# Aeon Co. (M) Berhad

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

***Maintain* BUY**

## Decent outlook ahead

***Revised* Target Price: RM1.87**
*(previously RM1.79)*

### KEY INVESTMENT HIGHLIGHTS

- **1HFY22 earnings beat expectations**
- **Better results contributed by improved topline in 2QFY22**
- **Recorded core PATANCI of RM72.8m for 1HFY22**
- **Revised FY22–24F earnings projections**
- **Maintain BUY with a higher TP of RM1.87 (previously RM1.79)**

| RETURN STATISTICS | |
|---|---|
| Price @ 23rd August 2022 (RM) | 1.47 |
| Expected share price return (%) | +27.4 |
| Expected dividend yield (%) | +4.0 |
| **Expected total return (%)** | **+30.1** |

**SHARE PRICE CHART**



| Share price performance (%) | Absolute | Relative |
|---|---|---|
| 1 month | 5.9 | 4.0 |
| 3 months | 1.9 | 14.5 |
| 12 months | 19.3 | 19.5 |

| KEY STATISTICS | |
|---|---|
| FBM KLCI | 1,482.57 |
| Syariah compliant | Yes |
| F4BGM Index | No |
| ESG Grading Band (Star rating) | ☆☆ |
| Issue shares (m) | 1404.00 |
| Estimated free float (%) | 21.98 |
| Market Capitalisation (RM'm) | 2,035.80 |
| 52-wk price range | RM1.12– RM1.69 |
| Beta vs FBM KLCI (x) | 0.96 |
| Monthly velocity (%) | 11.02 |
| Monthly volatility (%) | 15.82 |
| 3-mth average daily volume (m) | 1.30 |
| 3-mth average daily value (RM'm) | 1.86 |
| Top Shareholders (%) | |
| AEON Co. Ltd | 51.68 |
| EPF | 10.55 |
| Amanah Saham Nasional Berhad | 4.90 |

**1HFY22 earnings beat expectations.** Aeon Co. (M) Bhd (Aeon)'s 1HFY22 core PATANCI came in at RM72.8m, after deducting an exceptional item of RM2.6m. The earnings came in above our and consensus expectations, accounting for 64.9% of our and 68.5% of the consensus full-year forecast for FY22. The key variation was due to a better-than-expected margin and lower-than-anticipated operating expenses. No dividend was declared for the quarter.

**Better results contributed by improved topline in 2QFY22.** The group reported an increase in revenue (+25.3%yoy; +9.4%qoq) to RM1.1b, driven by greater sales in both retail businesses (+28%yoy; +9.4%qoq) and the property management services segment (+11.3%yoy; +8.9%qoq) to RM938.3m and RM157.2m respectively. The positive momentum was attributed to robust sales amid: (i) revenge spending for festive celebrations following the reopening of the economy and borders as well as (ii) higher sales commission and temporary space rental obtained amid a shift in consumers' behaviours on visiting physical malls. The increase in operating expenses was more than offset by the greater revenues, causing the core PATANCI to more than double to RM46.1m. The operating profit margin improved to 11.1%.

**Recorded core PATANCI of RM72.8m for 1HFY22**, more than double compared to RM27.3m in 1HFY21. The group's favourable revenue growth in 1HFY22 was supported by positive turnover in both the retail business and property management services segment (PMS). The retail business recorded an upsurge in Softline and hardline sales following the reopening of the economy and borders. The increased PMS revenue was backed by the consumer sentiment in returning to physical malls which led to a higher sales commission and temporary space rental received.

**MIDF RESEARCH**
research@midf.com.my

**Revised FY22–24F earnings projections.** We raised our earnings projection for FY22F/23F/24F by +22.6%/+32.8%/+39.9% in view of earnings exceeding our expectations after factoring in higher revenue. We expect a stable margin due to its prior effectiveness in reducing the effect of inflationary pressure on the operating costs.

**Maintain BUY with a higher TP of RM1.87 (previously RM1.79).** Our target price is based on a revised PER valuation of 17.5x, which is its 2-year historical mean that pegged to Aeon Co's FY22F EPS of 10.7sen. Moving forward, we believe Aeon's topline will continue to benefit from the pent-up demand which is expected to last at least until the end of the year. This is amid improving labour market and job prospect which in line with our in-house economist expectation of 6.6% GDP growth in 2022 and +17.6% increase in retail sales. We continue to like AEON for its: (i) seamless adoption of the online-merge-offline (OMO) strategy through the myAEON2go e-commerce platform which provides personal shopper services, drive-thru services, and delivery service; (ii) effective cost efficiencies and operational productivity that have increased its profitability despite increasing operating costs; (iii) initiative in embracing new technology and methods through adopted several new platforms for customers and partners.

**Downside risks** are: (i) higher-than-anticipated operating costs, which could lead to lower earnings, (ii) lower-than-expected sales amid weakened consumer sentiment for physical malls, and (iii) lower rental from PMS.

## INVESTMENT STATISTICS

| FYE DEC (RM'm) | FY2020 | FY2021 | FY2022F | FY2023F | FY2024F |
|---|---|---|---|---|---|
| **Revenue** | **4,051.3** | **3,630.4** | **4,240.0** | **4,381.5** | **4,527.4** |
| Cost of Sales | (2,347.3) | (2,159.7) | (2,625.3) | (2,726.3) | (2,830.7) |
| **Gross Profit** | **1,704.0** | **1,470.7** | **1,614.7** | **1,655.3** | **1,696.7** |
| Other operating income | 11.0 | 21.3 | 14.8 | 16.0 | 17.3 |
| Change in inventories | (130.4) | (22.5) | 11.6 | 4.2 | (0.3) |
| Staff costs | (329.3) | (328.1) | (385.1) | (398.4) | (412.0) |
| Operating expenses | (485.1) | (421.4) | (721.1) | (746.6) | (773.0) |
| **EBITDA** | **770.2** | **720.0** | **534.9** | **530.4** | **528.7** |
| EBIT | 444.2 | 425.1 | 225.0 | 204.7 | 189.3 |
| **Profit Before Tax (PBT)** | **287.3** | **295.9** | **172.1** | **187.8** | **211.0** |
| Income Tax Expenses | (60.3) | (45.7) | (34.4) | (37.6) | (42.2) |
| **PAT** | **227.0** | **250.2** | **137.6** | **150.2** | **168.7** |
| **Core PATANCI** | **43.8** | **87.7** | **137.6** | **150.2** | **168.7** |
| EPS (sen) | 3.1 | 6.2 | 9.8 | 10.7 | 12.0 |
| Dividend per share (sen) | 4.0 | 3.0 | 5.6 | 6.1 | 6.9 |
| Dividend yield (%) | 2.7 | 2.0 | 3.5 | 3.8 | 4.3 |
| **Growth & Valuation (%)** | | | | | |
| Revenue Growth | (10.7) | (10.4) | 16.8 | 3.3 | 3.3 |
| Core PATANCI Growth | (65.8) | 100.3 | 56.9 | 9.2 | 12.3 |
| Operating Profit Margin | 42.1 | 40.5 | 38.1 | 37.8 | 37.5 |
| PBT Margin | 11.0 | 11.7 | 5.3 | 4.7 | 4.2 |
| Core PATANCI Margin | 1.1 | 2.4 | 3.2 | 3.4 | 3.7 |
| Effective tax rate | 13.6 | 10.8 | 15.3 | 18.4 | 22.3 |
| **Ratios & Valuation** | | | | | |
| PER (x) | 47.1 | 23.5 | 15.0 | 13.7 | 12.2 |
| Net debt/Total Equity (%) | 123.5 | 118.4 | 115.6 | 112.9 | 110.2 |
| Dividend payout (%) | 128.2 | 48.0 | 57.4 | 57.4 | 57.4 |
| Cash/Mkt Cap (x) | (66.7) | (79.4) | (77.0) | (74.7) | (72.5) |

