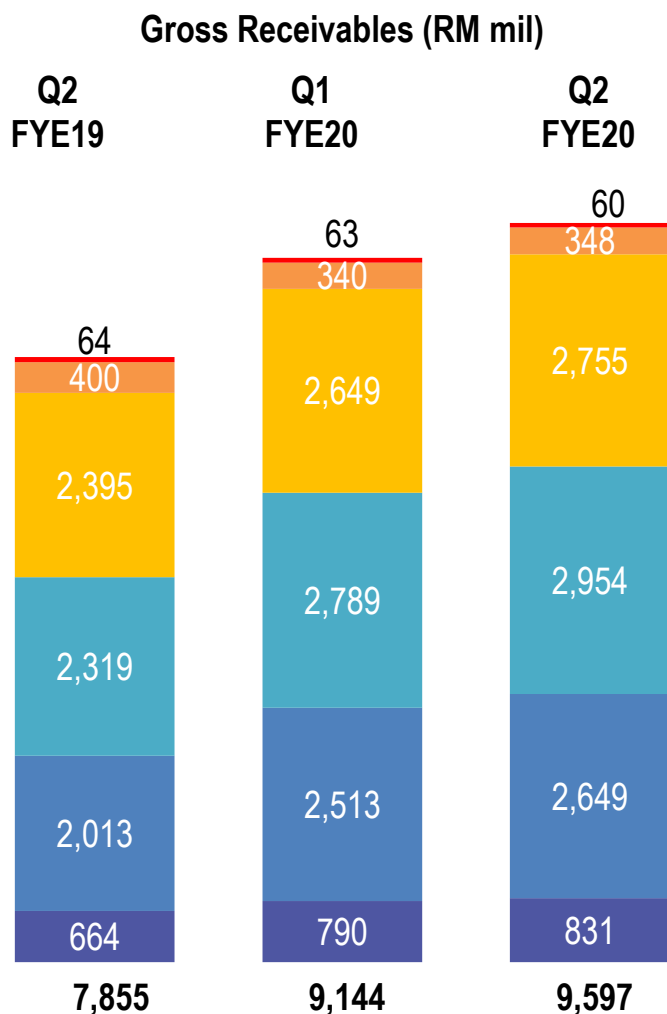


Products	QoQ (%)	YoY (%)
Credit card	+3.0	+28.1
Personal Financing	-5.8	+13.3
Motorcycle Financing	-3.5	+28.8
Auto Financing	-4.7	+19.8
Objective Financing	+13.2	+8.9
SME Financing	-	-42.9
E-money	+28.6	-
<b>Total</b>	<b>-1.4</b>	<b>+23.0</b>



