

29 November 2018 | 3QFY18 Results Review

Aeon Co. (M) Bhd

Earnings volatility to persist

INVESTMENT HIGHLIGHTS

- **3QFY18 earnings rose by +14.7%yoy to RM13.9m in-tandem with the tax holiday period**
- **Loss from the retailing segment narrowed to -RM7.1m, as the group shut down its non-profitable business**
- **Advertising and promotional expenses to remains elevated to spur consumer spending**
- **Downgrade to NEUTRAL with a revised TP of RM1.92**

Earnings below expectations. Aeon Co. (M) Bhd (Aeon Co)'s 3QFY18 earnings came in at RM13.9m, an increase of +14.7%yoy. The normalised earnings was mainly attributable to higher consumer spending during the tax holiday period. However, it was partially mitigated by higher advertising and promotional (A&P) expenses. Nonetheless, cumulative 9MFY18 normalised earnings dropped by -9.5%yoy to RM59.6m mainly due to impairment from Index Living Mall. All in, Aeon's 9MFY18 financial performance came in below ours and consensus expectations, accounting for 56.2% and 52.5% of full year FY18 earnings forecasts respectively.

Retail segment's loss narrowed to -RM7.1m. The retailing segment posed an encouraging 3QFY18 revenue growth of +11.9%yoy to RM895.7m driven by tax holiday spending. Nonetheless, the segment posted an operating loss of RM7.1m during the quarter due to the higher A&P expenses incurred. However, the recorded operating loss has narrowed in comparison to the prior corresponding quarter where RM12.2m loss was recorded. This was subsequent to the shutting down of the group's non-profitable business in 2QFY18.

Property management services segment impacted by higher OPEX. The property management services' 3QFY18 revenue rose by +5.0%yoy to RM169.1m. This was mainly due to the contribution from the newly opened AEON Bandar Dato' Onn, Johor Bahru and Aeon Kuching and shopping malls that has been renovated and expanded i.e. Aeon Taman Maluri and Aeon Queensbay. However, operating profit declined by -9.5%yoy to RM48.3m from higher operating expenses incurred in relation to the increasing promotional activities and events organised in the shopping malls during tax holiday period.


Impact to earnings. Post earnings announcement, we are revising our FY18 and FY19 forecast downwards by -10.5% and -8.9% respectively as we input a higher advertising and promotional expenses going forward.

**Downgrade to NEUTRAL
(Previously BUY)
Revised Target Price (TP): RM1.92
(Previously RM2.11)**

| RETURN STATS | |
|--|--------------|
| Price (28 th November 2018) | RM1.89 |
| Target Price | RM1.92 |
| Expected Share Price Return | +1.6% |
| Expected Dividend Yield | +2.0% |
| Expected Total Return | +3.6% |

| STOCK INFO | |
|------------------------|----------------|
| KLCI | 1,686.55 |
| Bursa / Bloomberg | 6599 / AEON MK |
| Board / Sector | Main/Consumer |
| Syariah Compliant | Yes |
| Issued shares (mil) | 1,404.00 |
| Market cap. (RM'm) | 2,653.56 |
| Price over NA | 1.32x |
| 52-wk price Range | RM1.45-RM2.65 |
| Beta (against KLCI) | 0.49 |
| 3-mth Avg Daily Vol | 1.44m |
| 3-mth Avg Daily Value | RM2.59m |
| Major Shareholders (%) | |
| AEON Co. Ltd | 51.68% |
| Standard Life Aberdeen | 12.94% |
| EPF | 11.60% |

Target price. We are revising our target price to **RM1.92** (previously RM2.10). This is based on pegging FY19EPS of 7.1sen against forward PER of 27.0x. Our target PER is premised on +1.0SD above the average PER of the company for the past three years.

