

Aeon Co. (M) Berhad

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

More Rejuvenation on Track

KEY INVESTMENT HIGHLIGHTS

- **Minimal impact of the higher and expanded scope of services tax**
- **Normalization of ABS ahead with the foodline remain the key contributor**
- **Higher occupancy rate of 93.6% in 1QFY24; remain committed to tenancy renewal.**
- **Better mall performance post-renovation**
- **Maintain BUY with a higher TP of RM1.52 (previously RM1.40)**

We attended Aeon Co's analyst briefing and remain optimistic about the FY24 outlook. Some salient highlights are as follows:

1QFY24 sales were contributed by CNY and Ramadan celebrations. Increased operating profit margin of 10% (+2.5% yoy, +2.5% yoy) was lifted by higher sales, a better retail sales mix (higher sales of high-margin Softline products), and effective cost management amidst lower contract workers. Moving forward, management targets a full-year FY24 PAT margin of at least 2.5%, mainly supported by the foodline.

Minimal impact of the higher and expanded scope of services tax. Management highlighted that the higher services tax only has a 0.5% impact on operating expenses.

Retail segment:

Normalization of ABS ahead with the foodline remain the key contributor. Aeon recorded an ABS of RM69.5 in 1QFY24 (vs RM66.1 in 1QFY23). The group expects the ABS to maintain at RM60-65 for FY24. The foodline remained the biggest contributor (+54.2%), followed by softline (+19.5%), hardline (+13.2%), and HBC (13.1%). Moving forward, management expects the foodline to remain strong, and softline could see some normalization due to the lack of festive celebrations.

Higher tourist movement from neighboring countries. The Southern region (+18.6%) outperformed the northern region (+18.3%) mainly lifted by tourist traffic from Singapore. The central region (63.1%) remained strong as the biggest contributor.

PMS segment:

Higher occupancy rate of 93.6% in 1QFY24, mainly supported by (1) better occupancy post-completion of the Aeon Ayer Keroh and Aeon Cheras Selatan malls, and (2) an optimized tenant mix thanks to increased F&B and specialty tenants, but lower specialty tenants. Festive spending also raised the variable income contribution higher by +15.8%yoy to RM78.5m.

Remain committed to tenancy renewal. Management highlighted that 1/3 of the tenant agreements are due for renewal in FY24. The group targets to have a renewal rate of at least 90% by the end of FY24. Note that the rental renewal rate was 95% in FY23.

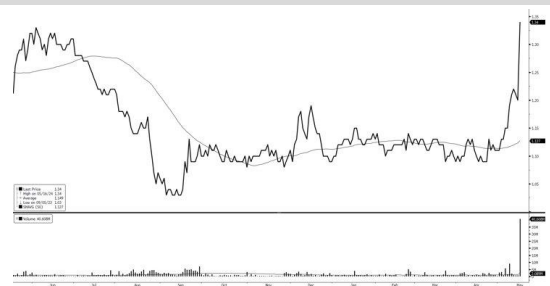
Maintain BUY

Revised Target Price: RM1.52
(Previously RM1.40)

RETURN STATISTICS

Price @ 16 th May 2024 (RM)	1.34
Expected share price return (%)	+13.5
Expected dividend yield (%)	+3.0
Expected total return (%)	+16.5

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	22.9	17.5
3 months	22.9	13.9
12 months	6.3	-6.0

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 (%)	3.0	3.2	3.4

KEY STATISTICS

FBM KLCI	1,611.11
Issue shares (m)	1404.00
Estimated free float (%)	29.66
Market Capitalisation (RM'm)	1,881.36
52-wk price range	RM1.02-RM1.41
3-mth average daily volume (m)	2.08
3-mth average daily value (RM'm)	2.49
Top Shareholders (%)	
Aeon Co Ltd	51.68
Employees Provident Fund Board	9.20
Amanah Saham Nasional Bhd	4.90

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Others:

Better mall performance post-renovation. Management highlighted better occupancy rates and a double-digit surge in retail sales post-renovations of Aeon Ayer Keroh and Aeon Cheras Selatan. Looking ahead, the group aims to rejuvenate four malls across Peninsular Malaysia, with a total capex projected at RM250m-300m for FY24. This encompasses the ongoing store facelift in Aeon Bandar Puchong (commenced mid-March); store facelift in Aeon Bukit Indah in Johor; mall facelift of Aeon Tebrau City in Johor; and mall & store facelift at Aeon Ipoh Station 18. The rejuvenations are slated for completion in 3Q-4Q24.

