

**Aeon Co. (M) Berhad**

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

Change in Managing Director; 4QFY23 Results Preview**KEY INVESTMENT HIGHLIGHTS**

- **Change in Managing Director, effective 1 Mar 2024**
- **Organizational reforms and personnel adjustments underway at Aeon Japan**
- **New MD with deep-rooted connection to the parent company**
- **4QFY23 results preview**
- **Maintain NEUTRAL with an unchanged TP of RM1.14**

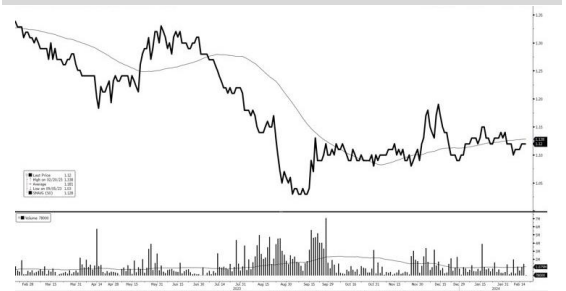
Change in Managing Director, effective 1 Mar 2024. On February 20, 2024, Aeon Co. ("Aeon Malaysia") announced a change in Managing Director from Mr. Keiji Ono to Mr. Naoya Okada (current deputy MD), effective 1 March 2024. According to Bursa filing, the current MD's resignation aims to pursue a higher position assigned by Aeon Co., Ltd ("Aeon Japan"). Recall that Mr. Keiji Ono assumed the MD position at Aeon on 1 July 2022, concurrently with Mr. Naoya Okada's appointment as deputy MD.

Organizational reforms and personnel adjustments underway at Aeon Japan. On 20 February 2024, Aeon Japan (parent company) announced organizational reforms and personnel adjustments. Notably, Aeon Japan holds a majority shareholding of 51% in Aeon Malaysia as of 31 March 2023. Aeon Japan is listed on the Tokyo Stock Exchange and operates 20,083 stores across 15 countries. Beyond its role as the parent company, Aeon Japan exerts substantial influence over Aeon Malaysia, with certain offerings in Aeon Malaysia originating from Aeon Japan. These include in-house fashion brands such as TOPVALU, Home Coordy, among others, along with La Boheme and AEON MaxValu. Additionally, the current Aeon Living Zone strategy stems from Aeon Japan's mid-term management plan.

New MD with deep-rooted connection to the parent company. The appointment of Naoya Okada as the new MD signals a meticulously crafted succession plan, with the new MD hailing from the founding family of Aeon Japan. Based on the bourse filing, Naoya Okada is the son of Motoya Okada - an Executive Officer, Chairman, and major shareholder of AEON Japan. Meanwhile, Motoya Okada is the son of the principal founder of Aeon Japan - Takuya Okada. This suggests the integration of the 3rd generation into the company's leadership structure and signaling a potential succession strategy for Aeon Japan. In addition to his familial ties, Naoya Okada boasts nearly a decade of experience across various subsidiaries under Aeon Japan. We expect that this not only underscores his deep-rooted connection to the parent company but also hints at the potential infusion of overarching vision into Aeon Malaysia.

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

Price @ 20 th Feb 2024 (RM)	1.12
Expected share price return (%)	+1.60
Expected dividend yield (%)	3.70
Expected total return (%)	+5.30

SHARE PRICE CHART

Price performance (%)	Absolute	Relative
1 month	-0.9	-3.9
3 months	2.8	-3.9
12 months	-18.8	-21.8

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	1,555.59
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

Analyst**Genevieve Ng** Pei Fen
genevieve.ng@midf.com.my

4QFY23 results preview. Looking into the upcoming 4QFY23 results, we expect revenue of RM1.02b for 4QFY23, better than the 3QFY23 of RM955.9m. This is grounded in the recognition of 4Q as the prime sales season, particularly during year-end and New Year holiday sales. However, our forecast is -4%yoy lower than 4QFY22, given the high base in FY22 on the back of pent-up demand. Furthermore, we anticipate a prevailing trend of cautious consumer spending as we progress into 2024. We also anticipate that the occupancy rate of the property management services segment will remain stable at 92%. As such, we expect a core PATANCI of RM32.7m for the upcoming result release for 4QFY23.

No changes to earnings forecast. We do not foresee any impact on earnings due to changes in the boardroom in the near term, yet we do not rule out the possibility of changes in the mid-to-long-term strategy in line with the parent company, given the close ties of the upcoming new MD as a founding family member.

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 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 resulting from various fiscal policies introduced in 2024. These include the implemented low-value goods tax ("LVG"), as well as the forthcoming introduction of the high-value goods tax ("HVG"), higher services tax, and rationalization of targeted subsidies for fuel. 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 reduce/(increase) spending at retail and tenant store, hence lowering/(increasing) the revenue. 

TABLE 1: Aeon Japan's Organizational and Personnel Changes

2. Reassignment of Executive Officers (Effective March 1)

New position	Current position	Name
Executive Vice President and Executive Officer Chief Human Resources and AEON Living Zone Promotion Officer, Supervisor of Risk Management	Executive Vice President and Executive Officer Chief Human Resources and Administration Officer, Supervisor of Risk Management	Hiroyuki Watanabe
Executive Officer and Chief Officer of GMS and AEON Retail Co., Ltd. President and Representative Director	AEON Retail Co., Ltd. President and Representative Director	Takemi Ide (*)
Executive Officer and Chief Officer of Malaysia Business and AEON Malaysia President and Director	AEON Malaysia Vice President and Director	Naoya Okada (*)

(*) Newly promoted/appointed

3. Personnel Changes of Chief Manager (Effective March 1)

New position	Current position	Name
Chief Risk Management Officer	Risk management Supervising Manager	Koji Tsusue (*)

(Effective May 23)

New position	Current position	Name
Chief ASEAN Business Officer	AEON Mall Co., Ltd. President and Representative Director	Yasutsugu Iwamura (*)

(*) Newly promoted/appointed

Source: Aeon Co Ltd (Japan), [link](#)

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)	18.5	14.1	13.6	13.7	14.3
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

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 – X)).
 (Bank Pelaburan)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related BNM and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loss, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such BNM mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

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