ING FINANCIAL MARKETS

Company update **02 December 2002**

Japan

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Aeon Credit[c]

8570

Accumulate

Maintained

High teens ROE still likely

¥4,590 02/12/02

Est fair value	¥4,850

We have trimmed our earnings forecasts and FV estimate, but retained our ACCUMULATE rating, as we continue to expect ROE in the high teens.

We have updated our forecasts, factoring in an accounting change, rising bad debts in Japan and Hong Kong, and regulatory changes in Thailand.

Our new forecasts are only modestly lower than our previous forecasts, as receivables growth remains strong in Japan and the Thai developments won't hurt consolidated earnings much.

We are shaving our FV estimate from ¥5,000 (or 3.0x 2/02 BVPS) to ¥4,850 (or 2.8x 8/02 BVPS). Our FV estimate assumes sustainable ROE of 16.9%, versus about 17.5% previously.

We trust management's ability to offset increasing bad debts in Japan/ Hong Kong and lower yields/slower asset growth in Thailand with cost cutting. We now think bad debt costs in Hong Kong will peak in FY2/03.

We suggest buying on any weakness.

Performance (%)

	Absolute	Rel TOPIX
1m	14.5	11.7
3m	-31.0	-27.7
1yr	-37.4	-26.0
52 week	high	low
	¥7,950	¥3,220

Capitalisation

Market cap.	¥218.3bn
Shares out	47.6m
Daily vol. (26w ave.)	88,786
Next results due	08/04/03

Valuations

Book/share	¥1,629
Price/book	2.8X
Dividend per share	¥50.0
Dividend yield	1.1%
ROA	3.9%
ROE	17.1%

Forecasts and ratings

Cons Yr to	Sales (¥m)	OP (¥m)	RP (¥m)	NP (¥m)	EPS (¥)	PER (X)	PBR (X)	ROE (%)
FY2/02	85,993	23,835	23,847	12,213	256.8	17.9	2.8	15.2
FY2/03COE old	100,600	26,400	26,400	13,500	283.8	16.2	N/A	N/A
FY2/03COE new	100,600	26,400	26,400	13,700	288.0	15.9	N/A	N/A
FY2/03E old	98,688	27,091	27,195	13,803	290.2	15.8	2.5	16.6
FY2/03E new	100,648	26,914	27,018	14,081	296.0	15.5	2.5	16.9
FY2/04E old	112,050	31,591	31,823	16,485	346.6	13.2	2.1	17.3
FY2/04E new	113,406	29,917	30,149	16,040	337.2	13.6	2.1	16.8
FY2/05E old	128,785	36,093	36,482	19,406	408.0	11.3	1.8	17.6
FY2/05E new	129,416	34,043	34,432	18,584	390.7	11.7	1.9	17.0

Source: Company data, ING estimates

Price chart

Source: Bloomberg

TOPIX: 888

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Executive summary

We have updated our earnings forecasts

We have updated our earnings forecasts for Aeon Credit, factoring in the recent accounting change in Japan (which provided a one-off fillip to profits), rising bad debt costs in Japan and Hong Kong, and adverse regulatory developments in Thailand, but we retain our Accumulate rating.

Our new forecasts are only modestly lower than our previous forecasts because receivables growth remains strong in Japan, the aforementioned accounting change enabled the parent to pre-emptively bolster its bad debt reserves, and the regulatory developments in Thailand probably won't affect consolidated earnings much.

We are shaving our FV estimate slightly from ¥5,000 (or 3.0x 2/02 BVPS) to ¥4,850 (or 2.8x 8/02 BVPS). This is because we are now basing our FV estimate on 8/02 BVPS (rather 2/02 BVPS) and on our new estimate for sustainable ROE of 16.9% (rather than our previous estimate of about 17.5%). Our new FV estimate also works out to about 16x and 14x our new EPS forecasts for FY2/03 and FY2/04.

The operating environment in the company's main markets is likely to remain somewhat challenging for some time. However, we have faith in management's ability to offset most of the pressure on profits from increasing bad debts in Japan and Hong Kong and from yield declines/slower asset growth in Thailand through cost cutting. Moreover, we now think bad debt costs in Hong Kong will peak this term.

We think the recent decline in the stock has brought the shares down to attractive levels for this well managed company, which remains well poised to benefit from structural growth in consumer credit from middle-income earners in Japan and the emergence of consumer credit markets in Southeast Asia. Since the stock has retraced some of its losses, we think investors should look potentially to buy on any weakness.

Hong Kong

We think FY2/03 will mark the peak in bad debt costs and the trough in eanings in HK

Although the outlook for credit quality and personal consumption remains murky, we think that FY2/03 will mark the peak in bad debt costs and the trough in earnings for Aeon Credit Service (Asia) (900 HK). Aeon Credit in Japan currently owns 52% of the Hong Kong company, which provided about 17% of Aeon Credit Service's consolidated net profit in FY2/02. The company is the third largest credit card issuer in Hong Kong, with about 800,000 cards outstanding at present.

Earnings have been sluggish since FY2/01, but there are signs the operating environment is starting to stabilise; HK bankruptcies fell MoM in September 02

Earnings at this subsidiary have been sluggish since FY2/01, reflecting poor employment conditions (especially among low-income earners), deflation, and a jump in personal bankruptcies. These factors have caused asset growth to slow sharply and bad debt costs to soar. Recently, however, there are signs that the operating environment is beginning to stabilise. In September 02, the number of personal bankruptcies in Hong Kong was 2,137, down from 2,439 in August 02 and 2,354 in July 02. This coincides with a decline in the unemployment rate to 7.6% for the three months to September 02, down from 7.8% for the three months to August 02 and 7.9% for the three months to July 02. In addition to the tentative improvement in the unemployment rate, we think the decline in personal bankruptcies also reflects the receding effects of the enactment in July 1998 of amendments to the Bankruptcy Act. Among other things, those amendments reduced the time until discharge for personal bankruptcy filers from eight years previously to four years for first-time filers. The amendments also enabled bankruptcy filers to hold on to personal property, including certain vehicles, clothing, furniture and household equipment, and to retain possession of their homes for six months after filing for bankruptcy. The rise in personal bankruptcies was exacerbated by several other factors. These include the following.

Personal bankruptcies have soared since 1999 due to easier filing rules, aggressive credit card marketing campaigns, and a rise in fraud

1. Aggressive campaigns by banks and non-banks to market credit cards from 1999-2001 amid a drop in demand for corporate loans
2. The lack of data sharing about their customers by banks and finance companies

Also, amid the lack of data sharing, the rule changes encouraged criminals to open multiple credit card and consumer loan accounts and subsequently declare personal bankruptcy.

We think the effects of many of these factors have run their course; lenders have taken steps to tighten lending standards and promote credit data sharing

We think the effects of many of these factors have run their course. Most banks and non-banks have tightened their lending standards over the past year and redoubled efforts to identify prospective personal bankruptcy filers. There have also been growing efforts by top credit card issuers to arrange workouts involving all creditors for distressed borrowers. The Hong Kong Bankers Association and the Hong Kong Monetary Authority are trying to promote the exchange of positive personal credit data, including customers' number of credit lines, approved credit lines, and total outstanding debt, among providers of credit cards and consumer loans. The start of sharing now seems unlikely until late 2003 at the earliest. The start of sharing could lead to a one-time spike in bad debt charges across the industry, as lenders would then become better able to identify and cut off credit to over-extended multiple account holders. Aeon Credit Service (Asia) already exchanges negative data – information about defaulters – with some banks and finance companies.

We expect economic conditions to remain sluggish

Despite the tentative improvement in the unemployment rate, we think operating conditions will remain sluggish for several more years. This is because deflation stemming from the "hollowing out" of Hong Kong's manufacturing and service industries is likely to continue, and employment conditions in another key economic sector – financial services – are likely to erode further in the coming months. However, there are signs that the government is trying to address some of Hong Kong's deflationary problems through such measures as abandoning future residential property sales in order to support property prices. Our impression is that Hong Kong's employment and income conditions might erode a bit more, but probably won't deteriorate as sharply as they have over the past two years.

Since Aeon Credit (Asia) reserves aggressively, we expect bad debt costs to peak in FY2/03

In such an environment, we think Aeon Credit (Asia) will see its bad debt costs peak in FY2/03 but then remain at fairly high levels. Since the company establishes bad debt reserves for all debts that are delinquent for three months or more, we expect a peaking in personal bankruptcies and past-due accounts to coincide with a peaking in bad debt costs. In most cases, the company charges off all accounts that default due to personal bankruptcy immediately and all other accounts after they are delinquent for 180 days.

We expect the ratio of bad debt provisioning to operating assets to peak at about 11%

In FY2/02, the ratio of Aeon Credit Service (Asia)'s bad debt provisioning (ie, its P&L bad debt costs) to operating assets rose 329b year/year to 8.31%. This ratio had been in the 5%-6% range until FY2/01. We now expect this ratio to rise to 10.93% in FY2/03 and decline to 10.07% in FY2/04 and 8.21% in FY2/05. Management would not comment definitively on our assumptions about this ratio, but indicates that it expects FY2/03 to be the peak year for bad debt costs in absolute terms and suggests that our assumptions might be conservative. The company has already tightened underwriting standards and recently completed the implementation of an automatic scoring system.