# Total Financing Receivables

Continuous growth under the challenging environment



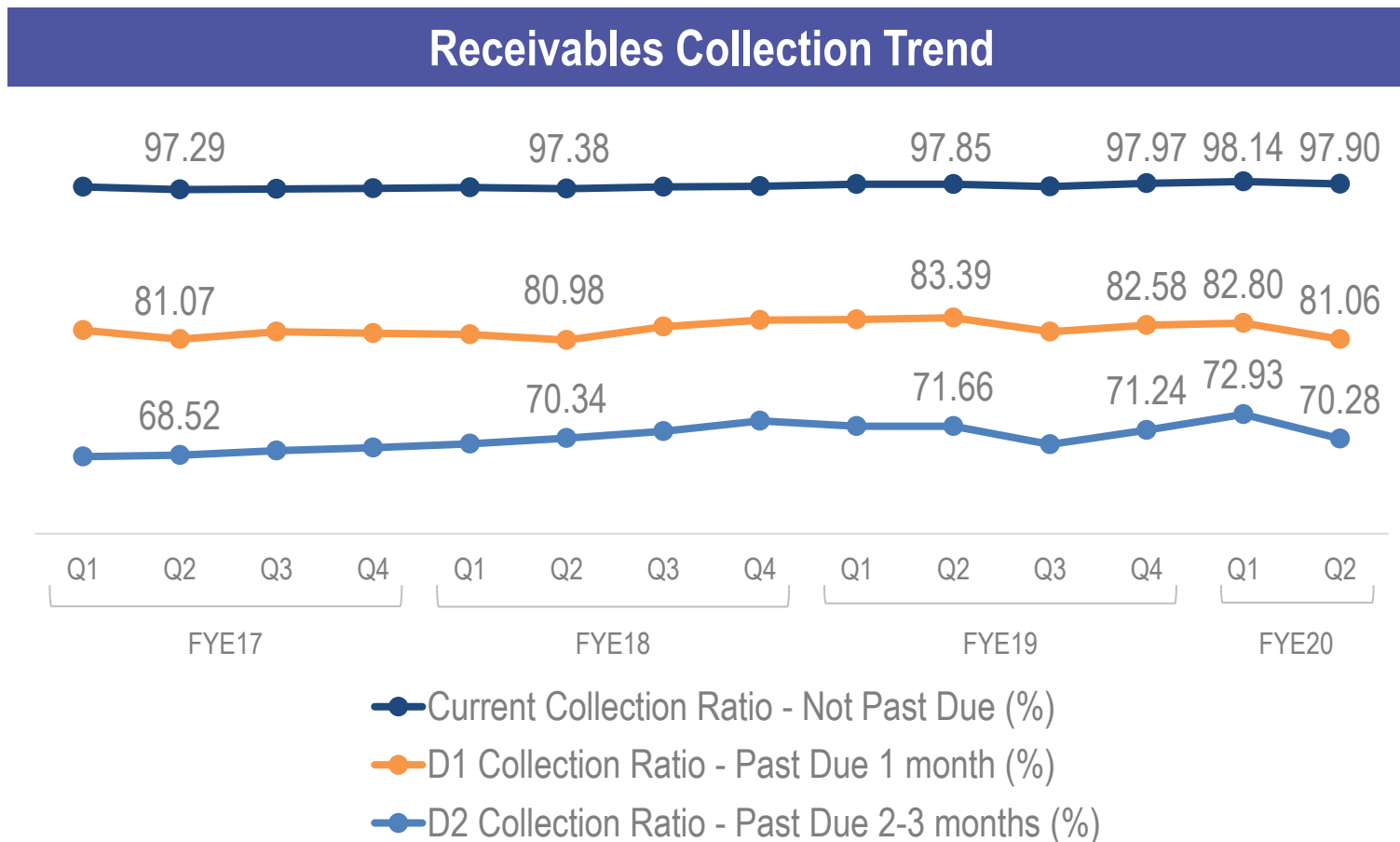
Receivables Movement		QoQ (%)	YoY (%)
Credit card		+5.2	+25.2
Personal Financing		+5.4	+31.6
Motorcycle Financing		+5.9	+27.4
Auto Financing		+4.0	+15.0
Objective Financing		+2.5	-12.9
SME Financing		-4.8	-6.7
<b>Total</b>		<b>+5.0</b>	<b>+22.2</b>

Receivables Breakdown (%)		Q2 FYE20	YoY (%)
Credit card		8.7	+0.2
Personal Financing		27.6	+2.0
Motorcycle Financing		30.8	+1.3
Auto Financing		28.7	-1.8
Objective Financing		3.6	-1.5
SME Financing		0.6	-0.2
<b>Total</b>		<b>100.0</b>	<b>-</b>

