



Aeon Co. (M) Berhad

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

Lower ABS and Average Transaction Volume in 3QFY23

Downgrade to NEUTRAL

(Previously BUY)

Revised Target Price: RM1.14

(Previously RM1.40)

KEY INVESTMENT HIGHLIGHTS

- **Below expectations**
- **Better 9MFY23 PMS revenue driven by robust occupancy and enhanced fixed income contribution**
- **Lower 9MFY23F retail revenue amidst softening consumer discretionary spending**
- **Cut earnings forecast for FY23F-25F**
- **Downgrade to NEUTRAL (from BUY) with a lower TP of RM1.14 (from RM1.40)**

Below expectations. Aeon Co. ("Aeon") recorded a 9MFY23 core PATANCI of RM84.6m, excluding one-time items of RM2.4m. The core PATANCI falls below both our and consensus' full-year projections, constituting 67.1% and 68% of ours and the street's FY23F estimations. The negative deviation was mainly due to higher-than-expected operating costs (labour and utilities) and finance expenses. No dividends were declared during the quarter.

Reduced topline and bottomline in 3QFY23. On a yearly basis, revenue dropped by -2.7%yoy to RM955.9m, mainly due to lower revenue from the retail business (-4.4%yoy), which more than offset the higher revenue from the PMS segment (+6.5%yoy). The core PATANCI decreased by -17.2%yoy to RM14.9m. This was mainly due to lower revenue and a higher effective tax rate (+10.5ppt yoy), which more than outweigh the increase in other operating income stemming from a one-off gain on the lease de-recognition of Kota Bahru land. On a quarterly basis, the core PATANCI for 3QFY23 dropped by -49.7%qoq to RM14.9m, in tandem with reduced revenue of -7.5%qoq to RM955.9m as earnings in the previous quarter were supported by festive celebrations.

Reduced 9MFY23 core PATANCI amid escalating operating costs. Cumulatively, 9MFY23 topline remained relatively unchanged at RM3.1b on the back of the stronger PMS revenue that offset the reduced retail sales. However, the core PATANCI decreased from RM90.8m in 9MFY22 to RM84.6m in 9MFY23 mainly due to the increased operational costs (related to labour and utilities).

Better 9MFY23 PMS revenue driven by robust occupancy and enhanced fixed income contribution. In 9MFY23, the revenue of the PMS segment increased by +9.4%yoy to RM500.4m. This was mainly driven by a strong occupancy rate, which rose from 90.3% in 9MFY22 to 91.8% in 9MFY23, along with effective rental renewals. The fixed rental income contribution increased from 57% in 9MFY22 to 61% in 9MFY23 mainly driven by the higher rental renewal and slightly lower variable income (tenant sales commission received).

RETURN STATISTICS

Price @ 24 th Nov 2023 (RM)	1.10
Expected share price return (%)	+3.40
Expected dividend yield (%)	3.80
Expected total return (%)	+7.23

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.9	0.1
3 months	0.0	2.1
12 months	-20.3	-18.5

INVESTMENT STATISTICS

FYE Dec	2023F	2024F	2025F
Revenue	4,110.9	4,076.8	4,048.0
EBITDA	703.6	686.8	663.5
Profit before tax (PBT)	203.5	194.3	180.4
Core PATANCI	117.3	114.8	110.3
Core EPS (sen)	8.4	8.2	7.9
DPS (sen)	4.2	4.1	3.9
Dividend Yield (%)	3.8	3.7	3.6

KEY STATISTICS

FBM KLCI	1,453.92
Issue shares (m)	1404.00
Estimated free float (%)	30.80
Market Capitalisation (RM'm)	1,544.40
52-wk price range	RM1.02-RM1.41
3-mth average daily volume (m)	1.61
3-mth average daily value (RM'm)	1.74
Top Shareholders (%)	
AEON Co. Ltd	51.68
Employees Provident Fund Board	8.96
Amanah Saham Nasional Bhd	4.90

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Lower retail revenue amidst softening consumer discretionary spending. In 9MFY23, the retail segment reported a slightly lower revenue growth of -1%yoy to RM2.6b. This was mainly due to weaker contributions from softline, hardline, and wellness products owing to softened consumer demand for discretionary items. Conversely, the robust out-of-home F&B consumption boosted food line revenue up by +2.8ppt to 63.7% in 9MFY23. Regionally, the southern region saw improved retail revenue, up by +12.9%yoy to RM472.3m in 9MFY23, mainly driven by an influx of tourists from Singapore following the border reopening. However, the northern and central regions recorded a decline in revenue, consistent with the overall lower retail revenue trend. On a quarterly basis, we noticed that the ABS and average transaction volume was in a declining trend in 3QFY23 which indicates consumers' increased caution in discretionary spending due to heightened inflationary pressure.

