



Aeon Co. (M) Berhad

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

Cloudy Outlook in The Near Term

KEY INVESTMENT HIGHLIGHTS

- **Foodline categories continued positive retail sales growth in FY23**
- **Higher occupancy rates with effective rental renewals in FY23**
- **Completed renovations of two malls in FY2023 with more expansion and development plans ahead**
- **Maintain NEUTRAL with an unchanged TP of RM1.14**

Virtual Briefing. We attended Aeon's virtual briefing and we remained neutral on outlook for the company. Some key highlights are as follows:-

Retail:

Foodline categories continued positive retail sales growth in FY23. Within the retail segment, revenue for foodline categories increased by +2.4%yoy to RM2.19b, primarily driven by resilient demand for daily essential foods. However, softline, hardline, and wellness categories experienced a decline in the same period, indicating consumer cautiousness towards non-essential items.

Southern region's continued upward trajectory due to influx of tourists. Retail revenue contribution from the Southern region increased from 17% in FY22 to 18.4% in FY23. This growth was primarily fueled by a +6%yoy increase in absolute revenue, supported by tourist spending. In contrast, the Central (-4%yoy) and Northern (-3%yoy) regions recorded lower revenue contributions and absolute amounts, reflecting subdued consumer spending amidst inflationary pressures.

Consumer spending lesser per basket yet return often. ABS dropped by -10%yoy to RM61.9 in FY23, which reflected the cautious spending from the consumer. Despite lower ABS, we noticed that the average transaction volume increased (+9%yoy) in FY23, which indicated that returning customers increased despite lower size each time.

PMS:

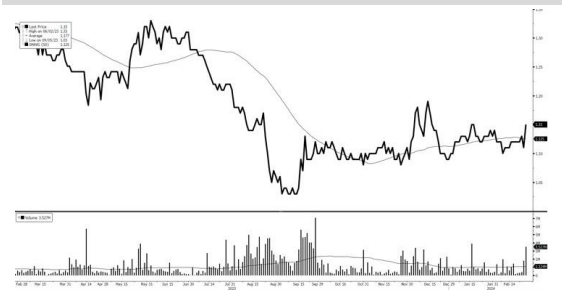
Higher occupancy rates with effective rental renewals in FY23. Aeon's malls occupancy rate increased by +1.8ppt yoy to 93.2%. The group also recorded a 95% success rate in rental renewals during the year, with a rental reversion of 9%. Consequently, fixed rental income increased by +17.3%yoy, while variable rental income dropped marginally by -0.6%yoy. Moving forward, the group targets to at least sustain the current occupancy rate in FY24 with similar success in rental renewals and rental reversion.

Maintain NEUTRAL**Unchanged Target Price: RM1.14**

RETURN STATISTICS

Price @ 26 th Feb 2024 (RM)	1.14
Expected share price return (%)	-0.30
Expected dividend yield (%)	3.60
Expected total return (%)	+3.31

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.8	-1.1
3 months	5.5	-1.9
12 months	-14.8	-19.9

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 (%)	3.6	3.4	3.6

KEY STATISTICS

FBM KLCI	1,547.60
Issue shares (m)	1404.00
Estimated free float (%)	30.58
Market Capitalisation (RM'm)	1,614.60
52-wk price range	RM1.02-RM1.37
3-mth average daily volume (m)	1.08
3-mth average daily value (RM'm)	1.21
Top Shareholders (%)	
AEON Co. Ltd	51.68
Employees Provident Fund Board	9.14
Amanah Saham Nasional Bhd	4.90

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Future developments and Outlook:

Completed renovations of two malls in FY2023 with more expansion and development plans ahead. Aeon completed the rejuvenation of the Aeon Cheras Selatan and Aeon Ayer Keroh Melaka in FY23. Aeon Cheras Selatan experienced a notable increase in sales (+27%) and car traffic (+12%) during its reopening month. Similarly, Aeon Ayer Keroh Melaka reported significant sales growth (+61%) and a surge in car count (+27%) during its reopening month. Looking ahead, the group aims to revamp stores at Aeon IOI Bandar Puchong, Aeon Bukit Indah, and Aeon Tebrau City. Additionally, Aeon plans to open a new Aeon Setai Alam store in FY24 and launch Aeon KL Midtown Mall by the end of FY25 or early FY26. As such, the group anticipates a capex allocation of RM250-300m in FY24, consistent with FY23's investment levels.

Potential price adjustments on certain products amidst expected higher operating costs. Based on our channel check, we learned that the higher service tax will have both a direct and indirect impact on the group. In particular, we foresee not only a higher service tax on certain products, but also the expectation of some cost-pass-through activities from vendors/suppliers, which will increase operating costs. Note that the implementation of a higher service tax of 8% on certain services and expand the service tax to logistics, brokerage, underwriting, and karaoke services, effective 1 March 2024. Consequently, we anticipate that the group will likely pass on the higher costs via price adjustments to the consumer.

Maintain Neutral with an unchanged TP of RM1.14. We make no changes to our forecast post analyst briefing. 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** on Aeon.

Outlook. We remain cautious on the FY24F outlook mainly as we expect subdued consumer spending on discretionary items such as softline, hardline, and wellness, given the expected inflationary pressure. These include low-value goods tax, high-value goods tax, higher services tax, and potential fuel subsidy rollouts, which may erode consumer discretionary income. The introduction of the higher services tax is also expected to raise the operating expenses of the company, as we believe that the vendors/suppliers will pass on the higher costs. 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. Meanwhile, we expect that the higher fixed rental income from the PMS segment will provide some buffer 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. 

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023E	2024F	2025F	2026F
Revenue	4,141.1	4,129.0	4,076.8	4,048.0	4,106.8
Net Purchases	(2,424.9)	(2,429.9)	(2,401.5)	(2,390.5)	(2,425.3)
Gross Profit	1,716.2	1,699.1	1,675.2	1,657.5	1,681.5
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)
EBITDA	762.4	710.1	686.8	663.5	670.1
EBIT	323.1	289.6	288.1	266.5	274.9
Profit before tax (PBT)	211.5	193.9	194.3	180.4	190.9
Profit After tax (PAT)	111.2	114.8	114.8	110.3	116.7
Core PATANCI	131.3	120.5	114.8	110.3	116.7
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
Total Non-current assets	4,472.6	4,454.3	4,355.4	4,239.6	4,131.3
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
Total current assets	953.7	769.2	947.1	958.5	982.2
Total Assets	5,426.3	5,223.5	5,302.5	5,198.1	5,113.5
Total Equity	1,807.0	1,858.9	1,847.4	1,878.4	1,936.8
LT Loans and borrowings	50.0	370.0	352.4	334.8	318.1
Total Non-current liabilities	1,699.2	1,865.1	1,827.8	1,766.8	1,708.6
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
Total Current Liabilities	1,920.1	1,499.5	1,627.3	1,552.8	1,468.2
Total Liabilities	3,619.3	3,364.6	3,455.1	3,319.7	3,176.8

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)
Net cash flow	43.9	(137.7)	9.8	13.0	11.7
(+/-) Adjustments	0.0	0.0	0.0	0.0	0.0
Net cash/(debt) b/f	193.6	237.5	99.8	247.9	260.9
Net cash/(debt) c/f	237.5	99.8	247.9	260.9	272.7

Key Metrics	2022A	2023E	2024F	2025F	2026F
Effective tax rate (%)	47.4	43.0	40.9	38.9	38.9
PER (x)	14.4	13.9	13.9	14.5	13.7
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