

**Aeon Co. (M) Berhad**

(6599 | AEON MK) Main | Consumer Products & Services | Retailers

Maintain BUY**Normalizing Consumer Spending in 2QFY23****Revised Target Price: RM1.40**
(Previously RM1.50)**KEY INVESTMENT HIGHLIGHTS**

- **Within estimations.**
- **Normalizing revenue in 2QFY23**
- **Lower earnings despite slightly better revenue in 1HFY23**
- **Revised earnings projection for FY23-25F**
- **Maintain BUY with a revised TP of RM1.40 (from RM1.50)**

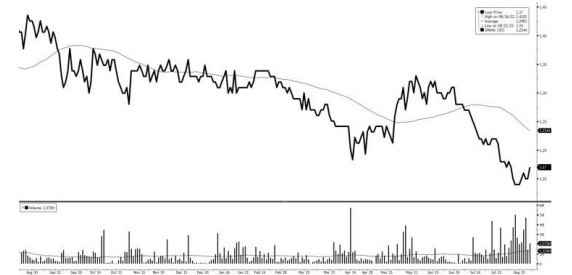
Within estimations. Aeon Co. ("Aeon") reported a core PATANCI of RM69.7m (after excluding one-time items of RM1.3m) for 1HFY23. The earnings came in within our and consensus full-year FY23 projection, accounting for 48.9% of ours and 50.9% of the Street's. As expected, no dividend was declared during the quarter as the group normally declares dividends in 4Q.

Normalizing revenue in 2QFY23. In 2QFY23, revenue decreased by -5.7%yoy to RM1.03b, partly due to the normalization of consumer spending compared to 2QFY22, which was boosted by various cash assistance programs. Consequently, revenue for the retail segment dropped by -7.9%yoy to RM864m, more than offsetting the increased revenue from the property management services (PMS) segment (+7.5%yoy). The lower revenue, coupled with higher operating costs, has dragged the operating profit margin further down from 11.1% in 2QFY22 to 7% in 2QFY23. Consequently, the core PATANCI plunged by -35.8%yoy to RM29.6m during the quarter. On a quarterly basis, the reduced topline (-6.7%qoq) was due to lower revenue from the retail segment, which more than offset the higher revenue from the PMS segment. The core PATANCI decreased by -26.1%qoq to RM29.6m owing to the reduced revenue, which more than offset the lower operating costs.

Slightly better revenue but earnings dragged by margin and cost. Cumulatively, the revenue improved slightly by +2%yoy to RM2.14b. This positive performance can be attributed to additional revenue generated by the new IOI Putrajaya store, improved performance of Southern region stores, and better occupancy and rental rate renewals, all of which contributed to increased revenue in both the retail and PMS segments. Despite higher revenue, the lower gross profit margin and greater operating cost has dragged the core PATANCI lower by -4.3%yoy to RM69.7m.

RETURN STATISTICS

Price @ 22 nd Aug 2023 (RM)	1.17
Expected share price return (%)	+19.30
Expected dividend yield (%)	3.80
Expected total return (%)	+23.16

SHARE PRICE CHART

Price performance (%)	Absolute	Relative
1 month	-3.3	-5.8
3 months	-10.7	-13.8
12 months	-19.3	-17.6

INVESTMENT STATISTICS


FYE Dec	2023F	2024F	2025F
Revenue	4,150.7	4,187.0	4,408.7
EBITDA	746.3	755.3	819.8
Profit before tax (PBT)	240.1	268.7	322.2
Core PATANCI	126.0	141.0	169.1
Core EPS (sen)	9.0	10.0	12.0
DPS (sen)	4.5	5.0	6.0
Dividend Yield (%)	3.8	4.3	5.1

KEY STATISTICS

FBM KLCI	1,451.53
Issue shares (m)	1404.00
Estimated free float (%)	29.32
Market Capitalisation (RM'm)	1,642.68
52-wk price range	RM1.17-RM1.49
3-mth average daily volume (m)	1.34
3-mth average daily value (RM'm)	1.64
Top Shareholders (%)	
AEON Co. Ltd	51.68
Employees Provident Fund Board	10.45
Amanah Saham Nasional Bhd	4.90

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Revised earnings projection for FY23-25F. Despite the earnings coming in within our estimation, we observed a significant drop in retail revenue during 2QFY23, which could indicate that consumer sentiment was weaker than expected. Hence, we have reduced our earnings projections for FY23-25F by -11.6%/-7.1%/-2.3%, after taking into account the lower revenue from the retail segment and reduced variable rental income. The downward revision in earnings is also due to exit of Aeon from Sunway Pyramid mall in July 2023.

