

**Aeon Co. (M) Berhad**

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

Maintain BUY**Acquisition of Two Land Parcels****Revised Target Price: RM1.60***(Previously RM1.52)***KEY INVESTMENT HIGHLIGHTS**

- **Acquisition of 2 land parcels**
- **Long-term positive development**
- **Mixed funding**
- **No changes for FY24-26F earnings and balance sheet forecasts**
- **Maintain BUY with a higher TP of RM1.60 (from RM1.52)**

Acquisition of 2 land parcels. On 4 June 2024, Aeon entered into a SPA with Real Attraction Sdn Bhd to purchase two land parcels adjacent to the existing Aeon Mall Seremban 2. The total purchase price is RM102.89m, with completion expected by the 4QFY2025 (18 months from the SPA date).

Long-term positive development. We are positive on the acquisition of the land parcels as it will facilitate the expansion of Aeon's retail and property management services (PMS) businesses in Seremban, Negeri Sembilan. The development plan includes constructing a commercial shopping centre with car parks, departmental stores, and a supermarket. This strategic expansion will increase (1) Aeon's retail business by enhancing its departmental store presence and (2) provide more retail space for its PMS business, boosting rental income received. The lands' strategic location adjacent to the existing Aeon Mall Seremban 2 allows the new shopping centre to link seamlessly with the current mall. We also view acquisition of the land parcels as a long-term cost-saving measure that will mitigate rental hike risks. The acquisition involves 2.389 acres of commercial leasehold land (expiring on 8 March 2114, with 89 years and 9 months remaining) and 20.663 acres of freehold business land.

Mixed funding. Aeon will pay 10% of the purchase price upon signing the SPA using internally generated funds. The remaining 90% will be paid progressively through a combination of internally generated funds and bank borrowings. As of 1QFY24, Aeon's net gearing ratio is 0.7x. Following the 10% deposit payment, the net gearing ratio could increase to 0.8x. Post completion of the land acquisition, net gearing is expected to go up to 1.3x.

No changes for FY24-26F earnings and balance sheet forecasts. We make no changes to our earnings and balance sheet forecasts for FY24-26 at this juncture, pending further details. The acquisition requires necessary approvals, and construction can only commence after the land transfer and approval processes, potentially taking over four years.

RETURN STATISTICS

Price @ 4 th June 2024 (RM)	1.43
Expected share price return (%)	+11.7
Expected dividend yield (%)	+2.8
Expected total return (%)	+14.5

SHARE PRICE CHART

Price performance (%)	Absolute	Relative
1 month	26.5	24.5
3 months	31.2	20.4
12 months	7.5	-8.1

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 (%)	2.8	3.0	3.1

KEY STATISTICS

FBM KLCI	1,615.40
Issue shares (m)	1404.00
Estimated free float (%)	32.27
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	6.59
Amanah Saham Nasional Bhd	4.90

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Maintain BUY with a higher TP of RM1.60 (from RM1.52). Our revised **TP** for Aeon Co of **RM1.60** is based on an updated 3-year consumer discretionary sector forward mean PER of 14.8x (from 14.1x) pegged to an unchanged FY25F EPS of 10.8 sen. Moving forward, we are optimistic about Aeon Co's near-to-mid-term outlook, mainly underpinned by: (1) solid out-of-home spending amidst a steady job market and income outlook, (2) various government initiatives, including the revision of public servant salaries and EPF Account 3 withdrawals 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. We also anticipate better consumer sentiment ahead, considering the stagnant interest rate in Malaysia, along with the postponement of the targeted fuel subsidy and high-value goods tax. Thus, we maintain our **BUY** call on Aeon Co.

Downside risk is softer-than-expected consumer sentiment due to the implementation of fiscal policies in 2H24 (including HVG tax and rationalization of fuel subsidy) 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)	18.1	17.5	14.6	13.3	12.7
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