Aeon Co. (M) Berhad

(6599 | Aeon MK) Main | Consumer Products & Services | Retailers

***Maintain* BUY**

Signed agreement with TNB to install solar PV system

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

DEVELOPMENT

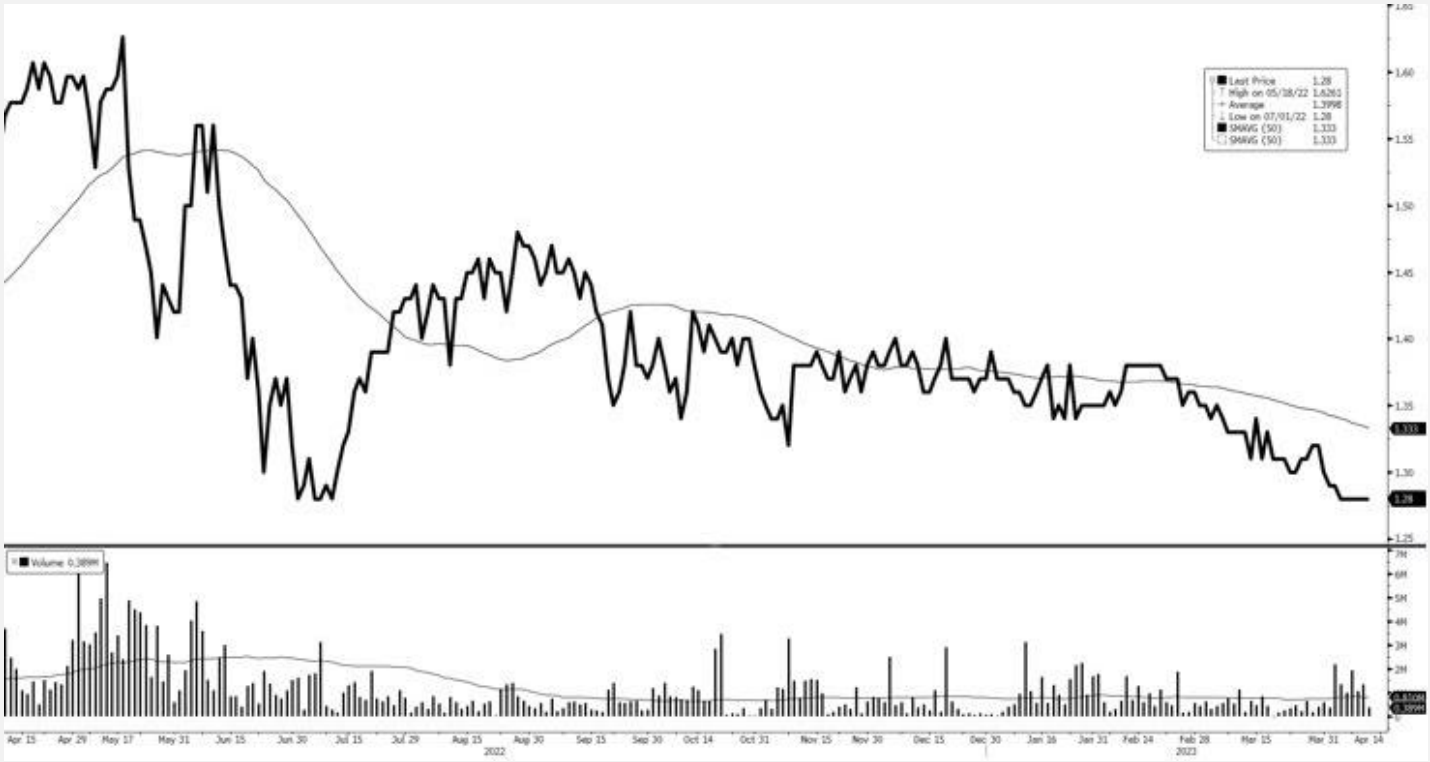
- Aeon Co (M) signed an agreement with GSPARX Sdn Bhd — a wholly owned subsidiary of Tenaga Nasional Berhad ("TNB") for the installation of solar PV system. Under the agreement GSPARX will install and maintain a 77,000-kWP PV system at AEON Malls and AEON BIG nationwide for 25 years.

- The first phase of the solar PV installation will be carried out at 11 AEON malls this year. Recall that the first installation was completed in October 2022 at the Alpha Angle Mall in Wangsa Maju, which featured 1,513 kWP of solar PV on the rooftop and a ground-level open-air parking lot. Note that Aeon has 28 malls as of FY21.