# Receivables Collection

Healthy portfolio with stable collection results

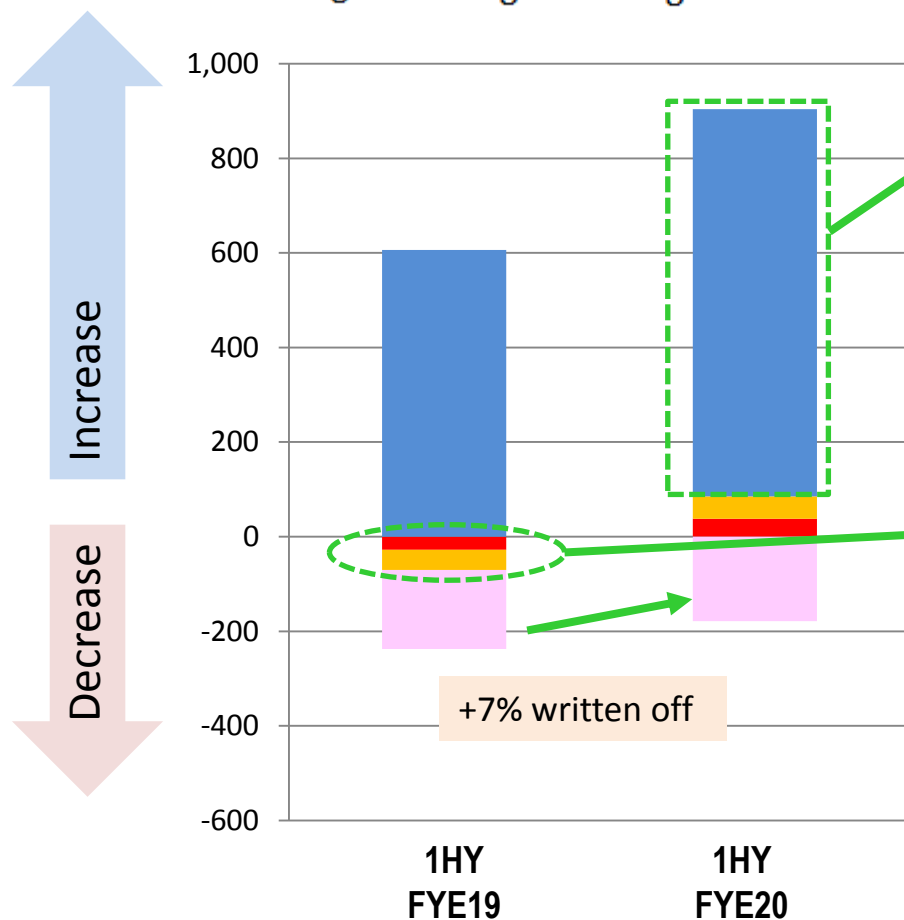


# Status of Finance Receivables

## Breakdown of financing receivables

Delinquent Ratio

■ Stage 1 ■ Stage 2 ■ Stage 3 ■ Write Off



Pace of increase in outstanding financing receivables accelerated in 1HY FYE20

-> Increase of **35% YoY**

The collection rate improved in 1HY FYE19 due to government support to the lower income group

-> Decrease financing receivables in 1HY FYE19

-> Reversal of impairment loss provision due to decrease in the Stage 2 & 3 receivables.

-> Stage 2 & 3 receivable portfolio in 1HY FYE20 decrease to 10.5% from 11.3% in 1HY FYE19

Stage1 : Current receivables

Stage2 : Past due 1-2 months

Stage3 : Past due 3 months & above

# Impairment Loss Analysis

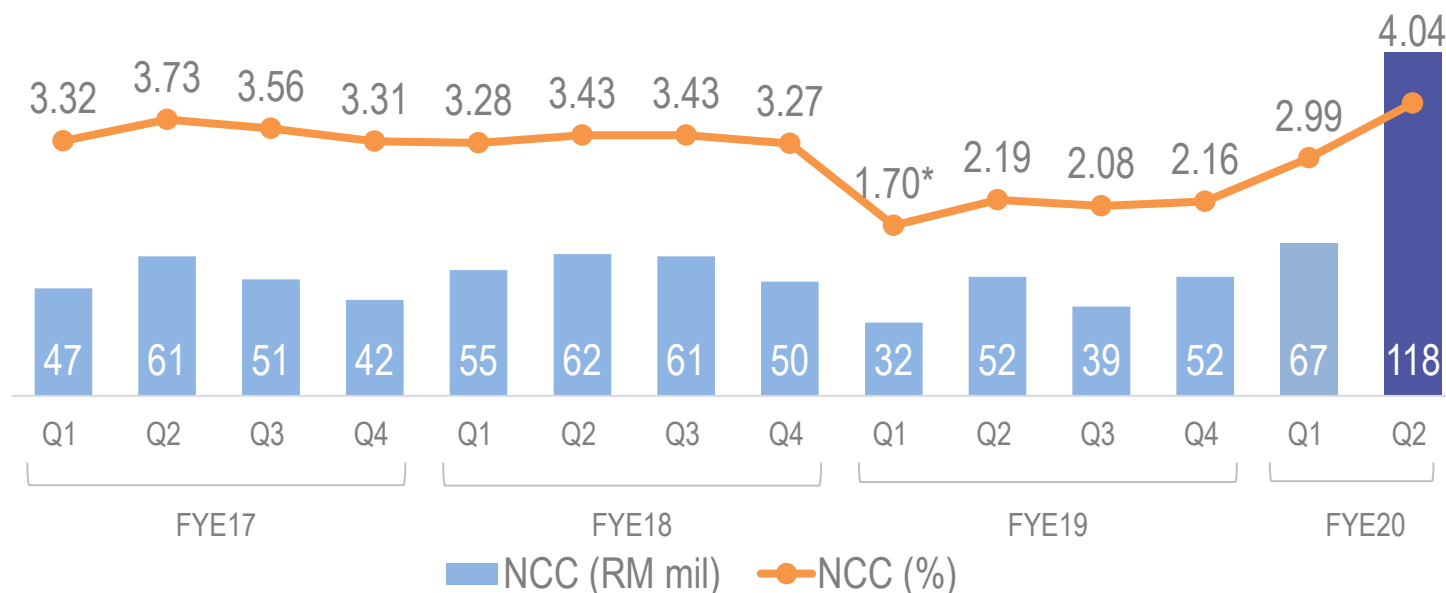
**+69.4mil impairment (LY:-14.7mil) from higher receivables as early recognition is required under MFRS9; and lower collection due to Hari Raya festival season**