Maintain BUY with a revised TP of RM1.40 (from RM1.50). Our TP is based on an unchanged PER of 13.9x, in line with 3-year sectoral forward PE for consumer discretionary, pegging to revised FY24F EPS of 10.1sen (from 10.8sen). Going forward, we maintain a positive outlook on Aeon for FY24F, as we expect resilience in consumer shopping for essential items at Aeon despite several headwinds. Additionally, an increase in out-of-home and tourist activities could boost sales of food products as people dine out more frequently. Aeon is currently trading at a compelling FY24F PER of 11.5x, below its 2-year historical pre-pandemic mean PER of 22x. **Downside risk** is weaker-than-expected consumer sentiment that reduce spending at retail store hence pull down the revenue. 

Aeon Co: 2QFY23 Results Summary

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	2QFY23	1QFY23	2QFY22	YoY (%)	QoQ (%)	1HFY23	1HFY22	YoY (%)
Revenue	1,033.0	1,106.8	1,095.5	(5.7)	(6.7)	2,139.8	2,097.3	2.0
Total operating expenses	(967.2)	(1,031.0)	(979.3)	(1.2)	(6.2)	(1,998.2)	(1,905.5)	4.9
Other operating income	6.9	7.9	5.1	35.3	(12.7)	14.8	12.9	14.7
Operating profit (EBIT)	72.7	83.7	121.3	(40.1)	(13.1)	156.4	204.7	(23.6)
Net finance income/(cost)	(23.6)	(21.6)	(29.0)	(18.6)	9.3	(45.2)	(57.6)	(21.5)
Profit before tax (PBT)	49.1	62.1	92.3	(46.8)	(20.9)	111.2	147.1	(24.4)
Income tax expense	(18.9)	(23.9)	(45.0)	(58.0)	(20.9)	(42.8)	(71.7)	(40.3)
Profit After tax (PAT)	30.2	38.2	47.3	(36.2)	(20.9)	68.4	75.4	(9.3)
PATANCI	30.2	38.2	47.3	(36.2)	(20.9)	68.4	75.4	(9.3)
Core PATANCI	29.6	40.1	46.1	(35.8)	(26.1)	69.7	72.8	(4.3)
Basic EPS (sen)	2.2	2.7	3.4	(36.2)	(21.0)	4.9	5.4	(9.3)
DPS (sen)	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.
Growth & Margin (%)				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Operating Profit Margin	7.0	7.6	11.1	(4.0)	(0.5)	7.3	9.8	(2.5)
PBT Margin	4.8	5.6	8.4	(3.7)	(0.9)	5.2	7.0	(1.8)
Core PATANCI Margin	2.9	3.6	4.2	(1.3)	(0.8)	3.3	3.5	(0.2)
Ratios & Valuation				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Net debt/total equity (%)	0.3	0.3	0.4	(0.1)	(0.0)	0.3	0.4	(0.1)
Effective tax rate (%)	38.5	38.5	48.8	(10.3)	0.0	38.5	48.8	(10.3)

Source: Company, MIDFR

Aeon Co: Breakdown by operating segment

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	2QFY23	1QFY23	2QFY22	YoY (%)	QoQ (%)	1HFY23	1HFY22	YoY (%)
Revenue (External):								
Retailing	864.0	941.4	938.3	(7.9)	(8.2)	1,805.4	1,795.7	0.5
Property Management Services	169.0	165.4	157.2	7.5	2.2	334.4	301.6	10.9
Total	1,033.0	1,106.8	1,095.5	(5.7)	(6.7)	2,139.8	2,097.3	2.0
Operating Profit:								
Retailing	3.7	38.2	79.7	(95.4)	(90.3)	41.9	140.7	(70.2)
Property Management Services	68.3	58.3	54.1	26.2	17.2	126.6	108.9	16.3
Total	72.0	96.5	133.8	(46.2)	(25.4)	168.5	249.6	(32.5)
Operating profit margin (%):				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Retailing	0.4	4.1	8.5	(8.1)	(3.6)	2.3	7.8	(5.5)
Property Management Services	40.4	35.2	34.4	6.0	5.2	37.9	36.1	1.8
Total	7.0	8.7	12.2	(5.2)	(1.7)	7.9	11.9	(4.0)

