Aeon Co. (M) Berhad

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

***Maintain* BUY**

Returning of crowds to mall

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

KEY INVESTMENT HIGHLIGHTS

- **FY22 earnings above expectations**
- **Strong 4QFY22's sales**
- **Robust spending post-economy reopening**
- **Reiterate BUY with an unchanged TP of RM1.81**

RETURN STATISTICS	
Price @ 22nd February 2023 (RM)	1.36
Expected share price return (%)	+32.4
Expected dividend yield (%)	+3.4
Expected total return (%)	**+35.8**

12MFY22 earnings above expectations. Aeon Co. (M) Bhd ("Aeon") recorded a core PATANCI of RM139.3m for FY22, after excluding one-time off item of RM28.1m. This exceeded both our projection and the consensus', which represented 107.5% of our full-year estimate and 111.3% of the street's. The earnings surprise could be attributed to the lower-than-anticipated input costs for maintenance and promotion expenses. The group proposed a final single-tier dividend of 4.0sen/share, subject to shareholder approval at the upcoming AGM.

Strong 4QFY22's sales. Aeon' 4QFY22 revenue grew 8.1%qoq to RM1.06b due to stronger consumer spending for holiday and year-end celebrations. During the quarter, operating profit margin grew by +2.1ppt yoy to 6.8% mainly on lower operating costs and higher sales. As such, core PATANCI increased from RM18m in 3QFY22 to RM48.5m in 4QFY22. On yearly basis, 4QFY22 revenue increased by +7%yoy to RM1.06b mainly attributed to better turnover from retail and property management services ("PMS") divisions after the reopening of economy and borders. However, the improved revenue was offset by higher promotional activities and maintenance expenditures, which led to a reduction in core PATANCI from RM78.2m in 4QFY21 to RM48.5m in 4QFY22.

Robust spending post-economy reopening. The group's revenue increased to RM4.1b in 12MFY22 from RM3.6b in 12MFY21. This was mostly driven by greater sales from retail and PMS divisions, in line with favourable consumer sentiment on visiting physical malls again following reopening of the economy and borders. The higher revenue helped to sustain a +45%yoy growth in core PATANCI to RM139.3m in 12MFY22, more than compensating the increase in operating costs.

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	2.2	4.8
3 months	0.0	-3.0
12 months	5.4	13.5

KEY STATISTICS	
FBM KLCI	1,464.00
Syariah compliant	Yes
F4BGM Index	No
ESG Grading Band (Star rating)	☆☆
Issue shares (m)	1404.00
Estimated free float (%)	21.46
Market Capitalisation (RM'm)	1,923.48
52-wk price range	RM1.26 - RM1.69
Beta vs FBM KLCI (x)	0.70
3-mth average daily volume (m)	0.80
3-mth average daily value (RM'm)	1.10
Top Shareholders (%)	
AEON Co. Ltd	51.68
EPF	11.07
Amanah Saham Nasional Berhad	4.90

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Reiterate BUY with an unchanged TP of RM1.81. We make no changes to our forecast pending analyst briefing. 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 are upbeat about AEON's FY23 outlook underpinned by its: (1) initiative in expanding various in-house private brand and labels at a competitive price, which can help drive the sales volume in an inflationary environment; and (2) effective cost efficiencies and operational productivity. Besides, we are optimistic that the group will benefit from the increasing tourist traffic, particularly from China for out-of-home-consumption. Aeon is currently trading at a compelling FY23F PER of 13.3x vs. its 5-year average mean PER of 23x, while offering a dividend yield of 3.4% in FY22F.

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)	2021A	2022A	2023E	2024E	2025E
Revenue	3,630.4	4,141.1	4,298.3	4,431.0	4,625.2
Net Purchases	(2,159.7)	(2,891.2)	(2,699.1)	(2,740.7)	(2,803.6)
Gross Profit	**1,470.7**	**1,249.9**	**1,599.2**	**1,690.3**	**1,821.6**
Changes in inventories	(22.5)	(77.1)	(24.8)	10.7	16.2
Other operating income	21.3	36.9	10.0	10.3	10.7
Operating expenses	(421.4)	(424.0)	(495.1)	(506.4)	(525.9)
EBIT	**260.9**	**323.1**	**393.8**	**431.3**	**501.7**
Profit After tax (PAT)	**85.3**	**111.2**	**145.6**	**167.0**	**206.2**
Core PATANCI	**101.6**	**139.3**	**145.6**	**167.0**	**206.2**
Basic EPS (sen)	6.1	7.9	10.4	11.9	14.7
DPS (sen)	3.0	4.0	5.2	5.9	7.3
Growth & Valuation (%)					
Revenue Growth (%)	(10.4)	14.1	3.8	3.1	4.4
Gross Profit Growth (%)	(13.7)	(15.0)	18.9	5.7	7.8
Core PATANCI Growth (%)	103.3	37.2	12.3	14.7	23.4
Gross Profit Margin (%)	40.5	30.2	37.2	38.1	39.4
Core PATANCI Margin (%)	2.8	3.4	3.4	3.8	4.5
Ratios & Valuation					
Effective tax rate (%)	34.9	47.4	45.0	45.2	45.5
Dividend Yield (%)	2.2	2.9	3.8	4.3	5.3
PER (x)	22.6	17.3	13.3	11.6	9.4
Cash/share (sen)	13.8	16.9	16.8	17.4	18.1
Net debt/total equity (%)	30.7	14.4	25.5	23.2	20.8
EV/EBITDA (x)	3.4	2.9	3.6	3.1	2.7

