

Initiating coverage

3 June 2003

Thailand

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# AEON Thana Sinsap

AEONTS TB/AEONTS.BK

## Buy

Initiating Coverage

## Getting a charge out of growth

**AEON Thana Sinsap has been hit hard by unjustified fears over restrictions on lending and fears about consumer credit losses. However, a dominant market position, and enviable returns make this an appealing investment.**

**Biggest player in an untapped market.** Thailand's consumer finance market offers huge growth potential, yet there are few active players. AEONTS commands 55% of this market and should therefore be a major beneficiary of increased consumer spending.

**Fears unjustified.** Recent government regulations did not have the detrimental impact many had feared, while concerns over rising NPLs are overblown. Nevertheless, the stock still trades at nearly 50% off its FY02 high of Bt252.

**Valuations attractive.** Loan growth prospects remain strong and margins sustainable. This should translate into EPS growth of 35% in both FY03 and FY04. We base our fair value target of Bt140 on an average FY03-04F P/BV of 3x, which is fair given average ROE of 32%.

### Forecasts and ratings

Yr to Feb	02	03F	04F	05F
Core income (Bt m)	464	628	846	1,080
Core EPS (Bt)	9.28	12.55	16.91	21.60
Core EPS growth (%)	58.8	35.3	34.7	27.7
Net profit (Bt m)	464	628	846	1,080
EPS (Bt)	9.28	12.55	16.91	21.60
EPS growth (%)	58.8	35.3	34.7	27.7
PER (x)	12.18	9.00	6.68	5.23
DPS (Bt)	2.50	3.40	4.68	5.60
Yield (%)	2.3	3.1	4.3	5.1

Source: Company data, ING estimates

**Bt113**

2/6/03

**Target price:** 12 months

Bt140 (+24%)

### Financial data

	FY02	FY03F
ROE (%)	30.8	31.9
Core ROE (%)	30.8	31.9
ROA (%)	3.8	3.8
Core ROA (%)	3.8	3.8
BVPS (Bt)	30.1	39.3
Adj BVPS (Bt)	30.1	39.3

### Share data

Market cap (US\$m)	133.0
No of shares (m)	50.0
Daily turnover (US\$m)	0.67
Free float (%)	11.5
52-week hi/lo (Bt)	248.0-93.5

### Price performance (%)

	Absolute	Relative to SET
1m	17.6	5.3
3m	0.9	-14.6
12m	-20.9	-34.4

### Price chart



Source: Bloomberg

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# Executive summary

## **Pure consumer finance play.**

AEONTS is Thailand's biggest consumer finance company with a 22% market share of total credit cards issued and an estimated 55% share of the non-vehicle hire purchase market. The company's business consists of three main product lines – credit cards, personal loans and hire purchase. As there is little direct competition, the company boasts wide margins and strong asset growth.

## **Under-developed market offers huge growth.**

Credit card penetration rates in Thailand are among the lowest in the region at less than 5%, while access to consumer credit is restricted largely to upper-end consumers. By targeting low-end consumers and offering finance products to suit their needs, AEONTS' potential market encompasses at least 10m people.

## **Fears over government controls unfounded.**

In reaction to credit quality problems in other parts of the region, the Bank of Thailand imposed guidelines on consumer finance companies late last year and capped interest on credit cards at 18%. Although this put a dent in AEONTS' profitability in its credit card operations, the move was far short of the draconian steps envisaged by the market. Given the government's overtly populist stance, it is unlikely that additional measures will be imposed that would restrict credit to the masses.

## **Revenue stream to surge.**

As a result of a significant pick-up in consumer confidence and limited competition in the segment, we expect loan growth of 29% in FY03 and 28% in FY04. This should be fuelled by the addition of new products and services, continued expansion of its distribution network and improving consumer spending. Although margins may contract somewhat, owing to the recent cap on credit card rates, they will nevertheless remain in excess of 23%. This will help the company continue to post strong earnings growth.

## **Massive cost reductions to boost margins.**

A major cost-cutting initiative, undertaken earlier this year, aimed at consolidating reporting expenses and passing on transaction costs to end-users, will result in a Bt230m reduction in operating expenses. This, combined with a plan to boost fee income on credit cards, will help boost earnings considerably.

## **Valuations are attractive.**

We value AEONTS at Bt140 per share. We base our valuation on the assumption that financial counters should trade on P/BV multiples reflective of the ROE that the company can generate. Given a projected average FY03-04 ROE of 32.4%, we believe that AEONTS should trade at a multiple of no less than 3x. At our target price, AEONTS would trade on FY03F and FY04F PERs of 11.2x and 8.3x, respectively.

## Consumer finance

### ***AEONTS provides retail finance services***

AEON Thana Sinsap's (AEONTS) primary business activity is the provision of retail finance services, including credit card, hire purchase, personal loan and factoring services. AEONTS is the largest retail finance provider in Thailand, commanding a market share of approximately 55% in the hire purchase (non-vehicle) segment.

### **Hire purchase**

#### ***AEONTS commands a 55% market share***

AEONTS' core business, which represented 48% of consolidated revenues in FY03, is hire purchase. Companies that provide hire purchase services can be divided into two categories – those that provide HP services for their own products, such as Singer (SINGER, Bt43.5, NR), and those that offer HP services via partner outlets. AEONTS is in the latter category and is currently the leading provider of this type of service in Thailand. Its HP business centres on electrical appliances, sanitary fixtures, sports equipment, mobile phones, office equipment and musical instruments. Last year, AEONTS added motorcycle and furniture financing to its portfolio.

#### ***HP loans yield 26-27% per annum***

Customers can buy this merchandise from any one of nearly 6,000 member stores within Thailand. Fixed monthly instalments range from six to 24 months, with rates fixed at 1.3% monthly (26-27% annual yield including fees). Within the HP segment, the company's principal competitors include GE Capital, Easy Buy (Acom Group), and Cetelem (a JV with Kasikorn Bank). The average ticket for non-motorcycle items is about Bt10,000, while motorcycle receivables average Bt40,000-50,000. Motorcycle loans carry terms of 12-24 months.

#### ***Piggybacking off of hypermarket expansion***

In order to cultivate new HP customers, AEONTS has built up relationships with major retailing groups such as Siam Makro (MAKRO, Bt31.50, BUY, Target: Bt41), The Mall group (unquoted), Big C Supercenter Plc (BIGC, Bt13.50, BUY, Target: Bt20) and Jusco (unquoted), and is in the process of formalising relationships with Tesco Lotus (unquoted). These merchants are opening hypermarkets in greater Bangkok and key regional cities at a rapid pace, allowing AEONTS to piggyback on their success. The company has also partnered with a number of speciality retailers such as J-Mart (unquoted), Thailand's largest retailer of cell phones, and several major motorcycle dealerships (mostly selling the Honda brand). In addition, AEONTS has formed relationships with thousands of small independent distributors throughout the country.

#### ***Retailers outsource credit operations to AEONTS***

Retailers want the added sales that financing makes possible, but are averse to taking on the credit risk and operating a collection and service business necessary to support such an operation. Outsourcing this to a company such as AEONTS, therefore, is a good alternative. For AEONTS, these kinds of relationships are an efficient marketing tool; the retail operator promotes and sells the product, takes the loan applications at the point of sale and forwards them to an AEONTS office. Credit approval is usually given within 30 minutes (up to three days for major appliances), whereon the seller releases the product to the buyer. Any credit losses are borne by AEONTS and there are no retailer charge-backs. Default rates average just under 2% of HP loans.

## Credit cards

### *Largest issuer of credit cards in Thailand*

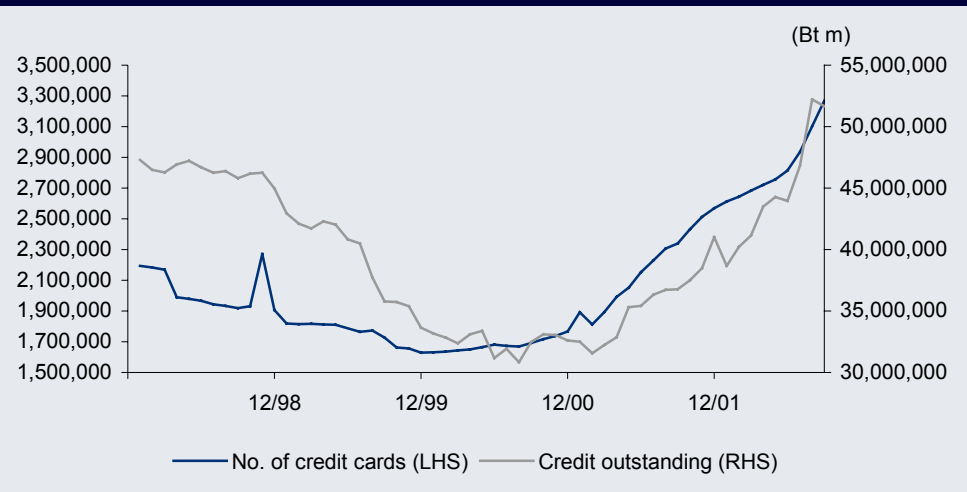
AEONTS is the largest issuer of credit cards in Thailand, with approximately 845,000 cards in circulation. The credit card business, representing 27% of revenues and accounting for 27% of outstanding credits, has grown rapidly since its launch in 1999 and is contributing a greater proportion of revenues each year.

