Aeon Co. (M) Berhad

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

***Maintain* BUY**

***Revised* Target Price: RM1.81**
(previously RM1.87)

Muted sales, lack of festive celebration

KEY INVESTMENT HIGHLIGHTS

- **9MFY22 earnings missed expectation**
- **Lower quarter-on-quarter revenue and core earnings in 3QFY22**
- **Improved 9MFY22 revenue and earnings supported by economic and border re-opening**
- **Revised FY22–24F earnings projections**
- **Maintain BUY with a revised TP of RM1.81 (previously RM1.87)**

9MFY22 earnings missed expectation. Aeon Co. (M) Bhd ("Aeon") reported a core PATANCI of RM90.8m for 9MFY22, after excluding one-time item of RM4m. 9MFY22 earnings came in below our estimation at 66% but within consensus expectation at 72% of respective full year forecasts. The negative deviation was due to lower-than-expected revenue from retailing and property management services (PMS) segments. No dividend was declared for the quarter.

Lower quarter-on-quarter revenue and core earnings in 3QFY22. Aeon's top line fell by -10.4%qoq to RM982m, mainly attributed to weaker revenue recorded in retailing and PMS segments. Operating profit margin fell from 11.1% in 2QFY22 to 4.7% in 3QFY22 due to lower segmental profit margin for retail business. This led to lower core earnings of RM18.0m (-61%qoq). On yearly basis, the group's revenue rose +30.8%yoy to RM982m. This was mainly lifted by better sales from both retail business and PMS divisions after the reopening of economy and country border. 3QFY22 core earnings returned to the black at RM18m, against net loss of RM17.4m in 3QFY21.

Improved 9MFY22 revenue and earnings supported by economic and border re-opening. Cumulatively, core PATANCI increased by more than 4 times to RM90.8m in line with better revenue at RM3.08b (vs. RM2.64b in 9MFY21). The positive momentum was contributed by better softline and hardline sales coupled with greater sales commission and temporary space rental received following the reopening of the border and economy.

Revised FY22–24F earnings projections. Given that earnings missed our expectation, we tweak our FY22F/23F/24F earnings forecast by -5.6%/-3.2%/-1.1%. This is after factoring in slightly lower revenue from retail business segment.

RETURN STATISTICS	
Price @ 23rd November 2022 (RM)	1.36
Expected share price return (%)	+33.40
Expected dividend yield (%)	+3.90
Expected total return (%)	**+37.30**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-2.2	-1.7
3 months	-0.7	-3.4
12 months	-4.2	1.3

KEY STATISTICS	
FBM KLCI	1,443.50
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)	1,909.44
52-wk price range	RM1.26 - RM1.69
Beta vs FBM KLCI (x)	0.79
3-mth average daily volume (m)	0.80
3-mth average daily value (RM'm)	1.11
Top Shareholders (%)	
AEON Co. Ltd	51.68
EPF	10.55
Amanah Saham Nasional Berhad	4.90

MIDF RESEARCH
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Maintain BUY with a revised TP of RM1.81 (previously RM1.87). Our target price is based on a PER valuation of 17.5x, which is its 2-year historical mean that is pegged to Aeon Co's FY23F EPS of 10.4sen. We remain optimistic on AEON's FY23 outlook underpinned by its: (1) 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, (2) initiative in expanding various in-house private brand and labels at a reasonable price, which can help drive the sales volume in an inflationary environment, and (3) effective cost efficiencies and operational productivity. Meanwhile, the **downside risks** are: (1) higher-than-expected production cost; (2) lower-than-expected sales amid weakened customer support for physical malls; and (3) reduced rents from PMS.

INVESTMENT STATISTICS

FYE DEC (RM'm)	FY2020A	FY2021A	FY2022F	FY2023F	FY2024F
Revenue	**4,051.3**	**3,630.4**	**4,139.4**	**4,278.0**	**4,420.8**
Cost of Sales	(2,347.3)	(2,159.7)	(2,549.7)	(2,667.9)	(2,765.3)
Gross Profit	**1,704.0**	**1,470.7**	**1,589.7**	**1,610.0**	**1,655.5**
Other operating income	11.0	21.3	8.3	14.7	15.8
Change in inventories	(130.4)	(22.5)	11.3	4.1	(0.3)
Staff costs	(329.3)	(328.1)	(411.5)	(425.7)	(440.4)
Operating expenses	(485.1)	(421.4)	(600.6)	(621.9)	(643.9)
Profit Before Tax (PBT)	**117.7**	**126.4**	**249.2**	**234.7**	**269.3**
Income Tax Expenses	(60.3)	(45.7)	(119.6)	(89.2)	(102.3)
PAT	**57.4**	**80.6**	**129.6**	**145.5**	**167.0**
Core PATANCI	**43.8**	**87.7**	**129.6**	**145.5**	**167.0**
EPS (sen)	3.1	6.2	9.2	10.4	11.9
Dividend per share (sen)	4.0	3.0	5.3	5.9	6.8
Dividend yield (%)	2.9	2.2	3.9	4.4	5.0
Growth & Valuation (%)					
Revenue Growth	(10.7)	(10.4)	14.0	3.3	3.3
Core PATANCI Growth	(65.8)	100.3	47.7	12.3	14.7
Operating Profit Margin	42.1	40.5	38.4	37.6	37.4
PBT Margin	2.9	3.5	6.0	5.5	6.1
Core PATANCI Margin	1.1	2.4	3.1	3.4	3.8
Effective tax rate	51.2	36.2	48.0	38.0	38.0
Ratios & Valuation					
PER (x)	43.6	21.8	14.7	13.1	11.4
Net debt/Total Equity (%)	114.3	109.6	107.0	104.4	102.0

