

**Aeon Co. (M) Berhad**

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

**Robust Festive Spending in 1QFY24****Upgrade to BUY***(Previously NEUTRAL)***Revised Target Price: RM1.40***(Previously RM1.14)***KEY INVESTMENT HIGHLIGHTS**

- **Above expectations**
- **Bolstered 1QFY24 revenue amidst festive celebration, effective cost management, and higher sales commissions**
- **Revised earnings forecast for FY24-26F higher**
- **Upgrade to BUY (previously NEUTRAL) with a higher TP of RM1.40 (previously RM1.14)**

**Above expectations.** Aeon Co. ("Aeon") reported a better-than-expected 1QFY24 core PATANCI of RM57.9m (excluding a one-time item of RM0.4m). The 1QFY24 core PATANCI accounted for 50.4% of our full-year FY24F forecast and 45% of the consensus estimate, despite revenue within expectations. This was mainly due to (1) lower-than-expected costs owing to effective cost management and fewer staff and (2) higher-than-expected finance income (higher cash and cash equivalent). No dividend was declared, as expected, since the group typically declares in the fourth quarter.

**Bolstered 1QFY24 revenue amidst festive celebration, effective cost management, and higher sales commissions.** Aeon reported a better revenue (+13%qoq, +5.5%yoy) of RM1.17b in 1QFY24. This was mainly supported by better retail (+14%qoq, +4%yoy) and PMS revenue (+7%qoq, +13%yoy) contribution thanks to higher festive spending and stronger sales commission received.

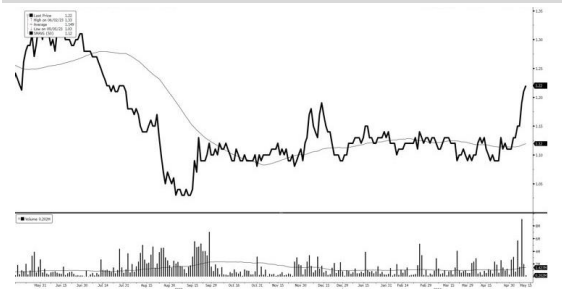
**Robust core PATANCI margin at 5% in 1QFY24.** Sequentially, the group's better core PATANCI growth of +61.3%qoq to RM57.9m was mainly due to enhanced revenue and lower net finance costs (higher cash of RM250.6m in 1QFY24 vs. RM99.8m in 4QFY23). On a yearly basis, the higher revenue along with effective cost management (lower staff) has raised the core PATANCI higher by +44.5%yoy to RM57.9m.

**Revised earnings forecast for FY24-26F higher.** Given that the earnings came in above expectation, we raised our earnings forecast for FY24-2F higher by +20.1%/+37.4%/+35.1% respectively. This adjustment followed the updated audited FY23 performance and accounted for (1) lower staff costs due to a significant drop in Aeon staff, (2) lower operating expenses, and (3) higher finance income due to higher cash and cash equivalents.

**Upgrade to BUY (previously NEUTRAL) with a higher TP of RM1.40 (previously RM1.14).** Our revised TP is based on a revised PER of 13x (from 13.9x, in line with our 3Y sectoral forward -0.5SD PER for consumer discretionary) pegging to a revised FY25F EPS of 10.8sen (from FY24F EPS of 8.2sen).

**RETURN STATISTICS**

Price @ 15 <sup>th</sup> May 2024 (RM)	1.20
Expected share price return (%)	+16.9
Expected dividend yield (%)	+4.0
<b>Expected total return (%)</b>	<b>+20.9</b>

**SHARE PRICE CHART**

Price performance (%)	Absolute	Relative
1 month	8.0	4.5
3 months	11.9	5.0
12 months	-3.2	-14.0

**INVESTMENT STATISTICS**


FYE Dec	2024F	2025F	2026F
Revenue	4,132.1	4,165.1	4,201.2
EBITDA	722.9	741.4	745.4
Profit before tax (PBT)	230.0	252.6	262.8
Core PATANCI	138.0	151.6	157.7
Core EPS (sen)	9.8	10.8	11.2
DPS (sen)	4.0	4.3	4.5
Dividend Yield (%)	3.4	3.6	3.7

**KEY STATISTICS**

FBM KLCI	1,603.23
Issue shares (m)	1404.00
Estimated free float (%)	29.66
Market Capitalisation (RM'm)	1,712.88
52-wk price range	RM1.02-RM1.37
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	9.20
Amanah Saham Nasional Bhd	4.90

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**Outlook.** We turned optimistic on Aeon Co's FY24F outlook underpinned by: (1) solid out-of-home spending thanks to the stable job market and income prospects, (2) various government cash handouts, and EPF Account 3 withdrawal that could support the spending for value staple products at Aeon Co, and (3) stable occupancy rate and positive rental renewal for the PMS segment thanks to the return of consumers to shop physically.