**Fig 1 Thailand credit card market share: 2002**

Institution	Number of cards	Market share (%)
AEON Thana Sinsap	748,800	21
Krung Thai Card	598,173	17
Bangkok Bank	450,000	13
Bank of Ayudhya	450,000	13
Kasikorn Bank	400,000	11
Siam Commercial Bank	383,000	11

Source: Company data, ING estimates

**Fig 2 Thailand credit card market**



Source: Bank of Thailand

The company's credit card services can be divided into two categories:

- 1) **Credit purchases** – Cardholders can use their card to purchase products from member stores, for which the company charges interest to the buyer and a transaction fee to the participating merchant.
- 2) **Cash advances** – Cardholders can use their cards to obtain cash advances from branch offices or from the 186 cash dispensing machines located nationwide at a flat rate of 3% per month. Management reports that this accounts for nearly 50% of all credit card revenue.

AEONTS currently offers two types of domestic credit cards:

- 1) **The AEON Card** – AEON's own brand. These cards allow customers to purchase products from The Mall, Jusco, Tesco-Lotus, Tang Hua Seng, Big C and other member stores using the AEON Card, rather than cash. Customers often use these cards for cash advance purposes.
- 2) **Affinity cards** – Cards issued to customers in co-operation with various retail outlets; these cards offer customers lower interest rates and special discounts at the affiliated merchant. Merchants are happy to promote these cards as they help increase sales. However, merchants do not have direct stakes in the card revenues or any role in credit approval.

**Fig 3 AEONTS affinity card products**

Card name	Co-issuer	Sector
The Mall Card	The Mall Group	Department store
Jusco Card	Siam-Jusco	Department store
Tang Hua Seng Card	Tang Hua Seng Department Store	Department store
@ ease Card	Thai DMR Retailer	Department store
MAX Auto Express Card	Makro Auto Care	Auto care
Belle Maison Card	Belle Maison (Thailand)	Catalogue shopping
TSUTAYA Card	TSUTAYA (Thailand)	Video rental
Seven Eleven Card	CP Seven Eleven	Convenience store

Source: Company data

**International cards issued under MasterCard and JCB/AEON brand**

AEONTS also issues international credit cards under the MasterCard and JCB/AEON brand names. Cardholders can use these cards to purchase products and services from any of the 108,000 outlets in Thailand and 22m outlets globally that carry the MasterCard sign or any of the 44,000 Thai outlets and 8m international outlets that carry the JCB sign. Users can also use cash advance facilities affiliated to the CIRRUS network. The company also plans to become a member of Visa and the Plus system later this year.

**Card revenue sources**

**Rates were high but cards free**

Revenues from customers are earned from annual card fees and interest on revolving balances. As recently as November 2002, AEONTS charged 28% per annum interest on revolving credit card shopping balances and 36% on cash advance balances, while annual fees were pegged at Bt100 per card (the annual fee was waived for 400,000 new cards issued in FY02).

In addition, the company receives fees levied on merchants that accept the cards, amounting to 1.1% of gross charge volume on domestic cards and 1.25% on international cards.

***New rules imposed on credit card issuers***

On 12 November 2002, the Bank of Thailand (BoT) announced a series of new rules applicable to all credit card issuers in Thailand, including non-banks. These were:

- 1) A minimum monthly salary requirement for credit card applicants of Bt15,000/month, or evidence of deposits at financial institutions deemed sufficient by the issuing company.
- 2) A maximum cash advance fee of 3% on the amount withdrawn.
- 3) Credit card issuers are permitted to charge actual or justified debt collection expenses to customers.
- 4) Non-bank issuers are permitted to charge bounced cheque fees of no more than Bt200 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 points 2-5 should not exceed 18% per annum.
- 7) A minimum monthly repayment requirement of 5% of an account's outstanding balance.

***Loopholes shield AEONTS from a major impact***

Although it appears that these new regulations (in particular, rules 1, 3 and 6) would significantly impact AEONTS' yields, rule 1 has an important loophole in the form of an alternate condition for providing evidence of deposits up to an amount considered adequate by the issuer. "Adequate" is sufficiently vague that credit card companies can accept virtually anyone they choose. While there is a risk that abuse of this loophole will invite stricter regulations, the same populist policies which motivated the cap on interest rates are likely to block any attempt to strip the masses of credit access. As a result, it is unlikely that AEONTS' strategy of growing its card base by targeting 'working class' customers will be impacted.

***Fee increase to offset interest rate reduction***

Inasmuch as the 18% cap on interest charged to credit card customers will force AEONTS to reduce its rates, we do not anticipate this to impact overall credit card yields for the following reasons:

- 1) The new rules will allow AEONTS to levy debt collection fees that it previously had not levied.
- 2) As of February 2003, annual fees were increased on domestic cards from Bt100/card to Bt200/card. This will lead to an increase in existing credit card fees of about Bt40m, helping to offset the Bt80m loss in interest income from the 10% reduction in interest charges. In addition, the company will begin to collect annual fees on 400,000 new cards issued for free in FY02 and on any new cards issued in the future. This will lead to a minimum fee increase of Bt80m.
- 3) AEONTS recently changed the calculation date on interest owed from the date that the charges are summarised to the actual transaction date. This has effectively gained the firm up to an additional 21 days on which interest can be charged.

## Personal loans

### ***Narrow market segmentation***

In addition to hire purchase and credit cards, AEONTS offers a variety of special purpose and general lending plans (started in 1Q02). This business consists of providing loans to customers who need money for various purposes, including education, car insurance and travel. Unlike its sister company in Hong Kong, however, AEONTS does not provide direct mortgage loans, owing in part to the inherent funding mismatch and strong competition from local banks.

Loan applications can be submitted at any of the company's 51 Bangkok or provincial branches, sent by mail or made via the Internet. Approved customers can also debit cash at any of AEONTS' 186 countrywide cash dispensing machines.

### ***AEONTS' fastest growing business segment***

In FY02, revenue from personal loans accounted for 20% of consolidated income and 17% of outstanding loans. Revenues consist of interest, payment fees, handling fees and penalty fees. Personal loans carry an average maturity of 12 months and yield a margin of 38% (inclusive of fees), while default rates average just 2.3%.

Loans are classified into two separate categories – 'purpose loans' and 'non-purpose loans'. Loans taken out for a specific reason (education, travel, car insurance, etc) qualify as 'purpose' loans and carry a monthly interest rate of 1-1.5%, while 'non-purpose' loans carry a flat rate of 3% (declining). 'Purpose' loans account for approximately 90% of personal loans, while 'non-purpose' loans account for just 10%. This is AEONTS' fastest growing business segment.

### ***Average loan size smaller than its competitors'***

AEONTS' main competitors in this segment are the commercial banks and other financial institutions such as GE Capital and Siam A & C (unquoted), though the average size of AEONTS' loans tends to be much smaller. In addition, banks are not direct competitors, as their target group tends to comprise higher-income customers.

Over 70% of its customers are comprised of existing hire purchase or credit card customers in order to mitigate against asset quality risk.



## Factoring

### *Incremental revenue stream*

In addition to its lending activities, AEONTS also operates a factoring business in which it purchases the right to claim trade receivables from suppliers that have already delivered goods or provided services to customers. This is effectively an incremental revenue stream, which leverages off the company's efficient credit collection business and comprehensive credit risk management systems.

Currently, factoring is only offered to suppliers of large chains such as Tesco-Lotus, Big C, Siam Jusco and Makro. Revenues from this business consist of interest charges, handling fees and late penalty fees. Factoring revenue accounted for just 2% of FY02 consolidated income.

