

Aeon Co. (M) Bhd

(6599 | AEON MK) | Consumer Products & Services | Retailers

Maintain NEUTRAL

Businesses are affected by Covid-19

Revised Target Price: RM1.08

(Previously RM1.22)

KEY INVESTMENT HIGHLIGHTS

- **1QFY20 earnings below expectation**
- **1QFY20 earnings tumbled -77%yoy to RM7.5m**
- **Retail segment profit down -40%yoy to RM20.2m due to closing of the GMS during MCO**
- **Lower sales commission receivable negatively impacted property management services**
- **Maintain NEUTRAL with a revised TP of RM1.08**

1QFY20 earnings below expectation. Aeon Co. (M) Bhd (Aeon Co)'s 1QFY20 earnings of RM7.5m only made up 7% of ours and consensus' full year estimates. The negative deviation is mainly due to the challenging business environment due to Covid-19.

1QFY20 earnings tumbled -77%yoy to RM7.5m as revenue dipped by -1.3%yoy to RM1.2b. Profit fell drastically on-year mainly due to lower operating margins, which fell 2.3ppt to 5.4%. This is also coupled with interest income that plunged 39%yoy and higher effective tax rate of 70.5% vs 41.4% a year ago. High tax rate also contributed to lower net profit as certain expenses are not tax deductible.

Retail segment profit down 40%yoy to RM20.2m due to closing of the GMS during MCO. Lower general merchandise (GMS) sales recorded during the quarter was one of the main reasons that lead to the decline in retail segment profit. During the Movement Control Order (MCO), GMS which was deemed non-essential and was not allowed to operate, leading to a drop in income. Subsequently, retail revenue dipped by 0.9%yoy to RM1.02b.

Lower sales commission receivable negatively impacted property management services. Profit for the property management services segment fell by 16.9%yoy to RM55.7m as revenue declined by 3.5%yoy to RM169.0m. Income from this segment fell short because its non-essential services tenants were not allowed to operate during the MCO, resulting in lower sales commission received.

Our view. Looking ahead, we expect 2Q to be softer as the impact of MCO may be deeper in April. In-line with the industry trend of providing rental support, we think that its property management services segment may continue to come under pressure until consumer spending at its premises normalises. On top of that we think that rental rates may be suppressed due to the challenging business environment.

RETURN STATISTICS

Price @ 20 th May 2020 (RM)	1.13
Expected share price return (%)	-4.4
Expected dividend yield (%)	+3.5
Expected total return (%)	-0.9

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	5.8	1.6
3 months	-2.7	-11.3
12 months	-22.5	-13.6


KEY STATISTICS

FBM KLCI	1435.12
Syariah compliant	Yes
Issue shares (m)	1404.00
Estimated free float (%)	27.63
Market Capitalisation (RM'm)	1544.40
52-wk price range	RM0.91 - RM1.83
Beta vs FBM KLCI (x)	1.10
Monthly velocity (%)	0.00
Monthly volatility (%)	22.72
3-mth average daily volume (m)	1.28
3-mth average daily value (RM'm)	1.40
Top Shareholders (%)	
AEON Co. Ltd	51.68
EPF	14.42
Standard Life Aberdeen	5.54

Analyst(s)
 Ng **BEI SHAN**
 ng.bs@midf.com.my
 03 -2173 8461

Impact to earnings. As we turn more cautious due to the changes in consumer behaviors such as less frequent trips to physical stores, focusing on buying necessities, cutting down on celebrations and social gathering, we are trimming our FY20 and FY21 forecast by -11.2% and -3.7% respectively. We have also taken into consideration of a more challenging environment for its property management segment.

Target price. We are revising our target price to **RM1.08** (previously RM1.22) which is based on pegging FY20EPS of 6.8sen against a forward PER of 16.0x. Our valuation is premised on -1.5SD below its three years historical average PER. We attribute the discount to the: (i) saturated retail landscape in the country; (ii) impact of Covid-19 on the economy; and (iii) expectation of a further decline in consumer sentiment.

