Aeon Co. (M) Berhad

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

Maintain BUY

Consistent Performance

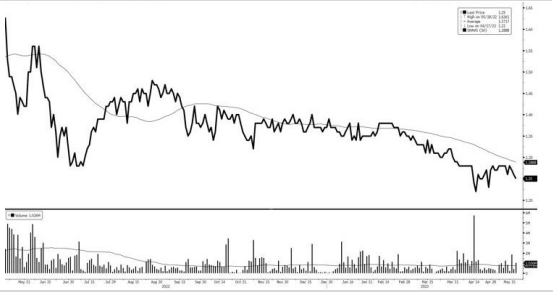
Unchanged Target Price: RM1.90

KEY INVESTMENT HIGHLIGHTS

- **Within estimations**
- **Business normalization raised 1QFY23's revenue**
- **Revenue remained strong on sequential basis**
- **Maintain BUY with an unchanged TP of RM1.90**

RETURN STATISTICS	
Price @ 18th May 2023 (RM)	1.25
Expected share price return (%)	+51.90
Expected dividend yield (%)	4.20
Expected total return (%)	**+56.13**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-0.8	-1.0
3 months	-3.8	-6.3
12 months	-24.7	-18.3

INVESTMENT STATISTICS

FYE Dec	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	1,428.04
Issue shares (m)	1,404.0
Estimated free float (%)	21.2
Market Capitalisation (RM'm)	1,755.0
52-wk price range	RM1.2 – RM1.7
3-mth average daily volume (m)	0.76
3-mth average daily value (RM'm)	0.98
Top Shareholders (%)	
AEON Co. Ltd	51.68
Employees Provident Fund Board	11.26
Amanah Saham Nasional Bhd	4.90

Within estimations. Aeon Co ("Aeon")'s 1QFY23 core PATANCI of RM40.1m, after excluding a one-time off item of RM1.9m. The results came in within our and the street's full-year FY23 earnings projections, accounting for 26.9% of our forecast and 21.9% of the consensus' FY23F estimate. No dividend was declared during the quarter as the group typically proposed dividend in the final quarter of the financial year.

Business normalization raised 1QFY23's revenue. The group's revenue increased by +10.5%yoy to RM1.1b in 1QFY23. The better performance was supported by greater revenue from both the retail business division (+9.8%yoy) and property management services division (+14.5%yoy). The retailing division reported more festive spending and business normalisation throughout the quarter, while the PMS segment saw higher occupancy rates and consumer sentiment as compared to the previous year. Thus, the core PATANCI increased +50.1%yoy to RM40.1m.

Revenue remained strong on sequential basis. Aeon's revenue increased by +4.2%qoq to RM1.1b in 1QFY23, primarily to increased festive spending and rental rate renewals, which increased income in both the retail and PMS divisions. Despite higher revenue and lower finance costs, the core PATANCI declined -17.4%qoq to RM40.1m due to greater operational expenses.

Maintain BUY with an unchanged TP of RM1.90. We make no adjustments to our FY23F-25F earnings forecast since the earnings were within our estimates. Our TP is based on an unaltered PER of 18x (which is its 2-year historical pre-pandemic mean) that is pegged to its FY23F EPS of 10.6sen. We are optimistic about AEON's FY23 projection, 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-cutting initiatives that may support the margin. Besides, we anticipate that the company will benefit from out-of-home consumption on the back of rising tourist movement following the reopening of borders. Aeon is currently trading at a compelling FY23F PER of 11.8x, below its 2-year historical pre-pandemic mean PER of 18x. **Downside risk** is weaker-than-expected consumer sentiment that reduce spending at retail store hence pull down the revenue.