RM'000	FYE 2019			FYE 2020				
	1Q	2Q	1HY	1Q	2Q	1HY	1HY FYE19 vs 1HY FYE20	
							RM'000	%
[A] Written Off	84,935	82,109	167,044	88,812	89,776	178,588	11,544	107%
[B] Impairment Loss Provision	(27,839)	13,127	(14,712)	4,526	64,916	69,442	84,154	-
[A]+[B] Total Impairment Loss	57,096	95,237	152,333	93,338	154,692	248,030	95,697	163%

# Net Credit Cost

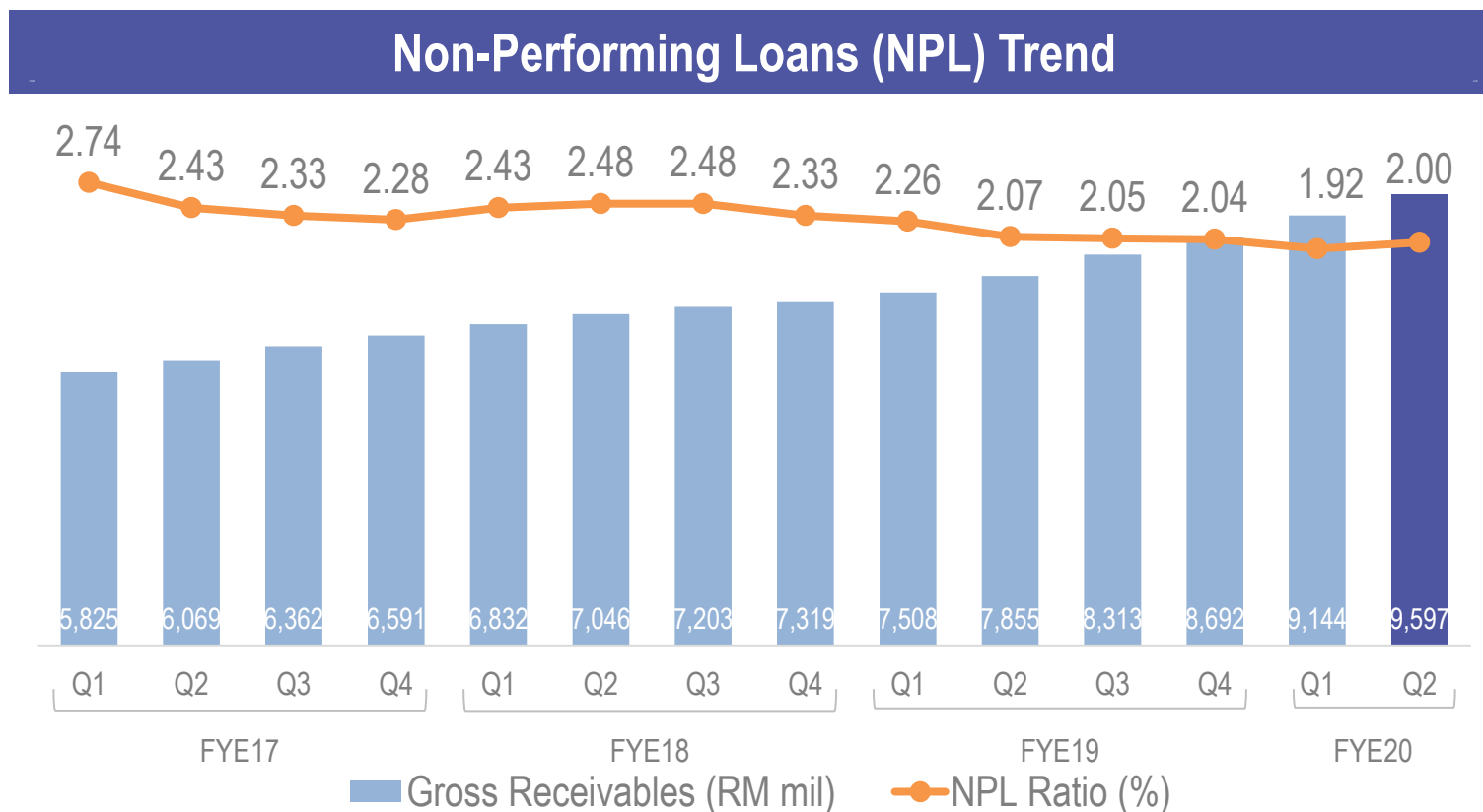
In line with higher receivables growth, and past festival season more IL provisions (MFRS 9) is required