Chart 1: Retail revenue contribution by categories

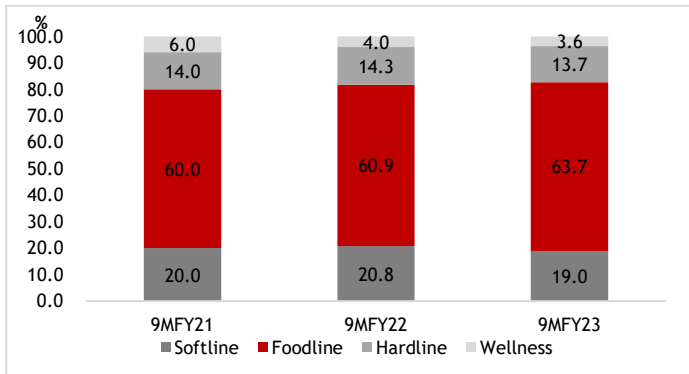
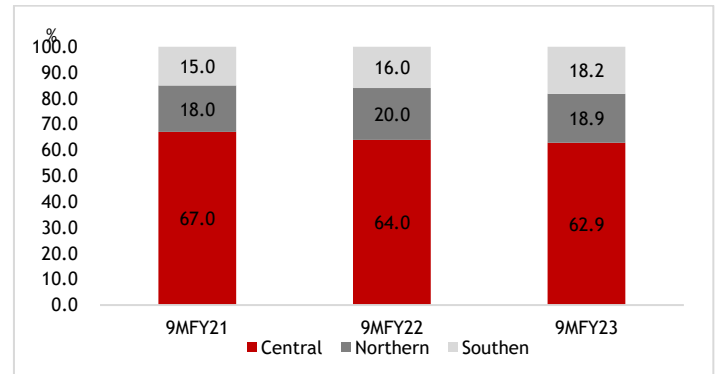


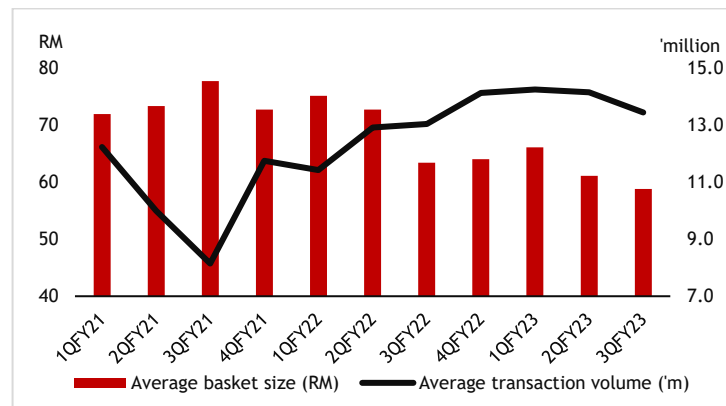
Chart 2: Retail revenue contribution by region



Source: MIDFR, Company

Source: MIDFR, Company

Chart 3: Average Basket Size Trend




Source: MIDFR, Company

FY23 enhancement and capex plans. The group completed the rejuvenation of Aeon Melaka Ayer Keroh and reopened it on 1 Nov 2023. Meanwhile, Aeon Cheras Selatan is expected to reopen in Dec 2023. Looking ahead, the group is committed to opening one Aeon Mall in FY2025/26, as mentioned in the previous briefing, and plans to open one Aeon store in FY24.

