

AEON Co. (M) Bhd

1Q19 Within Expectations

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1Q19 CNP of RM32.6m (+17% YoY, -39% QoQ) came in within expectations of our/consensus at 24%/26% of full-year estimates. Retailing business division performed strongly, attributed to higher contribution from the new AEON Mall Kuching (2Q18) and maiden contribution from the new AEON Mall Nilai, Negeri Sembilan (January 2019). Reiterate OP with a higher TP of RM2.10 (from RM2.00) as we roll over our valuation base-year to FY20E.

1Q19 within expectations. 1Q19 CNP of RM32.6m (+17% YoY, -39% QoQ) came in within expectations of our/consensus at 24%/26% of full-year estimates. No DPS was declared for the quarter as expected. The group typically pay dividend in 4Q.

YoY, 1Q19 CNP surged 17% mainly due to higher sales (+8%) with stronger performance in Retailing business division (+9%) and Property Management division (+3%). The surge is attributed to higher contribution from the new AEON Mall Kuching (commenced in 2Q18) and maiden contribution from the new AEON Mall Nilai, Negeri Sembilan (commenced in January 2019) as well as its other shopping malls that were renovated and expanded. Additionally, the effective tax rate was also lower at 41.4% (1Q18: 43.9%)

QoQ, 1Q19 CNP plunged 39%, despite the higher sales growth (+9%) from better CNY festive season sales, as it was dragged by contraction in PBT margin by 3.1ppt to 4.6% from 7.7% in 4Q18, due to the impact of MFRS 16 accounting changes relating to leasing rental (-RM28.5m). Furthermore, the effective tax rate was also higher at 41.4% (4Q18: 37.1%).

Outlook. Management highlighted that for the retailing space, they would continue to refurbish selected stores and employ appropriate marketing and pricing strategies, merchandise assortment reformation, maintaining quality customer service and further expand its e-commerce presence. For property management services, they expect occupancy rate and rental rates to remain challenging. AEON will continue to leverage on its competitive strengths to draw customer traffic to its malls to maintain its position as a popular shopping destination. The group has opened a new AEON mall in Negeri Sembilan in January 2019. The group has allocated RM400m capex for FY19 for the construction of the new mall and renovation of existing malls.

Maintain OUTPERFORM with a higher TP of RM2.10 (from RM2.00) as we roll over our valuation base-year to FY20E (from FY19E) based on unchanged PER of 21x, at -1.0SD of its 5-year historical mean PER.

We like AEON for its: (i) dual-income streams, which are less vulnerable to price changes during implementation of the new SST, and (ii) on-going operational restructuring, improving margin for retailing, and sustained property income.

Risks to our call include: (i) lower-than-expected sales, and (ii) higher-than-expected operating expenses.

OUTPERFORM ↔

Price: RM1.52
Target Price: RM2.10 ↑

Share Price Performance



KLCI 1,636.50
YTD KLCI chg -3.2%
YTD stock price chg 3.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AEON MK EQUITY
Market Cap (RM m)	2,134.1
Shares Outstanding	1,404.0
52-week range (H)	2.50
52-week range (L)	1.38
3-mth avg daily vol:	812,673
Free Float	28%
Beta	0.7

Major Shareholders

Aeon Co Ltd	51.7%
Employees Provident Fund	12.8%
Standard Life Aberdeen PLC	7.2%

Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Turnover	4,353.6	4,486.8	4,621.2
EBIT	239.7	268.9	277.0
PBT	187.0	216.3	224.5
Net Profit (NP)	105.0	135.9	140.7
Core NP (CNP)	124.4	135.9	140.7
Consensus (NP)	-	125.0	131.5
Earnings Revision	-	-	-
Core EPS (sen)	8.9	9.7	10.0
C.EPS growth (%)	17.3	9.2	3.6
NDPS (sen)	4.0	4.0	4.0
BV/Share (RM)	1.44	1.50	1.56
PER	17.2	15.7	15.2
P/BV (x)	1.1	1.0	1.0
Gearing (x)	0.5	0.4	0.4
Net Dvd Yield (%)	2.6	2.6	2.6



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Result Highlight

	1Q	4Q	QoQ	1Q	YoY
FY Dec (RM m)	FY19	FY18	Chg	FY18	Chg
Turnover	1,206.9	1,110.5	8.7%	1,114.3	8.3%
EBIT	92.2	96.7	-4.7%	60.4	52.5%
PBT	55.7	85.1	-34.6%	49.8	11.9%
Tax expense	(23.1)	(31.6)	-27.0%	(21.8)	5.6%
Net Profit (NP)	32.6	53.5	-39.0%	28.0	16.7%
Core Net Profit (CNP)	32.6	53.5	-39.0%	28.0	16.7%
EPS (sen)	2.3	3.8	-39.1%	2.0	16.6%
EBIT margin (%)	7.6%	8.7%		5.4%	
PBT margin (%)	4.6%	7.7%		4.5%	
NP margin	2.7%	4.8%		2.5%	
Effective tax rate (%)	41.4%	37.1%		43.9%	

Source: Company, Kenanga Research

Segmental breakdown

	1Q	4Q	QoQ	1Q	YoY
FY Dec (RM m)	FY19	FY18	Chg	FY18	Chg
Segment Revenue					
Retailing	1031.7	933.6	10.5%	943.9	9.3%
Property management services	175.2	176.9	-1.0%	170.4	2.8%
Group Revenue	1206.9	1110.5	8.7%	1114.3	8.3%
Segment EBIT					
Retailing	33.6	35.1	-4.4%	6.8	396.0%
Property management services	67.0	54.1	23.7%	57.3	16.9%
Unallocated expenses	-8.4	7.5	-212.1%	-3.7	129.1%
Group EBIT	92.2	96.7	-4.7%	60.4	52.5%
Segment margin					
Retailing	3.3%	3.8%		0.7%	
Property management services	38.2%	30.6%		33.6%	
Group EBIT	7.6%	8.7%		5.4%	

