# Aeon Co. (M) Berhad

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

**Maintain BUY**

## Land Acquisition in Kota Bahru

***Unchanged* Target Price: RM1.90**

## KEY INVESTMENT HIGHLIGHTS

- **Land acquisition**
- **Expanding retail business portfolio**
- **Healthy balance sheet**
- **Maintain BUY with an unchanged TP of RM1.90**

| RETURN STATISTICS | |
|---|---|
| Price @ 20th April 2023 (RM) | 1.25 |
| Expected share price return (%) | +51.90 |
| Expected dividend yield (%) | 4.20 |
| **Expected total return (%)** | **+56.13** |

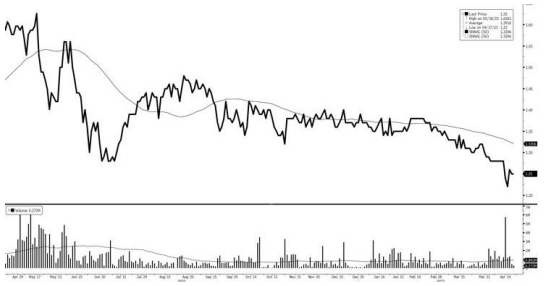
**Land acquisition.** Aeon Co. ("Aeon") entered into a conditional Sale and Purchase Agreement ("S&P") with Liziz Standaco Sdn. Bhd to acquire 8.691 hectares of commercial land in Bandar Kota Bahru, Negeri Kelantan. The total purchase consideration is RM165m, and the deal is expected to be completed by 3QCY23.

**Expanding retail business portfolio.** We are optimistic on the land acquisition as it gives higher stability to Aeon's operation of AEON Mall Kota Bharu. Note that Aeon is now leasing the site to operate AEON Mall Kota Bharu. With the land acquisition, Aeon would have control over the property without worry of lease expirations or rental hikes that would affect operation of AEON Mall Kota Bharu. Besides, the land acquisition could potentially result in long-term cost savings given that the group would no longer have to pay rent to a third-party landlord. Also, the acquisition is part of the company's corporate strategy to concentrate on and grow its future retail operation.

**Healthy balance sheet.** The group intends to use internally generated funds to fund the acquisition. Given that Aeon has strong cash and cash equivalents of RM237.5m as of FY22 and a low net gearing ratio of 0.1x, we believe that funding is not an issue to Aeon. Post-completion of the acquisition, we expect net gearing ratio to remain healthy at 0.2x, below its 0.4x 5-year historical norm.

**Maintain BUY with an unchanged TP of RM1.90**. We maintain our earnings projections pending completion of the land acquisition. Our TP is based on an unchanged PER of 18x (which is its 2-year historical pre-pandemic mean) that is pegged to its FY23F EPS of 10.6sen. We are **positive** about AEON's FY23 outlook underpinned by its: (1) initiative to develop a variety of in-house private brands and labels at a reasonable price that are attractive to the B40 to M40 income group; and (2) efficient cost-saving measures that may support the margin. Besides, we are optimistic that the group will benefit from out-of-home consumption on the back of the increasing tourist traffic post-reopening. Aeon is currently trading at a compelling FY23F PER of 11.8x, below its 2-year historical pre-pandemic mean PER of 18x.

**SHARE PRICE CHART**



| Price performance (%) | Absolute | Relative |
|---|---|---|
| 1 month | -4.6 | -5.6 |
| 3 months | -3.8 | -1.6 |
| 12 months | -22.8 | -13.3 |

**INVESTMENT STATISTICS**

| FYE Mar | 2023F | 2024F | 2025F |
|---|---|---|---|
| Revenue | 4,380.5 | 4,657.3 | 4,936.9 |
| EBITDA | 794.1 | 826.6 | 907.7 |
| Profit before tax (PBT) | 284.1 | 332.0 | 376.7 |
| Core PATANCI | 149.1 | 174.2 | 197.7 |
| Core EPS (sen) | 10.6 | 12.4 | 14.1 |
| DPS (sen) | 5.3 | 6.2 | 7.0 |
| Dividend Yield (%) | 4.2 | 5.0 | 5.6 |

| KEY STATISTICS | |
|---|---|
| FBM KLCI | 1,422.11 |
| Issue shares (m) | 1,404.0 |
| Estimated free float (%) | 21.42 |
| Market Capitalisation (RM'm) | 1,755.0 |
| 52-wk price range | RM1.2 – RM1.7 |
| 3-mth average daily volume (m) | 0.89 |
| 3-mth average daily value (RM'm) | 1.17 |
| Top Shareholders (%) | |
| AEON Co. Ltd | 51.68 |
| EPF | 11.11 |
| Amanah Saham Nasional Bhd | 4.90 |

