**06 February 2018 | Corporate update**

# Aeon Co. (M) Bhd

***Retailing segment to remain competitive***

***Maintain NEUTRAL***

***Revised* Target Price (TP): RM1.70**

***(Previously RM2.02)***

## INVESTMENT HIGHLIGHTS

- **4QFY17 earnings should meet expectations, supported by the property management segment**
- **Nonetheless, the retailing segment's 4Q17 earnings growth will remain muted due to delay in festive purchase**
- **Retailing segment future outlook to remain challenging in view of intense competition**
- **Fiscal prudence in capital spending**
- **Maintain NEUTRAL stance with a revised TP of RM1.70**

**4QFY17 earnings should meet expectations.** Aeon Co is expected to release its 4QFY17's financial result on 28 February 2018. We believe that the group 4QFY17 earnings will come in at range of RM26m to RM32m which is higher than the RM25m reported in the previous year corresponding quarter. The improvement in earnings was mainly supported by higher contribution from the property management segment. Including the 9MFY17 earnings of RM57.3m, we expect full year FY17 earnings to come in within ours and consensus expectation, in the range of RM83m to RM89m.

**Retailing segment's growth for 4Q17 will remain muted.** Retailing segment experienced subdued growth of approximately -1.5%yoy in the 9MFY17. This was mainly attributable to the later celebration of Chinese New Year (CNY) which falls in mid of February this year in comparison to end of January last year. Hence, this has a minimal impact on sales for retailing segment in the 4Q17 as substantial festivity purchase for CNY only started in January 2018. Fortunately, the weaker performance for the retailing segment will be mitigated by the profits generated by the property management segment, partially due to the opening of AEON Bandar Dato' Onn, Johor Bahru towards the end of 3QFY17.

**Retailing segment outlook will remain challenging.** The company has been continuously adapting to the challenging retail market and weak consumer sentiment in recent years. Some of the exercises undertaken were: (i) refurbishing its older stores; (ii) divesting its unprofitable shopping malls i.e. Aeon Mahkota Cheras and; (iii) diversifying its income stream through the creation of other retail offerings i.e. AEON supermarket, AEON wellness, DAISO and AEON Maxvalu.

| RETURN STATS | |
|---|---|
| Price (5th February 2018) | RM1.61 |
| Target Price | RM1.70 |
| Expected Share Price Return | +5.6% |
| Expected Dividend Yield | +1.9% |
| **Expected Total Return** | **+7.5%** |

| STOCK INFO | |
|---|---|
| KLCI | 1,853.07 |
| Bursa / Bloomberg | 6599 / AEON MK |
| Board / Sector | Main/Consumer |
| Syariah Compliant | Yes |
| Issued shares (mil) | 1,404.00 |
| Market cap. (RM'm) | 2,260.44 |
| Price over NA | 1.19x |
| 52-wk price Range | RM1.60-RM2.70 |
| Beta (against KLCI) | 0.41 |
| 3-mth Avg Daily Vol | 0.57m |
| 3-mth Avg Daily Value | RM1.01m |
| Major Shareholders (%) | |
| AEON Co. Ltd | 51.68% |
| Aberdeen Asset Mgmt | 19.05% |
| EPF | 8.47% |

However, we expect the outlook for the retailing segment to remain challenging in view of intense competition in the local retail market. At present, AEON supermarket is the largest contributor to the retailing segment with a contribution of approximately 48% of the retailing segment's revenue. While AEON supermarket showed resilient growth in the past quarters, its margin is among the lowest in the retailing segment.

**Cut down in developmental capex.** The management has budgeted a more prudent capital expenditure (capex) of approximately RM500m which is to be allocated over the next two years. This is lower in comparison to the RM400m allocated for FY17. The capex allocation is to cater for its few ongoing projects which are: (i) Aeon Kuching (expected opening in April 2018); (ii) Aeon Nilai (expected opening in 2019) and; (iii) renovation project in Aeon Taman Maluri (expected to be fully completed by the end of 2019).

**Impact to earnings.** While we maintained our FY17 earnings, we revised our FY18 earnings estimates downward by –12.6%, mainly to account for: (i) the slower than expected recovery of its departmental store performance and (ii) a reduction in developmental capex will taper the growth for property management segment going forward.

**Maintain NEUTRAL.** We maintained our **NEUTRAL** stance with a revised TP of **RM1.70** (previously RM2.02). Our target price is based on PER18 and EPS18 of 27.0x and 6.3sen respectively. Our target PER is premised on the average PER of the company for the past two years.

**INVESTMENT STATISTICS**

| FYE Dec (RM'm) | 2015 | 2016 | 2017F | 2018F | 2019F |
|---|---|---|---|---|---|
| Revenue | 3,834.6 | 4,038.7 | 4,089.3 | 4,172.9 | 4,246.7 |
| Operating Profit | 227.0 | 181.2 | 193.2 | 196.8 | 190.8 |
| Operating Profit Margin (%) | 5.9 | 4.5 | 4.7 | 4.7 | 4.5 |
| Pre-tax profit | 210.8 | 99.7 | 166.8 | 170.2 | 178.6 |
| Net profit | 131.7 | 75.0 | 84.3 | 88.5 | 92.8 |
| **Net profit margin (%)** | **3.4** | **1.9** | **2.1** | **2.1** | **2.2** |
| Basic EPS (sen) | 9.5 | 5.7 | 6.0 | 6.3 | 6.6 |
| **Basic EPS growth (%)** | **(37.3)** | **(40.2)** | **5.7** | **5.0** | **4.9** |
| PER (x) | 17.1 | 28.5 | 27.0 | 25.7 | 24.5 |
| Net DPS (sen) | 4.0 | 3.0 | 2.5 | 3.0 | 3.3 |
| Net dividend yield (%) | 2.5 | 1.9 | 1.5 | 1.9 | 2.0 |

*Source: Company, MIDFR*

**DAILY PRICE CHART**

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## DISCLOSURES AND DISCLAIMER



| 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. |