

AEON Thana Sinsap (Thailand) Public Company Limited

Ratings

National	
National Long-Term Rating	A-(tha)
National Short-Term Rating	F2(thai)

Outlooks/Watches

National Long-Term Rating	Stable
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Key Rating Drivers

Strong Consumer Finance Franchise: The ratings of AEON Thana Sinsap (Thailand) Public Company Limited (AEONTS) are driven by its standalone strengths. AEONTS is one of the largest non-bank consumer finance companies in Thailand, with a strong franchise in unsecured retail lending. The company has market shares of around 9%-10% in both credit cards and personal loans, despite competing against commercial banks. Fitch Ratings believes AEONTS has built up the scale and franchise to be competitive through the cycle.

Challenging Operating Environment: Economic growth prospects are weak, and consumer sentiment is muted. Household debt in the financial system also remains high at 78.7% of GDP (as of June 2019), although the rate of growth is slowing. Nevertheless, this leverage suggests potential significant downside risks should economic conditions sharply deteriorate.

Earnings Robust, Sustainable: AEONTS's earnings capacity has gradually improved in line with its enhanced scale and efficiency. Key profit metrics such as pretax income/average assets are strong compared with global benchmarking peers. Fitch believes the sound market position of AEONTS also positions the company for profitability, even during a normal cyclical downturn. However, the challenging operating conditions in Thailand and ongoing credit costs may constrain further upside for AEONTS's profitability ratios.

Asset Quality Risks Continue: AEONTS's loan impairments have risen, though this is in line with our expectations due to the weaker environment. Fitch expects the company's buffers such as loan-loss allowances and equity to remain sound in a base-case scenario of slow economic growth.

Medium-Term Capital Trends Positive: AEONTS's key capital ratios have gradually but consistently improved through internal capital accumulation, which should remain supported by the company's robust earnings prospects. The planned implementation of IFRS9 accounting rules during 2020 may have a negative impact on the company's capital, but this would likely be a short-term and one-off effect.

Growth Initiatives Complementary but Challenging: AEONTS has growth plans in hire purchase in Thailand, as well as consumer lending in neighbouring markets (Cambodia, Myanmar and Laos). These initiatives may lead to a more diversified business model – currently around 90% of revenue is from the credit card and personal loan businesses. Nevertheless, these growth segments are also very competitive and entail execution risk.

Diversified Funding Sources: The company's funding is relatively diverse compared with other Thai non-bank financial institutions, with strong banking relationships, supported by the group's ties with Japanese banks, and consistent access to financial markets.

Rating Sensitivities

Further Improvements in Franchise, Leverage: There could be upside to the ratings if AEONTS is able to successfully expand its franchise and business model, or if it continues to improve its key leverage ratios, even after the accounting impact of IFRS9.

Increased Risk Appetite, Weaker Buffers: Rating pressure may arise if AEONTS's risk appetite were to increase materially, such as with rapid growth in higher risk countries or products, or if existing buffers such as loan-loss allowance coverage and capital were to deteriorate for a material and sustained period.

Applicable Criteria

Non-Bank Financial Institutions Rating Criteria (October 2018)
National Scale Ratings Criteria (July 2018)

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Significant Changes

Operating Environment Amplifies Risks

Thailand's economic growth has been weaker than our expectations in 2019, which has limited earnings prospects and growth opportunities in the financial sector. The Bank of Thailand's GDP growth forecast for 2019 has been consistently lowered, from 4.2% as of September 2018 to 2.8% in September 2019. However, there is some support from employment and wage indicators, which appear to be relatively stable.

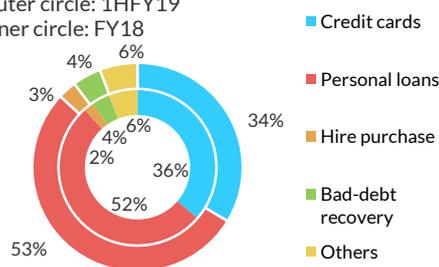
The central bank has implemented several macro-prudential measures over the past few years in credit, unsecured consumer lending and mortgages. Authorities have also indicated their concern over the repayment difficulties of lower-income individuals. These measures have been preventive rather than reactive. Nevertheless, these measures indicate the potential for downside risks should operating conditions worsen by more than we expect.

Growth in New Segments Gathers Pace

AEONTS has been expanding relatively quickly in overseas operations and domestic hire purchase to supplement its existing strengths in personal loans and credit cards. This growth is from a low base, and the immediate impact on the company's operations has been limited so far – overseas revenue (which includes credit cards, personal loans, and hire purchase) made up 5.8% of total revenue in 1HFY19. Nevertheless, over the medium term, these initiatives may contribute to shifts in AEONTS's franchise, business model and risk appetite.

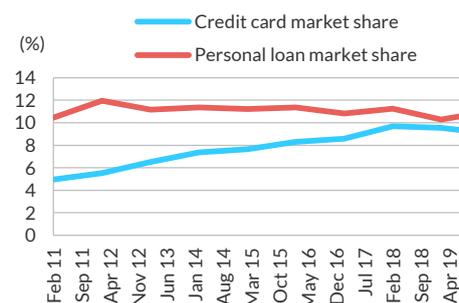
Revenue Breakdown

Outer circle: 1HFY19
Inner circle: FY18



Source: Fitch Ratings, AEONTS

AEONTS Market Share

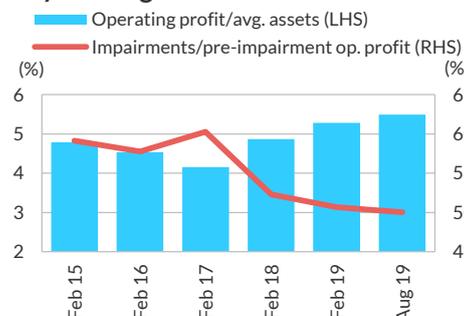


Source: Fitch Ratings, Bank of Thailand, AEONTS

Key Financial Developments

AEONTS's profitability and capital trends have been sound over the past several years, reflecting the company's strong market position. Earnings will remain linked to credit costs, but Fitch expects through-the-cycle profitability to support gradual capital retention over the medium term.

