

19 May 2023

AEON Co. (M) Bhd

A Strong Start to FY23

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AEON's 1QFY23 results met expectations as turnover rose 11% driven by Chinese New Year (CNY) and back-to-school shopping, as well as from a low base a year ago. AEON will continue to: (i) bring in well-established brands and retain tenants to improve the foot traffic in its stores and malls, (ii) collaborate with suppliers to contain cost, and (iii) focus on its digital transformation. We maintain our forecasts, TP of RM1.80 and OUTPERFORM call.

Within expectations. 1QFY23 net profit came within expectations at 30% and 24% of our full-year forecast and the full-year consensus estimate, respectively.

YoY, 1QFY23 revenue rose 11%, driven by CNY and back-to-school shopping, as well as from a low base a year ago. Also helping, were higher rental incomes on improved occupancy rates as businesses normalised. Its net profit rose by a larger 36% thanks to better cost absorption on a higher revenue and lower interest expenses.

Outlook. We believe AEON's top line will continue to be driven by resilient consumer spending backed by a stable job market, government subsidies and financial assistance to the low-income group. Encouragingly, there has also been signs of disinflation globally including in Malaysia. More specifically to AEON, it is bringing in well-established brands, expanding its fresh food and private-label products and retaining tenants to improve the foot traffic in its stores and malls to boost sales. In terms of cost cutting initiatives, AEON is collaborating with its suppliers as well as increasing the number of self-checkout terminals at its speciality stores such as Wellness and Daiso.

Forecasts. Maintained.

We maintain our TP at RM1.80 based on 18x FY24F PER, at a premium to the sector's average forward PER of 16x to reflect AEON's strong brand and digital initiatives. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

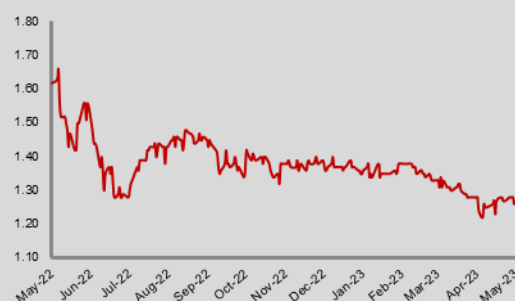
We like AEON as: (i) It is benefitting from the return of shopping-in-person (vs. online), resurgence of shopping in malls (vs. neighbourhood grocers) and the return of office crowd (vs. working from home), (ii) its customer base that is skewed towards the M40 group whose spending power is less impacted by high inflation, and (iii) its digital transformation, particularly, the introduction of self-checkout for customers, that will result in cost savings and mitigate labour shortages. Maintain **OUTPERFORM**.

Risks to our call include: (i) competition from existing and new players, (ii) sustained high inflation eroding consumer spending power, and (iii) the long-term trend towards online shopping from in-person shopping.

OUTPERFORM ↔

Price: **RM1.25**
Target Price: **RM1.80** ↔

Share Price Performance



KLCI	1,428.04
YTD KLCI chg	-4.5%
YTD stock price chg	-8.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AEON MK Equity
Market Cap (RM m)	1,755.0
Shares Outstanding	1,404.0
52-week range (H)	1.68
52-week range (L)	1.21
3-mth avg daily vol:	761,032
Free Float	21%
Beta	0.6

Major Shareholders

Aeon Co Ltd	51.7%
Employees Provident Fund	11.3%
Amanah Saham Nasional	4.9%

Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Turnover	4,141	4,396	4,553
PBT	211	233	255
Net Profit	111	128	140
Consensus	-	135.8	144.9
Earnings Revision	-	-	-
Core EPS (sen)	7.9	9.1	10.0
EPS growth (%)	30.4	15.2	9.5
NDPS (sen)	4.0	4.0	4.0
BV/Share (RM)	1.29	1.34	1.40
Core PER (x)	15.8	13.7	12.5
P/BV (x)	1.0	0.9	0.9
Gearing (x)	0.1	0.5	0.5
Net Dvd Yield (%)	3.2	3.2	3.2

19 May 2023

Results Highlights								
FYE Dec (RM m)	1Q23	4Q22	QoQ Chg	1Q22	YoY Chg	3M23	3M22	YoY Chg
Turnover	1,106.8	1,061.8	4.2%	1,001.8	10.5%	1,106.8	1,001.8	10.5%
Operating Expenses	(928.4)	(902.1)	2.9%	(815.5)	13.8%	(928.4)	(815.5)	13.8%
EBITDA	186.3	175.6	6.1%	194.1	-4.0%	186.3	194.1	-4.0%
EBIT	83.7	72.0	16.3%	83.4	0.4%	83.7	83.4	0.4%
Interest Expense	(24.7)	(27.4)	-9.9%	(29.4)	-16.0%	(24.7)	(29.4)	-16.0%
PBT	62.1	45.6	36.2%	54.8	13.3%	62.1	54.8	13.3%
Tax Expense	(23.9)	(20.7)	15.5%	(26.7)	-10.5%	(23.9)	(26.7)	-10.5%
Net Profit	38.2	24.9	53.4%	28.1	35.9%	38.2	28.1	35.9%
EPS (sen)	2.7	1.8	53.4%	2.0	35.9%	2.7	2.0	35.9%
DPS (sen)	0.0	4.0	N.M.	0.0	N.A.	0.0	0.0	N.A.
EBITDA Margin	16.8%	16.5%		19.4%		16.8%	19.4%	
EBIT Margin	7.6%	6.8%		8.3%		7.6%	8.3%	
PBT Margin	5.6%	4.3%		5.5%		5.6%	5.5%	
Core Net Profit Margin	3.5%	2.3%		2.8%		3.5%	2.8%	
Effective Tax Rate	38.5%	45.4%		48.7%		38.5%	48.7%	

