

**Aeon Co. (M) Berhad**

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

**Sluggish Consumer Sentiment Outlook****Maintain NEUTRAL****Unchanged Target Price: RM1.14****KEY INVESTMENT HIGHLIGHTS**

- **Within expectations**
- **4QFY23 retail sales remained weak despite solid PMS performance**
- **Normalization of consumer sentiment in 12MFY23 partially offset by solid PMS division**
- **No changes to earnings forecast but introduce FY26F**
- **Maintain NEUTRAL with an unchanged TP of RM1.14**

**Within expectations.** Aeon Co reported FY23 core PATANCI of RM120.5m, after excluding a one-time item of RM5.7m. This came in within our and consensus' full-year FY23 core PATANCI, which accounted for 102.7%/104.8% of our/consensus' projections. The FY23 revenue also came in within our/street's expectations of 100.4%/99.6%, respectively. The group reported a single-tier dividend of 4sen/share for 12MFY23 with a date to be determined later, in tandem with 4sen/share for 12MFY22.

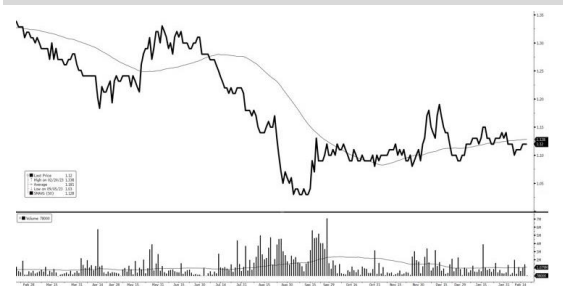
**4QFY23 retail sales remained weak despite solid PMS performance.** On a yearly basis, revenue declined by -2.7%yoy to RM1.03b primarily due to lower sales in the retail segment, attributed to a high base effect. However, core PATANCI saw a significant increase of +31.5%yoy to RM35.9m, driven by an improved occupancy rate and effective rental renewal within the Property Management Services (PMS) revenue, as well as efficient cost management practices. Sequentially, the uptick in topline performance by +8.1%qoq can be attributed to: (1) heightened consumer spending during festive and year-end sales periods, and (2) an improvement in the occupancy rate and rental revenue within the PMS segment. Consequently, core PATANCI more than doubled from RM14.9m in the 3QFY23 to RM35.9m in the 4QFY23.

**Normalization of consumer sentiment in FY23 partially offset by solid PMS division.** Cumulatively, the group revenue declined marginally by -0.3%yoy to RM4.13b, primarily attributed to reduced revenue in the retail segment owing to a high base effect and partial store closures for renovations. However, improved occupancy rates and effective rental renewals in the PMS segment countered the decrease in retail sales, resulting in a +2%yoy increase in core PATANCI to RM120.5m.

**No changes to the earnings forecast but introduce FY26F.** We make no changes to our FY24-25F earnings forecast, given that the FY23 core PATANCI came in within our expectations. We have factored in the continuous weaker consumer sentiment in retail sales, and the potential effect of fiscal restructuring slated for introduction in FY24. These policies include low-value goods tax, high-value goods tax, increased services tax, and potential fuel subsidy rollouts, that may affect consumer discretionary income.

**RETURN STATISTICS**

Price @ 23 Feb 2024 (RM)	1.11
Expected share price return (%)	+2.4
Expected dividend yield (%)	+3.6
<b>Expected total return (%)</b>	<b>+6.0</b>

**SHARE PRICE CHART**

Price performance (%)	Absolute	Relative
1 month	-0.9	-4.9
3 months	2.8	-4.7
12 months	-18.2	-22.2


**INVESTMENT STATISTICS**

FYE Dec	2024F	2025F	2026F
Revenue	4,076.8	4,048.0	4,106.8
EBITDA	686.8	663.5	670.1
Profit before tax (PBT)	194.3	180.4	190.9
Core PATANCI	114.8	110.3	116.7
Core EPS (sen)	8.2	7.8	8.3
DPS (sen)	4.1	3.9	4.2
Dividend Yield (%)	3.7	3.5	3.7