Operating asset growth is likely to remain sluggish

Continued sluggishness in the jobs market and continued keen competition in the credit card market are likely to sustain pressure on asset growth. In our earnings model, we assume a roughly 2% decline in total operating assets in FY2/03, to about HK$2.87tr. At 8/02, operating assets at Aeon Credit Service (Asia) totaled about HK$2.9b, nearly flat HoH, with credit card receivables accounting for about 80% of the total, personal loans (including education, travel and other special-purpose loans) for about 11%, and hire purchase (HP) receivables for about 9%. Management says that the total balance of receivables dipped slightly in September and October, as the balance of personal loans fell slightly, but hopes to keep the total balance roughly flat YoY at 2/03.

Aeon Credit (Asia) has focused on marketing cards and loans mainly to Jusco affiliated customers to reduce risk

Over the past year, Aeon Credit Service (Asia) has focused its marketing on encouraging the use of card shopping and borrowing by its Jusco store affinity credit card customers, who account for roughly 43% of total revenues and about half of total credit cards outstanding. For instance, the company has been promoting its recently launched Aeon Jusco Visa cards but has scaled back marketing to new and existing Batman, Hello Kitty and other non-Jusco related credit card users, who tend to mainly use cash advances and have a higher risk profile than Jusco affiliated customers. We think the company's marketing strategy is appropriate given the operating environment.

Targeting operating cost reductions of HK$2m per month; full benefit should show up in FY2/04

We are impressed by Aeon Credit Service (Asia)'s recent cost-cutting drive, which has included trimming spending on advertising and labour, closing several staffed branches, and converting some staffed branches to cash dispenser outlets. The company has also shifted most telemarketing and telephone collection activities to a call centre operated by a subsidiary in China. Through these measures, Aeon Credit Service (Asia) aims to reduce non-credit related operating costs by about HK$2m per month. Since the company implemented most of these measures in 1H FY2/03, it should see the full benefit in FY2/04.

We see room to lower funding costs in the future

There is also room to further improve funding costs, which averaged 6.3% in 1H FY2/03, through the increased use of direct funding and through refunding existing borrowings at lower market rates. Aeon Credit Service (Asia) is exploring the possibility of acquiring a license to establish a deposit-taking company, but we don't expect it to acquire such a license in the short term.

Fig 1 Aeon Credit service (Asia) (HK$m)

	FY2/00	FY2/01	FY2/02	FY2/03E	FY2/04E	FY2/05E	FY2/06E	FY2/07E
Credit card int (mostly cash adv rcvs)	705.2	720.5	722.9	718.3	689.8	685.4	696.2	708.4
Vehicle financing + hire purchase	18.4	42.4	39.1	35.5	32.6	29.1	26.0	23.2
Personal loans	10.8	36.5	77.7	104.2	112.0	125.0	148.5	179.4
Bank deposits & other	12.0	17.7	9.5	10.0	10.5	11.5	12.7	13.9
Total interest (non-fee) revenues	**746.5**	**769.9**	**804.1**	**821.9**	**800.0**	**805.9**	**836.5**	**875.8**
Interest expense	182.8	191.8	170.8	135.5	132.3	140.6	152.2	166.3
Other operating income + other income	78.7	72.2	146.2	98.9	82.5	90.8	104.4	120.0
Operating expenses	276.2	273.1	296.4	281.4	281.4	292.0	306.1	323.7
Bad debt charges (provisioning)	159.2	135.0	235.4	315.7	272.9	240.8	224.3	222.9
Profit from ordinary activities	**207.0**	**242.2**	**247.7**	**188.1**	**195.8**	**223.2**	**258.2**	**282.9**
Taxes	27.0	32.2	36.7	28.2	29.4	33.5	38.7	42.4
Net income	**180.0**	**210.0**	**211.0**	**159.9**	**166.4**	**189.7**	**219.5**	**240.5**
Cards outstanding	615,000	723,000	800,000	815,000	839,000	863,000	893,000	923,000
Credit cards recvs (mstly cash adv), gross	2,227.2	2,253.0	2,337.6	2,267.5	2,264.2	2,352.3	2,458.4	2,566.4
Hire purchase (instl fin) recvs, gross	321.4	320.5	284.2	270.0	243.0	218.7	196.8	177.1
Personal loans, gross	86.9	167.2	302.4	332.6	365.9	439.1	548.8	686.0
Oper recvs	**2,635.4**	**2,740.7**	**2,924.2**	**2,870.1**	**2,873.1**	**3,010.1**	**3,204.1**	**3,429.6**
Oper recvs, y/y %	**13.4**	**4.0**	**6.7**	**-1.9**	**0.1**	**4.8**	**6.4**	**7.0**
Revenue yield % (all oper recvs)	33.3%	30.4%	30.0%	30.0%	29.4%	28.9%	28.4%	27.9%
Rev yield %, credit card recvs	31.8%	32.2%	31.5%	31.2%	30.4%	29.7%	28.9%	28.2%
Rev yield %, hire purchase recvs	6.2%	13.2%	12.9%	12.8%	12.7%	12.6%	12.5%	12.4%
Rev yield %, personal loan recvs	22.8%	28.7%	33.1%	32.8%	32.1%	31.1%	30.1%	29.1%
BD charge offs/avg oper recvs %	**6.4%**	**5.0%**	**8.3%**	**10.9%**	**9.5%**	**8.2%**	**7.2%**	**6.7%**
Interest expense/avg oper recvs %	7.37	7.13	6.03	4.68	4.61	4.78	4.90	5.01
Other op expenses/op recvs	11.14	10.16	10.47	9.71	9.80	9.93	9.85	9.76
Net income, % of avg oper recvs	**7.3**	**7.8**	**7.4**	**5.5**	**5.8**	**6.5**	**7.1**	**7.3**
Tax rate	13.0%	13.3%	14.8%	15.0%	15.0%	15.0%	15.0%	15.0%
Bad debt reserve	NA	90.5	148.7	214.4	247.3	244.2	216.9	179.0
Bad debt reserve/oper recvs	NA	**3.3%**	**5.1%**	**7.5%**	**8.6%**	**8.1%**	**6.8%**	**5.2%**
Bad debt charge-offs, net	157.1	129.7	177.2	250.0	240.0	243.9	251.6	260.8
BD charge-offs, net/oper assets	**6.0%**	**4.7%**	**6.1%**	**8.7%**	**8.4%**	**8.1%**	**7.9%**	**7.6%**
Total assets	2,989	3,155	3,295	3,234	3,238	3,392	3,611	3,865
Total equity	708	899.3	1,055.8	1,184	1,317	1,469	1,644	1,837
Equity/assets	23.7%	28.5%	32.0%	36.6%	40.7%	43.3%	45.5%	47.5%
Total debt	2,119	2,135	2,135	2,099	2,101	2,191	2,318	2,465
Debt/operating assets	80.4%	77.9%	73.0%	73.1%	73.1%	72.8%	72.4%	71.9%
Interest exp/avg debt	9.14	9.02	8.00	6.40	6.30	6.55	6.75	6.95
YoY%								
Total revenues	10.3	-1.0	3.9	2.2	-2.7	0.7	3.8	4.7
Net income	23.0	16.7	0.5	-24.2	4.1	14.0	15.7	9.6
Net profit margin	25.7	24.8	18.4	19.7	22.3	24.8	24.8	26.0
¥m using avg rate								
Total revenues	12,038	11,489	13,468	13,766	13,400	13,498	14,010	14,670
Net income	2,626	2,953	3,346	2,536	2,640	3,009	3,481	3,814
Ownership percentage	0.52	0.52	0.519	0.519	0.519	0.519	0.519	0.519
NP attributable to Aeon Credit	**1,364**	**1,534**	**1,738**	**1,317**	**1,371**	**1,563**	**1,808**	**1,981**
Avg. HK$/Y rate	14.59	14.06	15.86	15.86	15.86	15.86	15.86	15.86

Source: Company data, ING estimates

Aeon Credit Service (Asia) is getting ready to ride Aeon's coat-tails in China…

Aeon Credit Service (Asia), through a Shenzhen subsidiary, Aeon Information Service (Shenzhen) (unquoted), is preparing to move into the China market in line with a drive by its parent, Aeon (8267, ¥2,900, Accumulate), to expand the Jusco store network in China. Aeon currently operates eight warehouse-type stores in Hong Kong and four mainland stores: two in Guangzhou, one in Dongguan, and one in Shenzhen. China expansion is clearly a focus for Aeon, which opened two of its four mainland stores in 2002 and plans to add at least six more over the next three years.

