

25 September 2018 | Corporate Update

Aeon Co. (M) Bhd

Enhanced earnings outlook for 2HFY18

INVESTMENT HIGHLIGHTS

- **Absence of future loss from Aeon's associate to improve the group's 2HFY18 financial performance**
- **Property management's financial performance to get better as Aeon Kuching Mall gain further traction**
- **Resilient earnings for the retailing segment, in-line with continuous addition of new retail stores**
- **Upgrade to BUY with an unchanged TP of RM2.11**

Earnings to rebound in 2HFY18. To recall, 1HFY18 recorded earnings dropped by -29.8%yoy to RM37.7m. This was in view of impairment and share of operating losses from an associate company, Index Living Mall Malaysia Sdn. Bhd (ILMM) of RM8.01m and RM13.7m respectively. Moving forward, we expect strong 2HFY18 earnings premised on: (i) recovery of property management segment; (ii) retailing segment to continue recording solid performance and; (iii) no further impairment or significant share of losses from associates.

Property management's financial performance to recover. Historically, the property management segment contributed about 80.0% to 85.0% of the group's operating profit (OP). Excluding 2QFY18, the segment has recorded commendable OP growth since 2QFY17. We believe that the -10.3%yoy decreased in 2QFY18 OP was a temporary blip, owing to the start-up cost incurred for Aeon Kuching Mall which was opened in April 2018. Nonetheless, we expect that the OP for the segment to stage a recovery in 2HFY18 as: (i) Aeon Kuching Mall gain more traction and; (ii) stable occupancy rate of approximately 90.0% for its existing shopping malls.

Retailing segment solid performance to continue. Meanwhile, AEON Co's retailing segment has continued to contribute positively to group's earnings since it rebounded in 4QFY17. In the 2QFY18, retailing segment posed an encouraging performance as OP grew more than double year-on-year driven by contribution from the new stores i.e. AEON Bandar Dato' Onn, Johor Bahru and Aeon Kuching. We expect the segment solid performance will continue particularly in the 3QFY18 given the; (i) tax holiday spending and; (ii) low base effect of previous corresponding quarter performance. Over a longer term, we expect that the opening of new shopping mall in Nilai in 1QFY19 will contribute positively to earnings.


Upgrade to BUY
(Previously NEUTRAL)
Unchanged Target Price (TP): RM2.11

RETURN STATS	
Price (24 th September 2018)	RM1.88
Target Price	RM2.11
Expected Share Price Return	+12.2%
Expected Dividend Yield	+2.0%
Expected Total Return	+14.2%

STOCK INFO	
KLCI	1,800.17
Bursa / Bloomberg	6599 / AEON MK
Board / Sector	Main/Consumer
Syariah Compliant	Yes
Issued shares (mil)	1,404.00
Market cap. (RM'm)	2,639.52
Price over NA	1.32x
52-wk price Range	RM1.45-RM2.65
Beta (against KLCI)	0.33
3-mth Avg Daily Vol	1.17m
3-mth Avg Daily Value	RM2.52m
Major Shareholders (%)	
AEON Co. Ltd	51.68%
Standard Life Aberdeen	12.72%
EPF	11.56%

ILLM to end operation by 3QFY18. We expect no further operating loss to be incurred by ILMM as its remaining outlets in Malaysia is targeted to be shut down by 3QFY18. Moreover, the management has fully impaired the remaining balance of ILMM's cost of investment in the 2QFY18.

Target price. We are maintaining our target price of **RM2.11**. This is based on pegging FY19EPS of 7.8sen against historical PER of 27.0x.

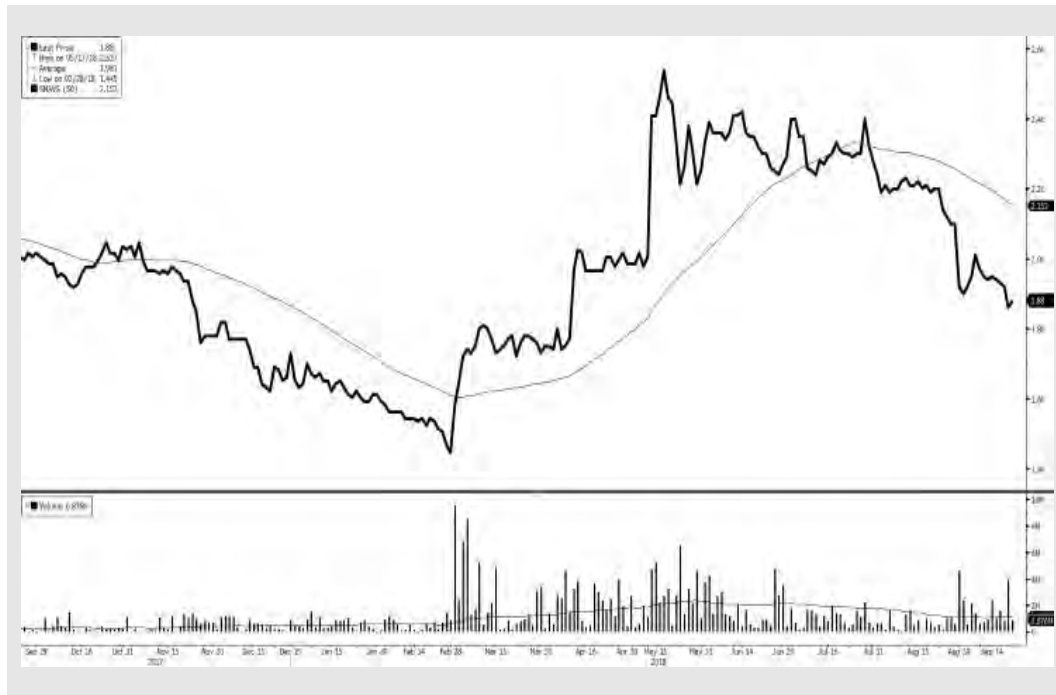
Upgrade to BUY. We like Aeon Co despite the continuing challenge facing departmental store sub-sector and proliferating shopping malls as Aeon Co's possesses a unique business model as it positions itself as a neighbourhood shopping mall making it a preferred choice shopping mall in the suburban areas for middle income families. In the near term, we expect Aeon to stage earnings recovery in 2HFY18 as: (i) property management segment recovers; (ii) retailing segment to continue recording solid performance and; (iii) absent of any impairment or significant share of losses from associates. On another note, Aeon Co's share price has retraced by -12.9% subsequent to its 2QFY18 quarterly announcement. Due to this, the stock is now trading at a forward PER of 23.8x which is more than one- standard deviation below its three-year historical PER of 31.0x. We view that this would present an opportunity for investors, who favour consumer discretionary stocks, to increase exposure on Aeon. All factors considered, we are upgrading our stock recommendation for Aeon to **BUY** from neutral previously. 

INVESTMENT STATISTICS

FYE Dec (RM'm)	2015	2016	2017	2018F	2019F
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)	19.8	29.0	25.1	24.8	24.1
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



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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.