

AEON Co. (M) Bhd

A Greener Future in Retail

By *Cheow Ming Liang* | cheowml@kenanga.com.my ; *Thin Yun Jing* | thinyl@kenanga.com.my

AEON is stepping up its environmental, social and governance (ESG) efforts, actively engaging with customers and partners to promote sustainable retail. We are heartened by its progress, and hence revise up its overall ESG score to 3.5 stars (from 3 stars). We maintain our forecasts, TP of RM1.21 and UNDERPERFORM call.

We recently visited AEON Alpha Angle (located in Wangsa Maju) to further understand its sustainability initiatives and came away feeling positive that it is leading by example among retailers in Malaysia. The key highlights are as follows:

- **Malaysia's largest indoor vertical farm in a shopping mall**

AEON collaborated with Agroz Group to introduce the Agroz EduFarm-in-City at AEON Alpha Angle in Wangsa Maju. According to Agroz, the indoor vertical farm, spanning 5,238 sq ft, grows pesticide-free, nutrient-rich vegetables, including kale, butterhead and lettuce, and supplies the produce to be sold at AEON stores in the Klang Valley, with an estimated 1.3 tonnes harvested per month. Agroz is a Malaysian agriculture technology company specialising in large-scale indoor vertical farming using controlled environment agriculture (CEA) and digital technologies to improve food safety, food security and sustainability.

Its urban smart farming agricultural method uses 95% less water than traditional farming and maintains optimal growing conditions (20–24°C and 70–80% humidity) for faster growth and higher yields. The CEA model allows for consistent year-round production, with a seedling-to-harvest cycle of 40 to 45 days. The farm's close proximity to AEON malls in the Klang Valley reduces transportation costs and ensures vegetable freshness, though these savings are partially offset by higher electricity costs for air conditioning. Agroz also operates two other vertical farms in Seri Kembangan and Kota Damansara.

- **Managing waste with composting at AEON Alpha Angle**

AEON's waste management centre here collects organic waste from retailers within the mall and converts it into compost. Since June 2022, it has processed 18,184kg of organic waste, producing 3,112kg of compost – about 1kg of compost for every 6kg of waste. The compost is distributed to third-party suppliers to enhance soil health and support local farming. Currently, two composting machines run at full capacity for 12 hours daily, with plans for expansion into other locations. Though the monetary gains are minimal, by converting waste to compost, AEON aims to lessen its environmental impact and reduce reliance on landfills.

- **Scaling up solar power across AEON malls**

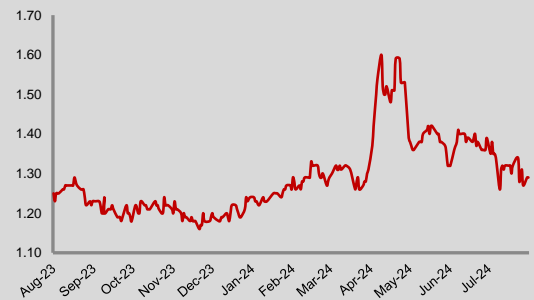
AEON is on track to install solar photovoltaic (PV) panels in AEON and AEON BiG shopping malls nationwide, with a total capacity of approx. 77,000 kWp under a 25-year agreement with TENAGA and its subsidiary GSPARX.

Currently, 11 out of 28 AEON malls have solar PV installations, according to AEON, with four already fully commissioned: (i) AEON Taman Maluri Shopping Centre (2023), (ii) AEON Alpha Angle (2023), (iii) AEON Cheras Selatan (2024), and (iv) AEON Ipoh Station 18 (2024). Meanwhile, AEON Alpha Angle houses 1,513 kWp of PV solar on its rooftop and ground-level open-air car park.