## Corporate strategy

### Untapped market

*Tapping into a segment overlooked by banks*

AEONTS' goal is to be among the leading retail finance players in Thailand, a market that remains under-exploited. To achieve this goal, the company has set out to tap the lower end of the consumer market, a segment long overlooked by traditional lenders owing to a lack of proper credit controls, collection systems and distribution. This market segment nevertheless represents a potential market of nearly 10m consumers.

AEONTS' target customer meets the following criteria:

- Between 20-49 years of age.
- Has been in the same job for over six months.
- Earns an average monthly salary of Bt7,000-20,000 (US\$2,000-5,800 per annum).

*53% of the labour force consists of non-agricultural workers*

Consider the following: nearly 48% of Thailand's 63m people fall within the 20-49 age bracket. Although not all of these people can be considered potential clients of AEONTS, we note that 53% of the labour force, or 17m people, are non-agriculture-related workers (who are often seasonally employed and do not meet the minimum salary levels).

**Fig 4 Workforce distribution – Thailand**

Occupation	Number (000)	Percentage (%)
Professional, technical and related workers	2,044.70	6.4
Administrative, executive and managerial	915.2	2.9
Clerical workers	1,122.80	3.5
Sales workers	4,492.50	14.1
Farmers, fishermen, hunters	14,998.20	47.0
Works in transport and communication	1,182.90	3.7
Craftsmen, production process workers	5,666.20	17.8
Service, sports and recreation workers	1,493.30	4.7
Workers not classifiable by occupation	4.4	0.0
<b>Total</b>	<b>31,920.60</b>	<b>100.0</b>

Source: National Statistics Office - 2000

**Target market at least 8m strong**

Assuming that just 50% of the non-agriculture-related workers fit the above criteria leaves a target market of at least 8m people, over four times the size of AEONTS' existing client base.

**Fig 5 Average wage – Thailand**

Occupation	Average wage (Bt/month)
<b>Agricultural</b>	<b>2,420.30</b>
Agriculture, hunting and forestry	2,308.70
Fishing	4,381.50
<b>Non-agricultural</b>	<b>7,552.10</b>
Mining and quarrying	6,182.80
Manufacturing	6,089.70
Electricity, gas and water supply	16,341.50
Construction	4,934.60
Wholesale & retail trade, motor vehicles, household goods	6,529.30
Hotels and restaurants	5,059.20
Transport, storage and communication	11,153.60
Financial intermediation	16,650.70
Real estate, renting and business activities	8,677.30
Public administration and defense, compulsory social security	10,585.90
Education	12,994.20
Health and social work	8,771.30
Other community, social and personal service activity	5,443.30
Private households with employed persons	3,748.90
Extra-territorial organisations and bodies	63,609.20
Unknown	15,989.60
<b>Total</b>	<b>6,689.30</b>

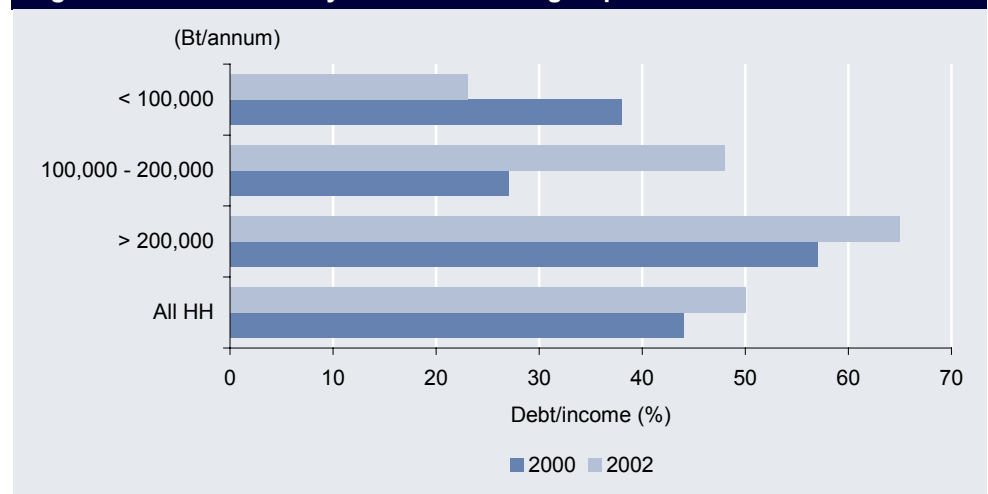
Source: National Statistics Office - 2002

**One of the lowest penetration rates in Asia**

**Low penetration rates**

Another way to look at the potential growth of Thailand's retail finance market is to look at the level of household debt by socio-economic group. We note from the chart below that AEONTS' target market is the least leveraged of any consumer group in Thailand, suggesting that this segment offers the greatest potential for growth.

**Fig 6 Household debt by socio-economic group**



Source: National Statistics Office

## Limited competition

### *Little competition from commercial banks*

Although commercial banks have been active financial intermediaries for much longer in Thailand and are significantly larger, we do not consider them to be direct competitors of AEONTS. Commercial banks have traditionally overlooked this segment due to the logistical constraints of managing millions of small accounts, and this is unlikely to change much going forward. Banks will continue to focus on larger loan packages, while retail lending activities will focus on peripheral services or higher ticket lending such as credit cards and mortgages. While it would appear that banks would be direct competitors for credit card customers, AEONTS offers its cards as part of a comprehensive retail loan facility. As a result, there is little overlap between the services and therefore little direct competition.

### *Very little direct competition*

AEONTS' major potential competition comes from other retail finance specialists such as GE Capital, Cetelem, Siam A & C and Krung Thai Card (KTC, Bt23.10, NR). However, none of these players compete directly with AEONTS (in its market segment or product categories)<sup>1</sup> at present and none have the capacity to do so in the foreseeable future. Most of these players are relatively new to the Thai market, while only KTC has any kind of network (12 branches). The remainder operate one or two branches, a few service counters and no ATMs. This severely restricts their access to the broader market and has forced all but KTC to limit their activities to greater Bangkok and higher-end consumers.

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<sup>1</sup> KTC and GE operate credit card businesses, but they both target higher-income consumers. Although both offer personal loans, they again target higher-income earners, while neither operates a significant HP business. Cetelem and Siam A&C operate limited HP and credit card businesses.

## Piggybacking off large retail chains

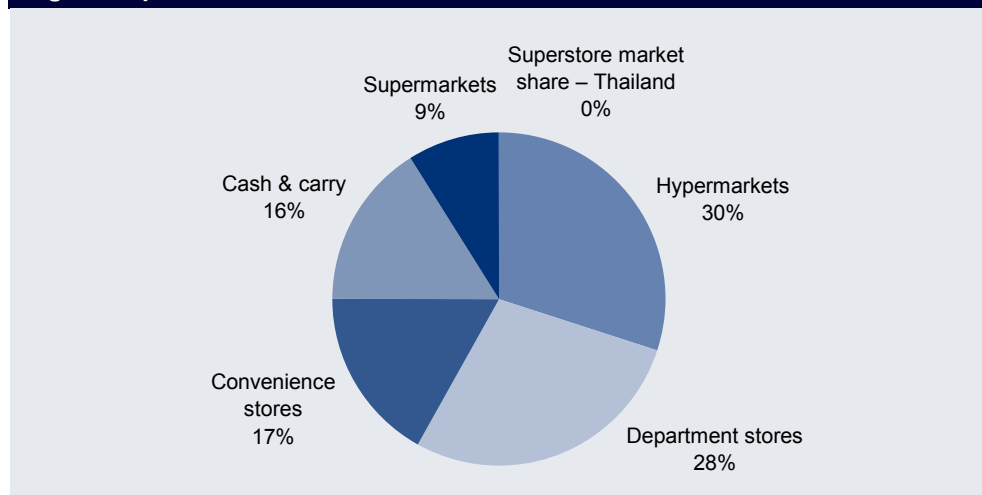
**Modern retail trade growing rapidly**

Thailand’s retail industry has been undergoing a structural shift over the past 10 years, with consumers moving away from more traditional retail channels toward hypermarkets and large discount outlets due to more attractive pricing and selection. As of FY02, the Bank of Thailand estimated that hypermarkets and cash & carry stores accounted for 46% of the modern retail trade in Thailand, while the modern retail trade accounted for 60% of overall retail trade. Despite the high penetration rate, most of the growth to date has taken place in urban areas, where only 16% of Thailand’s population resides. Going forward, expansion will increasingly focus on upcountry areas, providing increased access to the broader market for those associated with the chains.

