

25 November 2021

# AEON Co. (M) Bhd

## A Blip Quarter

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A poor 3QFY21 saw AEON's 9MFY21 coming in below our/consensus estimates. On the flip side, better product mix saw margins contained for the Retail segment while prudent management saw PATAMI remaining flat. With the normalization of business activities, we expect surging improvement ahead but the Property Management services might see slower improvement given the new rent structure. TP is reduced to RM1.60 on a lower FY22E PER of 22x on account of weakness from the Property Management. Maintain **OUTPERFORM** given the recent share price weakness.

**Below expectations.** 3QFY21 LATAMI of RM19m brought 9MFY21 earnings to RM14m, accounting for 21%/17% of our/consensus full-year estimates. No dividend declared as expected.

**Extreme closure. YoY**, given the extreme FMCO directives (especially in 3Q), top-line fell 16% to RM2.7b. Prolonged closures stemming from various MCO and FMCO directives saw Retail revenue falling 16% to RM2.24b. Property Management Services fell in tandem at 16% to RM393m, partly due to the new rent structure – variable rent payments via sales commission – as tenants sales nosedived due to closure of malls pursuant to HIDE and MCO directives. Closure days are estimated at 119 days vs. only 46 days in 9MFY20. EBIT fell 27%, brought about by weaker EBIT margins from both Property Management (-4ppt to 35%) and Retailing (-20bps to 1.8%) segments. Lower erosion from Retailing was due to: (i) Food Line seeing higher composition at c.65% vs FY20: 60% with Seafood & Meat up by 60ppt from FY19. Lower interest expense (-15% brought about by prudent management in inventory) and a lower ETR saw PATAMI flat at RM14m.

**QoQ**, top-line fell 14% to RM751m underpinned by Retailing falling 14% to RM633m and Property (-17%) to RM118m. Operating losses from the Retailing Segment (RM22m due to lower sales from Softline/Hardline saw Group EBIT recording a RM1.2m losses.

**Normalization ahead.** We expect a better 4Q ahead given the normalization of business activities, underpinned with the usual end of the year demand and approaching festivities - Christmas and Chinese New Year. The opening of interstate travel has seen higher volume of traffic in both the Northern and Southern regions (>100% vs FY19). Better product mix (or higher food line composition) especially in Malay-centric areas are seeing fruit as retail footfalls recovers from the lockdown. Although occupancy rate are at 81% YTD (expected to reach 90% by year end) revenue might be slow in trickling in given the new rent structure.

**Post results**, we revised our FY21E/FY22E earnings downwards by 30%/1% to RM49m/RM102m.

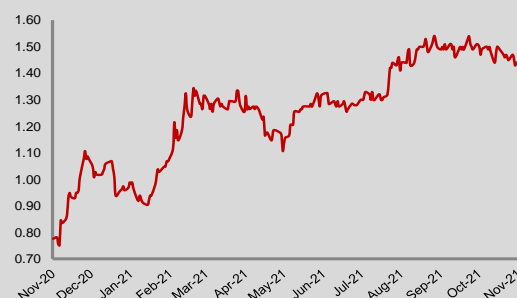
**OUTPERFORM maintained.** Our TP is lowered to RM1.60 (from RM1.80) pegged to its 5-year mean of 22x (implying a 0.5SD below). We feel this is justified given its new rent structure which would likely to have a slower momentum in revenue. As the stock has seen weakness in recent weeks, we reiterate our **OUTPERFORM** call.

**Risks to our call include:** (i) lower-than-expected sales, and (ii) higher-than-expected operating expenses, iii) new variants of the pandemic.

# OUTPERFORM ↔

Price: **RM1.43**  
Target Price: **RM1.60** ↓

### Share Price Performance



KLCI	1,522.27
YTD KLCI chg	-6.4%
YTD stock price chg	33.6%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AEON MK Equity
Market Cap (RM m)	2,007.7
Shares Outstanding	1,404.0
52-week range (H)	1.57
52-week range (L)	0.76
3-mth avg daily vol:	2,011,167
Free Float	23%
Beta	1.0