Fig 2 Jusco stores in Hong Kong and China

Store	Opened	Size (Sq. Ft.)
Hong Kong		
Kornhill	Nov-87	261,000
Tsuen Wan	Apr-91	116,000
Lok Fu	Jun-91	148,000
Tai Po	Oct-95	85,000
Tseung Kwan O	Oct-97	164,000
Tsz Wan Shan	Mar-98	98,000
Whampoa	Nov-98	187,000
Tuen Mun	Dec-98	152,000
China		
Guangzhou - Teem Plaza	Jun-96	123,000
Guangzhou - China Plaza	Jun-00	156,000
Dongguan	02-Jun	155,000
Shenzhen	02-Sep	214,000

Source: Company data

…by establishing hire-purchase outsourcing operations for Aeon in China

According to our colleagues Paul Sheehan and Christina Fok at ING Securities (Hong Kong), who cover Aeon Credit Service (Asia), under current regulations Aeon Credit Service (Asia) may not handle HP financing for Jusco in China, nor may it issue credit cards to mainland customers. Even users of Aeon Credit Service (Asia)'s Hong Kong-issued cards may not use them to make purchases at Jusco mainland stores. However, Aeon Credit Service (Asia) has come to an agreement with Aeon whereby the finance company will operate an HP arm for Aeon's mainland operations on a fee basis, with Aeon booking the loans and taking all of the credit risk.

Aeon Credit Service (Asia) plans to handle credit approval and servicing for now…

Aeon Credit Service (Asia) will handle credit approval and servicing and will thus be able to start building a database of credit behaviour even before launching its own China financing operations. Fees for this service have not yet been set, but Aeon Credit Service (Asia) expects to make a profit from the start even without interest income, as it has excess capacity and existing call centre operations in Shenzhen.

…and convert these operations into a full-fledged financing unit once it wins the required licenses

Aeon Credit Service (Asia)'s intention is to convert the consigned operations into a full-fledged financing unit as quickly as possible, which will require local HP licenses. We expect Aeon Credit Service (Asia) to receive a license by the end of 2003 (possibly through a joint venture with a local bank) that will permit it to run HP operations in Guangzhou only; additional licenses will probably need to be obtained on a province-by-province basis. Credit card operations are considerably further off; for this Aeon Credit Service (Asia) would almost definitely require a local partner.

The start of consigned operations will give Aeon Credit Service (Asia) a leg up in China

Despite their limited initial scope, the start of consigned operations in China is a coup for Aeon Credit Service (Asia) in that the company will gain credit and marketing experience with mainland customers without taking any risk. Also, the company is well placed to expand after gaining HP licenses for Aeon's existing mainland stores.

Each China Jusco shop could generate HK$2m pa in HP revenues for Aeon Credit Service

Based on the experience in Hong Kong, we estimate that each new Jusco store in China could contribute over HK$2m in annual HP revenue if Aeon Credit Service (Asia) were able to get HP licenses. The addition of credit card privileges could provide a potential revenue stream of HK$30m annually per store. (In FY2/03, Aeon Credit Service (Asia) had total revenues of about HK$850m.) Due to their contingent nature, such revenue estimates are not included in our current forecasts for Aeon Credit Service (Asia), but represent potential upside. At any rate, we would not expect China to be a major additional source of revenues for another three to four years.

Aeon Credit Service (Asia) announced plans to sell a 5.76% stake in Aeon Thana Sinsap to Aeon Credit in Japan

On November 26, 2002, Aeon Credit Service (Asia) announced plans to sell its 5.76% stake in Aeon Thana Sinsap (see next section) for HK$72m to Aeon Credit in Japan. This transaction will produce an extraordinary gain of HK$33.9m in FY2/03 for the Hong Kong company, but the gain will cancel out at Aeon Credit's consolidated level. However, the sale will also cause an increase in Aeon Credit's equity stake in Aeon Thana Sinsap from 41.8% currently to 44.5% from FY2/04, and thereby boost consolidated net profit slightly in the coming years.

Fig 3 Aeon Thana Sinsap and ACS Capital, Combined (Btm)

	FY2/00	FY2/01	FY2/02	FY2/03E	FY2/04E	FY2/05E	FY2/06E	FY2/07E
Total revenues	**654**	**1,147**	**2,196**	**3,656**	**4,812**	**6,656**	**8,724**	**10,908**
Total expenses	**N/A**	**900**	**1,757**	**2,962**	**3,884**	**5,394**	**7,048**	**8,786**
SGA costs	N/A	580	1,108	1,752	2,121	2,904	3,731	4,548
Bad debt costs	N/A	165	332	711	1,067	1,528	2,059	2,669
Funding costs	N/A	155	317	499	695	962	1,258	1,569
Pretax profit	**N/A**	**247**	**440**	**694**	**928**	**1,261**	**1,676**	**2,122**
Taxes	N/A	93	148	243	325	442	587	743
Net profit	**N/A**	**154**	**292**	**451**	**604**	**820**	**1,089**	**1,379**
Net profit margin	10.1%	13.4%	13.3%	12.3%	12.5%	12.3%	12.5%	12.6%
Total revenues	**N/A**	**1,147**	**2,197**	**3,656**	**4,812**	**6,656**	**8,724**	**10,908**
ow, hire purchase income	N/A	687	1,167	1,795	2,516	3,401	4,331	5,214
ow, credit card income	N/A	225	636	1,182	1,465	2,094	2,848	3,733
ow, loan income	N/A	155	330	575	748	1,065	1,435	1,833
ow, factoring income	N/A	24	21	52	21	21	21	21
ow, other	N/A	56	43	52	62	74	89	107
Total revenues, YoY %	**N/A**	**N/A**	**91.5%**	**66.4%**	**31.6%**	**38.3%**	**31.1%**	**25.0%**
ow, hire purchase income (%YoY)	N/A	N/A	69.9%	53.8%	40.2%	35.2%	27.3%	20.4%
ow, credit card income (%YoY)	N/A	N/A	182.7%	85.9%	23.9%	42.9%	36.0%	31.1%
ow, loan income (%YoY)	N/A	N/A	112.9%	74.4%	30.0%	42.5%	34.7%	27.8%
ow, factoring income (%YoY)	N/A	N/A	-12.5%	149.5%	-59.9%	0.0%	0.0%	0.0%
ow, other (%YoY)	N/A	N/A	-23.2%	20.0%	20.0%	20.0%	20.0%	20.0%
Oper recvs	**1,505**	**4,396**	**8,942**	**14,287**	**21,015**	**29,513**	**39,004**	**49,627**
ow, hire purchase recvs	1,037	2,904	5,094	7,641	11,079	15,511.23	20,165	25,206
ow, credit card recvs	249	1,048	2,451	4,534	6,802	9,522	12,855	16,711
ow, personal loan recvs	219	444	1,230	1,845	2,768	4,013	5,417	7,043
ow, other inc factored recvs	0	0	167	267	367	467	567	667
Oper recvs (%YoY)	**N/A**	**192%**	**103%**	**60%**	**47%**	**40%**	**32%**	**27%**
ow, hire purchase recvs (%YoY)	N/A	180%	75%	50%	45%	40%	30%	25%
ow, credit card recvs (%YoY)	N/A	321%	134%	85%	50%	40%	35%	30%
ow, personal loan recvs (%YoY)	N/A	103%	177%	50%	50%	45%	35%	30%
ow, other inc factored recvs (%YoY)	N/A	0	N/A	60%	37%	27%	21%	18%
Cards	60,000	300,000	550,000	800,000	900,000	1,000,000	1,100,000	1,200,000
Handling volume, total	N/A	9,498	17,951	32,312	48,468	67,855	91,604	119,085.14
YoY % in handling volume	N/A	N/A	89.0%	80.0%	50.0%	40.0%	35.0%	30.0%
Debt	**N/A**	**4,459**	**8,257**	**12,764**	**18,145**	**24,596**	**31,336**	**38,381**
Debt/operating assets	N/A	101.4%	92.3%	89.3%	86.3%	83.3%	80.3%	77.3%
Funding costs/avg debt	N/A	N/A	4.99%	4.75%	4.50%	4.50%	4.50%	4.50%
Total shareholders equity	**N/A**	**378**	**1,168**	**1,574**	**2,117**	**2,855**	**3,836**	**5,077**
Total assets	**N/A**	**5,222**	**9,983**	**15,153**	**21,174**	**28,250**	**35,467**	**42,871**
Equity/assets	N/A	7.2%	11.7%	10.4%	10.0%	10.1%	10.8%	11.8%
ROE	N/A	N/A	37.8%	32.9%	32.7%	33.0%	32.6%	31.0%
ROA	N/A	N/A	3.8%	3.6%	3.3%	3.3%	3.4%	3.5%
Revenue yield, all oper assets	**N/A**	**38.9%**	**32.9%**	**31.5%**	**27.3%**	**26.3%**	**25.5%**	**24.6%**
Revenue yield, hire purhchase recvs	N/A	34.9%	29.2%	28.2%	26.9%	25.6%	24.3%	23.0%
Revenue yield, credit card recvs	N/A	34.7%	36.4%	33.9%	25.9%	25.7%	25.5%	25.3%
Revenue yield, loans	N/A	46.8%	39.4%	37.4%	32.4%	31.4%	30.4%	29.4%
Revenue yield, factoring recvs	N/A	N/A	25.1%	24.1%	23.1%	22.1%	21.1%	20.1%
Bad debt costs/avg oper assets	N/A	**5.6%**	**5.0%**	**5.0%**	**5.1%**	**5.2%**	**5.3%**	**5.4%**
Bad debt reserve	N/A	92	164	302	454	650	875	1,134
Bad debt reserve/oper assets	N/A	2.09%	1.83%	2.12%	2.16%	2.20%	2.24%	2.29%
(¥m) using avg rate								
Total revenues	1,957	3,085	6,127	10,823	14,245	19,701	25,823	32,288
Net income	197	414	815	1,335	1,786	2,427	3,225	4,083
YoY % in net profit	N/A	110%	97%	64%	34%	36%	33%	27%
Ownership percentage	0.447	0.520	0.520	0.418	0.445	0.445	0.445	0.445
NP attributable to Aeon Credit	**88**	**215**	**424**	**558**	**795**	**1,080**	**1,435**	**1,817**
Avg Bt/¥ rate	2.99	2.69	2.79	2.96	2.96	2.96	2.96	2.96