Source: Company, Kenanga Research

Segmental Breakdown								
FYE Dec (RM m)	1Q23	4Q22	QoQ Chg	1Q22	YoY Chg	3M23	3M22	YoY Chg
Revenue								
Retailing	941.4	903.7	4.2%	857.4	9.8%	941.4	857.4	9.8%
Property Management	165.4	158.1	4.6%	144.4	14.5%	165.4	144.4	14.5%
Total	1106.8	1061.8	4.2%	1,001.8	10.5%	1,106.8	1,001.8	10.5%
EBIT								
Retailing	44.5	54.0	-17.6%	61.0	-27.0%	44.5	61.0	-27.0%
Property Management	59.4	52.2	13.8%	54.8	8.4%	59.4	54.8	8.4%
Total	83.7	72.0	16.2%	83.4	0.4%	83.7	83.4	0.4%
Segment Margin								
Retailing	4.7%	6.0%		7.1%		4.7%	7.1%	
Property Management	35.9%	33.0%		38.0%		35.9%	38.0%	
Total	7.6%	6.8%		8.3%		7.6%	8.3%	

Source: Company, Kenanga Research

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19 May 2023

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.
F&B AND RETAIL																	
AEON CO. (M) BHD	OP	1.25	1.80	44.00%	1,755.0	Y	12/2023	9.1	10.0	15.2%	9.4%	13.7	12.5	1.0	7.3%	4.0	3.2%
DUTCH LADY MILK INDUSTRIES BHD	MP	26.14	29.78	13.93%	1,673.0	Y	12/2023	139.4	135.3	-64.0%	-2.9%	18.8	19.3	3.8	21.7%	50.0	1.9%
FRASER & NEAVE HOLDINGS BHD	OP	26.74	28.44	6.36%	9,807.7	Y	09/2023	118.6	129.1	13.5%	8.8%	22.5	20.7	3.1	14.1%	62.5	2.3%
MR D.I.Y.	MP	1.59	1.67	5.03%	14,999.0	Y	12/2023	6.3	6.4	24.8%	2.7%	25.4	24.7	9.0	38.1%	4.0	2.5%
MYNEWS HOLDINGS BHD	UP	0.470	0.410	-12.77%	320.6	N	10/2023	1.0	2.2	-135.8%	127.7%	49.3	21.7	1.4	2.8%	0.0	0.0%
NESTLE (MALAYSIA) BHD	UP	135.00	121.18	-10.24%	31,657.5	Y	12/2023	303.0	305.1	14.6%	0.7%	44.6	44.2	45.0	106.9%	270.0	2.0%
PADINI HOLDINGS BHD	OP	3.86	6.00	55.44%	2,539.5	Y	06/2023	35.8	39.7	53.0%	10.8%	10.8	9.7	2.6	25.3%	10.0	2.6%
POWER ROOT BHD	OP	2.12	2.70	27.36%	907.0	Y	03/2023	13.1	14.3	108.8%	9.5%	16.2	14.8	2.8	18.0%	10.0	4.7%
QL RESOURCES BHD	OP	5.66	6.66	17.67%	13,774.5	Y	03/2023	14.3	17.7	60.3%	23.5%	39.5	32.0	4.4	12.1%	6.0	1.1%
Sector Aggregate					79,664.9					18.5%	7.3%	29.7	27.7	6.3	21.3%		2.3%
BREWERY & TOBACCO																	
BRITISH AMERICAN TOBACCO (M) BHD	MP	10.98	12.00	9.29%	3,135.1	N	12/2023	102.1	103.5	11.0%	1.4%	10.8	10.6	7.9	75.4%	99.0	9.0%
CARLSBERG BREWERY MALAYSIA BHD	MP	21.52	23.50	9.20%	6,579.7	N	12/2023	113.7	122.8	13.0%	8.0%	18.9	17.5	33.4	203.3%	100.0	4.6%
HEINEKEN MALAYSIA BHD	MP	27.80	28.60	2.88%	8,398.3	N	12/2023	144.2	150.4	5.5%	4.3%	19.3	18.5	21.5	111.1%	144.2	5.2%
Sector Aggregate					18,113.1					9.3%	4.7%	16.8	16.1	20.9	129.9%		6.3%

Source: Kenanga Research

19 May 2023

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Corporate Social Responsibility	★	★	★	☆	
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	★		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
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

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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