Briefing Note | Friday, 24 February 2023

Aeon Co. (M) Berhad

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

***Maintain* BUY**

More stores ahead

***Revised* Target Price: RM1.90**

(Previously RM1.81)

KEY INVESTMENT HIGHLIGHTS

- **Virtual briefing with Aeon Co. (M)**
- **Lower borrowings and lease liabilities in FY22**
- **Higher sales and operating profit in the retail division**
- **Stronger occupancy rate and tenant sales in the Property management services ("PMS") division**
- **Revised earnings projection for FY23F-24F and introduce FY25F**
- **Maintain BUY with a higher TP of RM1.90 (from RM1.81)**

Virtual briefing with Aeon Co. (M). We attended Aeon Co (M) results briefing and remained upbeat on FY23 outlook for the company. The key takeaways from briefing are as follows: -

Lower borrowings and lease liabilities in FY22. The reduction in total borrowings from RM728.3m in FY21 to RM497.8m in FY22 was primarily due to the settlement of an RM175m Sukuk in February 2022. Furthermore, the scheduled lease payment reduced total lease liabilities from RM2.6b in FY21 to RM1.8b in FY22.

Higher sales and operating profit in the Retail division:

Increased demand for out-of-home consumption. The Foodline categories' revenue contribution fell from 59.1% in FY21 to 51.2%, mostly due to a shift in consumer spending from spending at grocery stores to out-of-home consumption and ready-to-go meals following the reopening of economy. Moving forward, the group will continue to focus on expanding ready-to-go meals to complement the total Foodline categories. Note that ready-to-go meals recorded a robust double-digit growth in FY22.

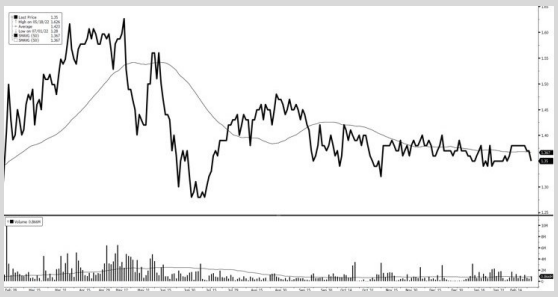
Slightly lower average basket size ("ABS"). The ABS for FY22 decreased to RM68.8/basket from RM73.9/basket in FY21. However, this was better than FY19 of RM53.5/basket. Looking ahead, management anticipates that the ABS will remain constant in FY23 at RM65-70/basket.

Higher profitability from Malay-targeted stores. Revenue contribution from Malay-targeted stores stabilized at 17% in FY22 as compared to 15% in FY19. Meanwhile, operating margin for the stores rose to 5% in FY22 as compared to 3% in FY21 and 1% in FY19.

Stronger retail sales in all three regions following the relaxation of movement restrictions. The southern region recorded the greatest growth of +40%yoy after the re-opening of Malaysia-Singapore International borders.

RETURN STATISTICS	
Price @ 23rd February 2023 (RM)	1.37
Expected share price return (%)	+38.5
Expected dividend yield (%)	+3.9
Expected total return (%)	**+42.42**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.7	3.4
3 months	-1.5	-2.0
12 months	-1.5	7.0

KEY STATISTICS	
FBM KLCI	1,457.65
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)	1,895.40
52-wk price range	RM1.26 - RM1.69
Beta vs FBM KLCI (x)	0.70
3-mth average daily volume (m)	0.81
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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Stronger occupancy rate and tenant sales in the Property management services ("PMS") division:

Stronger occupancy rate in FY22. The occupancy rate for the mall grew by +3.1ppt yoy to 91.4% in FY22. This was higher than the pre-pandemic level of 90% in FY19. Moving forward, the group is targeting an occupancy rate of 93%-95% in FY23F.

Lower operating profit. Aeon's operating profit margin decreased slightly from 35.6% in FY21 to 35.5% in FY22. This was mainly due to the higher energy (increased natural gas tariff) and maintenance costs (resumption of maintenance activities post-pandemic). Going forward, the group expect margin to stay at about 35–36% in FY23F.