**Leveraging off rapid store expansion**

To achieve its strategy of tapping into the lower-income segments of the population, AEONTS has been leveraging off this rapid expansion of superstores, department stores and speciality retailers. Superstores and department stores currently account for 30% of AEONTS’ business, while the remainder comes from its dealer network – made up largely of speciality distributors and category killers such as J-Mart, Seven-Eleven, Tsutaya and big Honda motorcycle dealers.

**Fig 7 Superstore market share – Thailand**



Source: Bank of Thailand

**Fig 8 Superstore branch network**

Company	Country of origin	Branches - 1997	Existing branches (E)	Future branches (E)
Big C	France	19	34	4/yr
Tesco - Lotus	UK	12	40	7-8/yr
Carrefour	France	6	19	2-3/yr
Makro	Netherlands	15	22	2/yr

Source: Bank of Thailand, ING estimates

**Retail chains also offer a big selection of products and services**

Aside from providing leverage into the mass market, relationships with these distribution channels also provide AEONTS with a large range of products and services to meet customer needs. Going forward, the objective of the company is continue to broaden its product and service coverage by building its distribution relationships and issuing more joint credit cards.

## Fast-growing network

### ***Large distribution network***

AEONTS' network currently consists of 52 branches (15 in greater Bangkok and 36 upcountry) located in 61 provinces, 160 hire purchase service counters (located within major retailers), nearly 6,000 affiliated dealers and 186 cash dispensing machines. By end-2003, management expects to have 57 branches, 205 ATM machines and at least 6,500 affiliated dealers. Most of the growth will occur in the provinces, in line with management's goal to expand into the mass market.

### ***Worldwide access via the ATM pool***

The company is also a member of the Cirrus network, which allows members to take advantage of ATM machines worldwide. AEONTS will also join the Visa and Plus networks later this year, while management expects to be granted access to the domestic ATM pool within the next 12-24 months.

### ***Revenues increasingly coming from upcountry***

As a result of its developing network, management expects the revenue structure to change considerably over the next few years. At present, Bangkok accounts for 53% of gross income, while upcountry markets account for 47%. As a greater proportion of new outlets is opened outside of Bangkok, management expects this ratio to shift to 50/50 by end-2003 and 20/80 within four years.

## History and structure

### History

*Listed on the SET in December 2002*

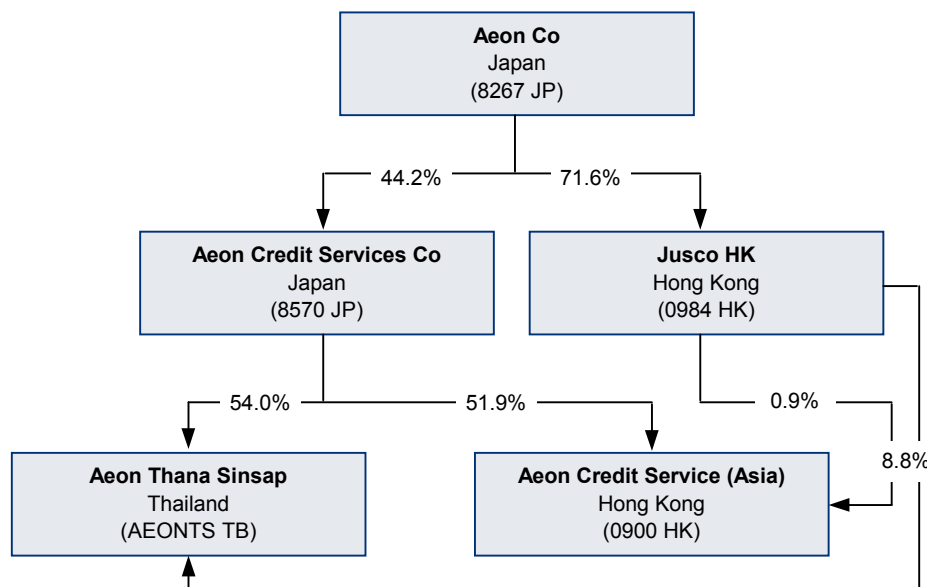
AEON Thana Sinsap was incorporated on 18 September 1992 by AEON Credit Service Co Ltd, Japan, under the name Thai Credit Service Co Ltd. The company was initially established to provide hire purchase services in co-operation with Japanese department stores operating in Thailand (Jusco), but later added credit card and personal loan services. The company changed its name to AEON Thana Sinsap in October 1994 and listed on the SET in December 2002.

### Ownership

*A subsidiary of AEON Japan*

AEON Thana Sinsap is controlled by Aeon Co Japan, via Aeon Credit Services Co Japan. Together, Aeon Co and its affiliates (including Siam Jusco) control 62.8% of AEON Thana Sinsap. The remaining stock trades freely on the Stock Exchange of Thailand.

**Fig 9 AEONTS' ownership structure**



Source: Company data, ING estimates

## Rates and margins

### *Very high-spread business*

AEONTS operates a very high-spread business, as one would expect from a retail finance company. Although competition has grown in the past few years, there are still few active players in this segment, and this has helped keep domestic retail lending rates high. As AEONTS and other retail finance companies tend to operate toward the lower end of the market, bank competition has also had little impact on rates.

**Fig 10 AEONTS' lending rates**

Product	Rate type	Rate (APR) (%)
Hire purchase	Fixed	25-30
Credit cards	Fixed	23-28
Personal loans	Fixed	28-35
Cash advances	Fixed	36

Source: Company data, ING estimates

### *Funding rate only 4%*

Although AEONTS' funding rate is higher than that of local commercial banks, it is nevertheless very low at below 4.0%. This, combined with high asset yields, means that AEONTS boasts an interest margin in excess of 25%.

**Fig 11 Key interest margin components: 3Q01-4Q02 (%)**

Yr to Feb	3Q01	4Q01	1Q02	2Q02	3Q02	4Q02
Yield on earning assets	29.64	28.14	27.06	29.35	30.43	30.55
Cost of interest-bearing liabilities	4.57	4.79	4.53	4.61	4.47	4.35
Interest spread	20.51	23.34	22.53	24.74	25.97	26.20
Net interest margin	25.26	26.23	24.93	26.43	27.28	27.69

Source: Company data, ING estimates

### *High NIM necessary to sustain the business model*

A high NIM is critical for a business such as AEONTS', as interest income must be sufficiently large to sustain the high cost of operating a high-transaction, low-baht-value business while maintaining sufficient cushion against possible asset deterioration.

**Fig 12 Key interest margin components: FY01-06F (%)**

Yr to Feb	01	02	03F	04F	05F	06F
Yield on earning assets	23.39	26.49	26.15	25.04	23.90	23.35
Cost of interest-bearing liabilities	4.94	4.56	4.04	4.07	4.07	4.06
Interest spread	18.44	21.92	22.10	20.96	19.84	19.28
Net interest margin	26.22	27.17	25.89	24.69	23.40	22.50

Source: Company data, ING estimates



***Margin to remain stable despite cap on credit card rates***

Although recent legislation by the Bank of Thailand aimed at curbing excessive lending rates has cut into credit card spreads (fixed ceiling at 18% versus rates as high as 34% pa), we expect the blended margin to remain relatively stable from FY03 owing to:

- 1) Income from credit cards accounts for no more than 30% of total interest income. This will shrink over time given the rapid growth in high-yield personal loans.
- 2) Interest accounts for 60% of reported 'interest income', while fees account for the rest (note – AEONTS rolls fee income into its interest income calculations). By end-2003, management expects fees to account for 60% of credit card revenue.
- 3) An increase in annual fees from Bt100 to Bt200 per annum and the change in calculation date will help mitigate the loss of interest income, as will the levy of fees on nearly 400,000 cards issued in FY02 for free.

***No impact on margins in the foreseeable future***

Other than legislative interference, we see little that could impact asset yields going forward. Even so, we believe the likelihood of further legislative moves is low, given the government's populist leanings. Any move that could impact access to credit by the voting masses would doubtless prove very unpopular.

Other factors that could impact yields include:

***Banks not likely to pose competition risk***

- 1) **Increased competition from banks.** As we have previously stated, Thai banks have traditionally shied away from low-end consumer finance given structural limitations. This has been aggravated by a severe NPL burden. Going forward, it is unlikely that banks will make significant inroads into consumer finance, with the exception of mortgages and high-end credit cards, owing to the high cost of setting up new business units and the difficulty in achieving critical mass. As AEONTS does not extend mortgage financing, it is unlikely that banks will have a direct impact on AEONTS' yields.
- 2) **Change in customer focus.** Unlike its sister company in Hong Kong, AEONTS has ample room for growth in its segment (low-income consumers) and will not need to shift its focus to lower-yielding, high-income consumers.

