Aeon Co. (M) Berhad

Maintain BUY

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

Treading Lightly

***Revised* Target Price: RM1.50**
(previously RM1.90)

KEY INVESTMENT HIGHLIGHTS

- **Visit to Aeon Alpha Angle**
- **Utilizing Rooftop Space for Urban Farming**
- **Declining demand for Hardline and Softline products ahead**
- **Capex Allocation for FY23F and Future Initiatives**
- **Revised earnings projections for FY23-25F**
- **Maintain BUY with a revised TP of RM1.50 (from RM1.90)**

Visit Aeon Alpha Angle. We recently visited Aeon Alpha Angle, Wangsa Maju, Kuala Lumpur. Post-visit, we are cautiously optimistic about the outlook for Aeon's Co. Salient highlights are as follows:-

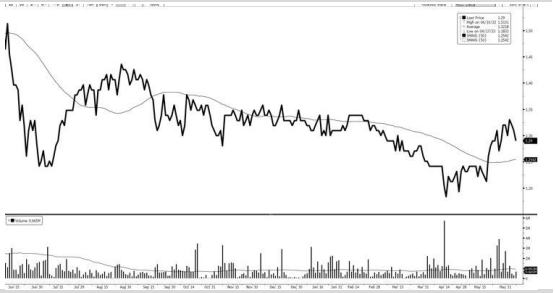
Overview of Aeon Alpha Angle. Aeon Alpha Angle Mall was the first mall that Aeon Co revamped to have a modern appearance. Note that although Aeon Mall Taman Maluri was the first mall, it underwent extensive renovations instead of rejuvenation. The rejuvenation was completed in April 2022, with a total capex of less than RM50k. The mall now features: (1) various digital transformations such as cashless parking, atrium big screens, digital signal tv, magic mirror, and self-check-out counters, as well as (2) other green initiatives such as solar panel rooftops, smart & urban farming, EV charging parking bays, and waste recycling. Post rejuvenation, the occupancy rate increased by almost 10% to nearly 94%.

Utilizing Rooftop Space for Urban Farming. The group fully utilized the rooftop of Aeon Alpha Angle by leasing it to Agroz Group for urban farming. Agroz Group cultivates 50 types of organic vegetables and herbs, that are sufficient to supply eight malls, including Aeon Alpha Angle and Aeon One Utama. We are positive about this initiative as it not only allows the group to generate rental revenue from the previously untapped rooftop space but also promotes sustainability within the mall.

Declining demand for Hardline and Softline products ahead. Management alludes a weaker demand for both hardline items (such as appliances and sports equipment) and softline products (such as apparel and bedding) for CY23's Hari Raya celebration as compared to the previous year. This decline can be attributed to the high base on the back of EPF withdrawal last year, and robust spending after the reopening for Raya celebrations following a two-year lockdown period. Additionally, given the inflation, high-interest rates, and concerns about a potential economic slowdown, consumers are now more cautious when it comes to spending on non-essential items. However, consumption of foodline (out-of-home F&B) items remained robust, which could potentially offset a fall in sales of hardline and softline products.

RETURN STATISTICS	
Price @ 8th June 2023 (RM)	1.29
Expected share price return (%)	+16.50
Expected dividend yield (%)	3.90
Expected total return (%)	**+20.47**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.6	6.0
3 months	0.0	3.5
12 months	-16.7	-7.5

INVESTMENT STATISTICS

FYE Dec	2023F	2024F	2025F
Revenue	4,323.7	4,495.1	4,677.9
EBITDA	780.6	779.3	852.1
Profit before tax (PBT)	271.6	289.4	329.8
Core PATANCI	142.5	151.8	173.1
Core EPS (sen)	10.2	10.8	12.3
DPS (sen)	5.1	5.4	6.2
Dividend Yield (%)	3.9	4.1	4.7

KEY STATISTICS	
FBM KLCI	1,374.64
Issue shares (m)	1404.00
Estimated free float (%)	22.77
Market Capitalisation (RM'm)	1,825.20
52-wk price range	RM1.2 – RM1.6
3-mth average daily volume (m)	0.94
3-mth average daily value (RM'm)	1.22
Top Shareholders (%)	
AEON Co. Ltd	51.68
Employees Provident Fund Board	11.36
Amanah Saham Nasional Bhd	4.90

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Affordable options to mitigate multiple headwinds. Aeon implemented several measures to mitigate the impact of inflation, high-interest rates, and concerns about a possible economic slowdown, which all resulted in a drop in consumer spending. In particular, the group partnered with halal-certified OEM manufacturers to develop their private brand products, which have a slightly higher profit margin but remain competitively priced compared to other consignment products. Moreover, the group will continue with its 'EVERYDAY FRESH EVERYDAY LOW' campaign, which provides low-cost veggies to combat rising living costs.

Capex Allocation for FY23F and Future Initiatives. The group allocated RM250-300m of capex for FY23F, which includes the ongoing renovation at Aeon Mall Cheras Selatan and Aeon Mall Ayer Keroh in Melaka. Additionally, the group has signed an agreement with KL Midtown Sdn Bhd (70% owned by Hap Seng Consolidated) to be an anchor tenant at the KL Midtown shopping mall. No CAPEX has been allocated for this mall yet, as it is expected to launch between 2025-2026. However, the group plans to support the mall's digital transformation to improve the shopping experience for consumers. The estimated budget for this project is RM40-60m, considering the current value and purchasing power of the MYR.

Revised earnings projections for FY23-25F. Post-visit, we tweak our earnings estimates for FY23F by -4.4%, FY24F by -12.9% and FY25F by -12.5%. This was after accounting for lower revenue contributions from the retail segment's hardline and softline products on the back of a softening spending plan in the inflation, high-interest rate and rising concern of a potential economic downturn environment.