**KEY STATISTICS**

FBM KLCI	1,549.11
Issue shares (m)	1404.00
Estimated free float (%)	30.58
Market Capitalisation (RM'm)	1,572.48
52-wk price range	RM1.02-RM1.39
3-mth average daily volume (m)	1.06
3-mth average daily value (RM'm)	1.20
Top Shareholders (%)	
AEON Co. Ltd	51.68
Employees Provident Fund Board	9.18
Amanah Saham Nasional Bhd	4.90

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**Maintain NEUTRAL with an unchanged TP of RM1.14.** Our TP is based on an unchanged PER of 13.9x (in line with our 3-year sectoral forward mean PE for consumer discretionary) pegging to an unchanged FY24F EPS of 8.2sen. We maintain **NEUTRAL** 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 expected high inflationary pressure in 2024. On a positive note, we expect out-of-home consumption for food products within the retail segment to remain relatively robust, driven by resilient demand. Additionally, 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 reduces/(increases) spending at retail and tenant stores, hence lowering/(increasing) revenue. 

### Aeon Co: 4QFY23 Results Summary

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	4QFY23	3QFY23	4QFY22	YoY (%)	QoQ (%)	12MFY23	12MFY22	YoY (%)
Revenue	1,033.3	955.9	1,061.8	(2.7)	8.1	4,129.0	4,141.1	(0.3)
Total operating expenses	(963.3)	(922.8)	(1,005.7)	(4.2)	4.4	(3,884.3)	(3,854.9)	0.8
Other operating income	7.4	22.7	15.9	(53.5)	(67.4)	44.9	36.9	21.7
<b>Operating profit (EBIT)</b>	<b>77.4</b>	<b>55.8</b>	<b>72.0</b>	<b>7.5</b>	<b>38.7</b>	<b>289.6</b>	<b>323.1</b>	<b>(10.4)</b>
Net finance income/(cost)	(24.5)	(26.9)	(26.4)	(7.2)	(8.9)	(96.6)	(111.7)	(13.5)
<b>Profit before tax (PBT)</b>	<b>53.8</b>	<b>28.9</b>	<b>45.6</b>	<b>18.0</b>	<b>86.2</b>	<b>193.9</b>	<b>211.4</b>	<b>(8.3)</b>
Income tax expense	(21.2)	(15.1)	(20.7)	2.4	40.4	(79.1)	(100.2)	(21.1)
<b>Profit After tax (PAT)</b>	<b>32.6</b>	<b>13.8</b>	<b>24.9</b>	<b>30.9</b>	<b>136.2</b>	<b>114.8</b>	<b>111.2</b>	<b>3.2</b>
PATANCI	32.6	13.8	24.9	30.9	136.2	114.8	111.2	3.2
<b>Core PATANCI</b>	<b>35.9</b>	<b>14.9</b>	<b>27.3</b>	<b>31.5</b>	<b>140.9</b>	<b>120.5</b>	<b>118.1</b>	<b>2.0</b>
Basic EPS (sen)	2.3	1.0	1.8	31.1	136.7	8.2	7.9	3.2
DPS (sen)	4.0	0.0	4.0	0.0	n.m.	4.0	4.0	0.0
<b>Growth &amp; Margin (%)</b>				<b>+/(-) ppts</b>	<b>+/(-) ppts</b>			<b>+/(-) ppts</b>
Operating Profit Margin	7.5	5.8	6.8	0.7	1.7	7.0	7.8	(0.8)
PBT Margin	5.2	3.0	4.3	0.9	2.2	4.7	5.1	(0.4)
Core PATANCI Margin	3.5	1.6	2.6	0.9	1.9	2.9	2.9	0.1
<b>Ratios &amp; Valuation</b>				<b>+/(-) ppts</b>	<b>+/(-) ppts</b>			<b>+/(-) ppts</b>
Net debt/total equity (%)	0.3	0.3	0.4	(0.1)	(0.0)	0.3	0.4	(0.1)
Effective tax rate (%)	39.4	52.2	45.4	(6.0)	(12.8)	39.4	45.4	(6.0)