Key Earnings Indicators



Source: Fitch Ratings, AEONTS

Capital Trends

Tangible common equity/tangible assets



Source: Fitch Ratings, AEONTS

Summary Financials and Key Ratios

	31 Aug 19 6 months - interim (THBm) Reviewed - unqualified	28 Feb 19 Year end (THBm) Audited - unqualified	28 Feb 18 Year end (THBm) Audited - unqualified	28 Feb 17 Year end (THBm) Audited - unqualified	29 Feb 16 Year end (THBm) Audited - unqualified
Summary income statement					
Net interest & dividend income	8,914.4	16,469.0	14,644.4	13,793.8	13,224.5
Net fees and commissions	399.4	622.6	549.9	478.1	679.6
Other operating income	247.2	460.5	585.8	698.6	695.5
Total operating income	9,561.0	17,552.1	15,780.1	14,970.5	14,599.6
Operating costs	4,573.1	8,546.8	7,976.9	7,307.7	7,293.5
Pre-impairment operating profit	4,987.9	9,005.3	7,803.2	7,662.8	7,306.1
Loan & other impairment charges	2,495.1	4,565.6	4,082.0	4,617.6	4,221.6
Operating profit	2,492.8	4,439.7	3,721.2	3,045.2	3,084.5
Other non-operating items (net)	-2.0	-5.5	-6.8	-32.4	0.2
Tax	496.1	867.6	720.0	594.7	625.2
Net income	1,994.7	3,566.6	2,994.4	2,418.1	2,459.5
Other comprehensive income	-64.9	-40.3	-54.9	-36.3	-7.5
Fitch comprehensive income	1,929.8	3,526.3	2,939.5	2,381.8	2,452.0
Summary balance sheet					
Assets					
Gross loans	87,016.6	82,331.7	75,652.0	65,982.1	62,982.5
- Ow impaired	2,721.1	2,282.8	1,778.9	1,792.5	2,105.7
Loan loss allowances	3,393.9	2,879.1	2,414.2	2,259.4	2,412.0
Net loans	83,622.7	79,452.6	73,237.8	63,722.7	60,570.5
Interbank	n.a.	n.a.	n.a.	n.a.	n.a.
Derivatives	184.7	154.8	303.7	1,840.1	3,161.0
Other securities & earning assets	94.7	100.3	52.6	58.2	1,467.3
Total earning assets	83,902.1	79,707.7	73,594.1	65,621.0	65,198.8
Cash and due from banks	4,678.7	4,068.1	4,089.8	3,649.1	3,808.6
Other assets	3,660.0	3,345.7	3,087.5	3,368.2	3,443.8
Total assets	92,240.8	87,121.5	80,771.4	72,638.3	72,451.2
Liabilities					
Customer deposits	n.a.	n.a.	n.a.	n.a.	n.a.
Interbank and other short-term funding	11,907.9	7,100.2	18,305.8	16,365.6	19,759.9
Other long-term funding	55,248.9	56,642.5	41,110.0	39,344.5	37,362.4
Trading liabilities and derivatives	2,106.3	1,984.7	2,772.6	789.9	549.3
Total funding	69,263.1	65,727.4	62,188.4	56,500.0	57,671.6
Other liabilities	3,271.0	3,005.7	2,761.2	2,365.4	2,522.9
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	19,706.7	18,388.4	15,821.8	13,772.9	12,256.7
Total liabilities and equity	92,240.8	87,121.5	80,771.4	72,638.3	72,451.2
Ratios (annualised as appropriate)					

Summary Financials and Key Ratios (Cont.)

	31 Aug 19	28 Feb 19	28 Feb 18	28 Feb 17	29 Feb 16
Operating profit/risk-weighted assets	n.a.	n.a.	n.a.	n.a.	n.a.
Net interest income/average earning assets	21.6	21.4	21.1	20.8	21.3
Non-interest expense/gross revenue	47.8	48.7	50.6	48.8	50.0
Net income/average equity	20.7	20.7	20.4	18.7	21.8
Operating profit/average total assets	5.5	5.3	4.9	4.2	4.5
Asset quality					
Impaired loans ratio	3.1	2.8	2.4	2.7	3.3
Growth in gross loans	5.7	8.8	14.7	4.8	7.2
Loan loss allowances/impaired loans	124.7	126.1	135.7	126.1	114.6
Loan impairment charges/average gross loans	5.8	5.7	5.8	7.1	6.9
Net charge-offs/average gross loans	5.8	6.1	6.4	8.1	7.8
Capitalisation					
Fitch Core Capital (FCC) ratio	n.a.	n.a.	n.a.	n.a.	n.a.
Tangible common equity ratio	20.2	20.1	18.6	17.8	15.6
Common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.	n.a.
Basel leverage ratio	n.a.	n.a.	n.a.	n.a.	n.a.
Net impaired loans/FCC	-3.7	-3.5	-4.3	-3.7	-2.8
Equity/total assets	21.4	21.1	19.6	19.0	16.9
Funding & liquidity					
Loans/customer deposits	n.a.	n.a.	n.a.	n.a.	n.a.
Liquidity coverage ratio	n.a.	n.a.	n.a.	n.a.	n.a.
Customer deposits/funding	n.a.	n.a.	n.a.	n.a.	n.a.
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings

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