UNDERPERFORM ↔

Price: RM1.45
Target Price: RM1.21 ↔

Share Price Performance



KLCI	1,635.62
YTD KLCI chg	12.4%
YTD stock price chg	33.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AEON MK EQUITY
Market Cap (RM m)	2,035.8
Shares Outstanding	1,404.0
52-week Range (H)	1.61
52-week Range (L)	1.06
3-mth avg. daily vol.	3,698,510
Free Float	39%
Beta	0.5

Major Shareholders

Aeon Co Ltd	51.7%
Employees Provident Fund	6.4%
Amanah Saham Nasional	4.9%

Summary Earnings Table

FYE Dec (RM m)	2023A	2024F	2025F
Turnover	4,129	4,146	4,220
PBT	194	205	210
Net Profit	115	124	126
Consensus	-	152	163
Earnings Revision	-	-	-
Core EPS (sen)	8.2	8.8	9.0
EPS Growth (%)	3	8	2
NDPS (sen)	4.0	4.0	4.0
BV/Share (RM)	1.32	1.37	1.42
Core PER (x)	17.7	16.4	16.2
P/BV (x)	1.1	1.1	1.0
Gearing (x)	1.1	0.9	0.8
Net Div. Yield (%)	2.8	2.8	2.8

These solar PV systems are expected to generate about 2,000 MWh of electricity annually per mall, covering c.5–8% of each mall’s electricity needs. The company plans to expand this initiative to save on electricity costs and reduce its carbon footprint.

- **More EV charging points at AEON**

AEON, in collaboration with Green EV Charge, TNBX and Gentari, has installed 40 electric vehicle (EV) charging points (20 DC and 20 AC) at 16 of its malls, with plans for further expansion in 2024. This move aligns with the rising trend of EV adoption and aims to reduce greenhouse gas (GHG) emissions. With over 10,000 EVs sold in Malaysia during 1H2024 alone and more than 2,200 public chargers available (as of March 2024), limited charging infrastructure remains a key barrier to wider EV adoption. AEON’s initiative is a timely response to this gap, supporting the push for greener transportation.

By offering convenient EV charging, AEON could attract new shoppers by enhancing customer experience, potentially boosting revenue across retail and dining outlets. This proactive approach strengthens its ESG credentials in sustainable mobility.

- **Intensifying recycling efforts with more partners**

AEON has improved its recycling rate to 11% in 2023, up from 10% the year before, and is intensifying efforts with several organisations to tackle different waste streams:

(a) Coca-Cola, Hiroyuki Industries, Trash4Cash – PET bottles

The ‘Recycle Me!’ campaign was launched to encourage the public to collect polyethylene terephthalate (PET) bottles in exchange for cash. PET bottles recycling bins were installed in 15 AEON malls nationwide, collecting 78.3kg of bottles from Oct to Dec 2023. The bottles will be processed by Hiroyuki Industries into recycled PET resin for reuse in the supply chain.

(b) Kao, Trash4Cash – HDPE bottles

This initiative encourages the public to recycle high-density polyethylene (HDPE) plastic bottles (e.g. detergent, shampoo) at designated bins located in 5 AEON malls. Participants receive RM0.40 Trash4Cash buy-back rewards and a Kao free gift for every 5 HDPE bottles collected (equivalent to about 1kg).

(c) Kloth Cares – Fabric

In 2023, AEON collected 325,840kg of unwanted textiles and clothing through 25 Kloth Cares bins located in 17 AEON malls. This effort avoided 728,277kg of carbon dioxide equivalent emissions and saved RM50,349 in landfill costs.

(d) Alam Flora Environmental Solutions (AFES) – E-waste

AEON, in collaboration with AFES, has established a buyback centre for collecting e-waste, such as refrigerator, television, and vacuum cleaner. This programme aims to reduce environmental impact by promoting proper disposal and recycling of electronic waste, which minimises landfill waste and pollution. AFES, as part of MALAKOF, is a leading player in Malaysia’s solid waste management industry.

- **Other notable improvements**

AEON has conducted an internal assessment of Scope 1 and 2 emissions and assessed 2 out of 15 categories of Scope 3 emissions. The company successfully reduced its emission intensity by 51% in 2023 compared to the base year 2019 as it begins adopting the use of renewable energy (RE) via the purchase of green electricity (GET) and solar PV generation.

Outlook. Looking ahead, we remain cautious over its near-term outlook due to subdued consumer spending amidst sustained elevated inflation and consumer anxiety over the impending fuel subsidy rationalisation. On a brighter note, the progressive salary increase for civil servants, effective December 2024, should at least partially restore consumer spending power.

