Company Update | Thursday, 25 August 2022

Aeon Co. (M) Berhad

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

***Maintain* BUY**

Bullish outlook for 2HFY22

***Unchanged* Target Price: RM1.87**

KEY INVESTMENT HIGHLIGHTS

- **Analyst briefing with Aeon Co (M)**
- **Manageable operating expenses increase for the retail segment ahead**
- **Retail mall's occupancy rate on track to meet targets**
- **Greater rental income from tenant sales commission**
- **More mall and stores rejuvenation ahead**
- **Maintain BUY with an unchanged TP of RM1.87**

Analyst briefing with Aeon Co (M). We attended the management's analyst briefing for 1HFY22 results and remain optimistic about the 2HFY22. Key takeaways are as follows:

Manageable operating expenses increase for the retail segment ahead. With the trend of customers returning to shop physically at malls, the group anticipates carrying out some catching up on: (i) maintenance tasks that were put off in previous years due to the Covid-19 lockdown and (ii) store floor redesign initiative. The management estimates a 28–30% operating expense to sales ratio for retail expansions moving forward. This has resulted in an estimated 1-2% decline in the operating margin for retail segment in 2HFY22 as compared to 1HFY22. Meanwhile, the group will continue practising cost savings in non-essential operations.

Average basket size (ABS) for the retail sector remains flattish. The ABS rose marginally to RM73.9 in 1HFY22 from RM72.6 in 1HFY21, but higher than RM54.9 in 1HFY19. Management anticipates the ABS to settle at a range of RM73-74 by the end of FY22.

Retail mall's occupancy rate on track to meet targets which improved the mall revenue for the property management services (PMS) segment. In 1HFY22, the retail mall's average occupancy rate increased by +2.7ppt year-on-year to 89.9% (from 87.2% in 1HFY21). This was 0.2ppt more than the 89.6% pre-pandemic level in 1HFY19. Management expects the average occupancy rate at 90-92% by end of the year.

Greater rental income from tenant sales commission which in turn improve property management's revenue. In 1HFY22, tenant sales increased by +58%yoy, with 49% of total tenant sales coming from tenants in the food and beverage and fashion industries. During the pandemic, management renewed the tenancy agreement at a lower fixed rate but a greater sales commission to keep the occupancy rate and tenancy rate. Moving forward, we believe that the consumer spending on F&B remains uptick supported by an improving labour market and outlook along with our in-house economist expectation of a +17.6%yoy increase in retail sales which will continue to support income collected from tenant sales commission.

RETURN STATISTICS	
Price @ 24th August 2022 (RM)	1.42
Expected share price return (%)	+32.0
Expected dividend yield (%)	+4.0
Expected total return (%)	**+35.9**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	2.2	2.3
3 months	7.6	0.4
12 months	-4.1	2.7

KEY STATISTICS	
FBM KLCI	1,467.26
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)	1,993.68
52-wk price range	RM1.26 - RM1.69
Beta vs FBM KLCI (x)	0.96
Monthly velocity (%)	11.02
Monthly volatility (%)	15.82
3-mth average daily volume (m)	1.25
3-mth average daily value (RM'm)	1.79
Top Shareholders (%)	
AEON Co. Ltd	51.68
EPF	10.55
Amanah Saham Nasional Berhad	4.90

MIDF RESEARCH
research@midf.com.my

Impact of Cukai Makmur on FY22F. Management anticipates a 10-11% increase in the effective tax rate in FY22 to 48% (from 38% in FY21) due to a one-time Cukai Makmur. We have considered the increase in Cukai Makmur in our estimation with a projected effective tax rate of 48%/38%/38% for FY22F/23F/24F.

More mall and stores rejuvenation ahead. The group aimed to revitalise 3 malls under its value-added strategy. Alpha Angel Aeon Mall's renovation was completed in April 2022 and managed to reopen in time for Ramadan and Hari Raya celebration. Post-renovation, the mall reported increased revenues and an almost 10% rise in occupancy. The group has started planning the refurbishment of another mall while also commencing the renovation of another mall in 2HFY22. As part of its value-added strategy, the group simultaneously intended to redesign store floors at every mall, Aeon Wellness, and Daiso. The management projected RM200 million in capital expenditures for FY22, of which 80% will be used for facilities and mall maintenance with the remaining 20% for tech and others. This is consistent with its objective of RM200–300 million in annual investment for FY22–25F.

Maintain BUY with an unchanged TP of RM1.87. We maintain our earnings forecasts for FY22-24F post analyst briefing. Our target price is based on a revised PER valuation of 17.5x, which is its 2-year historical mean that is pegged to Aeon Co's FY22F EPS of 10.7sen. We continue to like AEON for its: (i) seamless adoption of the online-merge-offline (OMO) strategy through the myAEON2go e-commerce platform for the convenience of customers to purchase goods and services online; (ii) effective cost efficiencies and operational productivity maintaining the profit margin; (iii) initiative in expanding private brand (in-house) where it offers customers lower prices, which can help drive the sales volume in an inflationary environment. Aeon is currently trading at an attractive FY23F PE of 13.3x, above the sector average of 11.7x and offers a decent dividend yield of 4.0%.

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)	(2,543.0)	(2,663.0)	(2,765.8)
Gross Profit	**1,704.0**	**1,470.7**	**1,697.0**	**1,718.6**	**1,761.6**
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)
Profit Before Tax (PBT)	**117.7**	**126.4**	**264.1**	**242.5**	**272.3**
Income Tax Expenses	(60.3)	(45.7)	(126.7)	(92.1)	(103.5)
PAT	**57.4**	**80.6**	**137.3**	**150.3**	**168.8**
Core PATANCI	**43.8**	**87.7**	**137.3**	**150.3**	**168.8**
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 (%)	2.8	2.1	4.0	4.3	4.9
Growth & Valuation (%)					
Revenue Growth	(10.7)	(10.4)	16.8	3.3	3.3
Core PATANCI Growth	(65.8)	100.3	56.5	9.5	12.3
Operating Profit Margin	42.1	40.5	40.0	39.2	38.9
PBT Margin	2.9	3.5	6.2	5.5	6.0
Core PATANCI Margin	1.1	2.4	3.2	3.4	3.7
Effective tax rate	51.2	36.2	48.0	38.0	38.0
Ratios & Valuation					
PER (x)	45.5	22.7	14.5	13.3	11.8
Net debt/Total Equity (%)	119.3	114.4	111.7	109.1	106.5

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 *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