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023F	2024F	2025F
Revenue	3,630.4	4,141.1	4,150.7	4,187.0	4,408.7
Net Purchases	(2,159.7)	(2,424.9)	(2,436.8)	(2,456.9)	(2,566.3)
Gross Profit	1,470.7	1,716.2	1,713.9	1,730.1	1,842.4
Changes in inventories	(22.5)	4.3	(14.6)	4.9	26.5
Other operating income	21.3	36.8	24.2	24.8	26.7
Staff costs	(328.1)	(389.6)	(388.5)	(395.8)	(418.9)
Operating expenses	(421.4)	(605.4)	(588.6)	(608.6)	(656.9)
EBITDA	720.0	762.4	746.3	755.3	819.8
EBIT	260.9	323.1	321.8	354.0	411.4
Profit before tax (PBT)	131.0	211.5	240.1	268.7	322.2
Profit After tax (PAT)	85.3	111.2	126.0	141.0	169.1
Core PATANCI	101.6	131.3	126.0	141.0	169.1
Core EPS (sen)	7.2	9.3	9.0	10.0	12.0
DPS (sen)	3.0	4.0	4.5	5.0	6.0

FYE DEC (RM'm)	2021A	2022A	2023F	2024F	2025F
Property, plant and equipment	3,108.2	2,951.7	3,007.4	3,039.8	3,095.6
Intangible assets	63.0	51.8	51.8	51.8	51.8
Total Non-current assets	4,922.7	4,472.6	4,483.6	4,461.5	4,464.1
Inventories	601.2	605.5	590.9	595.8	622.3
ST - Trade and other receivables	130.9	93.6	91.4	92.2	97.1
Cash and cash equivalents	193.6	237.5	78.3	81.4	88.3
Total current assets	940.1	953.7	777.8	786.7	825.9
Total Assets	5,862.8	5,426.3	5,261.4	5,248.2	5,290.0
Total Equity	1,742.7	1,807.0	1,870.0	1,940.5	2,025.1
LT Loans and borrowings	327.8	50.0	156.8	159.9	163.1
Total Non-current liabilities	2,258.6	1,699.2	1,757.7	1,714.1	1,673.1
ST Trade and other payables	1,165.6	1,214.0	1,151.5	1,161.0	1,212.7
ST Loans and borrowings	400.6	447.8	291.2	297.0	303.0
Total Current Liabilities	1,861.4	1,920.1	1,633.6	1,593.5	1,591.9
Total Liabilities	4,120.1	3,619.3	3,391.3	3,307.6	3,265.0

Cash Flow (RM'm)	2021A	2022A	2023F	2024F	2025F
Pretax profit	131.0	211.5	240.1	268.7	322.2
Cash flow from operations	698.9	704.7	385.5	456.8	502.5
Cash flow from investing	(62.7)	(111.9)	(371.9)	(374.9)	(394.7)
Cash flow from financing	(514.0)	(548.9)	(172.7)	(78.8)	(100.9)
Net cash flow	122.2	43.9	(159.1)	3.1	6.9
(+/-) Adjustments	0.0	0.0	0.0	0.0	0.0
Net cash/(debt) b/f	71.4	193.6	237.5	78.3	81.4
Net cash/(debt) c/f	193.6	237.5	78.3	81.4	88.3

Key Metrics	2021A	2022A	2023F	2024F	2025F
Effective tax rate (%)	34.9	47.4	47.5	47.5	47.5
PER (x)	19.1	14.6	12.9	11.5	9.6
Net debt/total equity (%)	0.3	0.1	0.2	0.2	0.2
Cash/share (sen)	0.5	0.5	0.3	0.3	0.4

Profitability Margins	2021A	2022A	2023F	2024F	2025F
Gross Profit Margin (%)	40.5	41.4	41.3	41.3	41.8
EBITDA Margin (%)	19.8	18.4	18.0	18.0	18.6
EBIT Margin (%)	7.2	7.8	7.8	8.5	9.3
Core PATANCI Margin (%)	2.8	3.2	3.0	3.4	3.8

Source: Bloomberg, 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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology