

21 December 2018 | Corporate Update

Aeon Co. (M) Bhd

Tough operating environment

INVESTMENT HIGHLIGHTS

- **FY19's same-store-sales-growth to be in the negative territory in absence of**
- **Newer shopping malls to experience longer gestation period of six years from the historical average of four years**
- **Lower rental income due to the challenging retail market condition**
- **Downgrade to SELL with a revised TP of RM1.36**

FY19 SSSG to be in the negative territory. During our recent meeting with the management, we gathered that the overall same-store-sales-growth (SSSG) for FY18 is expected to range between +1.5% to +2.0% from -3.4% recorded in FY17. This is supported by the: (i) tax holiday spending where revenue for retailing segment rose +11.9%yoy in the 3QFY18; and (ii) closure of non-profitable stores such as AEON Mahkota Cheras and Index Living Mall furniture outlets. Nonetheless, we expect SSSG to be in the negative territory in FY19 due to the absence of aforementioned one-off factors.

Newer mall to experience longer gestation period. Coupled with normalisation of SSSG, we expect that profit margin for retailing segment will continue to remain depressed given the downward pressure in average selling price (ASP) as well as expectation of longer breakeven period for stores in newer malls. We understand that among the newer stores, AEON Kota Bahru (1st AEON in Kelantan) and AEON Kuching (1st in Sarawak) will take approximately six years to breakeven due to the lower average spending among consumers in these states in comparison to the average four years breakeven period for stores located in the west coast of Malaysia. Hence, retailing segment's performance will continue to be dragged by losses from these stores.

Expecting lower rental income. To maintain the average occupancy rate above 90%, we understand that the group has revised downwards the fixed rental rate. Moving forward, while we expect the group to maintain the fixed rental rate at current level, we view that the variable rental portion which is based on the percentage of sales could trend lower in view of heightening competition in the retail market. Moreover, we are expecting FY19 capital spending to reduce by 25% or approximately RM100m. In view of this, we do not think that there will be aggressive opening of new shopping malls and significant renovation.

**Downgrade to SELL
(Previously NEUTRAL)
Revised Target Price (TP): RM1.36
(Previously RM1.92)**

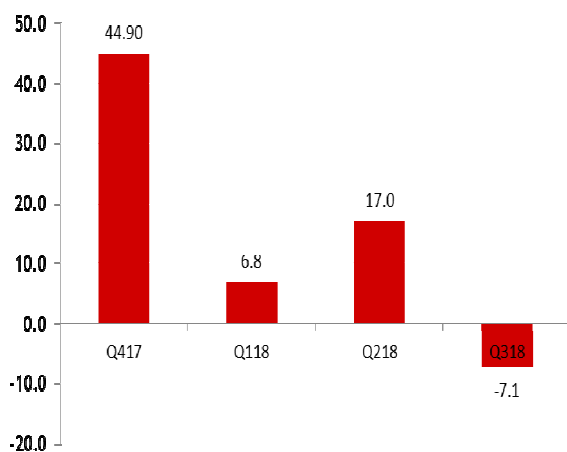
RETURN STATS	
Price (20 th December 2018)	RM1.58
Target Price	RM1.36
Expected Share Price Return	-13.9%
Expected Dividend Yield	+1.6%
Expected Total Return	-12.3%

STOCK INFO	
KLCI	1,650.56
Bursa / Bloomberg	6599 / AEON MK
Board / Sector	Main/Consumer
Syariah Compliant	Yes
Issued shares (mil)	1,404.00
Market cap. (RM'm)	2,218.32
Price over NA	1.13x
52-wk price Range	RM1.45-RM2.65
Beta (against KLCI)	0.55
3-mth Avg Daily Vol	1.34m
3-mth Avg Daily Value	RM2.32m
Major Shareholders (%)	
AEON Co. Ltd	51.68%
EPF	13.06%
Standard Life Aberdeen	11.48%

Impact to earnings. We made revised our FY19F forecast downward by -9.3% due to the: (i) normalisation of SSSG in FY19; (ii) longer breakeven period for new stores and; (iii) lower rental revenue.

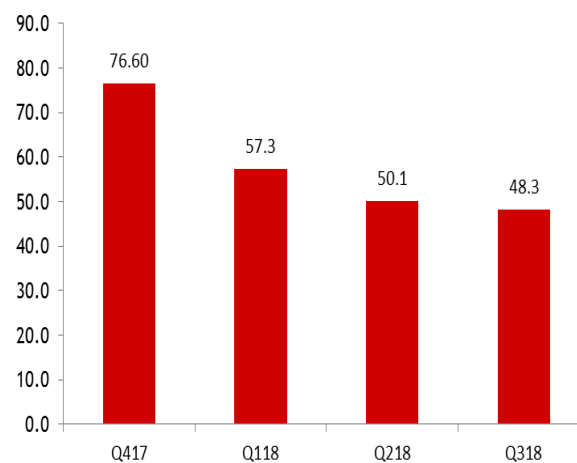
Target price. We are revising our target price to **RM1.36** (previously RM1.92). This is based on pegging FY19EPS of 6.5sen against a lower forward PER of 21.0x (previously 27.0x). We re-rated the stock as we believe that the: (i) earnings volatility for the retailing segment to persist; and (ii) expected decline in contribution from property management service segment. Our target PER is premised on -2.0SD below the average PER of the company for the past two years.