OUR VIEW

- We are positive on the announcement as the successful installation of the solar PV system could reduce electricity usage by about 30%, which lowers the input costs and improve the margin. Note that the energy cost amounted to 5-6% of the total operating expenditure in FY22.
- Based on our channel check, the agreement falls under TNB's Self-consumption model ("SELCO"), with the initiative to generate electricity from the solar PV System to offset or lower the electricity bills. Under the SELCO model, users will be able to use all electricity produced by solar panels, but any surplus cannot enter the utility network. This is often useful for buildings like shopping malls with constant daily electricity usage.
- The solar PV system installation cost under the agreement is zero-capex, as GSPARX owns the solar PV system, hence Aeon incurs no costs for installing and maintaining these solar panels. We learn that TNB will cover the cost of installation (RM3-4m) as part of its social responsibility to the environment and initiatives to motivate its customers to participate in its renewable energy programmes to meet the net zero target by 2050. As such, AEON just needs to pay the monthly solar energy rate.
- We make no revisions to our earnings forecast for FY23F-25F as management had previously highlighted its FY23 target to install solar PV systems in all AEON malls during analyst briefing.
- Maintain **BUY** with an unchanged Target Price of **RM1.90**. Our target price of RM1.90 is based on an unchanged 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 consumer sector. We are optimistic about AEON's FY23 outlook, which is supported by: (1) its initiative to expand a wide range of in-house private brands and labels at a competitive price, which can help boost sales; and (2) effective cost efficiencies to maintain the profit margin. Besides, we are optimistic that the group will benefit from the increasing out-of-home activities following the reopening of borders and the economy.
- Aeon is currently trading at a compelling FY23F PER of 12.9x, below its 2-year historical pre-pandemic mean PER of 18x, while offering a dividend yield of 3.9% in FY23F.

SHARE PRICE CHART



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FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023F	2024F	2025F
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 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

Balance Sheet (RM'm)	2021A	2022A	2023F	2024F	2025F
Property,plant and equipment	3,108.2	2,951.7	2,791.2	2,713.4	2,618.9
Intangible assets	63.0	51.8	51.8	51.8	51.8
Total Non-current assets	**4,922.7**	**4,472.5**	**4,343.5**	**4,299.8**	**4,239.5**
Inventories	601.2	605.5	588.4	616.1	643.2
ST - Trade and other receivables	130.9	93.6	118.7	126.2	133.8
Cash and cash equivalents	193.6	237.5	240.9	256.1	271.4
Total current assets	**940.1**	**953.8**	**966.2**	**1,017.7**	**1,069.0**
Total Assets	**5,862.8**	**5,426.3**	**5,309.6**	**5,317.5**	**5,308.5**
Total Equity	**1,742.7**	**1,807.0**	**1,881.5**	**1,968.6**	**2,067.5**
LT Loans and borrowings	327.8	50.0	49.0	48.0	47.1
Total Non-current liabilities	**2,258.6**	**1,699.3**	**1,638.2**	**1,591.9**	**1,547.0**
ST Trade and other payables	1,165.6	1,214.0	1,176.3	1,231.7	1,285.9
ST Loans and borrowings	400.6	447.8	438.8	430.1	421.5
Total Current Liabilities	**1,861.4**	**1,920.0**	**1,789.9**	**1,757.0**	**1,694.1**
Total Liabilities	**4,120.1**	**3,619.3**	**3,428.1**	**3,348.9**	**3,241.0**

Cash Flow (RM'm)	2021A	2022A	2023F	2024F	2025F
Pretax profit	131.0	211.4	283.3	331.1	375.8
Cash flow from operations	698.9	704.7	305.3	434.9	464.4
Cash flow from investing	(62.7)	(111.9)	(170.9)	(274.8)	(291.2)
Cash flow from financing	(514.0)	(548.9)	(131.0)	(144.9)	(157.8)
Net cash flow	**122.2**	**43.9**	**3.4**	**15.2**	**15.4**
(+/-) Adjustments	0.0	0.0	0.0	0.0	0.0
Net cash/(debt) buff	**71.4**	**193.6**	**237.5**	**240.9**	**256.1**
Net cash/(debt) c/f	**193.6**	**237.5**	**240.9**	**256.1**	**271.4**

Key Metrics	2021A	2022A	2023F	2024F	2025F
Effective tax rate (%)	34.9	47.4	47.4	47.4	47.4
Dividend Yield (%)	2.3	3.1	4.1	4.8	5.5
PER (x)	21.3	16.3	12.2	10.4	9.2
Cash/Market Capitalization (sen)	10.7	13.1	13.3	14.1	15.0
Cash/share (sen)	13.8	16.9	17.2	18.2	19.3

Profitability Margins	2021A	2022A	2023F	2024F	2025F
Gross Profit Margin (%)	40.5	30.2	35.6	36.6	37.5
EBITDA Margin (%)	19.8	18.4	15.0	16.7	17.3
EBIT Margin (%)	7.2	7.8	9.0	9.4	9.8
Core PATANCI Margin (%)	2.8	3.4	3.4	3.7	4.0

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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