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
F&B AND RETAIL																	
7-ELEVEN MALAYSIA HOLDINGS BHD	1.56	1,827.5	N	12/2019	12.4%	4.9%	13.6%	5.5%	37.5	33.0	31.3	26.0	25.2	77.5%	2.6%	1.35	UP
AEON CO (M) BHD	1.52	2,134.1	Y	12/2019	6.5%	3.1%	17.3%	9.2%	17.2	15.7	15.2	1.1	1.1	5.3%	2.6%	2.00	OP
AMWAY MALAYSIA HOLDINGS BHD	5.86	963.3	Y	12/2019	2.2%	2.0%	5.5%	6.3%	17.7	16.8	15.8	4.1	3.9	23.8%	4.7%	7.25	OP
DUTCH LADY MILK INDUSTRIES BHD	63.50	4,064.0	Y	12/2019	1.0%	2.0%	-2.2%	7.0%	32.8	28.0	27.3	38.5	38.6	115.2%	3.0%	62.90	MP
FRASER & NEAVE HOLDINGS BHD	34.20	12,543.8	Y	09/2019	5.9%	7.0%	9.4%	2.9%	31.6	28.9	28.0	5.4	5.0	18.0%	1.9%	36.60	MP
HAI-O ENTERPRISE BHD	2.36	685.3	N	04/2019	-20.3%	2.3%	-30.7%	2.1%	11.5	8.1	6.7	2.1	2.0	15.2%	4.2%	2.10	UP
MYNEWS HOLDINGS BHD	1.37	934.6	N	10/2019	27.3%	14.2%	21.0%	20.7%	35.3	29.1	24.1	3.4	3.1	11.1%	0.7%	1.25	UP
NESTLE (MALAYSIA) BHD	147.30	34,541.9	Y	12/2019	2.3%	3.8%	12.8%	4.3%	53.2	47.2	45.2	52.8	52.8	114.7%	2.2%	137.00	MP
PADINI HOLDINGS BHD	3.71	2,440.8	Y	06/2019	2.0%	2.4%	-13.2%	21.8%	13.7	15.8	13.0	3.7	3.3	22.3%	3.1%	4.00	MP
PARKSON HOLDINGS BHD	0.26	277.5	Y	06/2019	1.2%	0.2%	-50.4%	718.1%	N.A.	N.A.	33.5	0.1	0.1	-1.7%	0.0%	0.24	MP
POWER ROOT BHD	1.46	578.0	Y	03/2020	6.3%	8.6%	26.3%	16.8%	17.4	14.3	12.6	2.6	2.4	18.0%	6.2%	1.75	OP
QL RESOURCES BHD	6.80	11,032.6	Y	03/2020	10.9%	4.5%	13.0%	4.2%	50.9	45.0	43.2	5.5	5.1	12.1%	0.8%	6.05	UP
SPRITZER BHD	2.30	482.9	Y	12/2019	5.1%	1.2%	14.6%	13.0%	19.9	17.4	15.4	1.2	1.2	7.0%	1.7%	2.40	MP
Simple Average					4.8%	4.3%	2.9%	64.0%	28.5	25.1	24.0	11.3	11.1	33.7%	2.6%		
SIN																	
BRITISH AMERICAN TOBACCO (M) BHD	29.28	8,360.3	N	12/2019	-6.1%	2.7%	-11.5%	1.8%	17.8	20.2	19.8	19.8	18.9	96.0%	4.7%	29.55	UP
CARLSBERG BREWERY MALAYSIA BHD	24.38	7,499.8	N	12/2019	11.4%	4.6%	6.9%	4.8%	27.4	25.6	24.4	41.5	45.1	173.9%	4.1%	23.00	MP
HEINEKEN MALAYSIA BHD	23.44	7,081.2	N	12/2019	6.1%	5.0%	2.8%	5.1%	25.1	24.4	23.2	19.1	18.9	77.9%	4.1%	23.25	MP
Simple Average					3.8%	4.1%	-0.6%	3.9%	23.4	23.4	22.5	26.8	27.6	115.9%	4.3%		
CONSENSUS ESTIMATES																	
BERJAYA FOOD BHD	1.80	645.2	N	06/2019	8.2%	9.9%	2368.1%	15.4%	549.1	22.2	19.3	1.7	1.7	7.3%	2.7%	2.08	BUY
BONIA CORPORATION BHD	0.30	238.8	Y	06/2019	-4.9%	1.3%	-29.7%	2.9%	12.1	17.2	16.7	0.6	0.5	2.9%	2.3%	0.25	SELL
COCOALAND BHD	1.90	434.7	Y	12/2019	7.0%	5.2%	1.1%	7.6%	14.1	13.9	12.9	1.8	1.6	12.0%	4.1%	2.12	NEUTRAL
LAY HONG BHD	1.40	503.3	Y	12/2019	16.7%	20.3%	54.9%	23.4%	22.1	14.2	11.5	1.6	1.4	10.4%	2.7%	2.16	BUY
KAWAN FOOD BHD	4.59	746.6	Y	04/2019	13.0%	7.0%	16.0%	11.3%	8.2	7.0	6.3	1.4	N/A	21.0%	N/A	6.45	BUY
MAGNI-TECH INDUSTRIES BHD	1.80	645.2	N	06/2019	8.2%	9.9%	2368.1%	15.4%	549.1	22.2	19.3	1.7	1.7	7.3%	2.7%	2.08	BUY

Source: Bloomberg, Kenanga Research

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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.**

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