

Aeon Co. (M) Bhd

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

Maintain NEUTRAL

Lower contribution from property management

Revised Target Price: RM1.22

(Previously RM1.60)

KEY INVESTMENT HIGHLIGHTS

- 4QFY19 earnings was lower by -6.8%yoy to RM49.9m
- Full year FY19 earnings of RM109.3m came in within ours but below consensus expectations
- Retail segment registered a solid performance attributable to the new stores
- However, property management segment reported a decline in performance
- Maintain NEUTRAL with a revised TP of RM1.22

Earnings within our expectation. Aeon Co. (M) Bhd (Aeon Co)'s 4QFY19 earnings dropped by -6.8%yoy to RM49.9m due to the higher effective tax rate of 42.9% (vs 4QFY18 of 37.1%). This brings its full year FY19 earnings to RM109.3m, which was within ours but below consensus expectations at 95.0% and 93.7% of full year FY19 forecast earnings respectively. Comparing to the last financial year, FY19 normalised earnings dropped by -3.4%yoy.

Retail segment recorded a solid performance. The FY19 operating profit for the retail segment grew by more than double to RM114.6m from the last corresponding period. After excluding the impact of MFRS 16, the retailing segment's FY19 operating profit amounted to RM98.9m (+91.3%yoy). The strong retail performance was mainly attributable to: (i) the newly renovated stores; (ii) newly opened specialty stores; (iii) new stores at Aeon Kuching, Sarawak (April 2018) and Aeon Nilai, Negeri Sembilan (January 2019) and; (iv) better profit margin especially in the 1Q.

Lower contribution from property management. Meanwhile, the property management segment registered FY19 operating profit of RM268.8m (+28.8%yoy). However, post adjustment of MFRS 16, operating profit for the period recorded at only RM182.3m (-13.1%yoy). We believe the decline was mainly due to the challenging rental rates and higher operating expenses such as utilities.

Impact to earnings. We are revising our FY20 and FY21 forecast downward by -4.9% and -6.8% respectively to take into account the declining contribution of property management segment going forward.

Final dividend declared. As per our expectation, Aeon Co declared its final dividend for FY19 of 4.0sen per share which is of the same quantum as in FY18.

RETURN STATISTICS

Price @ 24 th February 2020 (RM)	1.30
Expected share price return (%)	-6.1
Expected dividend yield (%)	+3.1
Expected total return (%)	-3.0

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-5.8	-0.6
3 months	-8.5	-8.7
12 months	-18.2	-5.4


KEY STATISTICS

FBM KLCI	1,490.06
Syariah compliant	Yes
Issue shares (m)	1404.00
Estimated free float (%)	28.25
Market Capitalisation (RM'm)	1,825.20
52-wk price range	RM1.3 - RM1.83
Beta vs FBM KLCI (x)	0.89
Monthly velocity (%)	14.71
Monthly volatility (%)	24.53
3-mth average daily volume (m)	1.04
3-mth average daily value (RM'm)	1.46
Top Shareholders (%)	
AEON Co. Ltd	51.68
EPF	13.81
Standard Life Aberdeen	5.67

ANALYST

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Target price. We are revising our target price to **RM1.22** (*previously RM1.60*) which is based on pegging FY20EPS of 7.6sen against a forward PER of 16.0x (*previously 20.0x*). This 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 the heightening competition among brick and mortars retailers as well as aggressive promotions at e-commerce platforms to suppress overall retail prices. Moreover, consumers are becoming more selective in their spending, being more skewed towards basic necessities and commodities instead of discretionary items due to the lingering concerns over rising cost of living and subdued consumer sentiment. Due to this, the management has remained cautious on new shopping mall expansion plan beyond FY19. In addition, we think that the bottom line contribution from the property management segment will remain subdued as we do not foresee any avenue for the group to revise upward the rental rate upwards in the near term in order to maintain its occupancy ratio at the 90.0% level. However, we are cognizant of the management efforts to refurbish and maintenance existing stores in order to stay relevant in the face of competitions from surrounding areas. All things considered, we maintain **NEUTRAL** recommendation 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	4,538.9	4,610.3	4,702.5	4,796.5
Operating Profit	239.7	358.7	336.6	338.6	345.3
Operating Profit Margin (%)	5.5	7.9	7.3	7.2	7.2
Profit before tax	187.0	196.9	191.5	192.8	194.3
Normalised Profit after tax	113.1	109.3	107.2	108.2	109.0
Net profit margin (%)	2.6	2.4	2.3	2.3	2.3
Basic EPS (sen)	8.1	7.8	7.6	7.7	7.8
Basic EPS growth (%)	6.6	(3.4)	(1.8)	0.9	0.8
PER (x)	16.1	16.7	17.0	16.9	16.7
Net DPS (sen)	4.0	4.0	4.0	4.0	4.0
Net dividend yield (%)	3.1	3.1	3.1	3.1	3.1

Source: Company, MIDFR

AEON CO. (M) BHD: 4QFY19 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly results			Cumulative results		
	4QFY19	YoY (%)	QoQ (%)	FY19	FY18	YoY (%)
Revenue	1,170.1	5.4	10.1	4,538.9	4,353.6	4.3
Total Operating Expenses	(1,043.0)	2.6	3.6	(4,189.2)	(4,114.4)	1.8
Other Operating Income	2.8	7.2	(8.9)	9.0	8.4	7.0
Profit from operations	129.8	34.2	122.2	358.7	247.7	44.8
Interest charges	(11.8)	(10.4)	13.5	(122.3)	(42.9)	184.9
Lease interest	(31.1)	nm	(8.6)	(40.6)	0.0	nm
Interest income	0.2	(39.1)	(17.6)	1.2	1.4	(13.8)
Share of results of associates	0.2	(86.3)	nm	(0.1)	(11.1)	(98.9)
Impairment loss on invstmnt in assoc.	0.0	0.0	0.0	0.0	(8.0)	nm
Profit before tax	87.3	2.5	525.0	196.9	187.0	5.3
Income tax expense	(37.4)	18.5	463.3	(87.6)	(81.9)	6.9
Profit after tax	49.9	(6.8)	581.0	109.3	105.1	4.0
Normalised profit after tax	49.9	(6.8)	581.0	109.3	113.1	(3.4)
Basic EPS (sen)	3.6	(6.8)	582.7	7.8	7.5	3.9
		<i>+ / (-) ppts</i>				
Operating profit margin (%)	11.1	2.4	(5.6)	7.9	5.7	2.2
PBT margin (%)	7.5	(0.2)	(6.1)	4.3	4.3	0.0
PAT margin (%)	4.3	(0.6)	(3.6)	2.4	2.4	(0.0)
Effective tax rate (%)	42.9	5.8	4.7	44.5	43.8	0.7
Segments						
<i>Revenue</i>						
Retailing	987.5	5.8	11.1	3,832.2	3,666.3	4.5
Property Management Services	182.6	3.2	5.0	706.6	687.3	2.8
Segmental Profit						
Retailing	59.1	68.4	2,655.5	114.6	51.7	121.6
Property Management Services	61.3	13.3	(11.4)	268.8	209.8	28.1
Segmental Profit margin (%)		<i>+ / (-) ppts</i>				
Retailing	6.0	2.2	(5.7)	3.0	1.4	1.6
Property Management Services	33.6	3.0	6.2	38.0	30.5	7.5

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.