

Aeon Co. (M) Berhad

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

Maintain BUY

Promising Outlook

Upgrade Target Price: RM1.67
(Previously RM1.60)

KEY INVESTMENT HIGHLIGHTS

- **Within expectations**
- **Muted 2QFY24 sales amid only Raya festive promotion and traffic**
- **Earnings forecast; Maintained**
- **Maintain BUY call with a higher TP of RM1.67 (from RM1.60)**

Within expectations. Aeon Co. ("Aeon") 2QFY24 core PATANCI came in slightly lower at RM26.9m after excluding a one-time item of -RM0.8m. This brought its 1HFY24 core PATANCI to RM84.8m (+21.7%yoy), while, this was largely considered within our and consensus estimates, making up about 61.5% and 65.9% of full-year estimates, considering the weakness in 3Q later part in 2HFY24 due to absence of festivities in the period. No dividend was declared, as expected, since the group typically declares in the 4Q.

Muted 2QFY24 revenue amidst only Raya festive celebration. Aeon reported relatively unchanged revenue of RM1.0b (-12.5%qoq, -1.2%yoy) in 2QFY24. This was primarily due to a slight slowdown in the retail business subsegment, which declined by -3.1%yoy, partly due to the timing of the festive season. However, this impact was cushioned by the contribution from Property management services (PMS) revenue, which increased +8.9%yoy, thanks to improve in occupancy rates and effective rental renewals.

Robust operating profit margin at 20% in 2QFY24. Notably, the group's operating profit grew by +22.0%yoy to RM202.0m was mainly due contributed by higher revenue and disciplined cost management (lower staff).

Earnings forecast. Maintained.

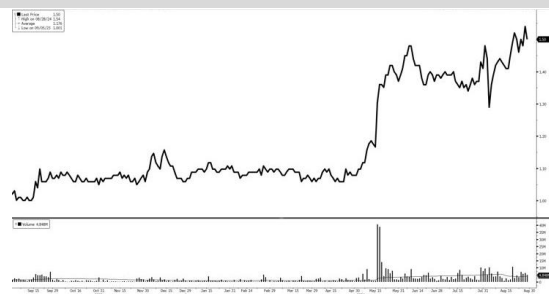
Outlook. We remain optimistic on Aeon Co's FY24-25F outlook underpinned by: i) solid out-of-home spending thanks to the stable job market and decent income prospects - progressive wage policies for public servants, ii) various government cash assistance, and EPF Account 3 withdrawal that could support the spending for value staple products at Aeon Co, and iii) stable occupancy rate and positive rental renewal for the PMS segment thanks to the return of consumers to shop physically.

Recommendation. We maintain our **BUY with** a higher TP of **RM1.67** (from RM1.60). Our revised TP is based on a revised PER of 15.5x (slightly above 5y historical average mean of 15.3x) pegging to an unchanged FY25F EPS of 10.8 sen. **Downside risk** for Aeon is weaker-than-expected consumer sentiment due to the implementation of fiscal policies in 2H24 (including HVG tax and rationalization of fuel subsidy) that reduces spending at retail and tenant stores, hence lowering the revenue.

RETURN STATISTICS

Price @ 29 th Aug 2024 (RM)	1.50
Expected share price return (%)	+11.48
Expected dividend yield (%)	+2.68
Expected total return (%)	+14.17

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	4.9	2.3
3 months	7.9	1.8
12 months	41.5	24.3

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 (%)	2.7	2.9	3.0

KEY STATISTICS

FBM KLCI	1,653.55
Issue shares (m)	1404.00
Estimated free float (%)	38.86
Market Capitalisation (RM'm)	2,106.00
52-wk price range	RM1.02-RM1.55
3-mth average daily volume (m)	3.97
3-mth average daily value (RM'm)	5.63
Top Shareholders (%)	
AEON Co. Ltd	51.68
EPF	6.75
ASNB	4.90

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Aeon Co: 2QFY24 Results Summary

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	2QFY24	1QFY24	2QFY23	YoY (%)	QoQ (%)	1HFY24	1HFY23	YoY (%)
Revenue	1,020.9	1,167.4	1,033.0	(1.2)	(12.5)	2,188.3	2,139.8	2.3
Total operating expenses	(962.5)	(1,056.4)	(967.2)	(0.5)	(8.9)	(2,018.9)	(1,998.2)	1.0
Other operating income	8.4	6.0	6.9	21.7	40.0	14.4	14.8	(2.7)
Operating profit (EBIT)	66.8	117.0	72.7	(8.1)	(42.9)	183.8	156.4	17.5
Net finance income/(cost)	(22.1)	(22.3)	(23.6)	(6.4)	(0.9)	(44.4)	(45.2)	(1.8)
Profit before tax (PBT)	45.5	94.8	49.1	(7.3)	(52.0)	140.3	111.2	26.2
Income tax expense	(17.8)	(37.3)	(18.9)	(5.8)	(52.3)	(55.1)	(42.8)	28.7
Profit After tax (PAT)	27.7	57.5	30.2	(8.3)	(51.8)	85.2	68.4	24.6
PATANCI	27.7	57.5	30.2	(8.3)	(51.8)	85.2	68.4	24.6
Core PATANCI	26.9	57.9	29.6	(9.1)	(53.5)	84.8	69.7	21.7
Basic EPS (sen)	2.0	4.1	2.2	(8.4)	(52.0)	6.1	4.9	24.6
DPS (sen)	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.
Growth & Margin (%)				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Operating Profit Margin	6.5	10.0	7.0	(0.5)	(3.5)	8.4	7.3	1.1
PBT Margin	4.5	8.1	4.8	(0.3)	(3.7)	6.4	5.2	1.2
Core PATANCI Margin	2.6	5.0	2.9	(0.2)	(2.3)	3.9	3.3	0.6
Ratios & Valuation				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Net debt/total equity (%)	0.3	0.3	0.4	(0.1)	(0.0)	0.3	0.4	(0.1)
Effective tax rate (%)	39.1	39.3	38.5	0.6	(0.2)	39.1	38.5	0.6

Source: Company, MIDFR

Aeon Co: Breakdown by operating segment

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	2QFY24	1QFY24	2QFY23	YoY (%)	QoQ (%)	1HFY24	1HFY23	YoY (%)
Revenue (External):								
Retailing	836.8	980.5	864.0	(3.1)	(14.7)	1,817.3	1,805.4	0.7
PMS	184.1	186.9	169.0	8.9	(1.5)	371.0	334.4	10.9
Total	1,020.9	1,167.4	1,033.0	(1.2)	(12.5)	2,188.3	2,139.8	2.3
Operating Profit:								
Retailing	54.2	54.0	40.0	35.5	0.4	108.2	71.8	50.7
PMS	147.8	68.0	125.6	17.7	117.4	215.8	183.2	17.8
Total	202.0	122.0	165.6	22.0	65.6	324.0	255.0	27.1
Operating profit margin (%)				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Retailing	6.5	5.5	4.6	1.8	1.0	6.0	4.0	2.0
PMS	80.3	36.4	74.3	6.0	43.9	58.2	54.8	3.4
Total	19.8	10.5	16.0	3.8	9.3	14.8	11.9	2.9

Source: Company, MIDFR

PMS = Property Management services

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	2024F	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	2024F	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	2024F	2025F	2026F
Effective tax rate (%)	47.4	40.8	40.0	40.0	40.0
PER (x)	18.9	18.3	15.3	13.9	13.4
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	2024F	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