Aeon Co. (M) Berhad

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

Promising Outlook

***Maintain* BUY**

***Unchanged* Target Price: RM1.67**

KEY INVESTMENT HIGHLIGHTS

- **Steady ABS with the foodline remains the key contributor**
- **Higher tourist movement from neighboring countries**
- **Private label products have shown encouraging growth**
- **Higher occupancy rate of 95.1% in 9MFY24; remain committed to tenancy renewal**
- **Minimal impact on minimum wage hike**
- **Maintain BUY with an unchanged TP of RM1.67**

We attended Aeon Co's 3QFY24 analyst briefing, and we remain positive on the outlook for the company. Key highlights of the briefing as below:

Retail segment:

Steady ABS with the foodline remains the key contributor. Retail revenue continues to be anchored by the foodline, which accounted for 55.7% of YTD sales, driven by sustained demand for essential goods. In contrast, discretionary categories such as softline (16.3%), hardline (13.4%), and health and beauty (HBC) (14.5%) faced softer demand as consumers remained cautious due to inflationary pressures. Despite this, AEON has managed to keep the average basket size (ABS) steady at RM62 for 9MFY24, with full-year expectations between RM60-65.

Higher tourist movement from neighboring countries. The Southern region (19.1%) outperformed the northern region (17.8%) mainly lifted by tourist traffic from Singapore. The central region (63.1%) remained strong as the biggest contributor. A standout observation is that the Southern region recorded an ABS 20% higher than other regions, highlighting the significance of tourism-driven spending.

Private label products have shown encouraging growth, with sales increasing by over +30%yoy, albeit contributing less than 5% to total retail sales. AEON aims to continue expanding its private-label offerings, focusing on increasing stock-keeping units (SKUs) rather than introducing new brands.

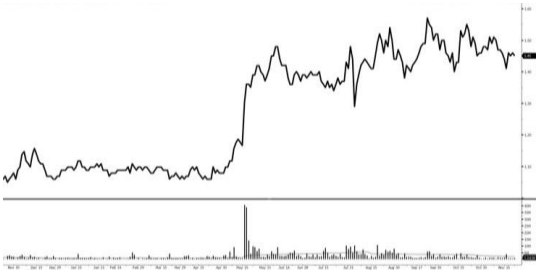
PMS segment:

Higher occupancy rate of 95.1% in 9MFY24, mainly supported by completed mall rejuvenation and optimized tenant mix. Management highlighted that the introduction of new brands and ongoing enhancements to the shopping experience contributed to a 7% YTD tenant sales growth.

Remain committed to tenancy renewal. Management remains committed to tenancy renewal, with 65% of tenant agreements renewed as of 3QFY24 and targeting a full-year renewal rate of 90%. Additionally, rental rates were revised upward during the year, ranging from 7-9%, benefiting from an improved tenant mix and mall upgrades.

RETURN STATISTICS	
Price @ 22nd Nov 2024 (RM)	1.45
Expected share price return (%)	+15.2
Expected dividend yield (%)	+2.8
Expected total return (%)	**+18.0**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-5.2	-2.1
3 months	-4.6	-0.2
12 months	33.0	21.8

INVESTMENT STATISTICS

FYE Dec	2024F	2025F	2026F
Revenue	4,132.1	4,165.1	4,201.2
EBITDA	722.9	741.4	745.4
Profit before tax (PBT)	230.0	252.6	262.8
Core PATANCI	138.0	151.6	157.7
Core EPS (sen)	9.8	10.8	11.2
DPS (sen)	4.0	4.3	4.5
Dividend Yield (%)	2.8	3.0	3.1

KEY STATISTICS	
FBM KLCI	1,589.78
Issue shares (m)	1404.00
Estimated free float (%)	38.86
Market Capitalisation (RM'm)	2,035.80
52-wk price range	RM1.06 - M1.61
3-mth average daily volume (m)	2.35
3-mth average daily value (RM'm)	3.47
Top Shareholders (%)	
Aeon Co Ltd	51.68
Employees Provident Fund Board	6.34
Amanah Saham Nasional Bhd	4.90

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Others:

Development Plans and ESG. AEON has made significant progress in store openings and renovations, further enhancing its retail and shopping experiences. AEON Bandar Puchong and AEON MaxValue Desa Park City were opened in August 2024. More recently, AEON Bukit Indah and AEON Ipoh Station 18 completed its renovations, offering updated facilities to attract more footfall. AEON Tebrau City completed extensive rezoning and renovation work, introducing a new food and lifestyle area featuring 20 specialty stores, including restaurants, a lifestyle bookstore, and entertainment facilities to elevate customer shopping and dining experiences. Sustainability remains a key focus, with solar panel installations at 11 malls expected to reduce utility costs by 5-7%, alongside increased EV charging infrastructure and waste management initiatives.

Minimal impact on minimum wage hike. AEON anticipates minimal impact from Malaysia's revised minimum wage increase to RM1,700 in February 2025. Management expects this to affect less than 1% of total operating expenses.

Maintain BUY with an unchanged TP of RM1.67. We have made no changes to our earnings forecast post analyst briefing. Our TP is based on PER of 15.5x pegging to FY25F EPS of 10.8sen.