Figure 1: Retailing segment's operating profit (RM'm)



Source: Company, MIDFR

Figure 2: Property management services segment's operating profit (RM'm)



Source: Company, MIDFR

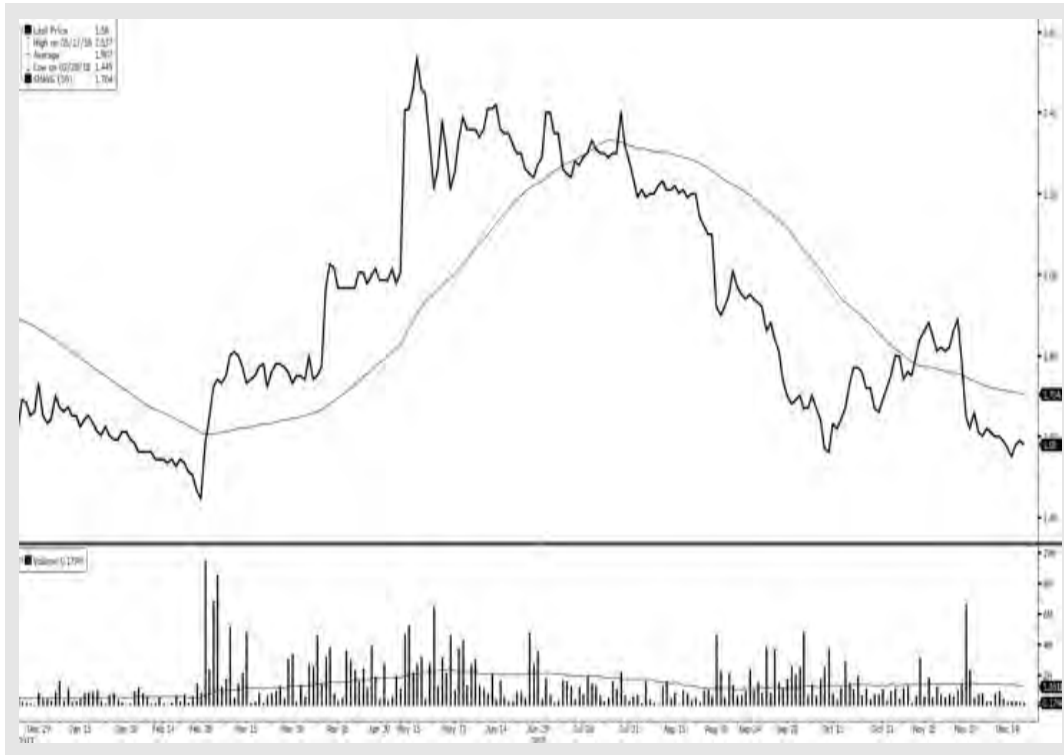
Downgrade to SELL. Overall, we anticipate a challenging outlook for the company due to the unfavourable market condition. We expect the heightening competition among brick and mortars retailers as well as aggressive promotions during online sales festivals to suppress overall retail prices. Due to these factors, we expect that the SSSG will be in the negative going forward while new stores will require longer time to break-even. In addition, we do not think that the group will revise the rental rate upwards in the foreseeable term to maintain its occupancy ratio at the 90.0% level. All things considered, we downgrade our call to **SELL** 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	4,303.1
Operating Profit	227.0	197.6	240.5	207.0	197.9
Operating Profit Margin (%)	5.9	4.9	5.9	5.0	4.6
Pre-tax profit	210.8	163.0	193.8	183.5	174.2
Net profit	131.7	90.9	105.0	95.4	90.6
Net profit margin (%)	3.4	2.3	2.6	2.3	2.1
Basic EPS (sen)	9.5	6.5	7.5	6.8	6.5
Basic EPS growth (%)	(37.3)	(31.9)	15.5	(9.1)	(5.0)
PER (x)	16.6	24.4	21.1	23.2	24.5
Net DPS (sen)	4.0	3.0	4.0	3.0	2.5
Net dividend yield (%)	2.5	1.9	2.5	1.9	1.6

Source: Company, MIDFR

DAILY PRICE CHART



Nabil Zainoodin, CFA, CA
nabil.zainoodin@midf.com.my
03-2772 1663

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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.