We are heartened by AEON’s commitment and progress on its ESG initiatives, raising its overall ESG score for AEON to 3.5 stars, up from 3.0 previously.

Forecasts. Maintained, based on the same-store sales growth (SSSG) assumptions of -3.4% and -1.3%, respectively.

Valuations. We also keep our TP of RM1.21 based on 13.5x FY25F PER, at a 10% discount to the departmental store/apparel sector’s average historical forward PER of 15x to reflect the eroded spending power of their target customers, i.e. the M40 group. We maintain our **UNDERPERFORM** call as its share price has run ahead of its fundamentals. There is no adjustment to our TP based on ESG given a 3.5-star rating as appraised by us (see Page 6).

Risks to our call include: (i) a strong recovery in consumer spending as inflation cools, or the impending petrol subsidy rationalisation turns out to be less painful to consumers, (ii) industry consolidation keeping competition in check, and (iii) easing cost pressures.

09 October 2024

Exhibit 1: Solar PV Panels at Open-Air Carpark



Source: Kenanga Research

Exhibit 2: EV Charging Points



Source: Kenanga Research

Exhibit 3: Organic Waste Compost Machine



Source: Kenanga Research

Exhibit 4: Collaboration with Recycling Partners



Source: Kenanga Research

Exhibit 5: Agroz Indoor Vertical Farm



Source: Agroz Group

Exhibit 6: Agroz Vegetables Sold at AEON Alpha Angle



Source: Kenanga Research

09 October 2024

Income Statement

FYE Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Revenue	3,630	4,141	4,129	4,146	4,220
EBITDA	725	760	710	712	733
Depreciation	464	437	421	422	443
Operating Profit	261	323	290	290	289
Interest Income	21	37	45	33	36
Interest Expense	-129	-112	-97	-88	-83
Associate	0	0	0	0	0
Exceptional Items	0	0	0	0	0
PBT	131	211	194	205	210
Taxation	-46	-100	-79	-81	-84
Minority Interest	0	0	0	0	0
Net Profit	85	111	115	124	126
Core Net Profit	85	111	115	124	126

Balance Sheet

FYE Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Fixed Assets	3,108	2,952	3,090	2,886	2,739
Intangible Assets	63.0	51.8	39.3	38.3	37.3
Other FA	1,583	1,288	1,141	1,141	1,141
Inventories	601	606	553	553	553
Receivables	131	94	98	104	110
Other CA	184	199	202	206	213
Cash	194	238	100	363	568
Total Assets	5,863	5,426	5,224	5,291	5,361
Payables	1,166	1,214	1,186	1,186	1,186
ST Borrowings	269	251	264	264	264
Other ST Liability	427	455	50	50	50
LT Borrowings	2,217	1,663	1,812	1,812	1,812
Other LT Liability	42	37	53	53	53
Minorities Int.	-	-	-	-	-
Net Assets	1,743	1,807	1,859	1,927	1,997
Share Capital	702	702	702	702	702
Reserves	1,041	1,105	1,157	1,225	1,295
Equity	1,743	1,807	1,859	1,927	1,997

Cashflow Statement

FYE Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Operating CF	699	705	630	536	556
Investing CF	-63	-112	-367	-216	-295
Financing CF	-514	-549	-400	-56	-56
Change In Cash	122	44	-138	263	204
Free CF	666	591	249	319	261