Analyst
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Aeon Co: 1QFY23 Results Summary

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	1QFY23	4QFY22	1QFY22	YoY (%)	QoQ (%)	3MFY23	3MFY22	YoY (%)
Revenue	1,106.8	1,061.8	1,001.8	10.5	4.2	1,106.8	1,001.8	10.5
Total operating expenses	(1,031.0)	(1,005.7)	(926.2)	11.3	2.5	(1,031.0)	(926.2)	11.3
Other operating income	7.9	15.9	7.8	1.3	(50.3)	7.9	7.8	1.3
Operating profit (EBIT)	**83.7**	**72.0**	**83.4**	**0.4**	**16.3**	**83.7**	**83.4**	**0.4**
Net finance income/(cost)	(21.6)	(26.4)	(28.6)	(24.5)	(18.2)	(21.6)	(28.6)	(24.5)
Profit before tax (PBT)	**62.1**	**45.6**	**54.8**	**13.3**	**36.2**	**62.1**	**54.8**	**13.3**
Income tax expense	(23.9)	(20.7)	(26.7)	(10.5)	15.5	(23.9)	(26.7)	(10.5)
Profit After tax (PAT)	**38.2**	**24.9**	**28.1**	**35.9**	**53.4**	**38.2**	**28.1**	**35.9**
PATANCI	38.2	24.9	28.1	35.9	53.4	38.2	28.1	35.9
Core PATANCI	**40.1**	**48.5**	**26.7**	**50.1**	**(17.4)**	**40.1**	**26.7**	**50.1**
Basic EPS (sen)	2.7	1.8	2.0	36.0	53.7	2.7	2.0	36.0
DPS (sen)	0.0	4.0	0.0	n.m.	(100.0)	0.0	0.0	n.m.
Growth & Margin (%)				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Operating Profit Margin	7.6	6.8	8.3	(0.8)	0.8	7.6	8.3	(0.8)
PBT Margin	5.6	4.3	5.5	0.1	1.3	5.6	5.5	0.1
Core PATANCI Margin	3.6	4.6	2.7	1.0	(0.9)	3.6	2.7	1.0
Ratios & Valuation				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Net debt/total equity (%)	0.3	0.3	0.4	(0.1)	(0.0)	0.3	0.4	(0.1)
Effective tax rate (%)	38.5	45.4	48.7	(10.2)	(6.9)	38.5	48.7	(10.2)

Source: Company, MIDFR

Aeon Co: Breakdown by operating segment

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	1QFY23	4QFY22	1QFY22	YoY (%)	QoQ (%)	3MFY23	3MFY22	YoY (%)
Revenue (External):								
Retailing	941.4	903.7	857.4	9.8	4.2	941.4	857.4	9.8
Property Management Services	165.4	158.1	144.4	14.5	4.6	165.4	144.4	14.5
Total	**1,106.8**	**1,061.8**	**1,001.8**	**10.5**	**4.2**	**1,106.8**	**1,001.8**	**10.5**
Operating Profit:								
Retailing	44.5	54.0	61.0	(27.0)	(17.6)	44.5	61.0	(27.0)
Property Management Services	59.4	52.2	54.8	8.4	13.8	59.4	54.8	8.4
Total	**103.9**	**106.2**	**115.8**	**(10.3)**	**(2.2)**	**103.9**	**115.8**	**(10.3)**
Operating profit margin (%):				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Retailing	4.7	6.0	7.1	(2.4)	(1.2)	4.7	7.1	(2.4)
Property Management Services	35.9	33.0	38.0	(2.0)	2.9	35.9	38.0	(2.0)
Total	**9.4**	**10.0**	**11.6**	**(2.2)**	**(0.6)**	**9.4**	**11.6**	**(2.2)**