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## FINANCIAL SUMMARY

| Income Statement (RM'm) | 2021A | 2022A | 2023E | 2024F | 2025F |
|---|---|---|---|---|---|
| **Revenue** | **3,630.4** | **4,141.1** | **3,854.6** | **4,097.4** | **4,342.6** |
| Net Purchases | (2,159.7) | (2,424.9) | (2,081.0) | (2,178.9) | (2,274.7) |
| **Gross Profit** | **1,470.7** | **1,716.2** | **1,773.5** | **1,918.4** | **2,067.9** |
| Changes in inventories | (22.5) | 4.3 | (87.7) | 24.4 | 23.8 |
| Other operating income | 21.3 | 36.8 | 35.0 | 37.9 | 41.0 |
| Staff costs | (328.1) | (389.6) | (360.8) | (382.7) | (404.8) |
| Operating expenses | (421.4) | (605.4) | (552.3) | (601.8) | (660.1) |
| **EBITDA** | **720.0** | **762.4** | **807.8** | **996.2** | **1,067.8** |
| **EBIT** | **260.9** | **323.1** | **446.3** | **651.5** | **691.0** |
| Profit before tax (PBT) | 131.0 | 211.5 | 335.2 | 543.0 | 584.9 |
| **Profit After Tax (PAT)** | **85.3** | **111.2** | **176.3** | **285.6** | **307.7** |
| **Core PATANCI** | **101.6** | **131.3** | **176.3** | **285.6** | **307.7** |
| Basic EPS (sen) | 6.1 | 7.9 | 12.6 | 20.3 | 21.9 |
| DPS (sen) | 3.0 | 4.0 | 6.3 | 10.2 | 11.0 |

| Balance Sheet (RM'm) | 2021A | 2022A | 2023E | 2024F | 2025F |
|---|---|---|---|---|---|
| Property, plant and equipment | 3,108.2 | 2,951.7 | 2,917.0 | 2,827.1 | 2,721.5 |
| Intangible assets | 63.0 | 51.8 | 51.8 | 51.8 | 51.8 |
| **Total Non-current assets** | **4,922.7** | **4,472.6** | **4,464.8** | **4,381.0** | **4,280.0** |
| Inventories | 601.2 | 605.5 | 517.8 | 542.1 | 566.0 |
| ST - Trade and other receivables | 130.9 | 93.6 | 104.5 | 111.0 | 117.7 |
| Cash and cash equivalents | 193.6 | 237.5 | 212.0 | 225.4 | 238.8 |
| **Total current assets** | **940.1** | **953.7** | **850.2** | **895.5** | **940.5** |
| **Total Assets** | **5,862.8** | **5,426.3** | **5,315.0** | **5,276.6** | **5,220.5** |
| **Total Equity** | **1,742.7** | **1,807.0** | **1,837.8** | **1,980.6** | **2,134.4** |
| LT Loans and borrowings | 327.8 | 50.0 | 49.0 | 48.0 | 47.1 |
| **Total Non-current liabilities** | **2,258.6** | **1,699.2** | **1,635.2** | **1,588.6** | **1,543.6** |
| ST Trade and other payables | 1,165.6 | 1,214.0 | 1,035.1 | 1,083.8 | 1,131.4 |
| ST Loans and borrowings | 400.6 | 447.8 | 438.8 | 430.0 | 421.4 |
| **Total Current Liabilities** | **1,861.4** | **1,920.1** | **1,842.1** | **1,707.3** | **1,542.5** |
| **Total Liabilities** | **4,120.1** | **3,619.3** | **3,477.2** | **3,296.0** | **3,086.1** |

| Cash Flow (RM'm) | 2021A | 2022A | 2023E | 2024F | 2025F |
|---|---|---|---|---|---|
| Pretax profit | 131.0 | 211.5 | 335.2 | 543.0 | 584.9 |
| Cash flow from operations | 698.9 | 704.7 | 434.5 | 455.7 | 482.5 |
| Cash flow from investing | (62.7) | (111.9) | (315.3) | (241.8) | (256.2) |
| Cash flow from financing | (514.0) | (548.9) | (144.6) | (200.6) | (212.7) |
| **Net cash flow** | **122.2** | **43.9** | **(25.5)** | **13.4** | **13.5** |
| (+/-) Adjustments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Net cash/(debt) b/f** | **71.4** | **193.6** | **237.5** | **212.0** | **225.4** |
| **Net cash/(debt) c/f** | **193.6** | **237.5** | **212.0** | **225.4** | **238.8** |

| Key Metrics | 2021A | 2022A | 2023E | 2024F | 2025F |
|---|---|---|---|---|---|
| Effective tax rate (%) | 34.9 | 47.4 | 47.5 | 47.5 | 47.5 |
| Dividend Yield (%) | 2.4 | 3.2 | 4.2 | 5.0 | 5.6 |
| PER (x) | 20.6 | 15.8 | 11.8 | 10.1 | 8.9 |
| Cash/Market Capitalisation (sen) | 10.7 | 13.1 | 11.7 | 12.4 | 13.2 |
| Cash/share (sen) | 13.8 | 16.9 | 15.1 | 16.1 | 17.0 |

| Profitability Margins | 2021A | 2022A | 2023E | 2024F | 2025F |
|---|---|---|---|---|---|
| Gross Profit Margin (%) | 40.5 | 41.4 | 46.0 | 46.8 | 47.6 |
| EBITDA Margin (%) | 19.8 | 18.4 | 21.0 | 24.3 | 24.6 |
| Core PATANCI Margin (%) | 2.8 | 3.2 | 4.6 | 7.0 | 7.1 |

*Source: Bloomberg, 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