## Net Credit Cost (NCC) Trend



\* Benefiting from higher-than-required loan impairment provisions prior to MFRS 9 adoption, positive reversal impact was recorded during the early adoption period

Continuous prudent approach on asset quality strategy



Consistent dividend payout with confident in business prospect

	1H FYE18	1H FYE19	1H FYE20
Interim Single Tier Dividend	21.13 sen/ share	22.25 sen/ share	<b>22.25 sen/ share</b>
Dividend Payout	RM52.25mil	RM55.78mil	<b>RM55.82mil</b>
Dividend Payout Ratio	35.5%	31.0%	<b>41.7%</b>

No	Item	Remark	Status
i.	Filed a Notice of Appeal (Form Q) on 5 Jan 2018 to Special Commissioners of Income Tax (SCIT)	<ul style="list-style-type: none"> <li>The Company had filed a notice of appeal to dispute the additional assessments</li> </ul>	<ul style="list-style-type: none"> <li>To date, hearing date has yet to be fixed.</li> </ul>
ii.	Judicial Review – Leave application ( <i>Seek permission to commence judicial review</i> )	<ul style="list-style-type: none"> <li>Kuala Lumpur High Court (KLHC) dismissed the application on 5 Mar 2018</li> <li>The Company filed the Notice of Appeal on 5 Mar 2018 at Court of Appeal</li> </ul>	<ul style="list-style-type: none"> <li>The hearing at Court of Appeal against the KLHC decision to dismiss leave for judicial review is fixed on 9 Oct 2019.</li> </ul>
iii.	Judicial Review – Stay application ( <i>Asking court to suspend DGIR's decision</i> )	<ul style="list-style-type: none"> <li>Kuala Lumpur High Court dismissed the application on 8 May 2018</li> <li>The Company filed a Notice of Motion on 8 May 2018 at Court of Appeal</li> </ul>	<ul style="list-style-type: none"> <li>On 5 Apr 2019, the Court of Appeal did not grant the Company's appeal against the High Court's decision of 8 May 2018.</li> <li>The Company will proceed with its appeal to the Court of Appeal on leave for judicial review.</li> </ul>
iv.	Writ & Statement of Claim filed by the Government of Malaysia through the IRB (relating to notices of additional assessment YAs 2010-2016 dated 12 Dec 2017).	<ul style="list-style-type: none"> <li>The Company had filed a stay application and certification of urgency to suspend civil recovery proceedings filed by Government.</li> </ul>	<ul style="list-style-type: none"> <li>On 23 July 2019, Shah Alam High Court has granted the stay, until the Stay application is heard and disposed by the High Court Judge.</li> <li>The hearing date for stay application is fixed on 2 Dec 2019.</li> </ul>



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# Key Strategic Focus

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## Asset Quality Management

Targeted product offerings to cater for demand from different income groups

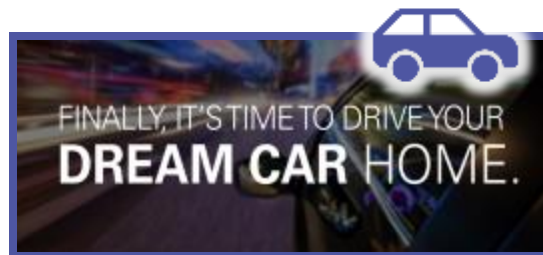


### Settlement Business

Platinum Credit Card

**+ 321%**

YoY Total Transaction Amount



### Auto Financing

New Car

**+ 114%**

YoY Sales Amount



### Objective Financing

Premium Bicycle

**+ 111%**

YoY Sales Amount



### Motorcycle Financing

Premium MOPED ( $\geq 135\text{cc}$ )