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	**3,630.4**	**4,141.1**	**4,365.3**	**4,641.5**	**4,920.6**
Net Purchases	(2,159.7)	(2,424.9)	(2,566.7)	(2,777.2)	(2,900.0)
Gross Profit	**1,470.7**	**1,716.2**	**1,798.6**	**1,864.3**	**2,020.5**
Changes in inventories	(22.5)	4.3	33.1	52.4	30.6
Other operating income	21.3	36.8	15.4	16.7	18.0
Staff costs	(328.1)	(389.6)	(408.6)	(441.0)	(469.8)
Operating expenses	(421.4)	(605.4)	(644.6)	(666.2)	(692.1)
EBITDA	**720.0**	**762.4**	**793.9**	**826.2**	**907.2**
EBIT	**260.9**	**323.1**	**395.4**	**440.6**	**482.7**
Profit before tax (PBT)	131.0	211.5	284.2	332.1	376.8
Profit After Tax (PAT)	**85.3**	**111.2**	**149.1**	**174.3**	**197.7**
Core PATANCI	**101.6**	**131.3**	**149.1**	**174.3**	**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	2023E	2024F	2025F
Property, plant and equipment	3,108.2	2,951.7	2,833.1	2,739.1	2,625.2
Intangible assets	63.0	51.8	51.8	51.8	51.8
Total Non-current assets	**4,922.7**	**4,472.6**	**4,315.0**	**4,225.1**	**4,113.3**
Inventories	601.2	605.5	638.6	691.0	721.6
ST - Trade and other receivables	130.9	93.6	118.3	125.8	133.4
Cash and cash equivalents	193.6	237.5	240.1	255.3	270.6
Total current assets	**940.1**	**953.7**	**1,015.1**	**1,091.3**	**1,146.0**
Total Assets	**5,862.8**	**5,426.3**	**5,330.1**	**5,316.4**	**5,259.3**
Total Equity	**1,742.7**	**1,807.0**	**1,824.2**	**1,911.3**	**2,010.2**
LT Loans and borrowings	327.8	50.0	49.0	48.0	47.1
Total Non-current liabilities	**2,258.6**	**1,699.2**	**1,638.1**	**1,591.7**	**1,546.9**
ST Trade and other payables	1,165.6	1,214.0	1,276.7	1,381.4	1,442.5
ST Loans and borrowings	400.6	447.8	438.8	430.0	421.4
Total Current Liabilities	**1,861.4**	**1,920.1**	**1,867.8**	**1,813.4**	**1,702.2**
Total Liabilities	**4,120.1**	**3,619.3**	**3,505.9**	**3,405.1**	**3,249.1**

Cash Flow (RM'm)	2021A	2022A	2023F	2024F	2025F
Pretax profit	131.0	211.5	284.2	332.1	376.8
Cash flow from operations	698.9	704.7	304.5	434.6	463.9
Cash flow from investing	(62.7)	(111.9)	(169.7)	(273.2)	(289.6)
Cash flow from financing	(514.0)	(548.9)	(132.3)	(146.2)	(158.9)
Net cash flow	**122.2**	**43.9**	**2.6**	**15.2**	**15.3**
(+/-) Adjustments	0.0	0.0	0.0	0.0	0.0
Net cash/(debt) b/f	**71.4**	**193.6**	**237.5**	**240.1**	**255.3**
Net cash/(debt) c/f	**193.6**	**237.5**	**240.1**	**255.3**	**270.6**

Key Metrics	2021A	2022A	2023E	2024F	2025F
Effective tax rate (%)	34.9	47.4	47.5	47.5	47.5
PER (x)	20.6	15.8	11.8	10.1	8.9
Cash/Market Capitalisation (sen)	11.0	13.5	13.7	14.5	15.4
Cash/share (sen)	13.8	16.9	17.1	18.2	19.3

Profitability Margins	2021A	2022A	2023E	2024F	2025F
Revenue Growth (%)	(10.4)	14.1	5.4	6.3	6.0
Core PATANCI Growth (%)	103.3	29.3	13.6	16.9	13.5
Gross Profit Margin (%)	40.5	41.4	41.2	40.2	41.1
Core PATANCI Margin (%)	2.8	3.2	3.4	3.8	4.0

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