### Major Shareholders

Aeon Co Ltd	51.7%
Employees Provident Fund	11.1%
Amanah Saham Nasional	4.9%

### Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Turnover	4,051	3,841	4,366
PBT	102	92	193
<b>Net Profit</b>	<b>41</b>	<b>49</b>	<b>102</b>
Consensus	41	49	102
Earnings Revision		-30%	-1%
Core EPS (sen)	3.0	3.5	7.3
EPS growth	-62.1%	17.8%	109.6%
NDPS (sen)	1.5	2.8	4.1
BV/Share (RM)	1.19	1.20	1.23
Core PER	48.5	41.2	19.6
P/BV (x)	1.2	1.2	1.2
Gearing (x)	0.5	0.4	0.3
Net Dvd Yield	1.0%	1.9%	2.9%

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**Result Highlight**

Y/E : Dec (RM m)	3Q21	2Q21	QoQ Chg	3Q20	YoY Chg	9M21	9M20	YoY Chg
<b>Turnover</b>	<b>750.6</b>	<b>874.2</b>	<b>-14.1%</b>	<b>989.6</b>	<b>-24.2%</b>	<b>2,638.3</b>	<b>3,134.8</b>	<b>-15.8%</b>
<b>Operating Expenses</b>	<b>(642.8)</b>	<b>(701.9)</b>	<b>-8.4%</b>	<b>(793.9)</b>	<b>-19.0%</b>	<b>(2,169.3)</b>	<b>(2,590.2)</b>	<b>-16.2%</b>
EBITDA	113.9	176.6	-35.5%	197.5	-42.3%	483.5	549.2	-12.0%
<b>EBIT</b>	<b>(1.2)</b>	<b>60.7</b>	<b>-102.0%</b>	<b>75.5</b>	<b>-101.6%</b>	<b>132.2</b>	<b>180.9</b>	<b>-26.9%</b>
Interest Expense	(32.3)	(31.4)	2.8%	(37.6)	-14.0%	(95.9)	(112.9)	-15.1%
<b>PBT</b>	<b>(33.4)</b>	<b>28.0</b>	<b>-219.4%</b>	<b>35.7</b>	<b>-193.5%</b>	<b>36.4</b>	<b>61.9</b>	<b>-41.2%</b>
Tax Expense	14.8	(17.1)	-186.5%	(19.4)	-176.1%	(22.1)	(47.7)	-53.6%
<b>Net Profit</b>	<b>(18.7)</b>	<b>10.9</b>	<b>-270.6%</b>	<b>16.4</b>	<b>-214.2%</b>	<b>14.3</b>	<b>14.3</b>	<b>0.2%</b>
EPS (sen)	(1.3)	0.8	-270.6%	1.2	-214.2%	1.0	1.0	0.2%
DPS (sen)	0.0	0.0	N.a	0.0	N.a	0.0	0.0	N.a
EBITDA Margin	15.2%	20.2%		20.0%		18.3%	17.5%	
EBIT Margin	-0.2%	6.9%		7.6%		5.0%	5.8%	
PBT Margin	-4.5%	3.2%		3.6%		1.4%	2.0%	
Core Net Profit Margin	-2.5%	1.3%		1.7%		0.5%	0.5%	
ETR	44.1%	60.9%		54.2%		60.7%	77.0%	

Source: Company, Kenanga Research

**Segmental Breakdown**

Revenue (RM m)	3Q21	2Q21	QoQ Chg	3Q20	YoY Chg	9M21	9M20	YoY Chg
Retailing	632.9	733.0	-13.7%	836.2	-24.3%	2,244.9	2,668.8	-15.9%
Property Management	117.7	141.2	-16.7%	153.4	-23.3%	393.4	466.0	-15.6%
<b>Total</b>	<b>750.6</b>	<b>874.2</b>	<b>-14.1%</b>	<b>989.6</b>	<b>-24.2%</b>	<b>2,638.3</b>	<b>3,134.8</b>	<b>-15.8%</b>
<b>EBIT (RMm)</b>								
Retailing	(22.4)	13.2	-270.1%	31.3	-171.6%	41.4	54.2	-23.7%
Property Management	38.5	58.3	-33.9%	71.9	-46.4%	137.2	181.6	-24.4%
<b>Total</b>	<b>(1.2)</b>	<b>60.7</b>	<b>-102.0%</b>	<b>75.5</b>	<b>-101.6%</b>	<b>132.2</b>	<b>290.7</b>	<b>-54.5%</b>
<b>Segment Margin</b>								
Retailing	-3.5%	1.8%		3.7%		1.8%	2.0%	
Property Management	32.7%	41.3%		46.9%		34.9%	39.0%	
<b>Total</b>	<b>-0.2%</b>	<b>6.9%</b>		<b>7.6%</b>		<b>5.0%</b>	<b>9.3%</b>	