Outlook. We remain optimistic on AEON's outlook, supported by solid consumer spending, which is expected to continue. This is bolstered by a stable job market, favorable income prospects, and government initiatives such as cash handouts and EPF Account 3 withdrawals, all of which are likely to drive demand for value-oriented products at AEON stores. Furthermore, AEON's strategic focus on expanding private-label offerings, driving digital transformation, and developing AEON Living Zones is set to enhance customer engagement and loyalty. Looking ahead, we anticipate a stronger retail performance in 4QFY24, particularly in December, due to preparations for Chinese New Year.

EXHIBIT 1: Development Plans: New Food & Lifestyle Zone at AEON Tebrau City



EXHIBIT 2: Development Plans: Store Re-opening



AEON Bandar Puchong



AEON MaxValu Prime Desa Park City











AEON Bukit Indah



AEON Ipoh Station 18









FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024F	2025F	2026F
Revenue	**4,141.1**	**4,129.0**	**4,132.1**	**4,165.1**	**4,201.2**
Net Purchases	(2,424.9)	(2,330.3)	(2,355.3)	(2,362.2)	(2,370.8)
Gross Profit	**1,716.2**	**1,798.8**	**1,776.8**	**1,802.8**	**1,830.4**
Changes in inventories	4.3	(52.1)	14.5	1.7	2.1
Other operating income	36.8	44.9	45.0	45.3	45.7
Staff costs	(389.6)	(394.8)	(408.7)	(423.1)	(438.0)
Operating expenses	(605.4)	(683.6)	(704.6)	(685.4)	(694.8)
EBITDA	**762.4**	**713.2**	**722.9**	**741.4**	**745.4**
EBIT	**323.1**	**289.6**	**322.1**	**344.8**	**355.6**
Profit before tax (PBT)	211.5	193.9	230.0	252.6	262.8
Profit After tax (PAT)	**111.2**	**114.8**	**138.0**	**151.6**	**157.7**
Core PATANCI	**131.3**	**127.6**	**138.0**	**151.6**	**157.7**
Core EPS (sen)	9.3	9.1	9.8	10.8	11.2
DPS (sen)	4.0	4.0	4.0	4.3	4.5

FYE DEC (RM'm)	2022A	2023A	2024A	2025F	2026F
Property,plant and equipment	2,951.7	3,090.2	3,022.2	2,999.2	2,962.4
Intangible assets	51.8	39.3	39.5	39.7	39.9
Total Non-current assets	**4,472.6**	**4,454.4**	**4,364.7**	**4,343.8**	**4,311.8**
Inventories	605.5	553.4	567.9	569.5	571.6
ST - Trade and other receivables	93.6	98.1	98.1	98.9	99.7
Cash and cash equivalents	237.5	99.8	247.9	264.9	275.2
Total current assets	**953.7**	**769.2**	**930.3**	**949.8**	**963.2**
Total Assets	**5,426.3**	**5,223.5**	**5,295.0**	**5,293.6**	**5,275.0**
Total Equity	**1,807.0**	**1,859.0**	**1,928.0**	**2,010.6**	**2,105.3**
LT Loans and borrowings	50.0	370.0	355.2	348.1	344.6
Total Non-current liabilities	**1,699.2**	**1,865.0**	**1,807.0**	**1,758.3**	**1,714.6**
ST Trade and other payables	1,214.0	1,185.7	1,188.9	1,192.4	1,196.8
ST Loans and borrowings	447.8	50.0	48.0	47.0	46.6
Total Current Liabilities	**1,920.1**	**1,499.5**	**1,560.0**	**1,524.6**	**1,455.2**
Total Liabilities	**3,619.3**	**3,364.5**	**3,367.0**	**3,283.0**	**3,169.8**

Cash Flow (RM'm)	2022A	2023A	2024A	2025F	2026F
Pretax profit	211.5	193.9	194.3	252.6	262.8
Cash flow from operations	704.7	629.9	406.6	491.7	469.8
Cash flow from investing	(111.9)	(367.3)	(274.2)	(366.4)	(348.4)
Cash flow from financing	(548.9)	(400.3)	(122.6)	(108.3)	(111.1)
Net cash flow	**43.9**	**(137.6)**	**9.8**	**17.0**	**10.3**
(+/-) Adjustments	0.0	0.0	0.0	0.0	0.0
Net cash/(debt) b/f	**193.6**	**237.5**	**99.8**	**247.9**	**264.9**
Net cash/(debt) c/f	**237.5**	**99.8**	**247.9**	**264.9**	**275.2**

Key Metrics	2022A	2023A	2024A	2025F	2026F
Effective tax rate (%)	47.4	40.8	40.0	40.0	40.0
PER (x)	18.3	17.7	15.3	13.9	13.4
Net debt/total equity (%)	0.1	0.2	0.1	0.1	0.1
Cash/share (sen)	0.5	0.4	0.3	0.3	0.3

Profitability Margins	2022A	2023A	2024A	2025F	2026F
Gross Profit Margin (%)	41.4	43.6	43.0	43.3	43.6
EBITDA Margin (%)	18.4	17.3	17.5	17.8	17.7
EBIT Margin (%)	7.8	7.0	7.8	8.3	8.5
Core PATANCI Margin (%)	3.2	3.1	3.3	3.6	3.8

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