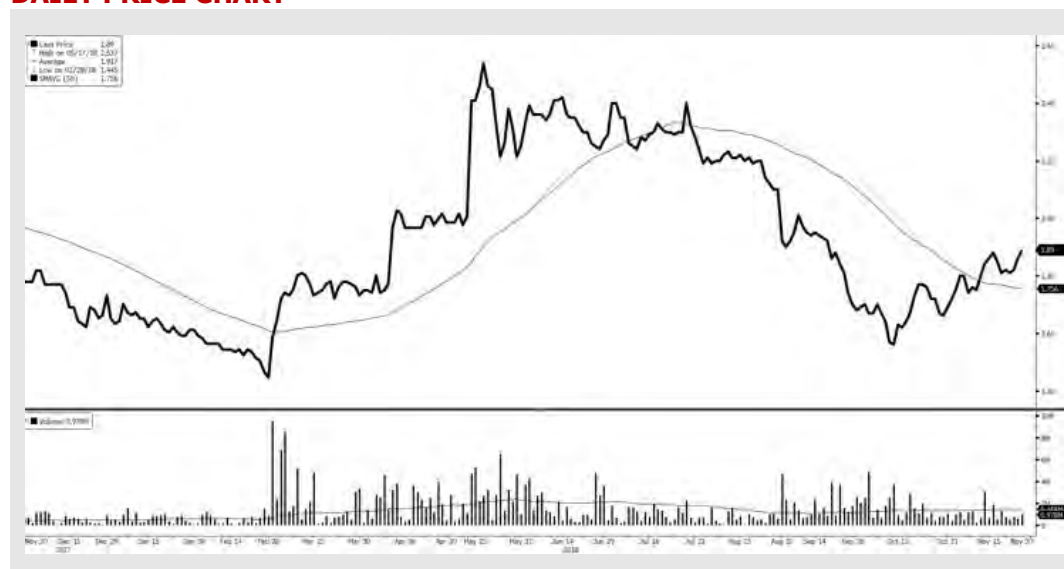
Downgrade to NEUTRAL. Coming off from tax holiday, we remain wary however on the weaker sales performance in the immediate months after the reimplementation of SST. To entice consumer to spend, we expect that the management will increase A&P expenses in December 2018 in conjunction with school holidays and festivity period. Over a longer term period, we like Aeon Co despite the continuing challenge facing departmental store sub-sector and proliferating shopping malls as Aeon Co's possesses a unique business model as it positions itself as a neighbourhood shopping mall making it a preferred choice shopping mall in the suburban areas for low to middle income families. In addition, we expect the opening of AEON Nilai in Q1FY19 will continue to provide positive earning accretion going forward. However, since 15th October, share price has rose by approximately +20.0% and as such we believe that all positivity has been priced-in at this current valuation. All things considered, we downgrade our call to **NEUTRAL** from buy previously. 

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 | 207.0 | 215.8 |
| Operating Profit Margin (%) | 5.9 | 4.9 | 5.9 | 5.0 | 5.0 |
| Pre-tax profit | 210.8 | 163.0 | 193.8 | 183.5 | 192.1 |
| Net profit | 131.7 | 90.9 | 105.0 | 95.4 | 99.9 |
| Net profit margin (%) | 3.4 | 2.3 | 2.6 | 2.3 | 2.3 |
| Basic EPS (sen) | 9.5 | 6.5 | 7.5 | 6.8 | 7.1 |
| Basic EPS growth (%) | (37.3) | (31.9) | 15.5 | (9.1) | 4.7 |
| PER (x) | 19.8 | 29.0 | 25.1 | 27.7 | 26.4 |
| Net DPS (sen) | 4.0 | 3.0 | 4.0 | 3.5 | 3.8 |
| Net dividend yield (%) | 2.1 | 1.6 | 2.1 | 1.9 | 2.0 |