Source: Company data, ING estimates

Aeon Thana Sinsap

Owing to tighter regulations on credit card companies, we have lowered our earnings growth forecasts for Thai operations; Thailand provides only 4% of consolidated net profit now

We have reduced our forecasts for asset growth, revenue yields, and earnings for Bangkok-based Aeon Thana Sinsap (AEONTS TB, not rated, Bt119) for FY2/04 and beyond following the recent announcement of tighter regulations on credit card issuers in Thailand. We do not think earnings at this subsidiary will decline. Rather, we think the rate of net profit growth (in Bt terms) will slow from 90% in FY2/02 to an estimated 54% in FY2/03 and then to around 30% pa in the coming two to three terms. Previously, we had expected net profit growth of around 50% pa in the coming two to three terms. (For FY2/03, the Thai subsidiary's profits in yen are likely to be boosted by an improvement in the Thai baht/¥ rate.) Aeon Credit in Japan currently owns 41.8% of Aeon Thana Sinsap, and the Thai subsidiary contributed about 4% of Aeon Credit Service's consolidated net profit in FY2/02. Aeon Credit's stake will rise to 44.5% in FY2/04 following the recent acquisition of more Aeon Thana Sinsap shares from Aeon Credit Service (Asia).

We talked to several local observers

Over the past couple of weeks, we have spoken with managing director Masao Mizuno and director Mikio Sueda at Aeon Thana Sinsap and with an executive vice president at Siam A&C about the regulatory changes in Thailand. Siam A&C is an affiliate of Acom that offers hire-purchase financing and personal loans in Thailand and has been planning to offer credit cards.

The Bank of Thailand unveiled new rules on November 12, 2002, that impose minimum salary requirements for credit card applicants and cap credit card interest rates at 18%

On November 12, 2002, the Bank of Thailand (BOT) announced a series of new rules that will be imposed on all credit card issuers in Thailand, including non-banks.

1. A minimum monthly salary requirement for credit card applicants of Bt15,000/month (about ¥35,000) or annual salary of Bt180,000 (about ¥540,000) OR evidence of maintaining deposits at financial institutions of an amount that a credit card company considers adequate.
2. A maximum cash advance fee of up to 3% of the amount withdrawn.
3. Credit card companies will be permitted to charge actual or justified debt collection expenses.
4. Non-banks will be able to charge a bounced cheque fee of no more than Bt200 (about ¥600) per returned cheque.
5. Issuers may charge operating fees as per those specified by the BOT or as approved by the BOT.
6. Interest and other expenses other than those specified in 2-5 not exceeding 18% pa.
7. A minimum monthly repayment requirement of 5% of an account's outstanding balance.

The new rules go into effect over the next couple of months

Current issuers of credit cards must apply for permission to conduct credit card operations with Thailand's Ministry of Finance within 60 days of November 12. The above regulations are effective immediately, with the exception of the rules pertaining to cash advance fees, operating fees, and interest, which will be effective January 10, 2003.

Since credit card receivables are about 25% of its receivables, Aeon Thana Sinsap probably won't be hurt severely by the new rules, but yields on all its products will probably decline

Aeon Thana Sinsap will be especially affected by rules 1, 3, and 6. Credit card receivables currently account for a little over 25% of Aeon Thana Sinsap's total operating receivables. HP receivables account for nearly 60% of total receivables, and personal loans and factored assets for the remainder. Although the new rules will not directly affect these other asset classes, we think the yield on all asset classes will fall somewhat owing to arbitrage and rate cuts planned by the company in the coming months. From our conversations with local company officials, we do not believe that the imposition of tighter rules on other asset classes is imminent, but we think tighter controls might eventually be imposed on hire-purchase and personal loan transactions.

Social criticism of high-rate lenders and excessive credit expansion among lower-income earners were behind the new rules

It appears that the new credit card regulations were motivated by social criticism against the rapid promotion of credit cards by banks and non-banks, which has left some Thai consumers overextended, and against the high rates charged by non-banks, most of which are controlled by well-capitalised foreign companies. Consumer protection advocates have also complained about a lack of transparency about effective annual interest rates. Thailand's major banks, which had been unable to charge interest of more than 18% on credit card balances in any event, also seem to have supported the introduction of a universal 18% rate cap. Previously, there was no cap on non-banks' interest rates.

The minimum salary requirement would seem to hurt companies like Aeon Thana Sinspap

Aeon Thana Sinsap will clearly be affected by rule 1 because the company currently has a minimum monthly salary requirement for its credit card applicants of Bt6,000 (¥18,000) and the average monthly salary of its credit card customers is about Bt10,000 (¥30,000). Most bank credit card customers are from among the estimated 2.5m people in Thailand who earn Bt15,000+ per month.

But there's a loophole in the form of a customer's showing evidence of an "adequate" deposit balance

At first glance, the new Bt15,000 minimum salary requirement would seem to meaningfully hurt an issuer such as Aeon Thana Sinsap that is mainly focused on the lower-income segment of the market. However, rule 1 has a significant loophole in the form of the alternate condition of providing evidence of deposits at financial institutions up to an amount that credit card issuers consider adequate. "Adequate" is sufficiently vague that credit card companies can literally accept applicants who show only very small deposit balances. However, we think few issuers will abuse this loophole, as doing so might invite stricter regulations. We think that the BOT created this loophole in response to lobbying by non-bank and regional bank affiliated credit card issuers and to enable the major banks to eventually enter the high end of the lower-income segment of the credit card market (Bt10,000-Bt15,000 earners), which is less penetrated and has greater growth prospects than the prime segment (Bt15,000+ earners).

Minimum salary requirements had been removed this past spring

Until several years ago, Thailand imposed a minimum monthly salary requirement of Bt20,000 (about ¥60,000) on bank credit card issuers. The government subsequently lowered this to Bt15,000 and then scrapped the minimum altogether in spring 2002.

The new 18% interest rate cap will force Aeon Thana Sinsap to lower its interest rates on credit card receivables from around 30%…

Aeon Thana Sinsap currently charges about 28% pa interest on revolving credit card shopping balances and 33% on cash advance balances. The 18% cap will force Aeon Thana Sinsap to reduce its effective interest rate on all credit card balances to 18%. However, we do not expect the realised yields on Aeon Thana Sinsap's credit card receivables to decline that sharply.

This is because

1. only the interest component of revenues will decline,

2. the interest rate cap will not apply to the 30% of credit card balances that are repaid fully in the next month, and

3. the new rules will enable Aeon Thana Sinsap to levy debt collection fees that it previously had not levied.

…but we think realised total yields on credit card balances will fall from 34% to only the mid-20% range

We estimate that Aeon Thana Sinsap's average realised yield on credit card receivables (total credit card revenues divided by the average balance of credit card receivables) at about 34% currently, and we now expect this to drop to only about 25% in FY2/04. About 6%-7% of the 34% comprises non-interest fees such as annual member fees, merchant commissions, ATM usage fees, CIRRUS fees, and other items that will not be affected by the new rules.

Realised yields on HP are likely to also edge down to the mid 20s

We estimate Aeon Thana Sinsap's average realised yield on HP receivables (total HP revenues divided by the average balance of HP receivables) at about 28% currently, and we now expect this to drop to the mid-20% range in the coming two to three terms.

As will realised yields on all receivables

We estimate Aeon Thana Sinsap's average realised yield on all receivables (total revenues divided by average total receivables) at about 32%, and we now expect this too to drop to the mid-20% range in the coming two to three terms.

Aeon Thana Sinsap likely to cut more costs and promote high-yielding products

Mr. Mizuno said that he was considering cost-cutting and other measures to offset the adverse effects of the new rules, but he could not yet provide details. Mr. Sueda said that Aeon Thana Sinsap would probably continue with a strategy of emphasising credit cards, but thought that his company might also shift a bit more weight into promoting higher-yielding products such as personal loans.

We think Aeon Thana Sinsap will continue to promote credit cards by cross selling to its existing HP customers; we also expect further branch expansion in key regional cities

Over the past two years, Aeon Thana Sinsap has increased its emphasis on marketing credit cards and personal loans through cross-sales to its cumulative base of over 2m HP customers, mainly in greater Bangkok. We think that Aeon Thana Sinsap will also continue to focus on cultivating new HP customers in Thailand's regional cities, where competition is sparse. To do so, the company aims to add more offices and ATMs in regional cities and leverage its existing merchant partner relationships with major retailing groups, such as 1) The Mall group (unquoted), 2) the local unit of the Netherlands' Makro group (unquoted), and 3) Big C Supercenter Pcl (BIGC TB, Bu, Bt19.5), which is controlled by France's Casino group. These merchants are opening new hypermarkets in greater Bangkok and key regional cities at a rapid pace. Aeon Thana Sinsap is also promoting HP contracts through recently recruited merchant partners, such as J-Mart, Thailand's largest retailer of cell phones, and several networks of motorcycle dealers. Most of Aeon Thana Sinsap's HP contracts today finance electrical appliances, sanitary fixtures, PCs, and office equipment.

We think credit card expansion will slow; still, long-term growth in cards is likely, as the market is under-penetrated

Aeon Thana Sinsap had targeted 1m credit cards outstanding in a couple of years' time, up from around 700,000 today and had been adding cardholders at a rate of about 250,000 per annum. We think the pace of new card additions will slow to about 100,000 from FY2/04 as a result of the new rules, but we continue to expect expansion in cardholders mainly because the penetration of credit cards is still only about 7% in Thailand. The total number of credit cards issued by bank and non-banks is about 5m at present, compared with Thailand's population of about 63m. In Japan, whose population is about 127m, there are about 230m credit cards outstanding. We think the company's strategy of developing the HP market in key regional cities will support its efforts to increase credit card holders, and we expect a growing proportion of credit cardholders to come from outside greater Bangkok.

We now expect earnings growth of around 30% pa in the coming 2-3 terms, vs. our previous forecast of around 50%

Details of our new earnings forecasts for Aeon Thana Sinsap are shown in the attached table. Among our assumptions is that net additions to credit cardholders will slow to about 100,000 per annum from about 200,000 in recent years. We also assume that growth in total operating assets will decelerate slowly from 100% in FY2/02 and an estimated 60% in FY2/03 to about 30% over the next two to three years. Finally, we think that the ratio of bad debt costs to total operating receivables will rise only slightly from about 5.0% in FY2/02.

Other Subsidiaries

Profits at two small Japanese subsidiaries likely to continue to grow

Aeon Credit has several minor but profitable subsidiaries, including 100%-owned NCS Kosan (an insurance agency) and 100%-owned ACS Credit Management (a debt collector and servicer) in Japan. We expect small but growing profit contributions from these two companies in the coming years.

A subsidiary in Taiwan will soon start issuing credit cards and we expect it swing to the black in FY2/04

Aside from the Hong Kong and Thai units, the most interesting overseas subsidiary is 90.4%-owned Aeon Credit Service (Taiwan), which posted a small loss in 1H FY2/03 on revenues equivalent to about ¥71m (+34%). The Taiwanese company is currently engaged in HP-like finance operations and has partnered mainly with the local affiliates of Japanese retailing chains. However, in December 02, Aeon Credit Service (Taiwan) plans to start recruiting Mastercard, Visa, and JCB branded affinity credit card customers at the stores of a local department store, using a new subsidiary. Aeon Credit Service (Taiwan) targets 200,000 cardholders by FY2/06. Aeon Credit Service (Taiwan) also plans to issue affinity credit cards to the customers of stores that Aeon plans to open in Taiwan. We think that Aeon Credit Service (Taiwan) will swing to a small profit in FY2/04 and post several tens of millions of yen in net profit in each of the coming three terms. Although its revenues are growing, we expect 41.0%-owned ACS Credit Service (M) Sdn BHd, an HP provider in Malaysia, to remain near break-even in the coming terms.

Japan

Although new cardholder additions are on plan, we have slightly lowered our earnings forecasts for the parent

We think Aeon Credit's Japanese operations will post low to mid-teens growth in recurring profit in FY2/03 and FY2/04. Previously, we were looking for high teens growth. We expect credit card shopping purchase volume to grow 22% in FY2/03 and 17% in FY2/04 and the balance of cash advances to expand 16% and 13%, respectively in FY2/03 and FY2/04, based on continued net increases in cards of about 1m pa. Growth in cards so far this term is running slightly above plan owing to strong results from the start of recruiting in Mycal Stores. We now think Aeon Credit will acquire about 700,000 cardholders from Mycal Stores in FY2/03, about 200,000 ahead of its initial target. Through the middle of November, the total number of cardholders acquired from Mycal Stores had exceeded 500,000.

We estimate than the rapid ramp-up of cardholders recruited in Mycal stores also caused several hundred million yen in above-plan recruiting costs in 1H FY2/03.

We now expect bad debt costs to be a bit higher than we previously forecast; but in FY2/03, the recent accounting change will push up profits a bit

We expect total bad debt costs (including provisioning and direct charge-offs) to grow about 40% in FY2/03 to ¥11.9bn (ahead of management's current target of about ¥11.3bn) and 30% in FY2/04. Despite the jump in bad debt costs and above-plan cardholder recruiting costs, we expect the parent's operating profit margin to fall only slightly in FY2/03. This is because a change in accounting method for merchant commissions on hire-purchase and credit card shopping transactions paid in instalments pushed up 1H FY2/03 RP by about ¥1.25bn and enabled the company to make extra additions to its reserve for bad debt. The effect of the accounting change was one-off and there will not be a further benefit in 2H. (Under the new accounting rules, Aeon Credit will record the revenues stemming from those merchant commissions at the time of purchase, rather than amortising them as deferred profits over the life of the relevant contracts, as it had been.)

While charge-offs due to personal bankruptcies have been rising, charge-offs due to long-term delinquencies have been falling; we think Aeon Credit's core customer base is pretty low-risk

Although Aeon Credit has not been completely immune to the jump in personal bankruptcies in Japan and growth in accounts charged off due to personal bankruptcies echoes the rate of growth in Japan's overall personal bankruptcies, the incidence of charge-offs due to long-term delinquencies (lack of payment) has not increased. We expect Aeon Credit's charge-off ratio as a percentage of its operating assets to rise from 2.8% in FY2/02 to no more than the middle 3.0% range in the coming terms and plateau at around 3.5% for several years. This is below the 6%-8% peak that we expect for consumer lenders in the coming terms. The reasons why we do not expect a sharp increase in Aeon Credit's charge-off ratio are that

1. 70% of its total customers and about 60% of its cash advance users are middle-income housewives in the 30-55 year-old range – an historically low-defaulting market segment.

2. The company's operating assets are likely to continue to grow as a result of structurally increasing demand for credit from middle-income earners.

To reduce credit risk, Aeon Credit has increased emphasis on credit card shopping transactions

Also, Aeon Credit has responded to rising personal bankruptcies by changing the focus of its marketing from cash advances to credit card shopping. The latter tend to have lower default rates than cash advances. Although management continues to target growth in total parent handling volume of about 14.2% for FY2/03 (unchanged from its initial plan), it now targets growth in shopping purchase volume of 20.4% (versus its initial plan of 15.8%) and growth in cash advance handling volumes of 10.4% (versus its initial plan of 15.1%). To slow the growth in cash advance volumes, management has taken such steps as scrapping plans for hikes in cash advance ceilings in regions where delinquency rates have risen the most.

To accelerate growth in shopping transactions, the company has crafted promotions with its parent retailer Aeon

To accelerate growth in shopping purchases, the company has worked with its parent retailer Aeon to craft promotions that encourage the use of its cards for shopping. For instance, in August 02, Aeon and Aeon Credit ran a campaign that enabled Aeon Credit cardholders to receive special discounts on a day of their choice. Judging from trends in monthly volumes, these measures seems to be stimulating card shopping usage.

We assume mild erosion in lending and merchant-commission rates

In our earnings model, we continue to assume gradual declines in the average lending rate for cash advances and narrow declines in the ratio of merchant commissions to shopping purchase volumes, due to mild competition pressure.