**Funding rate could fall with bond issue**

3) **Funding structure.** Management’s funding strategy is to match its assets and liabilities as closely as possible. To do so, the company relies heavily on short-term debt given the lack of a core deposit base. As such, 53% of borrowings are short term, 13% due within one year, 9% within two years and 25% within three years. Despite its reliance on short-term debt, the company has maintained a relatively low funding rate, given that 50% of total loans are denominated in yen and pay interest of less than 1.5% (all foreign currency loans are fully hedged). Management aims to continue this policy, owing to the attractive yen rates and low swap costs.

In addition, the company plans to issue domestic bonds in the near future that management believes could help reduce average funding to 4% or lower (no details at the time of writing). As a result of this, and our house view that domestic interest rates will fall by an additional 25bp in the near future, we expect AEONTS’ funding costs to fall in FY03 and remain low and steady thereafter. Note that comparable government debt yields less than 2% on average, while recent corporate issues have yielded less than 3%.

**Fig 13 AEONTS’ funding mix (Bt m)**

	Feb-02	% of total
<b>Short-term bank borrowing</b>		
Yen	2,789	22
Baht	1,840	14
<b>Long-term bank borrowing</b>		
Yen	2,768	22
Baht	3,817	30
Equity	1,507	12

Source: Company data, ING estimates

**Fig 14 Government bond yield – 3-month**



Source: CEIC

## Asset quality

### *Asset quality no cause for concern*

Although asset quality has been steadily deteriorating over the last year, we do not view this as a cause for concern, given that:

- 1) Gross NPLs still account for less than 2.20% of total loans; an enviable rate for most lending institutions in the region.
- 2) Asset deterioration is an unavoidable consequence of rapid asset growth. Note that loans have grown 47% YoY.
- 3) Wide interest margins more than offset current charge-off rates.
- 4) Long-term asset quality trends favour AEONTS, as most loans are taken out to purchase essential products and services rather than non-essential and compulsive purchase items.
- 5) A shift away from the more competitive Bangkok market into the untapped upcountry market will give access to a larger base of better-quality clients.

We also note that AEONTS operates a comprehensive risk management and debt collection system comprised of 700 full-time staff. A sophisticated credit scoring system, based on data gathered from over 1.9m accounts in Thailand and consumer behaviour patterns in Japan and Hong Kong, is employed to screen all incoming applications. Each and every outstanding credit is then meticulously monitored and processed by an individual account manager through a standard series of steps designed to limit non-payment and develop client relationships. The process has proved so successful to date that it is now being adapted for use by AEON in other markets.

### *100% provision within three months*

As of February 2003, gross NPLs accounted for Bt287m, a 91% increase YoY. On a percentage basis, impaired loans have increased from 1.68% to 2.19% of total loans during the period. More importantly, however, is that AEONTS has fully provisioned against actual losses, with P&L charges for bad debts outpacing realised losses in each of the past five quarters.

**Fig 15 Asset quality summary: 3Q01-4Q02 (Bt m)**

Yr to Feb	3Q01	4Q01	1Q02	2Q02	3Q02	4Q02
Loans overdue						
Less than 3 months	N/A	8,789	10,118	11,224	12,011	12,822
3-12 months	N/A	150	193	247	281	287
Total	7,372	8,941	10,311	11,471	12,292	13,109
Loan loss reserve	N/A	164	208	256	293	320
3-mth overdue NPL ratio (%)	N/A	1.68	1.87	2.15	2.28	2.19
Coverage ratio (%)	N/A	109	108	104	104	111

Source: Company data, ING estimates

Net charge-offs ran at 210bp of average loans in the most recent period, up from previous quarters. Management attributes the increase to the deteriorating quality of customers in the greater Bangkok market, a market that is becoming more competitive (relative to the untapped upcountry market). Although this trend is cause for some concern, we note that AEONTS has continued its policy of setting aside provisions in excess of realised losses. This has boosted the reserves from 213bp in 3Q01 to 252bp in 4Q02.

**Fig 16 Net charge-offs and provisioning (bp on average loans)**

Yr to Feb	3Q01	4Q01	1Q02	2Q02	3Q02	4Q02
Provisions	245.24	115.83	136.78	169.21	187.59	231.33
Net charge-offs	66.52	107.33	91.82	124.50	156.65	210.27
Provisions less charge-offs	178.73	8.50	44.96	44.72	30.94	21.05
Accumulated reserves	213.46	201.43	215.65	235.32	246.64	251.79

Source: Company data, ING estimates

## Reserve adequacy

### *Reserves less important for pure finance companies*

Reserve adequacy is less important for a pure consumer finance company as its NPLs are all written off within 180 days. Moreover, the majority of losses through bankruptcy occur without first becoming past due – the accounts are current up until they are fully written off. Nevertheless, we have chosen to run our standard regional reserve adequacy model for AEONTS to gauge capital levels. To achieve this, we have assigned loans past due for 90 days and over to the ‘sub-standard’ category and assumed that 10% of ‘pass’ loans are 30-90 days past due, in line with AEONTS’ regional peers. These loans we classify as ‘special mention’. Note that AEONTS does not break down its three-month past due loans.

**Fig 17 Reserve adequacy: 4Q02 standard methodology (Bt m)**

	Gross amount	Reserve (%)	Required reserve (%)
Pass	12,694	1	127
Special mention	128	5	6
Substandard	287	20	57
Doubtful		50	
Loss		100	
ORE		20	
Excess AIR		20	
<b>Total</b>	<b>13,109</b>		<b>191</b>
Actual reserves			320
Shortfall			-129
Actual/required			168
Shortfall/capital			-9

Source: Company data, ING estimates

### *Reserves exceed our required figure by 168% ...*

Using the standard model shows that AEONTS’ actual reserves exceed our required figure by an additional 168%. We note, however, that the output from this model is heavily subject to changes in the general provision level that we assess on performing (pass) loans, which is just 1% in our base-case methodology.

**... but fall short on a bearish scenario**

As we view consumer finance as a more risky business than other lending activities, we have re-run our model assigning a 4% general provision, a 10% 'special mention' provision and a 25% 'sub-standard' provision. Note that the general provision is equal to six months of actual losses on the entire portfolio at current rates. Under this conservative scenario, AEONTS falls short of our required reserve by 46%, suggesting a capital shortfall of 18%.

**Fig 18 Reserve adequacy: 4Q02 severe methodology (Bt m)**

	Gross amount	Reserve (%)	Required reserve (%)
Pass	12,694	4	508
Special mention	128	10	13
Substandard	287	25	72
Doubtful		50	
Loss		100	
ORE		20	
Excess AIR		20	
<b>Total</b>	<b>13,109</b>		<b>592</b>
Actual reserves			320
Shortfall			273
Actual/required			54
Shortfall/capital			18

Source: Company data, ING estimates

**We are comfortable with the current level**

While not dismissing the importance of the above calculation, we note that our use of 4% for the general provision is very conservative and that things would have to go seriously wrong for this scenario to play out. Unlike in more mature markets, average penetration rates for consumer finance products in Thailand are very low and the bulk of AEONTS' growth will come from the upcountry markets, where average penetration rates are even lower. Statistically, therefore, the risk profile of AEONTS should improve as the company's client mix shifts into higher-quality clients. As a result, we are still comfortable with the existing reserves, especially given the current phase of the growth cycle.

## Earnings and forecasts

**Earnings growth of 44% in FY03 and 33% in FY04**

AEONTS, unlike its Hong Kong counterpart, is experiencing a rapid phase of growth due to low levels of penetration, limited competition and a recovery in consumer spending. As such, we look for strong earnings momentum to continue, with our net income forecasts increasing by 44% in FY03 and 33% in FY04.