Cut earnings forecast for FY23F-25F. Given that the earnings came in below our earnings expectation, we cut our earnings projections for FY23F-25F, by -6.9%/-18.6%/-34.8%, respectively. This was after accounting for (1) a lower revenue expectation on the back of continuous sluggish consumer spending on discretionary products in the retail segment, (2) increased labor costs, and (3) higher finance costs stemming from elevated borrowings and interest rates.

Downgrade to Neutral (from Buy) with a lower TP of RM1.14 (from RM1.40). Our TP is based on an unchanged PER of 13.9x (in line with our 3-year sectoral forward PE for consumer discretionary) pegging to a lower FY24F EPS of 8.2sen (from 10.1sen). We downgraded AEON to **NEUTRAL** (from BUY) as we turned cautious on Aeon's FY24F outlook. We anticipate sluggish consumer spending on discretionary items such as softline, hardline, and wellness, given the heightened inflationary pressure. On a positive note, we expect the out-of-home consumption for food line products within the retail

segment to remain relatively robust, driven by resilient demand. Additionally, the higher fixed rental income from the PMS segment is anticipated to provide partial support against the backdrop of weaker consumer sentiment for discretionary products.

Downside risk/(re-rating catalyst) is weaker/(stronger)-than-expected consumer sentiment that reduce/(increase) spending at retail and tenant store, hence lowering/(increasing) the revenue. 

Aeon Co: 3QFY23 Results Summary

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	3QFY23	2QFY23	3QFY22	YoY (%)	QoQ (%)	9MFY23	9MFY22	YoY (%)
Revenue	955.9	1,033.0	982.0	(2.7)	(7.5)	3,095.7	3,079.3	0.5
Total operating expenses	(922.8)	(967.2)	(943.7)	(2.2)	(4.6)	(2,921.0)	(2,849.2)	2.5
Other operating income	22.7	6.9	8.1	180.2	229.0	37.5	21.0	78.6
Operating profit (EBIT)	55.8	72.7	46.4	20.3	(23.2)	212.2	251.1	(15.5)
Net finance income/(cost)	(26.9)	(23.6)	(27.7)	(2.9)	14.0	(72.1)	(85.3)	(15.5)
Profit before tax (PBT)	28.9	49.1	18.7	54.5	(41.1)	140.1	165.8	(15.5)
Income tax expense	(15.1)	(18.9)	(7.8)	93.6	(20.1)	(57.9)	(79.5)	(27.2)
Profit After tax (PAT)	13.8	30.2	10.9	26.6	(54.3)	82.2	86.3	(4.8)
PATANCI	13.8	30.2	10.9	26.6	(54.3)	82.2	86.3	(4.8)
Core PATANCI	14.9	29.6	18.0	(17.2)	(49.7)	84.6	90.8	(6.9)
Basic EPS (sen)	1.0	2.2	0.8	25.6	(54.4)	5.9	6.2	(4.9)
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	5.8	7.0	4.7	1.1	(1.2)	6.9	8.2	(1.3)
PBT Margin	3.0	4.8	1.9	1.1	(1.7)	4.5	5.4	(0.9)
Core PATANCI Margin	1.6	2.9	1.8	(0.3)	(1.3)	2.7	2.9	(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 (%)	52.2	38.5	41.7	10.5	13.8	52.2	41.7	10.5

Source: Company, MIDFR

Aeon Co: Breakdown by operating segment

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	3QFY23	2QFY23	3QFY22	YoY (%)	QoQ (%)	9MFY23	9MFY22	YoY (%)
Revenue (External):								
Retailing	789.9	864.0	826.2	(4.4)	(8.6)	2,595.3	2,621.9	(1.0)
Property Management Services	166.0	169.0	155.8	6.5	(1.8)	500.4	457.4	9.4
Total	955.9	1,033.0	982.0	(2.7)	(7.5)	3,095.7	3,079.3	0.5
Operating Profit:								
Retailing	(5.7)	3.7	29.5	(119.3)	(254.1)	36.2	170.2	(78.7)
Property Management Services	76.3	68.3	57.7	32.2	11.7	202.9	166.6	21.8
Total	70.6	72.0	87.2	(19.0)	(1.9)	239.1	336.8	(29.0)
Operating profit margin (%):				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Retailing	(0.7)	0.4	3.6	(4.3)	(1.1)	1.4	6.5	(5.1)
Property Management Services	46.0	40.4	37.0	8.9	5.5	40.5	36.4	4.1
Total	7.4	7.0	8.9	(1.5)	0.4	7.7	10.9	(3.2)