Fig 4 Monthly results

(YoY %)	Apr-01	May-01	Jun-01	Jul-01	Aug-01	Sep-01	Oct-01	Nov-01	Dec-01	Jan-02
Shopping handling volume	14.0	25.0	8.0	18.0	20.0	17.0	21.0	19.0	11.0	24.0
Cash advance handling volume	26.0	25.0	25.0	29.0	19.0	15.0	24.0	12.0	17.0	27.0
Total handling volume	16.0	21.0	12.0	19.0	18.0	15.0	20.0	16.0	13.0	22.0
	Feb-02	Mar-02	Apr-02	May-02	Jun-02	Jul-02	Aug-02	Sep-02	Oct-02	FY2/03 COE
Shopping handling volume	7.0	14.0	20.0	15.0	26.0	16.0	31.0	24.0	27.0	15.8
Cash advance handling volume	19.0	14.0	7.0	13.0	11.0	16.0	16.0	11.0	15.0	15.1
Total handling volume	11.0	12.0	13.0	12.0	17.0	14.0	19.0	15.0	18.0	14.1

Source: Company data, ING

Fig 5 Key data (¥m) (parent unless noted)

	FY2/00	FY2/01	FY2/02	FY2/03E	FY2/04E	FY2/05E	FY2/06E	FY2/07E
Lending revenue, detail								
Cash advances	31,734	37,107	43,961	50,798	57,198	64,304	73,029	82,924
Other loans	1,331	1,416	1,424	1,349	1,416	1,487	1,561	1,639
Total	33,065	38,523	45,385	52,147	58,614	65,791	74,590	84,564
Agency lending	2,524	3,085	3,527	3,572	3,680	3,790	3,904	4,021
Balance								
Shopping purchase recvs (on-BS)	58,627	63,720	68,861	80,912	95,071	109,332	125,732	144,591
Installment credit (HP) recvs	963	991	561	589	619	649	682	716
Loans	153,188	176,263	205,677	237,152	265,852	304,291	348,408	399,049
Total oper recvs (on-BS)	212,778	240,974	275,099	318,653	361,542	414,273	474,822	544,356
Cash advances in loans	136,764	160,671	190,222	220,658	248,240	285,476	328,297	377,542
Total debt	141,208	165,084	196,389	222,701	247,253	277,101	310,479	347,781
Handling volume (YoY %)								
Shopping	10.1	16.1	16.3	22.0	17.0	14.0	14.0	13.5
Loans, all	- 39.9	17.4	19.7	10.0	15.0	15.0	14.0	14.0
Total	12.1	- 3.9	- 46.2	10.0	10.0	10.0	10.0	10.0
Other								
Avg. yield on cash advances (%)	25.05	24.95	25.06	24.73	24.40	24.10	23.80	23.50
Financing cost/ avg. debt (%)	1.96	2.06	1.63	1.53	1.43	1.53	1.68	1.83
Debt/oper recvs (%)	66.36	68.51	71.39	69.89	68.39	66.89	65.39	63.89
Total charge-offs	5,314	6,348	7,713	9,953	12,609	14,615	16,762	19,113
% of operating receivables	2.50	2.63	2.80	3.12	3.49	3.53	3.53	3.51
SGA ex-bad-debt costs/revs (%)	59.1	55.6	55.6	54.4	53.2	52.0	51.0	50.2
Productivity								
Period-end offices	40	52	58	64	70	76	82	88
Period-end cash cash dispensers	1,123	1,275	1,401	1,551	1,701	1,801	1,901	2,001
Period-end member merchants	245,000	279,000	320,000	352,000	387,200	425,920	468,512	515,363
Period-end accounts	10,000,000	8,800,000	9,800,000	10,800,000	11,800,000	12,800,000	13,700,000	14,600,000
Period-end accounts (YoY %)	18	- 12	11	10	9	8	7	7
New cards issued	1,800,000	1,700,000	1,500,000	1,500,000	1,500,000	1,400,000	1,400,000	1,400,000
Shopping volume/card	42,982	56,711	59,225	65,564	70,210	73,786	78,590	83,701
Consolidated-Parent Gap								
Sales	15,110	16,822	22,564	27,338	30,582	36,371	43,299	50,789
Operating profit	3,625	4,472	4,931	5,465	5,997	6,893	8,020	9,043
Recurring profit	3,377	4,067	4,845	5,165	5,697	6,593	7,720	8,743
Net profit	1,360	1,615	1,920	1,225	2,066	2,568	3,193	3,773

Source: Company data, ING estimates

Ratings/Valuations

We think the company will be able to sustain profit growth and ROE in the high teens in the coming years

The business climate for the company's domestic and overseas operations is likely to remain somewhat challenging over the coming year. However, we have faith in management's ability to offset most of the pressure on profits from increasing bad debts in Japan and Hong Kong and from yield declines/slower asset growth in Thailand through cost cutting. Management has a long track record of cutting costs and increasing productivity. Accordingly, we think the company will be able to sustain profit growth and ROE in the high teens in the coming years.

Shaving our FV estimate to ¥4,850, or 2.8x 8/02 BVPS; we use a discount rate of 6%

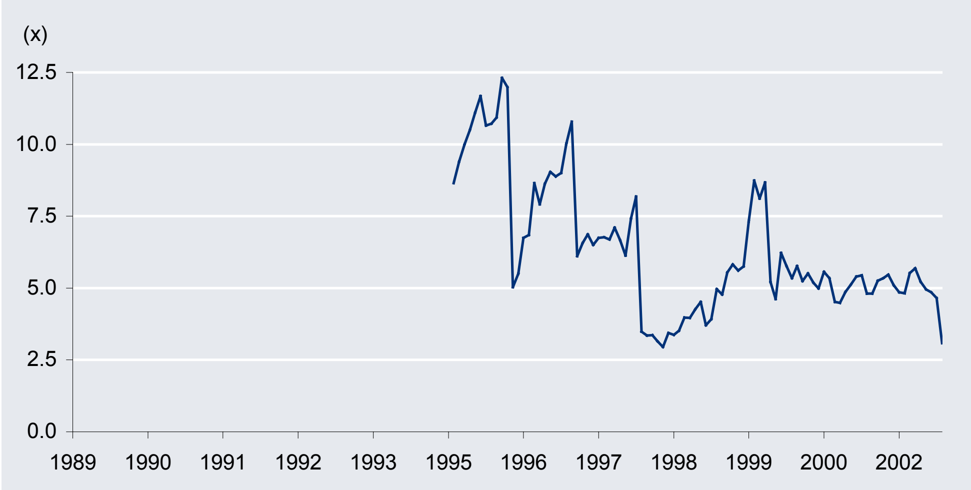
We are shaving our FV estimate slightly from ¥5,000 (or 3.0x 2/02 BVPS) to ¥4,850 (or 2.8x 8/02 BVPS). This is because we are now basing our FV estimate on 8/02 BVPS (rather 2/02 BVPS) and on our new estimate for sustainable ROE of 16.9% (rather than our previous estimate of about 17.5%). Our new FV estimate also works out to about 16x and 14x our new EPS forecasts for FY2/03 and FY2/04.

Valuations have fallen to more attractive levels, but we suggest buying on any weakness

We think the recent decline in the stock has brought the shares down to attractive levels for this well managed company, which remains well poised to benefit from structural growth in consumer credit from middle-income earners in Japan and the emergence of consumer credit markets in Southeast Asia. Since the stock has retraced some of its losses, we think investors should consider buying on any weakness.

On November 26, 2002, Aeon Credit announced an 11-for-10 stock split to be made on April 10, 2003. The ex-rights date to the split is February 17, 2003. With the release of results for 1H FY2/03, the company also announced plans to hike the full-year dividend from ¥50 to ¥55 per share. Shareholders of record as at 17 February 2003 will be eligible for the dividend on their new shares as well.

Fig 6 Price/Book ratio (trailing)



Note 1: Last value as of October 31, 2002. Note 2: Based on trailing shareholders' equity and net profit.
Source: Datastream share price data, company data, ING

Fig 7 Price/Earnings ratio (prospective)

Note 1: Last value as of October 31, 2002. Note 2: Based on current-term company forecasts for sales and net profit.
Source: Datastream share price data, company data, ING

Fig 8 ROE (trailing)

Note 1: Last value as of October 31, 2002. Note 2: Based on trailing shareholders' equity and net profit.
Source: Datastream share price data, company data, ING