Source: Company, MIDFR

### Aeon Co: Breakdown by operating segment

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	4QFY23	3QFY23	4QFY22	YoY (%)	QoQ (%)	12MFY23	12MFY22	YoY (%)
<b>Revenue (External):</b>								
Retailing	859.0	789.9	903.7	(4.9)	8.7	3,454.3	3,525.6	(2.0)
PMS	174.3	166.0	158.1	10.2	5.0	674.7	615.5	9.6
<b>Total</b>	<b>1,033.3</b>	<b>955.9</b>	<b>1,061.8</b>	<b>(2.7)</b>	<b>8.1</b>	<b>4,129.0</b>	<b>4,141.1</b>	<b>(0.3)</b>
<b>Operating Profit:</b>								
Retailing	32.7	(5.7)	54.0	(39.4)	(673.7)	68.9	224.2	(69.3)
PMS	52.9	76.3	52.2	1.3	(30.7)	255.8	218.8	16.9
<b>Total</b>	<b>85.6</b>	<b>70.6</b>	<b>106.2</b>	<b>(19.4)</b>	<b>21.2</b>	<b>324.7</b>	<b>443.0</b>	<b>(26.7)</b>
<b>Operating profit margin (%)</b>				<b>+/(-) ppts</b>	<b>+/(-) ppts</b>			<b>+/(-) ppts</b>
Retailing	3.8	(0.7)	6.0	(2.2)	4.5	2.0	6.4	(4.4)
PMS	30.3	46.0	33.0	(2.7)	(15.6)	37.9	35.5	2.4
<b>Total</b>	<b>8.3</b>	<b>7.4</b>	<b>10.0</b>	<b>(1.7)</b>	<b>0.9</b>	<b>7.9</b>	<b>10.7</b>	<b>(2.8)</b>

Source: Company, MIDFR

PMS = Property Management services

## FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023E	2024F	2025F	2026F
<b>Revenue</b>	<b>4,141.1</b>	<b>4,129.0</b>	<b>4,076.8</b>	<b>4,048.0</b>	<b>4,106.8</b>
Net Purchases	(2,424.9)	(2,429.9)	(2,401.5)	(2,390.5)	(2,425.3)
<b>Gross Profit</b>	<b>1,716.2</b>	<b>1,699.1</b>	<b>1,675.2</b>	<b>1,657.5</b>	<b>1,681.5</b>
Changes in inventories	4.3	(52.1)	(4.4)	(2.7)	8.6
Other operating income	36.8	44.9	34.0	33.7	34.2
Staff costs	(389.6)	(410.0)	(413.1)	(421.3)	(429.6)
Operating expenses	(605.4)	(571.9)	(604.9)	(603.7)	(624.7)
<b>EBITDA</b>	<b>762.4</b>	<b>710.1</b>	<b>686.8</b>	<b>663.5</b>	<b>670.1</b>
<b>EBIT</b>	<b>323.1</b>	<b>289.6</b>	<b>288.1</b>	<b>266.5</b>	<b>274.9</b>
Profit before tax (PBT)	211.5	193.9	194.3	180.4	190.9
<b>Profit After tax (PAT)</b>	<b>111.2</b>	<b>114.8</b>	<b>114.8</b>	<b>110.3</b>	<b>116.7</b>
<b>Core PATANCI</b>	<b>131.3</b>	<b>120.5</b>	<b>114.8</b>	<b>110.3</b>	<b>116.7</b>
Core EPS (sen)	9.3	8.6	8.2	7.8	8.3
DPS (sen)	4.0	4.0	4.1	3.9	4.2