Source: Company, MIDFR

DAILY PRICE CHART



AEON CO: 3QFY18 RESULTS REVIEW

| FYE Dec (RM'm) | Quarterly results | | | | Cumulative results | | | |
|---------------------------------------|-------------------|-------------|-------------|----------------|--------------------|--------------|--------------|---------------|
| | 3QFY18 | 2QFY18 | 3QFY17 | YoY (%) | QoQ (%) | 9MFY18 | 9MFY17 | YoY (%) |
| Revenue | 1,064.8 | 1,064.0 | 961.4 | 10.8 | 0.1 | 3,243.1 | 3,047.7 | 6.4 |
| Total Operating Expenses | (1,033.8) | (1,008.8) | (934.2) | 10.7 | 2.5 | (3,098.0) | (2,914.4) | 6.3 |
| Other Operating Income | 2.7 | 1.6 | 3.9 | (30.3) | 70.9 | 5.8 | 8.1 | (28.6) |
| Profit from operations | 33.7 | 56.8 | 31.1 | 8.3 | (40.7) | 151.0 | 141.4 | 6.8 |
| Interest expense | (11.0) | (10.1) | (10.3) | 7.1 | 9.4 | (29.8) | (30.1) | (1.0) |
| Interest income | 0.4 | 0.3 | 0.3 | 31.4 | 19.2 | 1.1 | 0.8 | 32.2 |
| Share of results of associates | 0.3 | (10.4) | 0.1 | 193.5 | (103.0) | (12.3) | (0.2) | nm |
| Impairment loss on invstmnt in assoc. | 0.0 | (8.0) | 0.0 | nm | nm | (8.0) | 0.0 | nm |
| Profit before tax | 23.4 | 28.7 | 21.2 | 10.1 | (18.6) | 101.9 | 111.9 | (8.9) |
| Income tax expense | (9.5) | (19.0) | (9.2) | 4.0 | (49.7) | (50.3) | (46.1) | 9.2 |
| Profit after tax | 13.9 | 9.8 | 12.1 | 14.7 | 41.5 | 51.6 | 65.8 | (21.6) |
| Normalised profit after tax | 13.9 | 17.8 | 12.1 | 14.7 | (22.2) | 59.6 | 65.8 | (9.5) |
| Basic EPS (sen) | 1.0 | 0.7 | 0.9 | 15.1 | 41.4 | 3.7 | 4.7 | (21.7) |
| | | | | + / (-) pts | | | | |
| Operating profit margin (%) | 3.2 | 5.3 | 3.2 | (0.1) | 2.2 | 4.7 | 4.6 | 0.0 |
| PBT margin (%) | 2.2 | 2.7 | 2.2 | (0.0) | 0.5 | 3.1 | 3.7 | (0.5) |
| PAT margin (%) | 1.3 | 0.9 | 1.3 | 0.0 | (0.4) | 1.6 | 2.2 | (0.6) |
| Effective tax rate (%) | 40.8 | 65.9 | 43.1 | (2.4) | 25.2 | 49.4 | 41.2 | 8.2 |
| Segments | | | | | | | | |
| <i>Revenue</i> | | | | | | | | |
| Retailing | 895.7 | 943.9 | 800.4 | 11.9 | (5.1) | 2,732.7 | 2,557.7 | 6.8 |
| Property Management Services | 169.1 | 170.4 | 161.1 | 5.0 | (0.8) | 510.4 | 490.0 | 4.2 |
| Segmental Profit | | | | | | | | |
| Retailing | (7.1) | 6.8 | (12.2) | 41.6 | (205.5) | 16.6 | 2.7 | 522.0 |
| Property Management Services | 48.3 | 57.3 | 53.3 | (9.5) | (15.8) | 155.7 | 163.3 | (4.6) |
| Segmental Profit margin (%) | | | | + / (-) pts | | | | |
| Retailing | (0.8) | 0.7 | (1.5) | 0.7 | 1.5 | 0.6 | 0.1 | 0.5 |
| Property Management Services | 28.6 | 33.6 | 33.1 | (4.6) | 5.1 | 30.5 | 33.3 | (2.8) |

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. |