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 (%) 1-Yr. Fwd.	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.					
<b>F&amp;B AND RETAIL</b>																			
7-ELEVEN MALAYSIA HOLDINGS BHD	1.50	1,689.5	N	12/2021	7.2%	34.2%	-25.6%	49.8%	24.8	33.4	22.3	10.6	13.7	35.9%	3.3%	1.60	MP		
AEON CO. (M) BHD	1.43	2,007.7	Y	12/2021	-5.2%	13.7%	17.9%	109.4%	48.5	41.1	19.6	1.2	1.2	2.9%	2.0%	1.60	OP		
AMWAY (MALAYSIA) HOLDINGS BHD	5.51	905.8	Y	12/2021	28.1%	-10.0%	19.0%	0.9%	19.3	16.2	16.1	4.0	4.1	25.0%	6.4%	6.05	OP		
DUTCH LADY MILK INDUSTRIES BHD	33.00	2,112.0	Y	12/2021	5.0%	1.0%	9.0%	0.5%	28.8	26.4	26.3	12.7	10.1	42.7%	1.8%	40.20	OP		
FRASER & NEAVE HOLDINGS BHD	24.72	9,066.8	Y	09/2022	4.8%	6.4%	0.3%	16.9%	22.9	22.9	19.6	3.2	3.0	13.7%	2.5%	32.45	OP		
MR D.I.Y.	3.57	22,417.0	Y	12/2021	27.4%	37.6%	33.9%	56.6%	66.5	49.6	31.8	25.6	19.2	44.2%	0.8%	4.10	OP		
MYNEWS HOLDINGS BHD	0.900	613.9	N	10/2021	-15.7%	54.7%	-10.2%	-283%	N.A.	N.A.	38.1	2.1	2.2	-3.1%	0.0%	0.900	MP		
NESTLE (MALAYSIA) BHD	133.50	31,305.8	Y	12/2021	1.9%	2.2%	18.2%	-10.0%	56.6	47.9	53.3	56.2	48.3	108.5%	1.8%	138.90	MP		
PADINI HOLDINGS BHD	2.84	1,868.5	Y	06/2022	23.3%	32.2%	75.4%	48.3%	34.6	19.7	13.3	2.3	2.2	11.6%	3.2%	3.20	MP		
POWER ROOT BHD	1.40	589.5	Y	03/2022	8.9%	7.4%	-36.2%	74.0%	21.1	33.0	19.0	2.2	2.0	6.4%	2.8%	1.35	MP		
QL RESOURCES BHD	4.64	11,292.2	Y	03/2022	12.3%	16.9%	-8.0%	21.5%	36.3	39.4	32.4	4.4	4.2	11.4%	0.8%	6.00	MP		
<b>Simple Average</b>					<b>8.9%</b>	<b>17.8%</b>	<b>8.5%</b>	<b>7.7%</b>	<b>35.9</b>	<b>33.0</b>	<b>26.5</b>	<b>11.3</b>	<b>10.0</b>	<b>27.2%</b>	<b>2.3%</b>				
<b>SIN</b>																			
BRITISH AMERICAN TOBACCO (M) BHD	13.82	3,946.0	N	12/2021	5.4%	1.6%	6.4%	2.2%	15.1	14.2	13.9	9.1	8.7	62.5%	6.6%	16.70	OP		
CARLSBERG BREWERY MALAYSIA BHD	20.52	6,273.9	N	12/2021	-1.6%	19.9%	18.4%	32.9%	35.7	30.2	22.7	32.2	25.0	96.1%	2.4%	23.10	MP		
HEINEKEN MALAYSIA BHD	22.00	6,646.2	N	12/2021	3.0%	17.2%	32.8%	15.9%	37.9	28.5	24.6	16.9	16.6	58.6%	3.4%	23.60	MP		
<b>Simple Average</b>					<b>2.3%</b>	<b>12.9%</b>	<b>19.2%</b>	<b>17.0%</b>	<b>29.6</b>	<b>24.3</b>	<b>20.4</b>	<b>19.4</b>	<b>16.8</b>	<b>72.4%</b>	<b>4.1%</b>				

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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