Fig 9 Comparative valuation data for major credit card companies

Company	**Pocket Card**	**Credit Saison***	**OMC Card***	**Aeon Credit Service***
Code	**8519**	**8253**	**8258**	**8570**
P/E on forecast EPS, x	**7.9**	**6.9**	**7.0**	**16.4**
PBR on trailing BPS, x	**0.60**	**1.62**	**2.04**	**2.89**
PSR on forecast SPS, x	**0.72**	**1.85**	**0.52**	**2.23**
Avg. OP growth, next 2 terms, %	**-11.7**	**1.0**	**-3.9**	**9.4**
Price/EBITDA, x (trailing)	**1.95**	**4.07**	**2.58**	**6.66**
Price/pre-prov EBITDA (trailing)	**1.93**	**3.28**	**1.85**	**4.78**
EV/EBITDA, x (trailing)	**7.6**	**11.9**	**17.6**	**14.0**
PCFR, x (trailing)	**4.2**	**9.0**	**4.6**	**7.8**
Share price on November 25, 2002	**778**	**2,320**	**300**	**4,710**
Actual data for FYE	**Feb-02**	**Mar-02**	**Feb-02**	**Feb-02**
Revenues	31,977	214,838	117,132	85,993
Recurring profit	9,182	59,698	23,695	23,847
Net profit	4,445	18,225	3,634	12,213
Shareholders' equity, last term	39,663	242,594	31,005	77,479
Book value/share	1,306	1,437	147	1,481
DPS	20	18	0	50
Forecast data for FY	**Feb-03**	**Mar-03**	**Feb-03**	**Feb-03**
Revenues	33,000	212,000	123,000	100,600
Recurring profit	6,500	53,000	19,200	26,400
Net profit	3,000	57,000	9,000	13,700
Shares out., currrent	30.380	169.469	211.307	47.566
EPS	98.75	336.94	42.59	288.02
Revenues/share	1,086	1,253	582	2,115
DPS	30	18	0	55
%YoY				
Revenues	3.2	-1.3	5.0	17.0
Recurring profit	-29.2	-11.2	-19.0	10.7
Net profit	-32.5	212.8	147.7	12.2
Other				
Equity ratio at last term-end, %	28.4	19.3	5.3	19.7
Projected RP margin, %	19.7	25.0	15.6	26.2
Projected NP margin, %	9.1	26.9	7.3	13.6
ROE, trailing, %	11.7	7.8	11.7	17.1
ROE, implied forward, %	7.4	21.1	25.3	16.5
C/P sales ratio this term, x	N/A	1.24	1.05	1.37
C/P NP ratio this term, x	N/A	1.08	0.80	2.17

Note: Forecasts are Toyo Keizai's.

*Based on consolidated accounts

**Excluding OMC Card

Source: Company data, Toyo Keizai, ING

Fig 10 Parent P&L (¥m)

	FY2/00	FY2/01	FY2/02	FY2/03E	FY2/04E	FY2/05E	FY2/06E	FY2/07E
Total operating revenues	**47,280**	**54,410**	**63,429**	**73,310**	**82,824**	**93,045**	**105,312**	**119,140**
Credit card shopping	9,464	10,453	12,107	14,700	17,116	19,418	22,028	24,880
Installment credit	103	107	106	111	117	123	129	135
Lending	33,065	38,524	45,385	52,147	58,614	65,791	74,590	84,564
Agency lending	2,524	3,085	3,527	3,572	3,680	3,790	3,904	4,021
Other financial income	1,767	1,821	1,845	2,214	2,657	3,188	3,826	4,591
Collections	332	396	452	524	594	681	780	895
Financial income	25	24	7	42	47	55	55	55
Funding costs	2,629	3,151	2,950	3,211	3,365	4,017	4,942	6,030
SGA costs	32,740	35,788	41,575	48,651	55,539	61,878	69,465	78,029
Operating profit	**11,911**	**15,471**	**18,904**	**21,449**	**23,920**	**27,150**	**30,905**	**35,081**
Non-operating profit	224	264	98	404	532	689	879	1,111
Recurring profit	**12,135**	**15,735**	**19,002**	**21,852**	**24,452**	**27,839**	**31,784**	**36,192**
Extraordinary gains (losses)	56	-	- 835	- 175	- 150	15	10	10
Pretax profit	12,191	15,735	18,167	21,677	24,302	27,854	31,794	36,202
Taxes	5,951	6,737	7,874	9,321	10,328	11,838	13,513	15,386
Net profit	**6,240**	**8,998**	**10,293**	**12,356**	**13,974**	**16,016**	**18,282**	**20,816**
GROWTH RATES (% YoY)								
Total operating revenues	15.3	15.1	16.6	15.6	13.0	12.3	13.2	13.1
Other financial income	12.2	3.1	1.3	20.0	20.0	20.0	20.0	20.0
Funding costs	-30.8	19.9	-6.4	8.8	4.8	19.4	23.0	22.0
SGA costs	13.8	9.3	16.2	17.0	14.2	11.4	12.3	12.3
Operating profit	41.6	29.9	22.2	13.5	11.5	13.5	13.8	13.5
Recurring profit	40.0	29.7	20.8	15.0	11.9	13.9	14.2	13.9
Net profit	35.5	44.2	14.4	20.0	13.1	14.6	14.1	13.9
KEY RATIOS (%)								
Operating margin	25.2	28.4	29.8	29.3	28.9	29.2	29.3	29.4
Recurring margin	25.7	28.9	30.0	29.8	29.5	29.9	30.2	30.4
Net margin	13.2	16.5	16.2	16.9	16.9	17.2	17.4	17.5
SGA costs/revenues	69.2	65.8	65.5	66.4	67.1	66.5	66.0	65.5
Effective tax rate	48.8	42.8	43.3	43.0	42.5	42.5	42.5	42.5
Dividend payout ratio	26.7	21.1	20.8	19.2	19.6	19.3	1.2	1.1
PER SHARE FIGURES (¥)								
Parent oper rev/share	994.0	1,143.9	1,333.5	1,541.3	1,741.3	1,956.2	2,214.1	2,504.8
Parent EPS	131.2	189.2	216.4	259.8	293.8	336.7	384.4	437.6
Dividends	35.0	40.0	50.0	55.0	65.0	70.0	75.0	80.0
KEY FIGURES								
Shrs outstanding, thou	47.566	47.566	47.566	47.564	47.564	47.564	47.564	47.564
Average shares, thou	47.566	47.566	47.566	47.565	47.564	47.564	47.564	47.564
Capex, consolidated	2,896	2,628	4,521	5,095	5,477	5,888	6,330	6,804
Depreciation	1,546	2,325	2,558	3,121	3,433	3,776	4,154	4,569

Source: Company data, ING estimates

Fig 11 Parent balance sheet (¥m)

	FY2/00	FY2/01	FY2/02	FY2/03E	FY2/04E	FY2/05E	FY2/06E	FY2/07E
Total current assets	**218,353**	**250,198**	**288,090**	**364,190**	**411,710**	**455,213**	**510,089**	**571,348**
Cash and deposits	5,712	6,135	10,604	13,323	15,052	16,649	18,653	20,890
Credit receivables	59,590	64,712	69,422	81,501	95,690	109,981	125,732	144,591
Loans	153,188	176,263	205,677	237,152	265,852	304,291	348,408	399,049
Deferred taxes	819	2,543	1,894	2,083	2,292	2,521	2,773	3,050
Unearned income	1,911	2,228	2,472	3,106	3,509	3,881	4,348	4,870
Allowance for bad debt	- 4,802	- 5,519	- 6,318	- 8,215	- 11,069	- 14,682	- 19,091	- 24,569
Other	1,806	3,836	4,339	35,241	40,385	32,571	29,266	23,466
Long-term assets	**10,860**	**13,507**	**15,818**	**17,633**	**19,665**	**21,940**	**24,489**	**27,347**
Property and equipment	3,509	3,919	4,669	5,369	6,175	7,101	8,166	9,391
Land	-	-	-	-	-	-	-	-
LT securities	2,729	2,686	4,212	4,633	5,097	5,606	6,167	6,783
Investment in subs & affils	2,081	2,287	2,490	2,739	3,013	3,314	3,646	4,010
Prepaid expenses	1,012	83	106	117	128	141	155	171
Deferred taxes	68	258	-	-	-	-	-	-
Security deposits	1,253	1,427	1,522	1,674	1,842	2,026	2,228	2,451
Other	208	2,847	2,819	3,101	3,411	3,752	4,127	4,540
Total assets	**229,213**	**263,705**	**303,909**	**381,824**	**431,375**	**477,153**	**534,578**	**598,694**
Total current liabilities	**97,922**	**84,091**	**94,265**	**141,975**	**161,909**	**170,933**	**186,001**	**201,487**
Payables	26,581	28,399	28,461	36,685	41,350	45,342	50,494	56,177
Short-term borrowings	16,383	2,054	5,459	6,459	7,459	8,459	9,459	10,459
Current port of LT borrowings	21,095	17,500	21,030	23,530	26,030	28,530	31,030	33,530
Commercial paper	24,000	25,000	29,000	31,500	34,000	36,500	39,000	41,500
Corporate tax liabilities	3,225	5,742	4,516	5,419	6,503	7,804	9,364	11,237
Unrealised profit on instlm fin	1,064	1,035	1,088	0	0	0	0	0
Other	5,574	4,361	4,711	38.331	46,838	44,298	46,653	48,585
Total long-term liabilities	**79,925**	**120,723**	**141,665**	**162,130**	**180,866**	**204,934**	**232,576**	**264,196**
Long-term borrowings	79,730	110,530	115,900	126,212	134,764	148,612	160,990	177,292
Bonds	-	10,000	25,000	35,000	45,000	55,000	70,000	85,000
Retirment/severance reserves	195	193	765	918	1,102	1,322	1,586	1,904
Total liabilities	**177,856**	**204,816**	**235,931**	**304,106**	**342,775**	**375,867**	**418,577**	**465,683**
Total shareholders' equity	**51,357**	**58,889**	**67,978**	**77,718**	**88,600**	**101,287**	**116,001**	**133,012**
GROWTH (% YoY)								
Total operating assets	9.7	13.3	14.2	15.8	13.5	14.6	14.6	14.6
Shareholders' equity	11.7	14.7	15.4	14.3	14.0	14.3	14.5	14.7
KEY RATIOS (%)								
Equity ratio	22.4	22.3	22.4	20.4	20.5	21.2	21.7	22.2
ROE	12.8	16.3	16.2	17.0	16.8	16.9	16.8	16.7
ROA	2.85	3.65	3.63	3.60	3.44	3.53	3.61	3.67