*Source: Company, MIDFR*

## Table 1: AEON's 2QFY22 earnings review

| FYE DEC (RM'm) | Quarterly results | | | | | Cumulatively results | | |
|---|---|---|---|---|---|---|---|---|
| | 2QFY22 | 1QFY22 | 2QFY21 | YoY (%) | QoQ (%) | 1HFY22 | 1HFY21 | YoY (%) |
| **Revenue** | **1,095.5** | **1,001.8** | **874.2** | **25.3** | **9.4** | **2,097.3** | **1,887.7** | **11.1** |
| Total Operating Expenses | (979.3) | (926.2) | (817.7) | 19.8 | 5.7 | (1,905.5) | (1,762.7) | 8.1 |
| Other Operating Income | 5.1 | 7.8 | 4.2 | 21.4 | (34.6) | 12.9 | 8.4 | 53.6 |
| **Profit from operations** | **121.3** | **83.4** | **60.7** | **99.8** | **45.4** | **204.7** | **133.4** | **53.5** |
| Interest charges | (4.3) | (4.8) | (26.6) | (83.9) | (10.4) | (9.1) | (53.3) | (82.9) |
| Lease interest | (25.4) | (24.6) | (4.8) | 429.2 | 3.3 | (50.0) | (10.3) | 386.9 |
| Interest income | 0.7 | 0.8 | 0.2 | 366.7 | (12.5) | 1.5 | 0.3 | 424.5 |
| Share of results of associates | 0.0 | 0.0 | (1.4) | (100.0) | n.m. | 0.0 | (0.3) | (100.0) |
| **Profit before tax (PBT)** | **92.3** | **54.8** | **28.0** | **229.4** | **68.4** | **147.1** | **69.8** | **110.6** |
| Income tax expense | (45.0) | (26.7) | (17.1) | 163.2 | 68.5 | (71.7) | (36.9) | 94.3 |
| **Profit after tax (PAT)** | **47.3** | **28.1** | **10.9** | **333.2** | **68.3** | **75.4** | **32.9** | **128.9** |
| EI | (1.2) | (1.4) | (5.6) | (78.6) | (14.3) | (2.6) | 2.4 | (208.3) |
| **Core PATANCI** | **46.1** | **26.7** | **5.3** | **766.5** | **72.7** | **72.8** | **27.3** | **166.2** |
| Basic EPS (sen) | 3.4 | 2.0 | 0.8 | 333.2 | 68.3 | 5.4 | 2.3 | 128.9 |
| DPS (sen) | 0.0 | 0.0 | 0.0 | n.m. | n.m. | 0.0 | 0.0 | n.m. |
| **Ratios & Margins** | | | | **+/(-) ppts** | **+/(-) ppts** | | | **+/(-) ppts** |
| Operating profit margin (%) | 11.1 | 8.3 | 6.9 | 4.1 | 2.7 | 9.8 | 7.1 | 2.7 |
| PBT margin (%) | 8.4 | 5.5 | 3.2 | 5.2 | 3.0 | 7.0 | 3.7 | 3.3 |
| PAT margin (%) | 4.3 | 2.8 | 1.2 | 3.1 | 1.5 | 3.6 | 1.7 | 1.8 |
| Effective tax rate (%) | 48.8 | 48.7 | 61.0 | (12.3) | 0.0 | 48.7 | 52.8 | (4.1) |
| **Segmental Breakdown** | | | | | | | | |
| **Revenue:** | | | | | | | | |
| Retailing | 938.3 | 857.4 | 733.0 | 28.0 | 9.4 | 1,795.7 | 1,612.0 | 11.4 |
| Property Management Services | 157.2 | 144.4 | 141.2 | 11.3 | 8.9 | 301.6 | 275.7 | 9.4 |
| **Total:** | **1,095.5** | **1,001.8** | **874.2** | **25.3** | **9.4** | **2,097.3** | **1,887.7** | **11.1** |
| | | | | | | | | |
| **Segmental Profit:** | | | | | | | | |
| Retailing | 79.7 | 61.0 | 13.1 | 507.5 | 30.7 | 140.7 | 63.7 | 120.9 |
| Property Management Services | 54.1 | 54.8 | 58.3 | (7.2) | (1.3) | 108.9 | 98.7 | *10.3* |
| **Total:** | **133.8** | **115.8** | **71.4** | **87.3** | **15.5** | **249.6** | **162.4** | **53.7** |
| | | | | | | | | |
| **Segmental Profit margin (%)** | | | | | | | | |
| Retailing | 8.5 | 7.1 | 1.8 | 6.7 | 1.4 | 7.8 | 4.0 | 3.9 |
| Property Management Services | 34.4 | 38.0 | 41.3 | (6.9) | (3.5) | 36.1 | 35.8 | 0.3 |
| **Total:** | **12.2** | **11.6** | **8.2** | **4.0** | **0.7** | **11.9** | **8.6** | **3.3** |

*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 *rise* 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 *fall* 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. |
| **ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell** | |
| ☆☆☆☆ | Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆☆☆ | Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆☆ | Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆ | Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology