

30 August 2018 | 2QFY18 Results Review

Aeon Co. (M) Bhd

Earnings dragged by associate's performance

Maintain NEUTRAL

Unchanged Target Price (TP): RM2.11

INVESTMENT HIGHLIGHTS

- **2QFY18 normalised earnings dropped by -35.4%yoy to RM17.8m due to share of losses from an associate**
- **Retailing segment recorded solid recovery**
- **Property management impacted by new mall's start-up cost**
- **Maintain NEUTRAL with an unchanged TP of RM2.11**

Earnings within our expectation. Aeon Co. (M) Bhd (Aeon Co)'s 2QFY18 normalised earnings came in at RM17.8m. This brings its 1HFY18 normalised earnings to RM45.7m which is broadly in line with ours but lagged consensus' expectations, accounting for 43.0% and 38.0% of full year FY18 earnings forecasts respectively. Against last year, 2QFY18 revenue rose by +5.4%yoy whilst normalised earnings fell by -35.4%yoy. The fall in earnings was mainly due to its share of operating losses from an associate company, Index Living Mall Malaysia Sdn Bhd, of -RM11.4m (vs 2QFY17 of -RM0.3m).

Retailing segment recorded solid recovery. The retailing segment posed an encouraging performance as 2QFY18 revenue improved by +5.9%yoy to RM893.2m whilst operating profit (OP) grew more than double year-on-year to RM17.0m. This was mainly due to: (i) contribution from the new stores, i.e. AEON Bandar Dato' Onn, Johor Bahru and Aeon Kuching, which were launched in September 2017 and April 2018 respectively; (ii) better merchandise assortment; and (iii) operational efficiencies.


Property management impacted by new mall start-up cost. The property management services' 2QFY18 revenue rose by +3.9%yoy to RM170.9m. This was mainly due to: (i) contribution from the rental and property management services provided by AEON Bandar Dato' Onn, Johor Bahru and Aeon Kuching; and (ii) contribution from shopping malls that were renovated and expanded last year, i.e. Aeon Taman Maluri and Aeon Queensbay. In addition, Aeon Co managed to sustain an occupancy rate of approximately 90.0% despite the current tough market environment. However, OP declined by -10.3%yoy to RM50.1m due to the: (i) start-up cost for AEON Kuching Mall in April 2018; and (ii) increased in promotion expenses during festive seasons.

Impact to earnings. Post earnings announcement, we made no changes to our forecasts as the result is in line with our expectation.

RETURN STATS	
Price (29 August 2018)	RM2.10
Target Price	RM2.11
Expected Share Price Return	+0.5%
Expected Dividend Yield	+1.7%
Expected Total Return	+2.2%

STOCK INFO	
KLCI	1,820.64
Bursa / Bloomberg	6599 / AEON MK
Board / Sector	Main/Consumer
Syariah Compliant	Yes
Issued shares (mil)	1,404.00
Market cap. (RM'm)	2,948.4
Price over NA	1.48x
52-wk price Range	RM1.45-RM2.65
Beta (against KLCI)	0.36
3-mth Avg Daily Vol	1.23m
3-mth Avg Daily Value	RM2.83m
Major Shareholders (%)	
AEON Co. Ltd	51.68%
Standard Life Aberdeen	12.52%
EPF	11.25%

Target price. We maintain our TP at **RM2.11**. This is based on pegging FY19EPS of 7.8sen against forward PER of 27.0x. Our target PER is premised on the average PER of the company for the past three years.

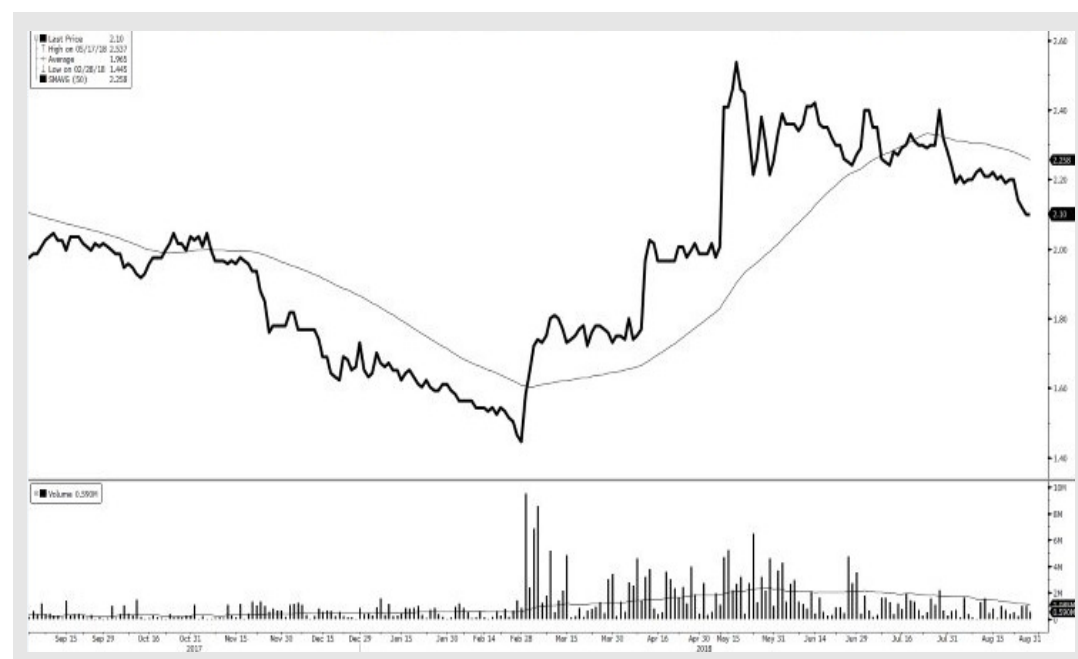
Downgrade to NEUTRAL. We expect the group to post strong earnings next quarter mainly due to: (i) tax holiday spending; and (ii) low base effect of previous corresponding quarter performance. However, on a longer term horizon, we remain wary on the group's financial performance in anticipation of: (i) weak sales performance in the immediate quarter after the reimplementation of SST; and (ii) continue share of losses from Index Living Mall Malaysia. Note that Aeon's associate is in a state of slowing down its business with plan closure of its remaining outlets. Nonetheless, we believe the group's earnings will continue to improve over a longer term, supported by the commitment of opening one shopping mall each year. Based on the aforementioned reasons, we are maintaining our **NEUTRAL** recommendation on the stock. 

INVESTMENT STATISTICS

FYE Dec (RM'm)	FY2015	FY2016	FY2017	FY2018F	FY2019F
Revenue	3,834.6	4,018.7	4,088.2	4,179.3	4,321.0
Operating Profit	227.0	197.6	240.5	228.4	234.4
Operating Profit Margin (%)	5.9	4.9	5.9	5.5	5.4
Pre-tax profit	210.8	163.0	193.8	204.9	210.9
Net profit	131.7	90.9	105.0	106.6	109.7
Net profit margin (%)	3.4	2.3	2.6	2.5	2.5
Basic EPS (sen)	9.5	6.5	7.5	7.6	7.8
Basic EPS growth (%)	(37.3)	(31.9)	15.5	1.5	2.9
PER (x)	23.2	34.0	29.4	29.0	28.2
Net DPS (sen)	4.0	3.0	4.0	3.5	3.8
Net dividend yield (%)	1.8	1.4	1.8	1.6	1.7

Source: Company, MIDFR

DAILY PRICE CHART



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AEON CO: 2QFY18 RESULTS REVIEW

FYE Dec (RM'm)	Quarterly results				Cumulative results			
	2QFY18	1QFY18	2QFY17	YoY (%)	QoQ (%)	1HFY18	1HFY17	YoY (%)
Revenue	1,064.0	1,114.3	1,009.4	5.4	(4.5)	2,178.3	2,086.3	4.4
Total operating expenses	(1,008.8)	(1,055.4)	(953.3)	5.8	(4.4)	(2,064.2)	(1,980.2)	4.2
Other operating income	1.6	1.5	2.2	(27.1)	1.8	3.1	4.3	(27.0)
Profit from operations	56.8	60.4	58.2	(2.4)	(5.9)	117.3	110.3	6.3
Interest expense	(10.1)	(8.7)	(10.3)	(2.4)	15.4	(18.8)	(19.8)	(5.2)
Interest income	0.3	0.3	0.3	29.2	(5.6)	0.7	0.5	32.7
Share of results of associates	(10.4)	(2.3)	(0.4)	>100.0	354.7	(12.6)	(0.3)	>100.0
Impairment loss on invstmnt in assoc.	(8.0)	0.0	0.0	nm	nm	(8.0)	0.0	nm
Profit before tax	28.7	49.8	47.8	(39.9)	(42.3)	78.5	90.7	(13.4)
Income tax expense	(19.0)	(21.8)	(20.3)	(6.4)	(13.2)	(40.8)	(36.9)	10.5
Profit after tax	9.8	27.9	27.6	(64.5)	(65.0)	37.7	53.8	(29.8)
Normalised profit after tax	17.8	27.9	27.6	(35.4)	(36.3)	45.7	53.8	(14.9)
Basic EPS (sen)	0.7	2.8	2.0	(64.3)	(74.9)	2.7	3.8	(29.8)
				<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
Operating profit margin (%)	5.3	5.4	5.8	(0.4)	0.1	5.4	5.3	0.1
PBT margin (%)	2.7	4.5	4.7	(2.0)	1.8	3.6	4.3	(0.7)
PAT margin (%)	0.9	2.5	2.7	(1.8)	1.6	1.7	2.6	(0.8)
Effective tax rate (%)	65.9	43.9	42.4	23.6	(22.1)	52.0	40.7	11.2
Segments								
<i>Revenue</i>								
Retailing	893.2	943.9	843.7	5.9	(5.4)	1,837.0	1,757.3	4.5
Property Management Services	170.9	170.4	164.4	3.9	0.3	341.3	328.9	3.8
Segmental Profit								
Retailing	17.0	6.8	5.2	226.5	150.9	23.7	12.0	98.7
Property Management Services	50.1	57.3	55.8	(10.3)	(12.6)	107.4	109.9	(2.3)
Segmental Profit margin (%)				<i>+ / (-) ppts</i>				
Retailing	1.9	0.7	0.6	1.3	(1.2)	1.3	0.7	0.6
Property Management Services	29.3	33.6	33.9	(4.6)	4.3	31.5	33.4	(1.9)

Source: Company, 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 <i>rise</i> 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 <i>fall</i> 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.