**+ 76%**

YoY Sales Amount



### Personal Financing

Customer Income  $>\text{RM}3,000$  & above

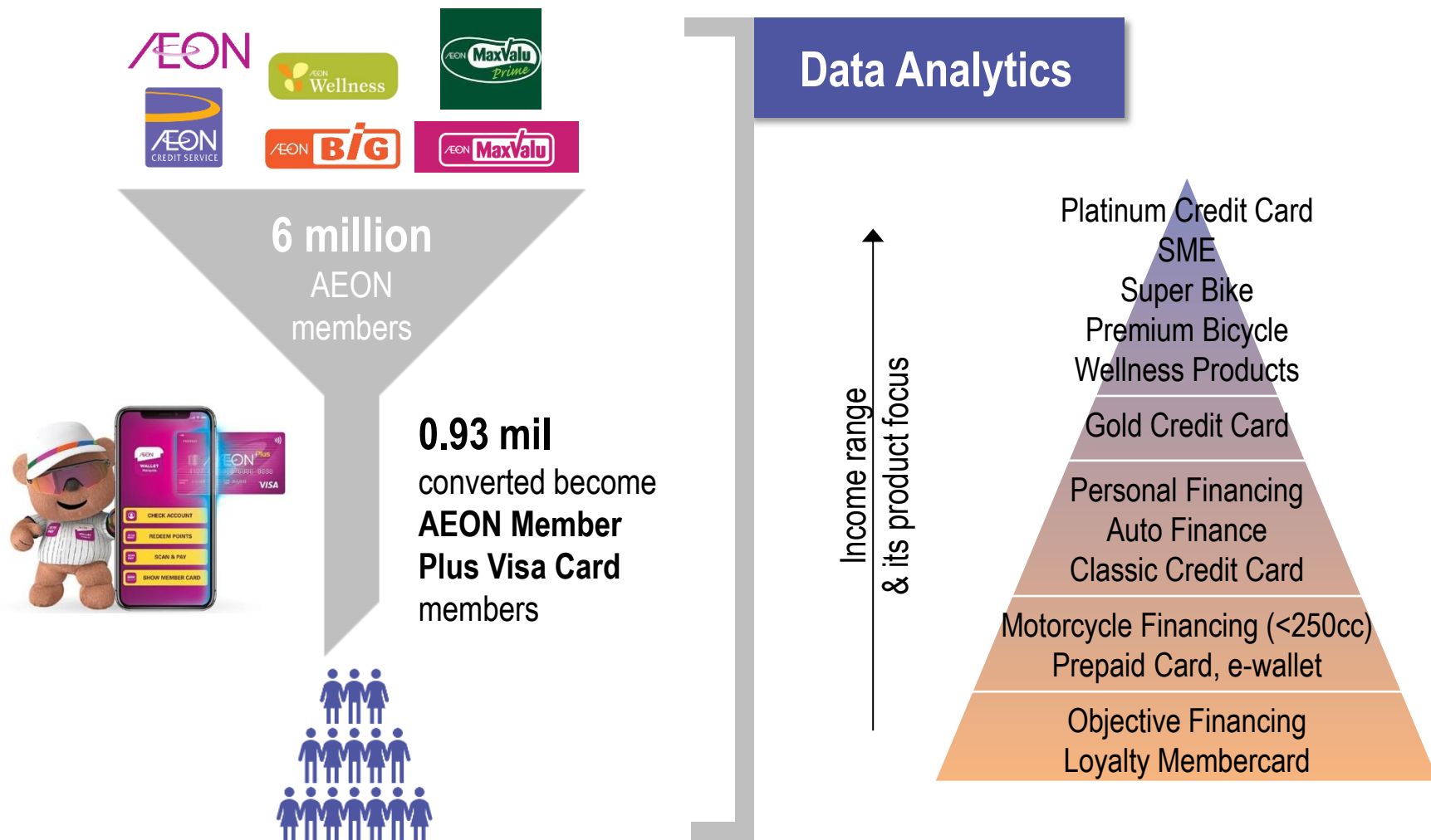
**+ 9%**

YoY Customer Portfolio

# Key Strategic Focus

## Database Integration

Optimise the potential of data for targeted offerings & cross selling



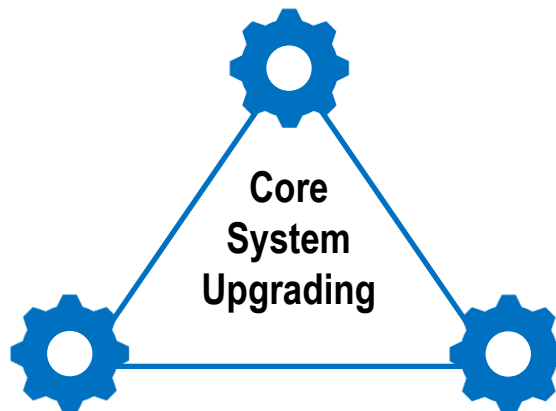
# Key Strategic Focus

## Technology Advancement

To improve user experiences & the efficiency of business process & support system



