

01 March 2018 | 4QFY17 Results Review

Aeon Co. (M) Bhd

A value buy

Upgrade to BUY
(Previously NEUTRAL)

Higher Target Price (TP): RM2.04
(Previously RM1.70)

INVESTMENT HIGHLIGHTS

- **4QFY17 earnings rose by +65.5yoy to RM39.2m**
- **FY17 earnings came in above ours and consensus expectations**
- **Retailing segment rebounded due to an improved profit margin**
- **Property management continue to record strong performance**
- **Upgrade to BUY with a higher TP of RM2.04**

Above expectations. Aeon Co. (M) Bhd (Aeon Co)'s 4QFY17 earnings increased by +65.5yoy to RM39.2m which brings its full-year FY17 earnings to RM105.0m. After taking into account exceptional items of RM1.1m, cumulative normalised earnings came in at RM106.1m. This is above ours and consensus expectations, accounting for 125.9% and 117.9% of full year FY17 earnings forecasts respectively. The stronger than expected FY17 performance was due to the: (i) better than expected profit margin of the retailing segment and; (ii) continue strong performance of property management services.


Retailing segment rebounded due to an improved margin. Full year FY17 retailing segment revenue increased marginally by +0.2%yoy to RM3,423.8m. Nevertheless, the operating profit (OP) grew by more than double to RM39.3m from RM14.7m recorded in FY16 premised on the improvement in OP margin. This was mainly due to the: (i) contribution from the new stores/supermarket launched at i.e. AEON Bandar Dato' Onn, Johor Bahru; (ii) full year contribution from stores which was launched or renovated in FY16 e.g. AEON Tebrau City and; (iii) better pricing strategies as the newly gazetted Price Control and Anti-Profitteering Act 2017 focuses more on regulating prices of F&B products and not on hardlines and softlines products.

Property management recorded strong performance. The property management services' revenue and OP increased strongly by +10.5%yoy and +14.7%yoy respectively. This was mainly due to the: (i) contribution from the rental and property management services provided at AEON Bandar Dato' Onn, Johor Bahru which started operation in September 2017 and; (ii) full-year contribution from new shopping malls opened in FY16 e.g. and AEON Shah Alam and Aeon Kota Bahru.

RETURN STATS	
Price (28 th February 2018)	RM1.47
Target Price	RM2.04
Expected Share Price Return	+38.8%
Expected Dividend Yield	+2.4%
Expected Total Return	+41.2%

STOCK INFO	
KLCI	1,856.20
Bursa / Bloomberg	6599 / AEON MK
Board / Sector	Main/Consumer
Syariah Compliant	Yes
Issued shares (mil)	1,404.00
Market cap. (RM'm)	2,063.88
Price over NA	1.09x
52-wk price Range	RM1.45-RM2.52
Beta (against KLCI)	0.33
3-mth Avg Daily Vol	0.56m
3-mth Avg Daily Value	RM0.94m
Major Shareholders (%)	
AEON Co. Ltd	51.68%
Standard Life Aberdeen	18.80%
EPF	8.59%

Impact to earnings. Post earnings announcement, we are revising our FY18 and FY19 earnings estimates upward by +29.3% and +35.7% respectively. This is mainly to account for the faster-than-expected recovery and improved operating profit margins for the retailing segment.

Upgrade to BUY with a revised TP of RM2.04. We upgrade our recommendation to **BUY** (previously NEUTRAL) with a revised TP of **RM2.04** (previously RM1.70). Our target price is based on forward PER18 and EPS18 of 27.0x and 7.6sen respectively. Our target PER is premised on the average PER of the company for the past two years. We expect earnings to further improve going forward driven by the: (i) continuous recovery in retailing segment and; (ii) stable growth for the property segment contributed by the planned opening of one shopping mall each year for the next three years as well as stable occupancy rates of 90%. Hence, we believe the stock is a value buy at this juncture as it currently trades at 21.4x PER which is approximately -1.0 SD of its historical five-year average PER of 28.1x. 

INVESTMENT STATISTICS

FYE Dec (RM'm)	FY2015	FY2016	FY2017	FY2018F	FY2019F
Revenue	3,834.6	4,038.7	4,088.2	4,170.0	4,240.7
Operating Profit	227.0	181.2	240.5	231.0	222.6
Operating Profit Margin (%)	5.9	4.5	5.9	5.5	5.3
Pre-tax profit	210.8	193.8	193.8	204.5	210.6
Net profit	131.7	75.0	105.0	106.3	109.5
Net profit margin (%)	3.4	1.9	2.6	2.6	2.6
Basic EPS (sen)	9.5	5.7	7.5	7.6	7.8
Basic EPS growth (%)	(37.3)	(40.2)	31.7	1.3	3.0
PER (x)	15.5	25.9	19.7	19.4	18.8
Net DPS (sen)	4.0	3.0	3.3	3.5	3.8
Net dividend yield (%)	2.7	2.0	2.2	2.4	2.6

Source: Company, MIDFR

DAILY PRICE CHART



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AEON CO: 4QFY17 RESULTS REVIEW

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	4QFY17	3QFY17	4QFY16	YoY (%)	QoQ (%)	FY17	FY16	YoY (%)
Revenue	1,067.2	962.7	1,018.8	4.7	10.9	4,088.2	4,018.7	1.7
Total Operating Expenses	(989.4)	(939.7)	(947.4)	4.4	5.3	(3,877.1)	(3,830.6)	1.2
Other Operating Income	21.3	4.2	2.8	675.2	412.6	29.5	9.5	210.3
Profit from operations	99.1	27.1	74.2	33.6	265.9	240.5	197.6	21.7
Interest expense	(10.7)	(10.3)	(11.3)	(5.1)	4.2	(40.7)	(37.0)	10.2
Interest income	0.4	0.3	0.4	0.0	21.6	1.2	1.5	(21.5)
Share of results of associates	(7.0)	0.1	(7.0)	0.0	n.m.	(7.2)	0.9	n.m.
Profit before tax	81.9	17.3	56.4	45.2	374.1	193.8	163.0	18.9
Income tax expense	(42.7)	(9.2)	(32.7)	30.5	366.1	(88.8)	(72.1)	23.1
Profit after tax	39.2	8.1	23.7	65.5	383.1	105.0	90.9	15.5
Non-controlling interests	0.0	(1.2)	0.0	n.a.	(100.0)	0.0	0.0	n.a.
PATANCI	39.2	9.3	23.7	65.5	321.2	105.0	90.9	15.5
				<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
Operating profit margin (%)	9.3	2.8	7.3	2.0	(6.5)	5.9	4.9	1.0
PBT margin (%)	7.7	1.8	5.5	2.1	(5.9)	4.7	4.1	0.7
PAT margin (%)	3.7	0.8	2.3	1.3	(2.8)	2.6	2.3	0.3
Effective tax rate (%)	52.2	53.1	58.0	(5.9)	0.9	45.8	44.2	1.6
Segments								
<i>Revenue</i>								
Retailing	868.8	802.5	844.2	2.9	8.3	3,423.8	3,417.7	0.2
Property Management Services	176.7	160.2	158.6	11.4	10.3	664.4	601.0	10.5
Segmental Profit								
Retailing	44.9	(12.2)	26.3	70.9	(467.9)	39.3	14.7	167.5
Property Management Services	76.6	53.3	53.9	42.0	43.7	239.8	209.1	14.7
Segmental Profit margin (%)				<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
Retailing	5.2	(1.5)	3.1	2.1	(6.7)	1.1	0.4	0.7
Property Management Services	43.3	33.3	34.0	9.4	(10.1)	36.1	34.8	1.3

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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.