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AEON Co. (M)

New Tenants, Events to Pull the Crowd

By Tan Jia Hui | jhtan@kenanga.com.my

AEON expects sustained top line growth and stable occupancy, and hence rental incomes from its malls on resilient consumer spending, especially during festivities. It will continue to focus on: (i) the refurbishment of two malls, (ii) beefing up its private brands targeting the affordable segment, and (iii) its digital transformation and sustainability efforts. We maintain our forecasts, TP of RM1.80 and OUTPERFORM call.

We came away from AEON's post-results briefing last Friday feeling upbeat on its prospects. The key takeaways are as follows:

1. AEON expects its retail sales in 2QFY23 to sustain, underpinned by strong foot traffic during the recent Hari Raya Adifi shopping period. It is also lining up events such as Fashion Preview, Animefest, and AEON member day to boost sales.
2. AEON revealed that its overall occupancy rate sustained at c.91% in 1QFY23 and is confident that it will rise to 93%-95% by end-FY23 with new tenants coming onboard such as KOI The, Bananabro, MiXue and others. AEON also guided for positive rental reversions in FY23 for tenants under fixed rental structure. The renewal rate in FY23F will be comparable to the c.90% level in FY22. We believe AEON is highly conscious of its symbiotic relationship with the tenants.
3. AEON has earmarked RM200m-RM300m for the refurbishment of two malls (in Cheras Selatan and Ayer Keroh, Melacca). Work will start in 3QCY23 with completion expected by the end of the year. This follows the launch of its first Glam Beautiquestore in IOI City Mall, Putrajaya in Mar 2023 (which specialises in Japanese healthcare and beauty products).
4. AEON is beefing up its private brands targeting the affordable segment like Topvalu, Home Coordy and innercasual, which we believe is to position itself for down-trading by some customers whom want to stretch their dollar in times of high inflation.
5. It plans to introduce self-checkout terminals at Daiso and Wellness, apart from AEON. It is also embarking on the installation of roof-top solar PV in its malls.

We maintain our forecasts and TP of 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 its 3-star ESG rating as appraised by us (see Page 4).

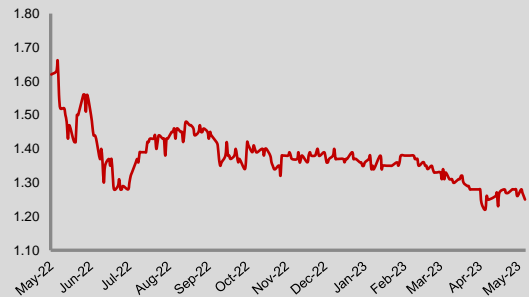
We like AEON as: (i) It is benefitting from the return of shopping-in-person (vs. online), resurgence of shopping in malls (vs. in neighbourhood grocers) and the return of office crowd (vs. working from home previously), (ii) its customer base that is skewed towards the M40 group whose spending power 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: RM1.30
Target Price: RM1.80 ↔

Share Price Performance



KLCI 1,428.54
YTD KLCI chg -4.5%
YTD stock price chg -5.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AEON MK Equity
Market Cap (RM m)	1,825.2
Shares Outstanding	1,404.0
52-week range (H)	1.58
52-week range (L)	1.21
3-mth avg daily vol:	771,851
Free Float	23%
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	-	138.0	145.5
Earnings Revision	-	-	-
Core EPS (sen)	7.9	9.1	10.0
EPS growth (%)	30.4	15.2	9.4
NDPS (sen)	4.0	4.0	4.0
BV/Share (RM)	1.29	1.34	1.40
Core PER (x)	16.4	14.2	13.0
P/BV (x)	1.0	1.0	0.9
Gearing (x)	0.1	0.5	0.5
Net Dvd Yield (%)	3.1	3.1	3.1

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	OP	1.30	1.80	38.46%	1,825.2	Y	12/2023	9.1	10.0	15.2%	9.4%	14.2	13.0	1.0	7.3%	4.0	3.1%
DUTCH LADY MILK INDUSTRIES BHD	MP	26.08	29.78	14.19%	1,669.1	Y	12/2023	139.4	135.3	-64.0%	-2.9%	18.7	19.3	3.8	21.7%	50.0	1.9%
FRASER & NEAVE HOLDINGS BHD	OP	26.62	28.44	6.84%	9,763.6	Y	09/2023	118.6	129.1	13.5%	8.8%	22.4	20.6	3.1	14.1%	62.5	2.3%
MR D.I.Y.	MP	1.60	1.67	4.38%	15,093.4	Y	12/2023	6.3	6.4	24.8%	2.7%	25.5	24.8	9.1	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	3.88	6.00	54.64%	2,552.7	Y	06/2023	35.8	39.7	53.0%	10.8%	10.8	9.8	2.6	25.3%	10.0	2.6%
POWER ROOT BHD	OP	2.11	2.70	27.96%	904.0	Y	03/2023	13.1	14.3	108.8%	9.5%	16.2	14.7	2.8	18.0%	10.0	4.7%
QL RESOURCES BHD	OP	5.64	6.66	18.09%	13,725.8	Y	03/2023	14.3	17.7	60.3%	23.5%	39.4	31.9	4.4	12.1%	6.0	1.1%
Sector Aggregate					79,754.2					18.5%	7.3%	29.8	27.7	6.3	21.3%		2.3%
TOBACCO PRODUCTS & BREWERIES																	
BRITISH AMERICAN TOBACCO (M) BHD	MP	11.06	12.00	8.50%	3,158.0	N	12/2023	102.1	103.5	11.0%	1.4%	10.8	10.7	8.0	75.4%	99.0	9.0%
CARLSBERG BREWERY MALAYSIA BHD	MP	21.70	23.50	8.29%	6,634.7	N	12/2023	113.7	122.8	13.0%	8.0%	19.1	17.7	33.6	203.3%	100.0	4.6%
HEINEKEN MALAYSIA BHD	MP	27.96	28.60	2.29%	8,446.7	N	12/2023	144.2	150.4	5.5%	4.3%	19.4	18.6	21.6	111.1%	144.2	5.2%
Sector Aggregate					18,239.4					9.3%	4.7%	16.9	16.2	21.1	129.9%		6.2%

Source: Kenanga Research

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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
 ★★★★★ +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.**

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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