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023F	2024F	2025F
Revenue	3,630.4	4,141.1	4,110.9	4,076.8	4,048.0
Net Purchases	(2,159.7)	(2,424.9)	(2,419.2)	(2,401.5)	(2,390.5)
Gross Profit	1,470.7	1,716.2	1,691.7	1,675.2	1,657.5
Changes in inventories	(22.5)	4.3	(9.0)	(4.4)	(2.7)
Other operating income	21.3	36.8	43.9	34.0	33.7
Staff costs	(328.1)	(389.6)	(410.0)	(413.1)	(421.3)
Operating expenses	(421.4)	(605.4)	(613.1)	(604.9)	(603.7)
EBITDA	720.0	762.4	703.6	686.8	663.5
EBIT	260.9	323.1	302.5	288.1	266.5
Profit before tax (PBT)	131.0	211.5	203.5	194.3	180.4
Profit After tax (PAT)	85.3	111.2	115.9	114.8	110.3
Core PATANCI	101.6	131.3	117.3	114.8	110.3
Core EPS (sen)	7.2	9.3	8.4	8.2	7.9
DPS (sen)	3.0	4.0	4.2	4.1	3.9

FYE DEC (RM'm)	2021A	2022A	2023F	2024F	2025F
Property, plant and equipment	3,108.2	2,951.7	3,017.7	3,021.9	3,024.1
Intangible assets	63.0	51.8	51.8	51.8	51.8
Total Non-current assets	4,922.7	4,472.6	4,473.6	4,355.4	4,239.6
Inventories	601.2	605.5	596.5	592.2	589.4
ST - Trade and other receivables	130.9	93.6	89.1	90.2	91.3
Cash and cash equivalents	193.6	237.5	238.1	247.9	260.9
Total current assets	940.1	953.7	940.8	947.1	958.5
Total Assets	5,862.8	5,426.3	5,414.4	5,302.5	5,198.1
Total Equity	1,742.7	1,807.0	1,841.7	1,847.4	1,878.4
LT Loans and borrowings	327.8	50.0	371.0	352.4	334.8
Total Non-current liabilities	2,258.6	1,699.2	1,891.1	1,827.8	1,766.8
ST Trade and other payables	1,165.6	1,214.0	1,094.0	1,118.9	1,147.5
ST Loans and borrowings	400.6	447.8	268.6	255.2	242.5
Total Current Liabilities	1,861.4	1,920.1	1,681.7	1,627.3	1,552.8
Total Liabilities	4,120.1	3,619.3	3,572.7	3,455.1	3,319.7

Cash Flow (RM'm)	2021A	2022A	2023F	2024F	2025F
Pretax profit	131.0	211.5	203.5	194.3	180.4
Cash flow from operations	698.9	704.7	253.6	406.6	403.0
Cash flow from investing	(62.7)	(111.9)	(330.9)	(274.2)	(275.0)
Cash flow from financing	(514.0)	(548.9)	77.9	(122.6)	(114.9)
Net cash flow	122.2	43.9	0.6	9.8	13.0
(+/-) Adjustments	0.0	0.0	0.0	0.0	0.0
Net cash/(debt) b/f	71.4	193.6	237.5	238.1	247.9
Net cash/(debt) c/f	193.6	237.5	238.1	247.9	260.9

Key Metrics	2021A	2022A	2023F	2024F	2025F
Effective tax rate (%)	34.9	47.4	43.0	40.9	38.9
PER (x)	18.1	13.9	13.3	13.4	14.0
Net debt/total equity (%)	0.3	0.1	0.2	0.2	0.2
Cash/share (sen)	0.5	0.5	0.2	0.3	0.3

Profitability Margins	2021A	2022A	2023F	2024F	2025F
Gross Profit Margin (%)	40.5	41.4	41.2	41.1	40.9
EBITDA Margin (%)	19.8	18.4	17.1	16.8	16.4
EBIT Margin (%)	7.2	7.8	7.4	7.1	6.6
Core PATANCI Margin (%)	2.8	3.2	2.9	2.8	2.7

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