**Fig 19 Key earnings components: FY00-06F (Bt m)**

Yr to Feb	00	01	02	03F	04F	05F	06F
Net interest income	936	1,837	3,062	3,980	4,965	6,169	7,674
Non-interest income	55	44	64	84	104	129	161
Non-interest expenses	580	1,108	1,626	1,418	1,511	1,643	1,915
Loan loss provisions	165	332	833	1,749	2,349	3,112	4,067
Core income	154	292	464	628	846	1,080	1,298
Net income	154	292	464	628	846	1,080	1,298
EPS (Bt)	3.07	5.84	9.28	12.55	16.91	21.60	25.95

Source: Company data, ING estimates

**Fig 20 Key earnings ratios: FY00-06F (%)**

Yr to Feb	00	01	02	03F	04F	05F	06F
ROA	5.88	3.84	3.81	3.80	3.91	3.81	3.54
Core ROA	5.88	3.84	3.81	3.80	3.91	3.81	3.54
ROE	40.63	25.00	30.78	31.95	32.82	31.98	30.01
Core ROE	40.63	25.00	30.78	31.95	32.82	31.98	30.01
NIM	38.99	26.22	27.17	25.89	24.69	23.40	22.50
Cost/income	58.54	58.93	52.02	34.90	29.81	26.09	24.44
Overheads	24.16	15.82	14.43	9.23	7.51	6.23	5.61
Effective tax rate	37.67	33.63	30.46	30.00	30.00	30.00	30.00

Source: Company data, ING estimates

**Increased fee income and high growth to offset credit card cap**

Although revenue growth will be hurt in FY03 by the cap on credit card interest rates, an increase in fees levied on credit cards, together with rapid growth in the high-yield personal loan business, will help offset much of the lost income.

**Fig 21 Key earnings components: 1Q01-4Q02 (Bt m)**

Yr to Feb	1Q01	2Q01	3Q01	4Q01	1Q02	2Q02	3Q02	4Q02
Net interest income	358	440	485	554	619	736	818	890
Non-interest income	6	10	13	15	13	16	16	18
Non-interest expenses	211	263	293	341	352	405	440	429
Loan loss provisions	60	87	90	94	132	184	223	294
Core income	63	67	72	90	100	111	118	135
Net income	63	67	72	90	100	111	118	135
EPS (Bt)	1.27	1.33	1.43	1.80	2.01	2.21	2.36	2.70

Source: Company data, ING estimates

**Fig 22 Key earnings ratios: 3Q01-4Q02 (%)**

Yr to Feb	3Q01	4Q01	1Q02	2Q02	3Q02	4Q02
ROA	6.87	3.93	3.74	3.70	3.66	3.91
Core ROA	6.87	3.93	3.74	3.70	3.66	3.91
ROE	50.35	30.88	31.65	33.30	34.35	35.85
Core ROE	50.35	30.88	31.65	33.30	34.35	35.85
NIM	50.52	26.23	24.93	26.43	27.28	27.69
Cost/income	58.96	60.04	55.73	53.91	52.69	47.26
Overheads	30.56	16.17	14.19	14.56	14.66	13.36
Effective tax rate	36.96	32.07	32.18	31.78	31.40	27.06

Source: Company data, ING estimates

### **Expenses to fall sharply**

The company has also undertaken significant restructuring recently to reduce its operating expenses. These measures include:

- 1) The combination of three separate customer invoices into one statement (as of November 2002). Management expects this to result in a Bt2.0m reduction in monthly expenses.
- 2) A reduction in man-hours and phone charges necessary to follow up on three separate invoices. Management expects this to result in a Bt2.6m reduction in monthly expenses.
- 3) The passing on of bank charges to end-users (as of February 2003). Management expects this to result in a Bt15m reduction in monthly expenses.

These measures together should result in a Bt230m reduction in non-interest expenses in FY03. This represents 14% of FY02 non-interest expense.

### **Growth drivers positive**

With margins remaining more or less stable going forward, owing to stable funding costs and limited competition, future earnings growth will be driven by any or all of the following factors:

- 1) **Expense reduction.** Management has indicated that further measures will be taken to streamline operating expenses as the main business lines mature. This will include reducing staffing expense and rolling down marketing expenses while offloading some of these costs to merchant partners. As a result of this and cost reduction at the end of FY02, we expect non-interest expenses to fall by 13% in FY03 and increase only 7% in FY04.
- 2) **Loan growth.** Loan growth should continue to grow at pace for the foreseeable future, driven by a steady improvement in consumer spending (ING forecasts GDP growth of 4.3% in FY03 and 4.7% in FY04) and rising penetration rates. Overall, we expect loan growth of 29% in FY03 and 28% in FY04.
- 3) **Steady provisions.** Although accrued interest levels have increased steadily over the past year, we attribute this largely to the rapid growth in competition for quality customers in the Bangkok market. Given AEONTS' strategy of increasingly focusing on the upcountry market, we are optimistic that NPL levels will begin to grow at more normalised levels starting from FY03. As such, we have assumed NPLs to rise to 2.5% of loans from 2.2% in FY03, while maintaining provisions at 110%. We assume modest growth of 0.1% in NPLs thereafter.



## Valuation

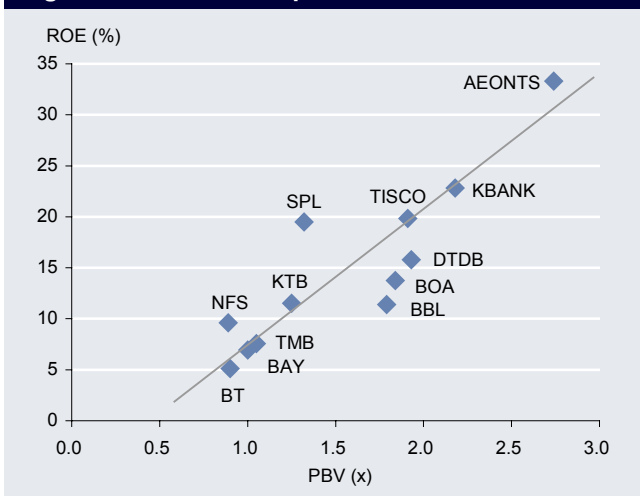
AEONTS' share price has been beaten down excessively over the past 12 months, in our opinion, owing to fears of regulatory interference and deteriorating asset quality. Even though asset quality has deteriorated somewhat, owing largely to rapid growth within Bangkok, a large pre-provision ROA provides ample cushion for a rise in the default rate while regulatory interference has had only a modest impact on the P&L. Going forward, we believe that the company will continue to achieve strong EPS growth given its strong market position, improving macroeconomic conditions and a sound strategy.

**Fair value of Bt140, 27% up from the current share price**

We value the stock at Bt140/share, given our assessment for strong earnings growth and high sustainable ROE. Our valuation methodology is predicated on the assumption that intrinsic value reflects the ability of a company to generate a specific return to investors. In the case of financial stocks, we use an ROE to P/BV multiplier to determine value, as we believe this relationship best reflects the underlying drivers of price performance over time.

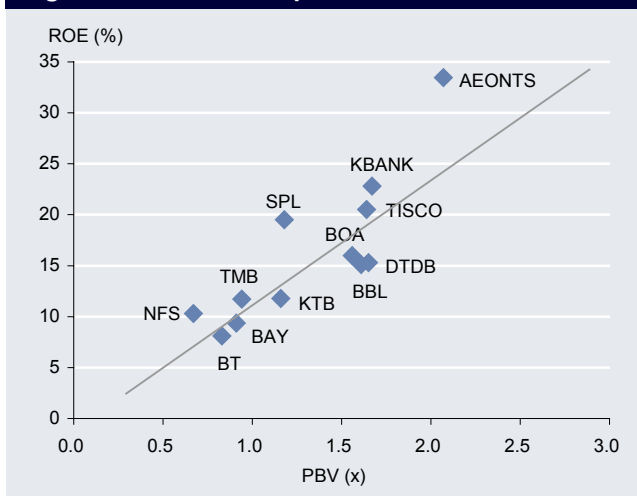
Extrapolating from the data in the charts below, in which we compare FY03 valuations for bank and non-bank financials, we believe that the stock should trade on a P/BV ratio of no less than 3x, given an average FY03-04 book value of Bt46.6/share. This suggests a share price target of Bt140.

**Fig 23 Valuation comparison – FY03F**



Source: Company data, ING estimates

**Fig 24 Valuation comparison – FY04F**



Source: Company data, ING estimates

## Valuation at the current price

AEONTS currently trades at 3.65x trailing and 2.74x forward book value, with a PER of just 8.2x FY03F earnings despite posting an ROAE of 35% in FY02 and EPS growth of 59%. We note that the stock is poorly followed, and, as such, we believe that the market has not yet fully factored in much of the recent good news on earnings or cost reductions.

**Fig 25 Share valuation at current price**

Yr to Feb	01	02	03F	04F	05F
Share price (Bt)	113.00				
PER (x)	19.34	12.18	9.00	6.68	5.23
Core PER (x)	19.34	12.18	9.00	6.68	5.23
PUP (x)	7.32	3.77	2.14	1.59	1.21
P/BV (x)	4.84	3.75	2.88	2.19	1.67

Pricing date: 2 June 2003

Source: Company data, ING estimates

## Good dividend yield

Note also that AEONTS offers a solid dividend yield of 3.1% on its current Bt3.4 annual dividend payout. Although the company is undergoing a phase of rapid growth, it is well capitalised (equity/assets of 10.5%) and capable of sustaining a dividend payout at this level.

**Fig 26 Share valuation at target price**

Yr to Feb	01	02	03F	04F	05F
Share price (Bt)	140.00				
PER (x)	23.97	15.09	11.15	8.28	6.48
Core PER (x)	23.97	15.09	11.15	8.28	6.48
PUP (x)	9.06	4.67	2.65	1.97	1.50
P/BV (x)	5.99	4.65	3.56	2.72	2.07
P/ABV (x)	5.99	4.65	3.56	2.72	2.07

Pricing date: 2 June 2003

Source: Company data, ING estimates

## Valuation at target price

At our target price of Bt140, AEONTS would be trading at an average FY03-04 P/BV of 3.1x and on FY03F and FY04F PERs of 10.5x and 7.9x, respectively.

**Fig 27 Share valuation at target price**

Yr to Feb	01	02	03F	04F	05F
Share price (Bt)	140.00				
PER (x)	23.97	15.09	10.49	7.87	6.20
Core PER (x)	23.97	15.09	10.49	7.87	6.20
PUP (x)	9.06	4.67	2.65	1.98	1.52
P/BV (x)	5.99	4.65	3.49	2.63	1.99

Pricing date: 2 June 2003

Source: Company data, ING estimates

## Sector comparison

AEONTS trades in line with other non-bank finance stocks rated BUY in the ING universe. As with the other BUYs, AEONTS offers good growth prospects and attractive valuations.

**Fig 28 Sector valuation comparison**

Company	Rating	P/BV (x)	ROE (%)		PER (x)	
		FY02	FY02	FY03F	FY02	FY03F
NFS	SELL	0.94	10.04	9.62	10.21	9.85
SPL	BUY	1.47	19.48	19.49	8.67	7.64
TISCO	BUY	2.01	17.44	19.85	12.82	10.41
AEONTS	BUY	3.12	30.78	31.95	12.18	9.00

Pricing date: 2 June 2003

Source: Company data, ING estimates

# Financial statements

## Quarterly statements

**Fig 29 Income statement (Bt m)**

Yr to Feb	4Q01	1Q02	2Q02	3Q02	4Q02
Interest income	648	720	852	941	1,019
Interest expense	94	102	117	123	129
<b>Net interest income</b>	<b>554</b>	<b>619</b>	<b>736</b>	<b>818</b>	<b>890</b>
<i>Avg int earning assets</i>	8,443	9,927	11,133	11,994	12,854
<b>NIM (%)</b>	<b>26.23</b>	<b>24.93</b>	<b>26.43</b>	<b>27.28</b>	<b>27.69</b>
Non-interest income	15	13	16	16	18
<b>Total operating income</b>	<b>569</b>	<b>632</b>	<b>752</b>	<b>834</b>	<b>908</b>
Non-interest expense	341	352	405	440	429
<b>Pre-provision profit</b>	<b>227</b>	<b>280</b>	<b>346</b>	<b>395</b>	<b>479</b>
Loan loss provisions	94	132	184	223	294
Non-operating income	0	0	0	0	0
<b>Pre-tax profit</b>	<b>133</b>	<b>148</b>	<b>162</b>	<b>172</b>	<b>185</b>
Tax	43	48	52	54	50
<b>Net profit</b>	<b>90</b>	<b>100</b>	<b>111</b>	<b>118</b>	<b>135</b>
<b>Core earnings</b>	<b>90</b>	<b>100</b>	<b>111</b>	<b>118</b>	<b>135</b>

Source: Company data, ING estimates

**Fig 30 Per share data (Bt)**

Yr to Feb	4Q01	1Q02	2Q02	3Q02	4Q02
EPS	1.80	2.01	2.21	2.36	2.70
DPS	0.00	0.00	1.00	1.50	0.00
<i>Effective payout ratio (%)</i>	0	0	45	64	0
BVPS	23.36	25.37	26.58	27.44	30.14
ABVPS	23.36	25.37	26.58	27.44	30.14

Source: Company data, ING estimates

**Fig 31 Valuation**

Yr to Feb	4Q01	1Q02	2Q02	3Q02	4Q02
Price to book value (x)	4.8	4.5	4.3	4.1	3.7
Price to adjusted book value (x)	4.8	4.5	4.3	4.1	3.7
Price to earnings (x)	62.7	56.3	51.1	48.0	41.8

Source: Company data, ING estimates

**Fig 32 Profitability ratios (%)**

Yr to Feb	4Q01	1Q02	2Q02	3Q02	4Q02
Net interest margin	26.23	24.93	26.43	27.28	27.69
Yield on interest earning assets	28.14	27.06	29.35	30.43	30.55
Cost on interest bearing liabilities	4.79	4.53	4.61	4.47	4.35
Net interest spread	23.34	22.53	24.74	25.97	26.20
Non-int income (% op income)	2.63	2.06	2.15	1.92	2.02
Cost to income	60.04	55.73	53.91	52.69	47.26
Overhead ratio	16.17	14.19	14.56	14.66	13.36
Cost coverage	166.57	179.43	185.50	189.78	211.60
ROA	3.93	3.74	3.70	3.66	3.91
ROE	30.88	31.65	33.30	34.35	35.85

Source: Company data, ING estimates

**Fig 33 OROA analysis (%)**

Yr to Feb	4Q01	1Q02	2Q02	3Q02	4Q02
Net interest margin	26.23	24.93	26.43	27.28	27.69
Non-interest inc/gross inc	2.63	2.06	2.15	1.92	2.02
Efficiency ratio	60.04	55.73	53.91	52.69	47.26
Provision/assets	0.95	1.15	1.48	1.68	2.05
<b>Operating return on assets</b>	<b>9.82</b>	<b>10.12</b>	<b>10.97</b>	<b>11.49</b>	<b>12.86</b>
Equity/assets	11.70	11.07	10.64	10.32	10.50
<b>Operating return on equity</b>	<b>83.92</b>	<b>91.42</b>	<b>103.10</b>	<b>111.34</b>	<b>122.47</b>

Source: Company data, ING estimates

**Fig 34 Balance sheet (Bt m)**

As at Feb	4Q01	1Q02	2Q02	3Q02	4Q02
Gross loans	8,777	10,103	11,215	11,999	12,790
<i>Loan loss reserves</i>	<i>164</i>	<i>208</i>	<i>256</i>	<i>293</i>	<i>320</i>
Net loans	8,613	9,896	10,958	11,706	12,470
Total earning assets	9,207	10,647	11,618	12,370	13,337
Other assets	776	812	870	929	1,015
<b>Total assets</b>	<b>9,983</b>	<b>11,460</b>	<b>12,488</b>	<b>13,299</b>	<b>14,353</b>
Deposits	-	-	-	-	-
Customer deposits	-	-	-	-	-
Other deposits	-	-	-	-	-
Other paying liabilities	-	-	-	-	-
Other liabilities	8,815	10,191	11,159	11,927	12,846
<b>Total liabilities</b>	<b>8,815</b>	<b>10,191</b>	<b>11,159</b>	<b>11,927</b>	<b>12,846</b>
<b>Equity with revaluation</b>	<b>1,168</b>	<b>1,268</b>	<b>1,329</b>	<b>1,372</b>	<b>1,507</b>
<b>Adjusted equity</b>	<b>1,168</b>	<b>1,268</b>	<b>1,329</b>	<b>1,372</b>	<b>1,507</b>

Source: Company data, ING estimates

**Fig 35 Balance sheet ratios (%)**

As at Feb	4Q01	1Q02	2Q02	3Q02	4Q02
Loans-to-deposits	N/A	N/A	N/A	N/A	N/A
Equity to assets	11.7	11.1	10.6	10.3	10.5
Total loan loss reserves to assets	1.65	1.81	2.05	2.20	2.23

Source: Company data, ING estimates

**Fig 36 Asset quality**

Yr to Feb	4Q01	1Q02	2Q02	3Q02	4Q02
Non-performing assets	150	193	247	281	287
Special mention	-	-	-	-	-
Substandard	150	193	247	281	287
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
ORE	-	-	-	-	-
NPAs/total loans (%)	1.7	1.9	2.2	2.3	2.2
Reserve coverage of NPAs (%)	109.3	107.6	103.9	104.5	111.3
Required reserves	118	140	162	176	186
Actual reserves	164	208	256	293	320
Shortfall (surplus)	(46)	(68)	(95)	(117)	(134)
Actual to required reserves (%)	139.3	148.5	158.6	166.3	172.2
Shortfall to capital (%)	-4.0	-5.3	-7.1	-8.5	-8.9

