Aeon Co. (M) Berhad

***Maintain* BUY**

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

Rejuvenation of Two Malls and Solar PV Installation

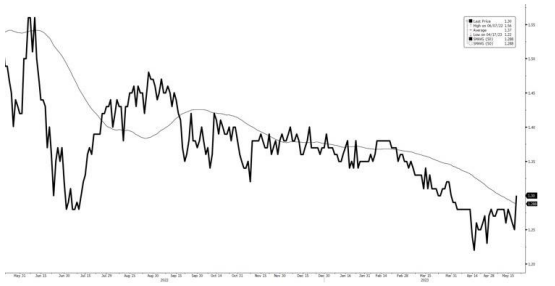
***Unchanged* Target Price: RM1.90**

KEY INVESTMENT HIGHLIGHTS

- **Virtual briefing with Aeon Co.(M).**
- **Constant craving for out-of-home consumption**
- **Improved occupancy rate for property management services ("PMS") division in 1QFY23**
- **Two malls set for rejuvenation in FY23F**
- **Maintain BUY with an unchanged TP of RM1.90**

RETURN STATISTICS	
Price @ 19th May 2023 (RM)	1.30
Expected share price return (%)	+46.30
Expected dividend yield (%)	4.10
Expected total return (%)	**+50.34**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	4.0	3.5
3 months	0.0	-3.5
12 months	-14.5	-7.3

Virtual briefing with Aeon Co.(M). We attended Aeon Co (M) 1QFY23 results briefing last Friday and remained optimistic about the company's FY23 prospect. The key takeaways from the briefing are as follows: -

Constant craving for out-of-home consumption. The Foodline (ready-to-eat) continued to record better sales on yearly basis from RM525.9m in 1QFY22 to RM590.5m in 1QFY23. This was fueled by festive celebrations and a shift in consumer spending towards outdoor social activities following the reopening of economy.

Lower retail subsector average basket size ("ABS"). The ABS for 1QFY23 dropped to RM66.1/basket vs. RM75.1/basket in 1QFY22 partly attributed to cautious consumer spending that lowered the ABS. However, this was offset by AEON's effort in increasing the customer traffic (+24%yoy) via campaign and promotional activities that increased the total revenue for 1QFY23 by +10.5%yoy to RM1.1b. Looking ahead, the group anticipates the ABS to stabilize within the RM65-RM70 per basket range, prioritizing the return of sales rather than pursuing a greater ABS.

Promising retail sales ahead boosted by Aeon Putrajaya & 'EVERYDAY FRESH EVERYDAY LOW'. The Aeon IOI Putrajaya store was opened on 2 March 2023, partially contributing to the higher sales growth. However, due to the short contribution period of the new store, the same-store sales growth (SSSG) was 9%yoy in 1QFY23. Additionally, the group launched the 'EVERYDAY FRESH EVERYDAY LOW' campaign, which will run until the end of FY23, following a similar campaign called 'JIMAT POCKET' in FY22. This sustainable campaign targets to address the rising cost of living by offering competitively priced vegetables to consumers.

Improved occupancy rate for property management services ("PMS") division in 1QFY23. Aeon reported an improved occupancy rate of 91.6% in 1QFY23 compared to 89.7% in 1QFY22 for the PMS division. Looking ahead, the group aims to expand its customer engagement initiatives to encourage repeat visits to the mall.

INVESTMENT STATISTICS

FYE Dec	2023F	2024F	2025F
Revenue	4,365.3	4,641.5	4,920.6
EBITDA	793.9	826.2	907.2
Profit before tax (PBT)	284.2	332.1	376.8
Core PATANCI	149.1	174.3	197.7
Core EPS (sen)	10.6	12.4	14.1
DPS (sen)	5.3	6.2	7.0
Dividend Yield (%)	4.1	4.8	5.4

KEY STATISTICS	
FBM KLCI	1,428.54
Issue shares (m)	1,404.0
Estimated free float (%)	21.2
Market Capitalisation (RM'm)	1,825.2
52-wk price range	RM1.2 – RM1.7
3-mth average daily volume (m)	0.77
3-mth average daily value (RM'm)	1.00
Top Shareholders (%)	
AEON Co. Ltd	51.68
Employees Provident Fund Board	11.32
Amanah Saham Nasional Bhd	4.90

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Adjusted fixed rental rates for PMS division. Aeon reported a consistent composition ratio of fixed and variable income for the PMS division of 59:41 in 1QFY23, which was comparable to 58:42 in 1QFY22. AEON reviewed certain tenants with higher fixed rates during the quarter and intends to review the rental agreements of other tenants with higher rates in FY23. Looking forward, the group expects the rental renewal rate for FY23 to remain consistent with FY22, at approximately 90%.

The solar PV panels installation project is on schedule. Solar PV panel installation is expected to begin in the 2QFY23 and 3QFY23, starting with 6 malls, and with the goal of installing solar PV in all owned malls by the end of 2023. This initiative attempts to cut consumption of electricity in response to rising energy costs, which accounted for a 20% increase in operating expenses in 1QFY23.

Two malls set for rejuvenation in FY23F. In FY23F, the group intends to rejuvenate two malls, one in Cheras Selatan and one in Ayer Keroh, Melaka. The revitalization process will be carried out in stages, beginning in June and expected to be finished by December 2023. The capital expenditure (capex) allotted for the rejuvenation is within the RM250-300m overall capex range for FY23F.

New Daiso and Wellness store coming in FY23F. Aeon launched a new Daiso store in Setia Alam in April 2023 and plans to open more Daiso and Aeon Wellness in 2HY23F.

Maintain BUY with an unchanged TP of RM1.90. We make no adjustments to our FY23F-25F earnings forecast post analyst briefing. Our **TP i**s 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 optimistic about AEON's FY23 earnings 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-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.

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)	21.4	16.4	12.2	10.5	9.2
Cash/Market Capitalisation (sen)	10.6	13.0	13.2	14.0	14.8
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