

**Aeon Co. (M) Berhad**

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

Maintain BUY**Out-of-Home Consumption Continues to Thrive****Unchanged Target Price: RM1.40****KEY INVESTMENT HIGHLIGHTS**

- Resilient consumer demand in Foodline
- Growing retail revenue in southern region
- Normalizing ABS
- Increased fixed rental income in 1HFY23
- Steady occupancy rate
- Maintain BUY with an unchanged TP of RM1.40

Virtual briefing. We attended Aeon's 1HFY23 result briefing yesterday and maintain a positive outlook for FY24F. Here are the key highlights:

Retail segment

Resilient consumer demand in Foodline. In 1HFY23, consumer demand for Foodline products remained strong, with its retail revenue contribution rising from 58.4% in 1HFY22 to 61.2% in 1HFY23. In contrast, the Softline, hardline, and wellness segments saw lower demand due to reduced consumer spending, leading to a drop in its revenue contribution during 1HFY23. Note that the increase in consumer spending during 1HFY22 was due to special EPF withdrawal.

Growing retail revenue in southern region. Aeon's retail revenue contribution from the southern region continued to grow, increasing from 16.3% in 1HFY22 to 17.7% in 1HFY23. This was lifted by the reopening of border that has facilitated seamless travel for Singaporeans to the southern region, consequently bolstering retail sales through increased tourist activity. Meanwhile, retail revenue from the Northern region returned to pre-pandemic levels, contributing 18.9% to the total revenue in 1HFY23. The Central region remained the largest contributor at 63.4% in 1HFY23.

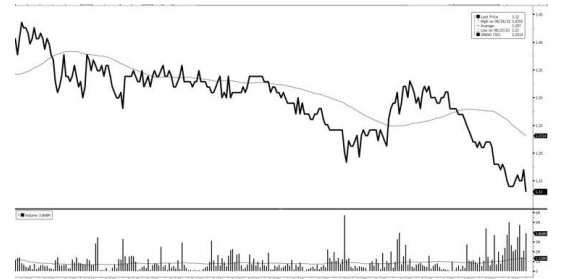
Normalizing Average Basket Size (ABS). In 1HFY23, the ABS normalized to RM63.6, compared to RM73.9 in 1HFY22. Looking ahead, the group anticipates that the ABS will remain in the range of RM60 to RM65 until the end of 2024.

Property management services ("PMS")

Increased fixed rental income in 1HFY23. Aeon's PMS segment saw a rise in fixed rental income, accounting for 59% of total PMS revenue (vs. 57% in 1HFY22). This was primarily driven by an 11%yoy rental reversion rate. Note that, nearly 60% of tenants have adopted a hybrid model, combining both fixed and variable rental income as of 1HFY23. The rental renewal rate for 1HFY23 was nearly 50%. Looking ahead, the group intends to continue employing the hybrid model for PMS rental income and is committed to achieving a rental renewal rate of at least 90% for FY23.

RETURN STATISTICS

Price @ 23 rd Aug 2023 (RM)	1.13
Expected share price return (%)	+23.50
Expected dividend yield (%)	4.00
Expected total return (%)	+27.52

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 (%)	4.0	4.4	5.3

KEY STATISTICS

FBM KLCI	1,440.11
Issue shares (m)	1404.00
Estimated free float (%)	29.50
Market Capitalisation (RM'm)	1,586.52
52-wk price range	RM1.17-RM1.49
3-mth average daily volume (m)	1.35
3-mth average daily value (RM'm)	1.65
Top Shareholders (%)	
AEON Co. Ltd	51.68
Employees Provident Fund Board	10.27
Amanah Saham Nasional Bhd	4.90


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Steady occupancy rate. In 1HFY23, the occupancy rate remained robust at 91.6%, up from 89.9% previously. Notably, Aeon Alpha Angle and Aeon Kota Bahru achieved close to 100% occupancy in 1HFY23. Moving forward, the group aims to sustain this high occupancy rate.

Others

Various enhancement in progress. Aeon continues its commitment to improving its stores and malls. Currently, the group is upgrading the Aeon Maxvalue store at Sunway Velocity and refining the store formats for Aeon Delicatessen and La Boheme. Additionally, the rejuvenation of Aeon Melaka and Cheras Selatan is underway, with a target completion date by the end of 2023.

Mid-term expansion strategy. Looking ahead, Aeon plans to grow its cinema presence within Aeon malls to meet the demand for leisure activities outside the home. Besides, the group is also looking to expand its specialty stores, including the opening of another Daiso store in the 4QFY23 and at least 1-2 new Aeon Wellness stores by end of 2023. Additionally, the company is committed to launching at least one Aeon department store annually. Recalled that Aeon opened new store at IOI Putrajaya in 1QFY23. Moreover, the management remained committed to establish a new Aeon mall every 1-2 years, with a specific focus on opening Aeon Mall at KL Midtown in 2025-2026.

Maintain BUY with an unchanged TP of RM1.40. We make no changes to our earnings forecast post analyst briefing. Our **TP** is based on an unchanged PER of 13.9x, in line with 3-year sectoral forward PE for consumer discretionary, pegging to an unchanged FY24F EPS of 10.1sen. Moving forward, we are optimistic about Aeon's performance in FY24F. We anticipate that Aeon will remain resilient in the face of challenges, with consumers continuing to shop for essential items. Furthermore, an uptick in out-of-home and tourist activities may lead to increased sales of food products as people dine out more often. Additionally, we like Aeon's commitment to expanding its presence in Malaysia through new store and mall openings over the next 2-3 years, which could result in additional revenue ahead. Aeon is currently trading at a compelling FY24F PER of 11.3x, 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 lowering the revenue. 

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)	18.6	14.3	12.6	11.3	9.4
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