Strategy ahead. Management targets to expand the customer base through offline and online platforms. Aeon aims to differentiate from competitors by leveraging Aeon's private brands and imported Aeon's private brands (from both sister and parent companies). Note that private brands contribute less than 5% to total sales.

ESG. Aeon installed solar panels on 11 AEON malls to reduce electricity consumption by 5-8% of the utility cost of the malls. In particular, Aeon Taman Maluri, Aeon Alpha Angle, and Aeon Ayer Keroh Melaka have started to generate electricity, but the remaining 7 are still pending official approval. Besides, the group targets to install EV charging infrastructure at 10 AEON malls, with Aeon Shah Alam and Aeon Bukit Raja already online.

Maintain BUY with a higher TP of RM1.52 (from RM1.40). We make no changes to our earnings forecast post analyst briefing. We revise our **TP** for Aeon Co to **RM1.52** from RM1.40 as we revise our valuation to three-year consumer discretionary sector forward mean PER of 14.1x from three-year consumer staple sectoral forward -0.5SD PER of 13x in view of the positive outlook of Aeon CO. Our revised TP is based on a revised PER of 14.1x (from 13.0x) that pegged to an unchanged FY25F EPS of 10.8sen. Moving forward, we remain positive on Aeon Co's FY24F outlook supported by: (1) robust out-of-home spending due to the steady job market and income outlook, (2) various government initiative, and EPF Account 3 withdrawal that may bolster spending on essential products at Aeon Co, and (3) steady occupancy rates and favorable rental renewals for the PMS segment due to the resurgence of in-person shopping by consumers. Hence, we maintain **BUY** call on Aeon Co.

Downside risk is softer-than-expected consumer sentiment due to the inflationary pressures in 2HCY24 that reduces consumer spending at retail and tenant stores. 

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024F	2025F	2026F
Revenue	4,141.1	4,129.0	4,132.1	4,165.1	4,201.2
Net Purchases	(2,424.9)	(2,330.3)	(2,355.3)	(2,362.2)	(2,370.8)
Gross Profit	1,716.2	1,798.8	1,776.8	1,802.8	1,830.4
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)
EBITDA	762.4	713.2	722.9	741.4	745.4
EBIT	323.1	289.6	322.1	344.8	355.6
Profit before tax (PBT)	211.5	193.9	230.0	252.6	262.8
Profit After tax (PAT)	111.2	114.8	138.0	151.6	157.7
Core PATANCI	131.3	127.6	138.0	151.6	157.7
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
Total Non-current assets	4,472.6	4,454.4	4,364.7	4,343.8	4,311.8
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
Total current assets	953.7	769.2	930.3	949.8	963.2
Total Assets	5,426.3	5,223.5	5,295.0	5,293.6	5,275.0
Total Equity	1,807.0	1,859.0	1,928.0	2,010.6	2,105.3
LT Loans and borrowings	50.0	370.0	355.2	348.1	344.6
Total Non-current liabilities	1,699.2	1,865.0	1,807.0	1,758.3	1,714.6
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
Total Current Liabilities	1,920.1	1,499.5	1,560.0	1,524.6	1,455.2
Total Liabilities	3,619.3	3,364.5	3,367.0	3,283.0	3,169.8

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)
Net cash flow	43.9	(137.6)	9.8	17.0	10.3
(+/-) Adjustments	0.0	0.0	0.0	0.0	0.0
Net cash/(debt) b/f	193.6	237.5	99.8	247.9	264.9
Net cash/(debt) c/f	237.5	99.8	247.9	264.9	275.2

Key Metrics	2022A	2023A	2024A	2025F	2026F
Effective tax rate (%)	47.4	40.8	40.0	40.0	40.0
PER (x)	16.9	16.4	13.6	12.4	11.9
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