Higher tenant sales. Recall that the rental collected for the PMS division is a mix of fixed and variable income. The income contributed by the variable portion increased from 35% in FY21 to 43% in FY22. This was primarily due to higher sales commissions and tenant sales. In FY22, tenant sales increased by +78%yoy, primarily due to a larger contribution from accessories and specialty shops. Looking forward, the group anticipates reviewing rental of certain tenant in FY23F and projects that 42–45% of PMS's overall income will contribute by the variable component while the remaining 55-58% contributed by fixed components.

More initiatives

More installation of solar PV panels in FY23. In FY22, Aeon completed installation of 2 solar PV panels in AEON Taman Maluri and Aeon Alpha Angle. Moving forward, the group targets to install solar PV panels in all AEON malls in FY23 as an initiative to reduce electricity consumption in response to rising natural gas prices, which raise the cost of energy. Note that the energy cost amounted to 5-6% of the total operating expenditure in FY22.

More projects. The group expects to launch AEON departmental store at IOI Putrajaya in early March 2023. Besides, Aeon targets to revitalize two ageing malls in FY23, one in the Central region and the other in the Southern region, starting in March 2023. The group also anticipates launching a new private brand – Glam Boutique in 1HFY23. Overall, the group projects RM200-300m in capital expenditure ("CAPEX") in FY23F.

Revised earnings projection for FY23F-24F and introduce FY25F. Post analyst briefing, we tweak our earnings forecast for FY23F by +2.4% and FY24F by +4.3%. This is after accounting for higher retail sales, tenant sales, and occupancy rate, which more than offset the increased energy costs.

Maintain BUY with a higher TP of RM1.90 (from RM1.81). Our target price of **RM1.90** is based on a revised PER valuation of 18x (which is its 2-year historical pre-pandemic mean) that is pegged to Aeon Co's FY23F EPS of 10.6sen. Aeon is our top pick for the sector. We are positive about AEON's FY23 outlook underpinned by its: (1) initiative in expanding various in-house private brands 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 12.7x, below its 2-year historical pre-pandemic mean PER of 18x, while offering a dividend yield of 3.9% in FY23F.

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	4,380.1	4,656.2	4,935.4
Net Purchases	(2,159.7)	(2,891.2)	(2,819.5)	(2,952.3)	(3,082.4)
Gross Profit	**1,470.7**	**1,249.9**	**1,560.6**	**1,703.9**	**1,853.0**
Changes in inventories	(22.5)	(77.1)	(17.1)	27.7	27.1
Other operating income	21.3	36.9	39.8	43.2	46.7
Staff costs	(328.1)	(462.6)	(486.8)	(516.5)	(546.4)
Operating expenses	(421.4)	(424.0)	(439.5)	(478.9)	(525.4)
EBITDA	**720.0**	**759.9**	**656.9**	**779.4**	**855.1**
EBIT	**260.9**	**323.1**	**393.9**	**439.1**	**481.3**
Profit before tax (PBT)	131.0	211.4	283.3	331.1	375.8
Profit After tax (PAT)	**85.3**	**111.2**	**149.0**	**174.2**	**197.7**
CORE PAT	101.6	139.3	149.0	174.2	197.7
Core PATANCI	**101.6**	**139.3**	**149.0**	**174.2**	**197.7**
Basic EPS (sen)	6.1	7.9	10.6	12.4	14.1
DPS (sen)	3.0	4.0	5.3	6.2	7.0
Growth & Margin					
Revenue Growth (%)	(10.4)	14.1	5.8	6.3	6.0
Gross Profit Growth (%)	(13.7)	(15.0)	24.9	9.2	8.8
Core PATANCI Growth (%)	103.3	37.2	7.0	16.9	13.5
Gross Profit Margin (%)	40.5	30.2	35.6	36.6	37.5
Core PATANCI Margin (%)	2.8	3.4	3.4	3.7	4.0
Ratios & Valuation					
Effective tax rate (%)	34.9	47.4	47.4	47.4	47.4
Dividend Yield (%)	2.2	3.0	3.9	4.6	5.2
PER (x)	22.2	17.0	12.7	10.9	9.6
Cash/share (sen)	13.8	16.9	17.2	18.2	19.3
Net debt/total equity (%)	30.7	14.4	13.1	11.3	9.5
EV/EBITDA (x)	3.4	2.8	3.3	2.7	2.4

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