Source: Company, MIDFR

Table 1: AEON's 3QFY22 earnings review

FYE DEC (RM'm)	Quarterly results					Cumulatively results		
	3QFY22	2QFY22	3QFY21	YoY (%)	QoQ (%)	9MFY22	9MFY21	YoY (%)
Revenue	**982.0**	**1,095.5**	**750.6**	**30.8**	**(10.4)**	**3,079.3**	**2,638.3**	**16.7**
Total operating expenses	(943.7)	(979.3)	(757.9)	24.5	(3.6)	(2,849.2)	(2,520.6)	13.0
Other operating income	8.1	5.1	6.1	31.9	58.8	21.0	14.5	44.4
Operating profit (EBIT)	**46.4**	**121.3**	**(1.2)**	**(3,944.2)**	**(61.7)**	**251.1**	**132.2**	**90.0**
Net finance income/(cost)	(27.7)	(29.0)	(32.2)	(13.9)	(4.5)	(85.3)	(95.4)	(10.6)
Share of results of associate	0.0	0.0	(0.0)	(100.0)	n.m.	0.0	(0.3)	(100.0)
Profit before tax (PBT)	18.7	92.3	(33.4)	(155.9)	(79.7)	165.8	36.4	355.2
Tax expense	(7.8)	(45.0)	14.8	(152.9)	(82.7)	(79.5)	(22.1)	258.9
Profit After tax (PAT)	**10.9**	**47.3**	**(18.7)**	**(158.4)**	**(77.0)**	**86.3**	**14.3**	**504.5**
Core PATANCI	**18.0**	**46.1**	**(17.4)**	**(203.6)**	**(61.0)**	**90.8**	**17.9**	**407.9**
Basic EPS (sen)	0.8	3.4	(1.3)	(158.6)	(76.9)	6.2	1.0	502.9
DPS (sen)	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.
Ratios & Margins (%)				**+/(-) ppts**	**+/(-) ppts**			**+/(-) ppts**
Revenue Growth	(10.4)	9.4	(14.1)	3.8	(19.7)	46.8	39.8	7.1
Core PATANCI Growth	(61.0)	72.7	(426.6)	365.6	(133.6)	24.7	(49.3)	74.0
Operating Profit Margin	4.7	11.1	(0.2)	4.9	(6.3)	8.2	5.0	3.1
Core PATANCI Margin	1.8	4.2	(2.3)	4.1	(2.4)	2.9	0.7	2.3
Net debt/total equity (%)	19.7	15.7	52.2	(32.6)	4.0	19.7	52.2	(32.6)
Net debt/total asset (%)	6.3	4.9	15.1	(8.8)	1.5	6.3	15.1	(8.8)
Inventories (Days)	230.6	217.3	285.0	(54.5)	13.3	76.4	85.7	(9.3)
Segmental Breakdown								
Revenue (External):								
Retailing	826.2	938.3	632.9	30.5	(11.9)	2,621.9	2,244.9	16.8
Property Management Services	155.8	157.2	117.7	32.4	(0.9)	457.4	393.4	16.3
Total	**982.0**	**1,095.5**	**750.6**	**30.8**	**(10.4)**	**3,079.3**	**2,638.3**	**16.7**
Operating Profit:								
Retailing	29.5	79.7	(22.3)	(232.0)	(63.0)	170.2	41.4	311.5
Property Management Services	57.7	54.1	38.5	49.8	6.7	166.6	137.2	*21.4*
Total	**87.2**	**133.8**	**16.2**	**438.8**	**(34.8)**	**336.8**	**178.6**	**88.6**
Operating profit margin (%):								
Retailing	3.6	8.5	(3.5)	7.1	(4.9)	6.5	1.8	4.6
Property Management Services	37.0	34.4	32.7	4.3	2.6	36.4	34.9	1.5
Total	**8.9**	**12.2**	**2.2**	**6.7**	**(3.3)**	**10.9**	**6.8**	**4.2**

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