Maintain NEUTRAL. We expect increasing competition among brick and mortars retailers to lure customers back as they reopen for businesses. Pressure will also come from brand owners strengthening their e-commerce distribution as consumers have increasingly shop online during the MCO. Consumer sentiment is expected to be softer in face of job and economic uncertainties. We also think that the bottom line contribution from the property management segment may be softer due to the challenging retail businesses amid an oversupply in retail space. On a more positive note, its supermarkets may see better businesses as some wet markets were closed during the MCO and customers may prefer to buy fresh produce in a cleaner environment during the pandemic. All things considered, we are **NEUTRAL** on the stock. 

INVESTMENT STATISTICS

Financial year ending 31st Dec (in RM'm, unless otherwise stated)	2018A	2019A	2020E	2021F	2022F
Revenue	4,353.6	4,538.90	4,610.3	4,702.5	4,796.5
Operating Profit	239.7	358.7	318.1	338.6	350.2
Operating Profit Margin (%)	5.5	7.9	6.9	7.2	7.3
Profit before tax	187.0	196.9	173.0	193.2	194.6
Normalised Profit after tax	113.1	109.3	95.1	104.3	109.0
Net profit margin (%)	2.6	2.4	2.1	2.2	2.3
Basic EPS (sen)	8.1	7.8	6.8	7.4	7.8
Basic EPS growth (%)	6.6	(3.2)	(13.1)	9.7	4.5
PER (x)	16.1	14.5	16.7	15.2	14.6
Net DPS (sen)	4.0	4.0	4.0	4.0	4.0
Net dividend yield (%)	3.1	3.5	3.5	3.5	3.5

Source: Company, MIDFR

AEON CO. (M) BHD: 1QFY20 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly results			Cumulative results		
	1QFY20	YoY (%)	QoQ (%)	FY20	FY19	YoY (%)
Revenue	1,190.9	(1.3)	1.8	1,190.9	1,206.9	(1.3)
Total Operating Expenses	(1,128.3)	1.1	8.2	(1,128.3)	(1,116.3)	1.1
Other Operating Income	1.5	(6.5)	(47.9)	1.5	1.6	(6.5)
Profit from operations	64.0	(30.5)	(50.7)	64.0	92.2	(30.5)
Interest charges	(8.5)	(0.6)	(28.4)	(8.5)	(8.5)	(0.6)
Lease interest	(29.1)	nm	(6.6)	(29.1)	(28.5)	nm
Interest income	0.2	(39.0)	13.5	0.2	0.4	(39.0)
Share of results of associates	(1.4)	(1,709.2)	nm	(1.4)	0.1	(1,709.2)
Impairment loss on invstmnt in assoc.	0.0	0.0	0.0	0.0	0.0	nm
Profit before tax	25.4	(54.4)	(70.9)	25.4	55.7	(54.4)
Income tax expense	(17.9)	(22.3)	(52.2)	(17.9)	(23.1)	(22.3)
Profit after tax	7.5	(77.1)	(85.0)	7.5	32.6	(77.1)
Normalised profit after tax	7.5	(77.1)	(85.0)	7.5	32.6	(77.1)
Basic EPS (sen)	0.5	(77.1)	(85.0)	0.5	2.3	(77.1)
		<i>+ / (-) ppts</i>				
Operating profit margin (%)	5.4	(2.3)	5.7	5.4	7.6	(2.3)
PBT margin (%)	2.1	(2.5)	5.3	2.1	4.6	(2.5)
PAT margin (%)	0.6	(2.1)	3.6	0.6	2.7	(2.1)
Effective tax rate (%)	70.5	29.2	(27.7)	70.5	41.4	29.2
Segments						
<i>Revenue</i>						
Retailing	1,021.9	(0.9)	3.5	1,021.9	1,031.7	(0.9)
Property Management Services	169.0	(3.5)	(38.0)	169.0	175.2	(3.5)
Segmental Profit						
Retailing	20.2	(39.7)	(65.8)	20.2	33.6	(39.7)
Property Management Services	55.7	(16.9)	(9.2)	55.7	67.0	(16.9)
Segmental Profit margin (%)		<i>+ / (-) ppts</i>				
Retailing	2.0	(1.8)	(1.7)	2.0	3.8	(1.8)
Property Management Services	32.9	2.3	6.9	32.9	30.6	2.3

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.