Maintain BUY with a revised TP of RM1.50 (from RM1.90). Our **TP i**s based on a revised PER of 13.9x (from 18x), equivalent to the 3-year sectoral forward PE for consumer discretionary, which is pegged to its FY24F EPS of 10.8sen (from FY23F EPS of 10.6sen). We like Aeon due to its initiative to develop a variety of in-house private brands and labels at a competitive price. However, we are cautiously optimistic about Aeon's FY23F outlook considering the difficult economic conditions like inflation, high-interest rates, and the chance of an economic downturn. These factors might make consumers more careful with their spending on non-essential items, potentially affecting sales of both hardline and softline products in the retail division. On a positive note, the reopening of the economy and increased tourist activity could boost sales of food line products as people dine out more frequently. Aeon is currently trading at a compelling FY23F PER of 12.9x, below its 2-year historical pre-pandemic mean PER of 22x. **Downside risk** is weaker-than-expected consumer sentiment that reduce spending at retail store hence pull down the revenue.

Table 1: Aeon Alpha Angle

Before Rejunevation	After Rejunevation
	
Before Rejunevation	**After Rejunevation**
	

Source: Company

Table 2: Aeon Alpha Angle's Solar Panel project

Before	After
	
Before	**After**
	
Side View	
	

Source: Company

Table 3: Urban Farm





Source: Company

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023F	2024F	2025F
Revenue	**3,630.4**	**4,141.1**	**4,323.7**	**4,495.1**	**4,677.9**
Net Purchases	(2,159.7)	(2,424.9)	(2,542.2)	(2,695.9)	(2,749.4)
Gross Profit	**1,470.7**	**1,716.2**	**1,781.5**	**1,799.3**	**1,928.5**
Changes in inventories	(22.5)	4.3	27.0	38.2	13.3
Other operating income	21.3	36.8	15.2	16.1	17.1
Staff costs	(328.1)	(389.6)	(404.7)	(429.2)	(448.8)
Operating expenses	(421.4)	(605.4)	(638.5)	(645.2)	(658.0)
EBITDA	**720.0**	**762.4**	**780.6**	**779.3**	**852.1**
EBIT	**260.9**	**323.1**	**382.9**	**398.7**	**436.5**
Profit before tax (PBT)	131.0	211.5	271.6	289.4	329.8
Profit After tax (PAT)	**85.3**	**111.2**	**142.5**	**151.8**	**173.1**
Core PATANCI	**101.6**	**131.3**	**142.5**	**151.8**	**173.1**
Core EPS (sen)	7.2	9.3	10.2	10.8	12.3
DPS (sen)	3.0	4.0	5.1	5.4	6.2

Balance Sheet (RM'm)	2021A	2022A	2023F	2024F	2025F
Property,plant and equipment	3,108.2	2,951.7	2,832.6	2,735.5	2,617.2
Intangible assets	63.0	51.8	51.8	51.8	51.8
Total Non-current assets	**4,922.7**	**4,472.6**	**4,311.5**	**4,211.3**	**4,087.8**
Inventories	601.2	605.5	632.5	670.8	684.1
ST - Trade and other receivables	130.9	93.6	117.2	121.8	126.8
Cash and cash equivalents	193.6	237.5	237.8	247.2	257.3
Total current assets	**940.1**	**953.7**	**1,005.4**	**1,058.5**	**1,087.5**
Total Assets	**5,862.8**	**5,426.3**	**5,317.0**	**5,269.8**	**5,175.3**
Total Equity	**1,742.7**	**1,807.0**	**1,820.9**	**1,896.8**	**1,983.4**
LT Loans and borrowings	327.8	50.0	49.0	48.0	47.1
Total Non-current liabilities	**2,258.6**	**1,699.2**	**1,637.8**	**1,590.9**	**1,545.5**
ST Trade and other payables	1,165.6	1,214.0	1,264.5	1,340.9	1,367.5
ST Loans and borrowings	400.6	447.8	438.8	430.0	421.4
Total Current Liabilities	**1,861.4**	**1,920.1**	**1,858.2**	**1,782.0**	**1,646.5**
Total Liabilities	**4,120.1**	**3,619.3**	**3,496.1**	**3,372.9**	**3,191.9**

Cash Flow (RM'm)	2021A	2022A	2023F	2024F	2025F
Pretax profit	131.0	211.5	271.6	289.4	329.8
Cash flow from operations	698.9	704.7	297.3	409.6	432.6
Cash flow from investing	(62.7)	(111.9)	(168.0)	(264.0)	(274.7)
Cash flow from financing	(514.0)	(548.9)	(129.0)	(136.2)	(147.8)
Net cash flow	**122.2**	**43.9**	**0.3**	**9.4**	**10.1**
(+/-) Adjustments	0.0	0.0	0.0	0.0	0.0
Net cash/(debt) b/f	**71.4**	**193.6**	**237.5**	**237.8**	**247.2**
Net cash/(debt) c/f	**193.6**	**237.5**	**237.8**	**247.2**	**257.3**

Key Metrics	2021A	2022A	2023F	2024F	2025F
Effective tax rate (%)	34.9	47.4	47.5	47.5	47.5
PER (x)	21.6	16.5	12.9	12.1	10.6
Net debt/total equity (%)	0.3	0.1	0.1	0.1	0.1
Cash/share (sen)	0.5	0.5	0.2	0.3	0.3

Profitability Margins	2021A	2022A	2023F	2024F	2025F
Gross Profit Margin (%)	40.5	41.4	41.2	40.0	41.2
EBITDA Margin (%)	19.8	18.4	18.1	17.3	18.2
EBIT Margin (%)	7.2	7.8	8.9	8.9	9.3
Core PATANCI Margin (%)	2.8	3.2	3.3	3.4	3.7

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