**Downside risk** is weaker-than-expected consumer sentiment due to the possible implementation of fiscal policies in 2HCY24 that reduces spending at retail and tenant stores, hence lowering revenue. 

### Aeon Co: 1QFY24 Results Summary

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	1QFY24	4QFY23	1QFY23	YoY (%)	QoQ (%)	3MFY24	3MFY23	YoY (%)
Revenue	1,167.4	1,033.3	1,106.8	5.5	13.0	1,167.4	1,106.8	5.5
Total operating expenses	(1,056.4)	(963.3)	(1,031.0)	2.5	9.7	(1,056.4)	(1,031.0)	2.5
Other operating income	6.0	7.4	7.9	(24.1)	(18.9)	6.0	7.9	(24.1)
<b>Operating profit (EBIT)</b>	<b>117.0</b>	<b>77.4</b>	<b>83.7</b>	<b>39.8</b>	<b>51.2</b>	<b>117.0</b>	<b>83.7</b>	<b>39.8</b>
Net finance income/(cost)	(22.3)	(24.5)	(21.6)	3.2	(9.0)	(22.3)	(21.6)	3.2
<b>Profit before tax (PBT)</b>	<b>94.8</b>	<b>53.8</b>	<b>62.1</b>	<b>52.7</b>	<b>76.2</b>	<b>94.8</b>	<b>62.1</b>	<b>52.7</b>
Income tax expense	(37.3)	(21.2)	(23.9)	56.1	75.9	(37.3)	(23.9)	56.1
<b>Profit After tax (PAT)</b>	<b>57.5</b>	<b>32.6</b>	<b>38.2</b>	<b>50.5</b>	<b>76.4</b>	<b>57.5</b>	<b>38.2</b>	<b>50.5</b>
PATANCI	57.5	32.6	38.2	50.5	76.4	57.5	38.2	50.5
<b>Core PATANCI</b>	<b>57.9</b>	<b>35.9</b>	<b>40.1</b>	<b>44.5</b>	<b>61.3</b>	<b>57.9</b>	<b>40.1</b>	<b>44.5</b>
Basic EPS (sen)	4.1	2.3	2.7	50.7	76.7	4.1	2.7	50.7
DPS (sen)	0.0	4.0	0.0	n.m.	(100.0)	0.0	0.0	n.m.
<b>Growth &amp; Margin (%)</b>				<b>+(-) ppts</b>	<b>+(-) ppts</b>			<b>+(-) ppts</b>
Operating Profit Margin	10.0	7.5	7.6	2.5	2.5	10.0	7.6	2.5
PBT Margin	8.1	5.2	5.6	2.5	2.9	8.1	5.6	2.5
Core PATANCI Margin	5.0	3.5	3.6	1.3	1.5	5.0	3.6	1.3
<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 (%)	39.3	39.4	38.5	0.9	(0.1)	39.3	38.5	0.9

Source: Company, MIDFR

### Aeon Co: Breakdown by operating segment

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	1QFY24	4QFY23	1QFY23	YoY (%)	QoQ (%)	3MFY24	3MFY23	YoY (%)
<b>Revenue (External):</b>								
Retailing	980.5	859.0	941.4	4.2	14.1	980.5	941.4	4.2
PMS	186.9	174.3	165.4	13.0	7.2	186.9	165.4	13.0
<b>Total</b>	<b>1,167.4</b>	<b>1,033.3</b>	<b>1,106.8</b>	<b>5.5</b>	<b>13.0</b>	<b>1,167.4</b>	<b>1,106.8</b>	<b>5.5</b>
<b>Operating Profit:</b>								
Retailing	54.0	32.7	38.2	41.4	65.1	54.0	38.2	41.4
PMS	68.0	52.9	58.3	16.6	28.5	68.0	58.3	16.6
<b>Total</b>	<b>122.0</b>	<b>85.6</b>	<b>96.5</b>	<b>26.4</b>	<b>42.5</b>	<b>122.0</b>	<b>96.5</b>	<b>26.4</b>
<b>Operating profit margin (%)</b>				<b>+(-) ppts</b>	<b>+(-) ppts</b>			<b>+(-) ppts</b>
Retailing	5.5	3.8	4.1	1.4	1.7	5.5	4.1	1.4
PMS	36.4	30.3	35.2	1.1	6.0	36.4	35.2	1.1
<b>Total</b>	<b>10.5</b>	<b>8.3</b>	<b>8.7</b>	<b>1.7</b>	<b>2.2</b>	<b>10.5</b>	<b>8.7</b>	<b>1.7</b>

Source: Company, MIDFR

PMS = Property Management services

## FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024F	2025F	2026F
<b>Revenue</b>	<b>4,141.1</b>	<b>4,129.0</b>	<b>4,132.1</b>	<b>4,165.1</b>	<b>4,201.2</b>
Net Purchases	(2,424.9)	(2,330.3)	(2,355.3)	(2,362.2)	(2,370.8)
<b>Gross Profit</b>	<b>1,716.2</b>	<b>1,798.8</b>	<b>1,776.8</b>	<b>1,802.8</b>	<b>1,830.4</b>
Changes in inventories	4.3	(52.1)	14.5	1.7	2.1
Other operating income	36.8	44.9	45.0	45.3	45.7
Staff costs	(389.6)	(394.8)	(408.7)	(423.1)	(438.0)
Operating expenses	(605.4)	(683.6)	(704.6)	(685.4)	(694.8)
<b>EBITDA</b>	<b>762.4</b>	<b>713.2</b>	<b>722.9</b>	<b>741.4</b>	<b>745.4</b>
<b>EBIT</b>	<b>323.1</b>	<b>289.6</b>	<b>322.1</b>	<b>344.8</b>	<b>355.6</b>
Profit before tax (PBT)	211.5	193.9	230.0	252.6	262.8
<b>Profit After tax (PAT)</b>	<b>111.2</b>	<b>114.8</b>	<b>138.0</b>	<b>151.6</b>	<b>157.7</b>
<b>Core PATANCI</b>	<b>131.3</b>	<b>127.6</b>	<b>138.0</b>	<b>151.6</b>	<b>157.7</b>
Core EPS (sen)	9.3	9.1	9.8	10.8	11.2
DPS (sen)	4.0	4.0	4.0	4.3	4.5

FYE DEC (RM'm)	2022A	2023A	2024A	2025F	2026F
Property, plant and equipment	2,951.7	3,090.2	3,022.2	2,999.2	2,962.4
Intangible assets	51.8	39.3	39.5	39.7	39.9
<b>Total Non-current assets</b>	<b>4,472.6</b>	<b>4,454.4</b>	<b>4,364.7</b>	<b>4,343.8</b>	<b>4,311.8</b>
Inventories	605.5	553.4	567.9	569.5	571.6
ST - Trade and other receivables	93.6	98.1	98.1	98.9	99.7
Cash and cash equivalents	237.5	99.8	247.9	264.9	275.2
<b>Total current assets</b>	<b>953.7</b>	<b>769.2</b>	<b>930.3</b>	<b>949.8</b>	<b>963.2</b>
<b>Total Assets</b>	<b>5,426.3</b>	<b>5,223.5</b>	<b>5,295.0</b>	<b>5,293.6</b>	<b>5,275.0</b>
<b>Total Equity</b>	<b>1,807.0</b>	<b>1,859.0</b>	<b>1,928.0</b>	<b>2,010.6</b>	<b>2,105.3</b>
LT Loans and borrowings	50.0	370.0	355.2	348.1	344.6
<b>Total Non-current liabilities</b>	<b>1,699.2</b>	<b>1,865.0</b>	<b>1,807.0</b>	<b>1,758.3</b>	<b>1,714.6</b>
ST Trade and other payables	1,214.0	1,185.7	1,188.9	1,192.4	1,196.8
ST Loans and borrowings	447.8	50.0	48.0	47.0	46.6
<b>Total Current Liabilities</b>	<b>1,920.1</b>	<b>1,499.5</b>	<b>1,560.0</b>	<b>1,524.6</b>	<b>1,455.2</b>
<b>Total Liabilities</b>	<b>3,619.3</b>	<b>3,364.5</b>	<b>3,367.0</b>	<b>3,283.0</b>	<b>3,169.8</b>

Cash Flow (RM'm)	2022A	2023A	2024A	2025F	2026F
Pretax profit	211.5	193.9	194.3	252.6	262.8
Cash flow from operations	704.7	629.9	406.6	491.7	469.8
Cash flow from investing	(111.9)	(367.3)	(274.2)	(366.4)	(348.4)
Cash flow from financing	(548.9)	(400.3)	(122.6)	(108.3)	(111.1)
<b>Net cash flow</b>	<b>43.9</b>	<b>(137.6)</b>	<b>9.8</b>	<b>17.0</b>	<b>10.3</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>264.9</b>
<b>Net cash/(debt) c/f</b>	<b>237.5</b>	<b>99.8</b>	<b>247.9</b>	<b>264.9</b>	<b>275.2</b>

Key Metrics	2022A	2023A	2024A	2025F	2026F
Effective tax rate (%)	47.4	40.8	40.0	40.0	40.0
PER (x)	15.2	14.7	12.2	11.1	10.7
Net debt/total equity (%)	0.1	0.2	0.1	0.1	0.1
Cash/share (sen)	0.5	0.4	0.3	0.3	0.3

Profitability Margins	2022A	2023A	2024A	2025F	2026F
Gross Profit Margin (%)	41.4	43.6	43.0	43.3	43.6
EBITDA Margin (%)	18.4	17.3	17.5	17.8	17.7
EBIT Margin (%)	7.8	7.0	7.8	8.3	8.5
Core PATANCI Margin (%)	3.2	3.1	3.3	3.6	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