Briefing Note | Friday, 25 November 2022

Aeon Co. (M) Berhad

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

***Maintain* BUY**

Strong occupancy rate for PMS division

***Unchanged* Target Price: RM1.81**

KEY INVESTMENT HIGHLIGHTS

- **Lower average basket size (ABS) for retail business division**
- **Malay-focused stores continue to generate positive momentum in 3QFY22**
- **Strong occupancy rate and greater variable income composition for the property management services (PMS) division**
- **Updates on rejuvenation program**
- **Maintain BUY with an unchanged TP of RM1.81**

Virtual briefing with Aeon Co (M). We attended Aeon Co (M) briefing for 9MFY22 results and we remain optimistic about the company's outlook. The key takeaways are as follows:

Revenue and production cost ahead. Management expects slightly higher store operation costs in 4QFY22, primarily due to business partners passing on the impact of the minimum wage increase. Meanwhile, management expects revenue growth of circa. 4-5% in FY23, which is consistent with the national GDP growth rate.

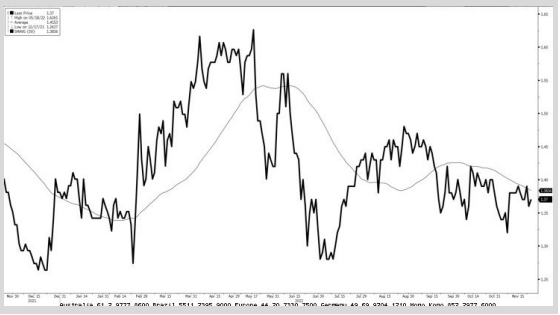
Lower average basket size (ABS) for retail business division. In 3QFY22, ABS declined to RM70.40 from RM74.30 in 2QFY22 but remained above the pre-pandemic level of RM53.50 (3QFY19). Moving forward, ABS is expected to remain stable at around RM70 in 4QFY22, backed by resumption of consumer activity in physical malls following reopening of economy.

Malay-focused stores continue to generate positive momentum in 3QFY22. We gather that since the group's focus on customization of store personas, sales for the Malay-focused stores rose by 10% in 3QFY22 compared to 1QFY19.As a result, sales contribution increases from 15% in 9MFY19 to 18% in 9MFY22. Malay-focused stores also recorded a higher operating profit margin at +5.3%, compared to operating profit margin of +0.6% in 9MFY21 and operating loss of -0.4% in 9MFY19.

Greater sales contribution from Southern region stores ahead. The group categorized retail sales into three regions: central, northern, and southern. Northern store sales contribution increases to 20% as of 9MFY22, up from 18% in 9MFY19. Southern store contributed nearly 17-18% of total retail sales, slightly below the pre-pandemic level of 19%. This is mainly due to international border was only reopened in April 2022. Moving forward, management expects southern store sales contribution at circa. 20% by end of FY22 backed by reopening of international border.

RETURN STATISTICS	
Price @ 24th November 2022 (RM)	1.37
Expected share price return (%)	+32.40
Expected dividend yield (%)	+3.90
Expected total return (%)	**+36.30**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-1.4	-5.0
3 months	0.0	-5.7
12 months	-4.2	-2.8

KEY STATISTICS	
FBM KLCI	1,501.88
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)	1,923.48
52-wk price range	RM1.26 - RM1.69
Beta vs FBM KLCI (x)	0.79
3-mth average daily volume (m)	0.81
3-mth average daily value (RM'm)	1.12
Top Shareholders (%)	
AEON Co. Ltd	51.68
EPF	10.55
Amanah Saham Nasional Berhad	4.90

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Strong occupancy rate for the property management services (PMS) division. In 3QFY22, the group reported an occupancy rate of 90.3% for PMS division, up from 86.7% in 2QFY22. This is also higher than pre-pandemic level of 84.4% (3QFY19). Moving forward, management anticipates that occupancy rate will remain high at 90-92%, with 8-10% of the total net lettable area reserved for lifestyle-related activities. This is consistent with the group's objective of creating more lifestyle environment in the mall, which is part of AEON's living zone strategy.

Greater variable income composition received from PMS division. Note that rental collected for PMS divisions is a mix of fixed and variable income. The variable income composition rose to 43% in 9MFY22, up from 31% in 9MFY21. Greater variable income was backed by higher sales commission due to higher tenant sales (+87%yoy). Aeon has renewed up to 70% of the lease agreement as of 9MFY22, with a rental reversion of 1-3%.

More development for the in-house private brand. Presently, private brand accounts for 5-10% of the overall product portfolio, with TopValu and Inner casual products continue to contribute positively. Moving forward, the group will expand its in-house brand offerings for general merchandise stores (GMS), including TopValu, Inner casual, and home Coordy. This will be tailored based on persona, with each store offering a unique variety and brand.

Updates on rejuvenation program. As of 9MFY22, the group completed installation of self-checkout terminals in all stores which reduce cashier lane wait time and personnel costs. As part of its value-added strategy, the group completed the renovation of Aeon alpha angle, one of three malls slated for rejuvenation. Meanwhile, the remaining two malls, which were originally planned for the southern and central regions, have been postponed until 2023 due to a supply constraint in certain contractors to commence construction. In addition, the group intends to soft launch AEON store at Phase 2 of IOI City Mall Putrajaya by end of December 2022. The capital expenditure budgeted for FY22 remains at RM200m. Moving ahead, the firm estimates RM200-300m in capital investment for FY23F-25F.

Maintain BUY with an unchanged TP of RM1.81. 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 about AEON 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

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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.
HOLD	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