**RPA**  
Robotic Process Automation



**E-KYC**  
(e-Know Your Customer)  
Biometric Identification

# Key Takeaways & Prospects



Factoring out the book value impact of the MFRS 9 adoption, core business remains positive as per management's expectation. **Key ratios are within healthy range**



Management is working on strategies to address the implication of MFRS 9 by enhancing cost efficiency, including speeding up the digital transformation process and closely managing the credit cost. Nonetheless, management is holding a **cautiously optimistic view towards 2H FYE20** amid challenging market circumstances



**GDP growth in Q2 2019: 4.9%** (Q1: 4.5%) – underpinned by the resilience of domestic demand and private spending amid broad-based expansion in key economic sectors. On the back of strong economic growth performance, Bank Negara remains the OPR at 3%. Going forward, domestic growth drivers, alongside stable labour market and wage growth, are expected to remain supportive of economic activity



**Budget 2020** is expected to continue providing financial supports for SME (extension of the reinvestment allowance, grants and financing guarantees), higher development expenditure to boost construction activity and higher social spending to aid the lower income group

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# Appendices

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# Performance Highlights

(RM'000)	Q2 FYE19	Q1 FYE20	Q2 FYE20	QoQ (%)	YoY (%)	1H FYE19	1H FYE20	YoY %
<b>Total Transaction &amp; Financing Volume</b>	<b>1,270.4</b>	<b>1,584.1</b>	<b>1,562.5</b>	<b>-1.4</b>	<b>23.0</b>	<b>2,347.4</b>	<b>3,146.6</b>	<b>34.1</b>
Credit Card	345.0	429.2	442.8	3.2	28.4	663.1	872.0	31.5
Easy Payment Financing	592.6	741.9	724.8	-2.3	22.3	1,137.2	1,466.7	29.0
Personal Financing	332.8	398.9	376.5	-5.6	13.1	547.1	775.4	41.8
E-Money	-	14.1	18.4	30.5	-	-	32.5	-
<b>Total Income</b>	<b>380.4</b>	<b>410.2</b>	<b>445.9</b>	<b>8.7</b>	<b>17.2</b>	<b>735.4</b>	<b>856.1</b>	<b>16.4</b>
Operating Expenses	-212.0	-222.1	-299.3	34.8	41.2	-376.7	-521.4	38.4
Interest Expenses	-61.2	-75.4	-79.8	5.8	30.4	-119.7	-155.2	29.7
<b>Profit Before Tax</b>	<b>107.2</b>	<b>112.7</b>	<b>66.8</b>	<b>-40.7</b>	<b>-37.6</b>	<b>239.0</b>	<b>179.5</b>	<b>-24.9</b>
Corporate Tax	-26.6	-28.1	-17.7	-36.8	-33.3	-59.1	-45.8	-22.5
<b>Net Profit</b>	<b>80.6</b>	<b>84.6</b>	<b>49.1</b>	<b>-41.9</b>	<b>-39.1</b>	<b>179.9</b>	<b>133.7</b>	<b>-25.7</b>

# Financial Summary

(RM'000)	Q2 FYE19	Q1 FYE20	Q2 FYE20	QoQ (%)	YoY (%)
<b>Credit Card</b>	<b>664</b>	<b>790</b>	<b>831</b>	5.2	25.2
Card Purchase	598	727	769	5.8	28.6
Cash Advance	66	63	62	-1.6	-6.1
<b>Personal Financing</b>	<b>2,013</b>	<b>2,513</b>	<b>2,649</b>	5.4	31.6
<b>Objective Financing</b>	<b>400</b>	<b>340</b>	<b>348</b>	2.4	-13.0
<b>Motorcycle Financing</b>	<b>2,319</b>	<b>2,789</b>	<b>2,954</b>	5.9	27.4
MOPED	1,411	1,891	2,059	8.9	45.9
Superbike	908	898	894	-0.4	-1.5
<b>Auto Financing</b>	<b>2,395</b>	<b>2,649</b>	<b>2,755</b>	4.0	15.0
<b>SME Financing</b>	<b>64</b>	<b>63</b>	<b>60</b>	-4.8	-6.3
<b>Total Financing</b>	<b>7,855</b>	<b>9,144</b>	<b>9,597</b>	<b>5.0</b>	<b>22.2</b>
<b>Receivables</b>					
Impairment Loss	-601	-591	-656	11.0	9.2
Other Assets	719	640	666	4.1	-7.4
<b>Total Assets</b>	<b>7,973</b>	<b>9,193</b>	<b>9,607</b>	<b>4.5</b>	<b>20.5</b>
<b>Total Liabilities</b>	<b>6,304</b>	<b>7,297</b>	<b>7,753</b>	<b>6.2</b>	<b>23.0</b>
<b>Shareholders' Fund</b>	<b>1,669</b>	<b>1,896</b>	<b>1,854</b>	<b>-2.2</b>	<b>11.1</b>