FYE DEC (RM'm)	2022A	2023E	2024F	2025F	2026F
Property, plant and equipment	2,951.7	3,090.2	3,021.9	3,024.1	3,027.9
Intangible assets	51.8	39.3	51.8	51.8	51.8
<b>Total Non-current assets</b>	<b>4,472.6</b>	<b>4,454.3</b>	<b>4,355.4</b>	<b>4,239.6</b>	<b>4,131.3</b>
Inventories	605.5	553.4	592.2	589.4	598.0
ST - Trade and other receivables	93.6	98.1	90.2	91.3	94.5
Cash and cash equivalents	237.5	99.8	247.9	260.9	272.7
<b>Total current assets</b>	<b>953.7</b>	<b>769.2</b>	<b>947.1</b>	<b>958.5</b>	<b>982.2</b>
<b>Total Assets</b>	<b>5,426.3</b>	<b>5,223.5</b>	<b>5,302.5</b>	<b>5,198.1</b>	<b>5,113.5</b>
<b>Total Equity</b>	<b>1,807.0</b>	<b>1,858.9</b>	<b>1,847.4</b>	<b>1,878.4</b>	<b>1,936.8</b>
LT Loans and borrowings	50.0	370.0	352.4	334.8	318.1
<b>Total Non-current liabilities</b>	<b>1,699.2</b>	<b>1,865.1</b>	<b>1,827.8</b>	<b>1,766.8</b>	<b>1,708.6</b>
ST Trade and other payables	1,214.0	1,185.6	1,118.9	1,147.5	1,199.7
ST Loans and borrowings	447.8	50.0	255.2	242.5	230.3
<b>Total Current Liabilities</b>	<b>1,920.1</b>	<b>1,499.5</b>	<b>1,627.3</b>	<b>1,552.8</b>	<b>1,468.2</b>
<b>Total Liabilities</b>	<b>3,619.3</b>	<b>3,364.6</b>	<b>3,455.1</b>	<b>3,319.7</b>	<b>3,176.8</b>

Cash Flow (RM'm)	2022A	2023E	2024F	2025F	2026F
Pretax profit	211.5	193.9	194.3	180.4	190.9
Cash flow from operations	704.7	630.0	406.6	403.0	409.1
Cash flow from investing	(111.9)	(367.4)	(274.2)	(275.0)	(278.8)
Cash flow from financing	(548.9)	(501.7)	(122.6)	(114.9)	(118.5)
<b>Net cash flow</b>	<b>43.9</b>	<b>(137.7)</b>	<b>9.8</b>	<b>13.0</b>	<b>11.7</b>
(+/-) Adjustments	0.0	0.0	0.0	0.0	0.0
<b>Net cash/(debt) b/f</b>	<b>193.6</b>	<b>237.5</b>	<b>99.8</b>	<b>247.9</b>	<b>260.9</b>
<b>Net cash/(debt) c/f</b>	<b>237.5</b>	<b>99.8</b>	<b>247.9</b>	<b>260.9</b>	<b>272.7</b>

Key Metrics	2022A	2023E	2024F	2025F	2026F
Effective tax rate (%)	47.4	43.0	40.9	38.9	38.9
PER (x)	14.0	13.6	13.6	14.1	13.4
Net debt/total equity (%)	0.1	0.2	0.2	0.2	0.1
Cash/share (sen)	0.5	0.4	0.3	0.3	0.3

Profitability Margins	2022A	2023E	2024F	2025F	2026F
Gross Profit Margin (%)	41.4	41.2	41.1	40.9	40.9
EBITDA Margin (%)	18.4	17.2	16.8	16.4	16.3
EBIT Margin (%)	7.8	7.0	7.1	6.6	6.7
Core PATANCI Margin (%)	3.2	2.9	2.8	2.7	2.8

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