Source: Kenanga Research

Financial Data & Ratios

FYE Dec	2021A	2022A	2023A	2024F	2025F
Growth (%)					
Turnover	-10.4	14.1	-0.3	0.4	1.8
EBITDA	-3.9	4.8	-6.5	0.3	2.9
Operating Profit	0.6	23.8	-10.4	0.3	-0.3
PBT	28.6	61.5	-8.3	5.7	2.5
Net Profit	105.7	30.5	3.2	8.0	1.7
Profitability (%)					
EBITDA Margin	20.0	18.3	17.2	17.2	17.4
Operating Margin	7.2	7.8	7.0	7.0	6.9
PBT Margin	3.6	5.1	4.7	4.9	5.0
Core Net Margin	2.3	2.7	2.8	3.0	3.0
Effective Tax Rate	-34.9	-47.4	-40.8	-39.5	-40.0
ROA	1.5	2.0	2.2	2.3	2.4
ROE	4.9	4.9	6.2	6.2	6.4
DuPont Analysis					
Net Margin (%)	2.3	2.7	2.8	3.0	3.0
Assets Turnover	0.6x	0.8x	0.8x	0.8x	0.8x
Leverage Factor	3.4x	3.0x	2.8x	2.7x	2.7x
ROE (%)	4.9	6.2	6.2	6.4	6.3
Leverage					
Debt/Asset (x)	0.5	0.4	0.4	0.4	0.4
Debt/Equity (x)	1.7	1.3	1.1	1.1	1.1
Net Cash/(Debt)	-2692	-2124	-2026	-1762	-1558
Net Debt/Equity (x)	1.5	1.2	1.1	0.9	0.8
Valuations					
EPS (sen)	6.1	7.9	8.2	8.8	9.0
NDPS (sen)	3.0	4.0	4.0	4.0	4.0
BV/Share (RM)	1.24	1.29	1.32	1.37	1.42
PER (x)	23.9	18.3	17.7	16.4	16.2
Net Div. Yield (%)	2.1	2.8	2.8	2.8	2.8
P/BV (x)	1.2	1.1	1.1	1.1	1.0
EV/EBITDA (x)	-0.9	-0.1	0.0	0.4	0.7

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen)	Net Div. Yld.
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
CONSUMER																	
AEON CO. (M) BHD	UP	1.45	1.21	-16.6%	2,035.8	Y	12/2024	8.8	9.0	8.0%	1.6%	16.4	16.2	1.1	6.6%	4.0	2.8%
FRASER & NEAVE HOLDINGS BHD	OP	30.82	38.25	24.1%	11,304.1	Y	09/2024	166.1	176.2	25.8%	6.1%	18.6	17.5	3.1	17.6%	85.0	2.8%
MR D.I.Y. GROUP (M) BHD	OP	2.13	2.27	6.6%	20,139.3	Y	12/2024	7.0	8.1	17.3%	16.8%	30.6	26.2	10.2	35.4%	5.0	2.3%
NESTLE (MALAYSIA) BHD	OP	106.00	114.90	8.4%	24,857.0	Y	12/2024	255.4	284.1	-9.2%	11.2%	41.5	37.3	36.2	87.9%	250.0	2.4%
PADINI HOLDINGS BHD	MP	3.40	3.24	-4.7%	2,236.9	Y	06/2025	24.0	30.7	7.8%	27.6%	14.1	11.1	1.9	13.7%	12.0	3.5%
POWER ROOT BHD	MP	1.44	1.28	-11.1%	634.1	Y	03/2025	8.0	9.2	-9.4%	14.1%	17.9	15.7	1.9	10.8%	7.0	4.9%
QL RESOURCES BHD	UP	4.69	4.20	-10.4%	17,114.4	Y	03/2025	13.0	13.8	8.8%	6.0%	35.9	33.9	5.2	16.1%	5.0	1.1%
KAREX BHD	OP	0.820	1.12	36.6%	863.8	Y	06/2025	4.2	4.8	87.6%	15.5%	19.7	17.0	1.7	8.9%	2.5	3.0%
SECTOR AGGREGATE					79,185.6					9.6%	11.1%	29.3	26.3	5.8	20.0%		2.8%

Source: Bloomberg, Kenanga Research

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Community Investment	★	★	★	☆	
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★		
SPECIFIC	Product Quality & Safety	★	★	★	☆	
	Effluent/Waste Management	★	★	★	☆	
	Digitalisation & Innovation	★	★	★	★	
	Use of Biodegradable Materials	★	★	★		
	Supply Chain Management	★	★	★	☆	
	Energy Efficiency	★	★	★	☆	
OVERALL		★	★	★	☆	

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock’s Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock’s Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock’s Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector’s Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector’s Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector’s Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies. Kenanga Investment Bank Berhad being a full-service investment bank offers investment banking products and services and acts as issuer and liquidity provider with respect to a security that may also fall under its research coverage.

Published by:

KENANGA INVESTMENT BANK BERHAD (15678-H)
 Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
 Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