# Operating Income

(RM'000)	Q2 FYE19	Q1 FYE20	Q2 FYE20	QoQ (%)	YoY (%)	1H FYE19	1H FYE20	YoY %
Credit Card	29	32	32	-	10.3	57	63	10.5
Personal Financing	98	121	134	10.7	36.7	190	255	34.2
Objective Financing	26	22	22	-	-15.4	53	43	-18.9
Motorcycle Financing	103	121	130	7.4	26.2	206	252	22.3
Auto Financing	75	81	86	6.2	14.7	149	167	12.1
SME Financing	1	1	1	-	-	3	3	-
<b>Total Revenue</b>	<b>332</b>	<b>378</b>	<b>404</b>	<b>6.9</b>	<b>21.8</b>	<b>658</b>	<b>783</b>	<b>19.0</b>
Other Operating Income	48	32	42	31.3	-12.5	78	73	-6.4
<b>Total Operating Income</b>	<b>380</b>	<b>410</b>	<b>446</b>	<b>8.8</b>	<b>17.4</b>	<b>736</b>	<b>856</b>	<b>16.3</b>

**Investment on AEON Group database integration resulted higher A&P**

(RM mil)	Q2	Q1	Q2	QoQ	YoY
	FYE19	FYE20	FYE20	(%)	(%)
Impairment Loss on Receivables	95.2	93.3	154.7	65.8	62.5
Personnel Expenses	58.6	55.1	63.6	15.4	8.5
Advertisement & Promotion (A&P)	12.7	24.0	25.1	4.6	97.6
Other Operating Expenses	45.5	49.7	55.9	12.5	22.9
<b>Operating Expenses</b>	<b>212.0</b>	<b>222.1</b>	<b>299.3</b>	<b>34.8</b>	<b>41.2</b>
Interest expenses	61.2	75.4	79.8	5.8	30.4
<b>Total Expenses</b>	<b>273.2</b>	<b>297.5</b>	<b>379.1</b>	<b>27.4</b>	<b>38.8</b>

(RM'000)	FYE17	FYE18	FYE19	Q2 FYE19	Q2 FYE20	YoY	1H FYE19	1H FYE20	YoY
PBT	351.0	398.0	472.0	107.2	66.9	-37.6	239.0	179.5	-24.9
PAT	265.0	300.0	355.0	80.6	49.1	-39.1	179.9	133.7	-25.7
Weighted average no. of ordinary shares (mil unit)	248.0	206.0	255.0	255.0	255.0	-	255.0	255.0	-
Basic EPS (RM)	1.0	1.4	1.3	0.3	0.2	-0.1	0.68	0.49	-0.19
NTA per share (RM)	6.6	6.4	6.0	5.6	6.1	0.5	5.6	6.1	0.5
ROE* (%)	28.9	22.6	22.1	23.3	18.9	-4.4	23.3	18.9	-4.4
ROA* (%)	4.0	4.0	4.3	4.6	3.3	-1.3	4.6	3.3	-1.3
Capital ratio against receivables (%)	19.5	25.1	22.4	22.0	20.6	-1.4	22.0	20.6	-1.4
Debt-to-Equity Ratio (x)	4.7	3.0	3.4	3.6	4.0	0.4	3.6	4.0	0.4
Share Price (RM)	15.7	13.5	16.5	15.1	15.0	-0.1	15.1	15.0	-0.1
PER (x)	9.0	9.4	11.9	10.9	13.4	2.5x	10.9	13.4	2.5x
Market Capitalisation	2,261	3,344	4,149	3,771	3,763	-8.0	3,771	3,763	-8.0

\* Annualised

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# THANK YOU