Source: Company data, ING estimates

Fig 12 Consolidated P&L (¥m)

	FY2/00	FY2/01	FY2/02	FY2/03E	FY2/04E	FY2/05E	FY2/06E	FY2/07E
Total operating revenues	**62,386**	**71,232**	**85,993**	**100,648**	**113,406**	**129,416**	**148,611**	**169,929**
Credit card shopping	10,659	12,065	14,388	17,469	20,341	23,537	26,969	30,765
Installment credit	2,130	3,149	4,799	5,639	6,203	6,823	7,505	8,256
Lending	43,514	49,408	59,489	69,036	77,985	89,285	103,251	119,398
Agency lending	2,524	3,069	3,515	3,572	3,680	3,790	3,904	4,021
Other financial income	2,957	2,421	2,727	3,534	3,612	4,137	4,853	5,031
Collections	404	855	914	1,204	1,355	1,566	1,795	2,057
Financial income	198	265	161	193	232	278	334	401
Funding costs	5,662	6,398	6,685	7,276	7,626	9,103	11,199	13,665
SGA costs	41,188	44,891	55,473	66,459	75,863	86,270	98,487	112,139
Operating profit	**15,536**	**19,943**	**23,835**	**26,914**	**29,917**	**34,043**	**38,925**	**44,124**
Non-operating profit	- 24	- 141	12	104	232	389	579	811
Recurring profit	**15,512**	**19,802**	**23,847**	**27,018**	**30,149**	**34,432**	**39,504**	**44,935**
Extraordinary gains (losses)	24	-	- 697	- 175	- 150	15	10	10
Pretax profit	**15,536**	**19,802**	**23,150**	**26,843**	**29,999**	**34,447**	**39,514**	**44,945**
Taxes	6,551	7,599	9,222	10,766	11,699	13,070	14,577	16,256
Minority interest	1,385	1,589	1,715	1,996	2,260	2,793	3,463	4,099
Amoritization of cons. adjstmt	0	0	0	0	0	0	0	0
Equity-method profit	0	0	0	0	0	0	0	0
Net profit	**7,600**	**10,614**	**12,213**	**14,081**	**16,040**	**18,584**	**21,475**	**24,589**
EPS	159.8	223.1	256.8	296.0	337.2	390.7	451.5	517.0
GROWTH RATES (% YoY)								
Total operating revenues	16.5	14.2	20.7	17.0	12.7	14.1	14.8	14.3
Other financial income	22.6	-18.1	12.6	29.6	2.2	14.5	17.3	3.7
Funding costs	-11.0	13.0	4.5	8.8	4.8	19.4	23.0	22.0
SGA costs	15.2	9.0	23.6	19.8	14.2	13.7	14.2	13.9
Operating profit	36.1	28.4	19.5	12.9	11.2	13.8	14.3	13.4
Recurring profit	37.7	27.7	20.4	13.3	11.6	14.2	14.7	13.7
Net profit	34.8	39.7	15.1	15.3	13.9	15.9	15.6	14.5
KEY RATIOS (%)								
Operating margin	24.9	28.0	27.7	26.7	26.4	26.3	26.2	26.0
Recurring margin	24.9	27.8	27.7	26.8	26.6	26.6	26.6	26.4
Net margin	12.2	14.9	14.2	14.0	14.1	14.4	14.5	14.5
SGA costs/revenues (x)	66.0	63.0	64.5	66.0	66.9	66.7	66.3	66.0
Effective tax rate	42.2	38.4	39.8	40.1	39.0	37.9	36.9	36.2
ROE	14.4	17.5	17.1	16.9	16.8	17.0	17.0	16.9
PER SHARE FIGURES (¥)								
Consolidated oper rev/shares	1,311.7	1,497.5	1,807.9	2,116.0	2,384.3	2,720.9	3,124.4	3,572.6
Consolidated EPS	159.8	223.1	256.8	296.0	337.2	390.7	451.5	517.0

Source: Company data, ING estimates

Fig 13 Consolidated balance sheet (¥m)

	FY2/00	FY2/01	FY2/02	FY2/03E	FY2/04E	FY2/05E	FY2/06E	FY2/07E
Total current assets	**270,062**	**313,936**	**376,818**	**415,334**	**455,626**	**504,349**	**559,764**	**622,447**
Cash and deposits	11,215	12,222	16,169	13,921	13,954	14,038	14,161	14,298
Credit receivables	74,581	87,017	105,486	111,456	117,774	121,827	125,347	129,734
Loans	184,388	211,404	252,033	290,602	324,142	369,154	420,562	479,281
Deferred taxes	875	2,651	1,907	2,189	2,508	2,883	3,324	3,836
Unearned income	2,786	3,404	4,483	5,146	5,896	6,778	7,814	9,017
Allowance for bad debt	-6,127	-7,178	-9,095	-10,228	-11,242	-12,490	-13,887	-15,493
Other	2,344	4,416	5,835	2,248	2,595	2,158	2,444	1,775
Long-term assets	**10,592**	**13,610**	**17,130**	**19,297**	**21,726**	**24,587**	**27,938**	**31,814**
Property and equipment	4,386	5,437	7,520	8,633	9,890	11,370	13,108	15,125
Land	-	-	-	-	-	-	-	-
LT securities	2,892	2,939	4,388	5,037	5,771	6,635	7,649	8,826
Investment in subs & affils	-	-	-	-	-	-	-	-
Prepaid expenses	1,536	87	109	125	143	165	190	219
Deferred taxes	76	265	-	-	-	-	-	-
Security deposits	1,489	1,782	1,907	2,189	2,508	2,883	3,324	3,836
Other	213	3,100	3,206	3,312	3,415	3,534	3,667	3,808
Currency translation adjsmnt	**609**	**73**	**-**	**-**	**-**	**-**	**-**	**-**
Total assets	**281,263**	**320,641**	**393,949**	**434,631**	**477,353**	**528,935**	**587,702**	**654,261**
Total current liabilities	**118,660**	**107,653**	**126,600**	**143,420**	**162,104**	**183,663**	**208,529**	**236,981**
Payables	28,028	29,756	30,440	34,944	40,031	46,025	53,060	61,226
Short-term borrowings	29,184	19,293	30,447	34,953	40,041	46,035	53,072	61,240
Current port of LT borrowings	25,794	20,624	24,362	27,967	32,038	36,835	42,466	49,001
Commercial paper	24,000	25,000	29,000	31,500	34,000	36,500	39,000	41,500
Corporate tax liabilities	3,563	6,197	5,045	5,792	6,635	7,628	8,794	10,147
Unrealised profit on instlm fin	1,064	1,067	1,102	0	0	0	0	0
Other	7,027	5,716	6,204	8,264	9,359	10,639	12,136	13,867
Total long-term liabilities	**106,496**	**147,734**	**179,462**	**202,267**	**213,357**	**228,126**	**244,119**	**261,442**
Long-term borrowings	100,591	137,438	153,032	166,564	167,552	172,200	173,052	175,211
Bonds	-	10,000	25,000	35,000	45,000	55,000	70,000	85,000
Retirment/severance reserves	338	193	612	703	805	925	1,067	1,231
Other	0	56	818	-	-	-	-	-
Consolidated adjstmnt	0	47	-	-	-	-	-	-
Currency trans adjstmt	0	-	-	-	-	-	-	-
Minority interests	5,567	-	-	-	-	-	-	-
Total liabilities	**225,156**	**255,387**	**306,062**	**345,687**	**375,461**	**411,788**	**452,648**	**498,423**
Minority interests	-	6,978	10,407	11,947	13,686	15,735	18,140	20,932
Total shareholders' equity	**56,107**	**65,254**	**77,479**	**88,944**	**101,892**	**117,147**	**135,054**	**155,838**
KEY FIGURES (¥)								
BVPS	1,179.6	1,371.9	1,628.9	1,870.0	2,142.2	2,462.9	2,839.4	3,276.4
KEY RATIOS (%)								
ROE	14.4	17.5	17.1	16.9	16.8	17.0	17.0	16.9
ROA	2.9	3.5	3.4	3.4	3.5	3.7	3.8	4.0
Equity ratio	19.9	20.4	19.7	20.5	21.3	22.1	23.0	23.8

Source: Company data, ING estimates

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