Source: Company data, ING estimates

**Fig 37 Growth rates (%YoY)**

Yr to Feb	4Q01	1Q02	2Q02	3Q02	4Q02
<b>Income statement</b>					
Net interest income	N/M	N/A	73	67	69
Non-interest income	N/M	N/A	105	63	28
Non-interest expenses	N/M	N/A	67	54	50
Pre-provision earnings	N/M	N/A	82	85	93
Loan loss provisions	N/M	N/A	119	111	147
Core earnings	N/A	N/A	58	66	64
Net profit	N/M	N/A	58	66	64
<b>Balance sheet</b>					
Loan growth	N/M	95	N/M	N/M	67
Interest earning assets	N/M	92	N/M	N/M	61
Asset growth	N/M	91	N/M	N/M	59
Deposit growth	N/M	N/M	N/M	N/M	N/M
Shareholders' funds	N/M	209	N/M	N/M	141

Source: Company data, ING estimates

## Yearly statements

**Fig 38 Income statement (Bt m)**

Yr to Feb	01	02	03F	04F	05F
Interest income	2,153	3,533	4,551	5,713	7,148
Interest expense	316	470	571	749	980
<b>Net interest income</b>	<b>1,837</b>	<b>3,062</b>	<b>3,980</b>	<b>4,965</b>	<b>6,169</b>
<i>Avg int earning assets</i>	<i>7,005</i>	<i>11,272</i>	<i>15,370</i>	<i>20,111</i>	<i>26,362</i>
<b>NIM (%)</b>	<b>26.22</b>	<b>27.17</b>	<b>25.89</b>	<b>24.69</b>	<b>23.40</b>
Non-interest income	44	64	84	104	129
<b>Total operating income</b>	<b>1,880</b>	<b>3,126</b>	<b>4,064</b>	<b>5,068</b>	<b>6,298</b>
Non-interest expense	1,108	1,626	1,418	1,511	1,643
<b>Pre-provision profit</b>	<b>772</b>	<b>1,500</b>	<b>2,645</b>	<b>3,557</b>	<b>4,654</b>
Loan loss provisions	332	833	1,749	2,349	3,112
Non-operating income	0	0	0	0	0
<b>Pre-tax profit</b>	<b>440</b>	<b>667</b>	<b>897</b>	<b>1,208</b>	<b>1,543</b>
Tax	148	203	269	362	463
<b>Net profit</b>	<b>292</b>	<b>464</b>	<b>628</b>	<b>846</b>	<b>1,080</b>
<b>Core earnings</b>	<b>292</b>	<b>464</b>	<b>628</b>	<b>846</b>	<b>1,080</b>

Source: Company data, ING estimates

**Fig 39 Per share data (Bt)**

Yr to Feb	01	02	03F	04F	05F
EPS	5.84	9.28	12.55	16.91	21.60
DPS	0.00	2.50	3.40	4.68	5.60
<i>Effective payout ratio (%)</i>	<i>0</i>	<i>27</i>	<i>27</i>	<i>28</i>	<i>26</i>
BVPS	23.36	30.14	39.29	51.53	67.53
ABVPS	23.36	30.14	39.29	51.53	67.53

Source: Company data, ING estimates

**Fig 40 Valuation**

Yr to Feb	01	02	03F	04F	05F
Price to book value (x)	4.8	3.7	2.9	2.2	1.7
Price to adjusted book value (x)	4.8	3.7	2.9	2.2	1.7
Price to earnings (x)	19.3	12.2	9.0	6.7	5.2

Source: Company data, ING estimates

**Fig 41 Profitability ratios (%)**

Yr to Feb	01	02	03F	04F	05F
Net interest margin	26.22	27.17	25.89	24.69	23.40
Yield on interest earning assets	23.39	26.49	26.15	25.04	23.90
Cost on interest bearing liabilities	4.94	4.56	4.04	4.07	4.07
Net interest spread	18.44	21.92	22.10	20.96	19.84
Non-int income (% op income)	2.32	2.03	2.06	2.05	2.05
Cost to income	58.93	52.02	34.90	29.81	26.09
Overhead ratio	15.82	14.43	9.23	7.51	6.23
Cost coverage	169.70	192.23	286.54	335.44	383.27
ROA	3.84	3.81	3.80	3.91	3.81
ROE	25.00	30.78	31.95	32.82	31.98

Source: Company data, ING estimates

**Fig 42 OROA analysis (%)**

Yr to Feb	01	02	03F	04F	05F
Net interest margin	26.22	27.17	25.89	24.69	23.40
Non-interest inc/gross inc	2.32	2.03	2.06	2.05	2.05
Efficiency ratio	58.93	52.02	34.90	29.81	26.09
Provision/assets	3.33	5.80	9.35	9.57	9.68
<b>Operating return on assets</b>	<b>7.70</b>	<b>7.50</b>	<b>7.87</b>	<b>8.11</b>	<b>7.98</b>
Equity/assets	11.70	10.50	10.50	10.50	10.50
<b>Operating return on equity</b>	<b>65.78</b>	<b>71.46</b>	<b>74.92</b>	<b>77.28</b>	<b>75.98</b>

Source: Company data, ING estimates

**Fig 43 Balance sheet (Bt m)**

As at Feb	01	02	03F	04F	05F
Gross loans	8,777	12,790	17,194	22,055	28,139
<i>Loan loss reserves</i>	<i>164</i>	<i>320</i>	<i>483</i>	<i>642</i>	<i>850</i>
Net loans	8,613	12,470	16,775	21,394	27,422
Total earning assets	9,207	13,337	17,402	22,820	29,905
Other assets	776	1,015	1,310	1,718	2,251
<b>Total assets</b>	<b>9,983</b>	<b>14,353</b>	<b>18,712</b>	<b>24,538</b>	<b>32,156</b>
Deposits	-	-	-	-	-
Customer deposits	-	-	-	-	-
Other deposits	-	-	-	-	-
Other paying liabilities	-	-	-	-	-
Other liabilities	8,815	12,846	-	-	-
<b>Total liabilities</b>	<b>8,815</b>	<b>12,846</b>	<b>16,747</b>	<b>21,961</b>	<b>28,779</b>
<b>Equity with revaluation</b>	<b>1,168</b>	<b>1,507</b>	<b>1,965</b>	<b>2,576</b>	<b>3,376</b>
<b>Adjusted equity</b>	<b>1,168</b>	<b>1,507</b>	<b>1,965</b>	<b>2,576</b>	<b>3,376</b>

Source: Company data, ING estimates

**Fig 44 Balance sheet ratios (%)**

As at Feb	01	02	03F	04F	05F
Loans-to-deposits	N/A	N/A	N/A	N/A	N/A
Equity to assets	11.7	10.5	10.5	10.5	10.5
Total loan loss reserves to assets	1.65	2.23	2.58	2.62	2.64

Source: Company data, ING estimates



**Fig 45 Asset quality**

Yr to Feb	01	02	03F	04F	05F
Non-performing assets	150	287	439	584	772
Special mention	-	-	-	-	-
Substandard	150	287	439	584	772
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
ORE	-	-	-	-	-
NPAs/total loans (%)	1.7	2.2	2.5	2.6	2.7
Reserve coverage of NPAs (%)	109.3	111.3	110.0	110.0	110.0
Required reserves	118	186	260	338	437
Actual reserves	164	320	483	642	850
Shortfall (surplus)	(46)	(134)	(223)	(304)	(413)
Actual to required reserves (%)	139.3	172.2	185.6	190.1	194.6
Shortfall to capital (%)	-4.0	-8.9	-11.3	-11.8	-12.2

Source: Company data, ING estimates

**Fig 46 Growth rates (%YoY)**

Yr to Feb	01	02	03F	04F	05F
<b>Income statement</b>					
Net interest income	96	67	30	25	24
Non-interest income	-20	45	32	24	24
Non-interest expenses	91	47	-13	7	9
Pre-provision earnings	88	94	76	34	31
Loan loss provisions	102	151	110	34	32
Core earnings	90	59	35	35	28
Net profit	90	59	35	35	28
<b>Balance sheet</b>					
Loan growth	95	47	35	28	28
Interest earning assets	92	45	30	31	31
Asset growth	91	44	30	31	31
Deposit growth	N/M	N/M	N/M	N/M	N/M
Shareholders' funds	209	29	30	31	31

Source: Company data, ING estimates



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