Source: Company, MIDFR

Table 1: AEON's 4QFY22 earnings review

FYE DEC (RM'm)	Quarterly results					Cumulatively results		
	4QFY22	3QFY22	4QFY21	YoY (%)	QoQ (%)	FY22	FY21	YoY (%)
Revenue	1,061.8	982.0	992.1	7.0	8.1	4,141.1	3,630.4	14.1
Total operating expenses	(1,005.7)	(943.7)	(870.1)	15.6	6.6	(3,854.9)	(3,390.7)	13.7
Other operating income	15.9	8.1	6.7	136.4	96.3	36.9	21.3	73.5
Operating profit (EBIT)	**72.0**	**46.4**	**128.7**	**(44.1)**	**55.2**	**323.1**	**260.9**	**23.8**
Net finance income/(cost)	(26.4)	(27.7)	(33.8)	(22.0)	(4.7)	(111.7)	(129.3)	(13.6)
Profit before tax (PBT)	**45.6**	**18.7**	**95.2**	**(52.1)**	**143.9**	**211.4**	**131.6**	**60.6**
Income tax expense	(20.7)	(7.8)	(23.6)	(12.4)	165.4	(100.2)	(45.8)	118.9
Profit After tax (PAT)	**24.9**	**10.9**	**71.6**	**(65.2)**	**128.4**	**111.2**	**85.9**	**29.5**
PATANCI	24.9	10.9	71.6	(65.2)	128.4	111.2	85.9	29.5
Core PATANCI	**48.5**	**18.0**	**78.2**	**(38.0)**	**169.4**	**139.3**	**96.1**	**45.0**
Basic EPS (sen)	1.8	0.8	5.1	(65.0)	126.9	7.9	6.1	30.3
DPS (sen)	4.0	0.0	3.0	33.3	n.m.	4.0	3.0	33.3
Growth & Margin (%)				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Revenue Growth	8.1	(10.4)	32.2	(24.1)	18.5	34.5	37.6	(3.1)
Operating Profit Growth	55.2	(61.7)	(10,766.3)	10,821.5	116.9	28.7	97.4	(68.7)
Core PATANCI Growth	169.4	(61.0)	(550.0)	719.5	230.4	53.4	437.3	(383.9)
Operating Profit Margin	6.8	4.7	13.0	(6.2)	2.1	7.8	7.2	0.6
PBT Margin	4.3	1.9	9.6	(5.3)	2.4	5.1	3.6	1.5
Core PATANCI Margin	4.6	1.8	7.9	(3.3)	2.7	3.4	2.6	0.7
Ratios & Valuation				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Effective tax rate (%)	45.4	41.7	24.8	20.6	3.7	47.4	34.8	12.6
Inventories (Days)	219.8	230.6	252.2	(12.9)	(4.7)	57.3	64.7	(11.4)
Account receivables (Days)	32.2	41.0	48.2	(33.2)	(21.6)	8.2	13.2	(37.3)
Account payable (Days)	440.6	462.3	489.0	(9.9)	(4.7)	114.9	125.5	(8.4)

Source: Company, MIDFR

AEON CO.: 4QFY22 SEGMENTAL BREAKDOWN

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	4QFY22	3QFY22	4QFY21	YoY (%)	QoQ (%)	FY22	FY21	YoY (%)
Revenue (External):								
Retailing	903.7	826.2	854.2	5.8	9.4	3,525.6	3,099.1	13.8
Property Management Services	158.1	155.8	137.9	14.7	1.5	615.5	531.3	15.9
Total	**1,061.8**	**982.0**	**992.1**	**7.0**	**8.1**	**4,141.1**	**3,630.4**	**14.1**
Operating Profit:								
Retailing	54.0	29.5	88.3	(38.8)	83.1	224.2	129.7	72.9
Property Management Services	52.2	57.7	62.4	(16.3)	(9.5)	218.8	199.6	9.6
Total	**106.2**	**87.2**	**150.7**	**(29.5)**	**21.8**	**443.0**	**329.2**	**34.6**
Operating profit margin (%):				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Retailing	6.0	3.6	10.3	(4.4)	2.4	6.4	4.2	52.0
Property Management Services	33.0	37.0	45.2	(12.2)	(4.0)	35.5	37.6	(5.4)
Total	**10.0**	**8.9**	**15.2**	**(5.2)**	**1.1**	**10.7**	**9.1**	**18.0**

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.
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