

AEON Co. (M) Bhd

Defending Footfall and Margins

By Cheow Ming Liang | cheowml@kenanga.com.my

Amidst a challenging retail landscape, AEON is striving to defend its footfall via store rejuvenation and expansion, and preserve its margins by further optimising its product offerings in accordance with the income level of the population within the store vicinity. We maintain our forecasts, TP of RM1.01 and UNDERPERFORM rating.

We came away from a meeting with AEON with mixed feeling on its near-term prospects. The key takeaways are as follows:

- Strong 1Q but cautious outlook thereafter.** AEON guided for a commendable 1Q sequentially, bolstered by festive spending. However, the group predicts a shift towards more cautious consumer spending in coming quarters on elevated inflation that is eating into consumers' spending power. Amidst a challenging retail landscape, AEON is striving to defend its footfall via store rejuvenation and expansion, and preserve its margins by further optimising its product offerings in accordance with the income level of the population around the store.
- Defending footfall via store rejuvenation and expansion.** AEON is set to commence its rejuvenation and facelift projects at several locations during the typically slower business quarters. The renovations, set for AEON IOI Bandar Puchong, AEON Bukit Indah, and AEON Tebrau City in FY24, are expected to be completed within six months and are anticipated to minimally impact business operations. By the end of FY23, the group had already completed renovations at four owned malls and plans to refurbish the balance of ten malls in the upcoming periods. Furthermore, AEON is expanding its retail footprint with new store openings at Setia City Mall in early April and at KL Midtown near the Malaysia International Trade and Exhibition Centre (MITEC) in FY25-26.
- Preserving margins by further optimising product offerings.** For its malls primarily visited by the low-and middle-income groups, AEON is putting forward more softline offerings, such as clothing. Meanwhile, for its malls with a higher concentration of mid-to-higher-income residents, it is expanding foodline offerings, particularly ready-to-serve food items. It also continues to grow private label offerings such as those under TopValu that fetch high margins but currently only make up <5% of its total revenue.

Outlook. Over the immediate term, consumer spending sentiment is likely to remain subdued amidst sustained high inflation and the lack of clarity over subsidy rationalisation. Once subsidy rationalisation measures are revealed during the year, we believe consumers will gradually "come to terms" with them and resume spending within their means.

Forecasts. Maintained, based same-store sales growth (SSSG) rates of -2.5% and -1.3% and blended EBIT margin of 6.6% each in FY24-25 (vs. an estimated SSSG rate of -2.0% and EBIT margin of 7.0% in FY23).

Valuations. We also keep our TP of RM1.01 based on 12x FY25F PER, at a 20% discount to the departmental store/apparel players' average historical forward PER of 15x to reflect the eroded spending power of their target customers, i.e. the M40 group. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

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

UNDERPERFORM ↔

Price: RM1.10
Target Price: RM1.01 ↔

Share Price Performance



KLCI 1,571.48
YTD KLCI chg 8.0%
YTD stock price chg 3.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AEON MK EQUITY
Market Cap (RM m)	1,586.5
Shares Outstanding	1,404.0
52-week Range (H)	1.37
52-week Range (L)	1.02
3-mth Avg. Daily Vol.:	1,067,917
Free Float	30%
Beta	0.5

Major Shareholders

Aeon Co Ltd	51.7%
Employees Provident Fund	9.0%
Amanah Saham Nasional	4.9%

Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	4,129	4,155	4,211
PBT	194	194	198
Net Profit	115	116	119
Consensus		129	138
Earnings Revision	-	-	-
Core EPS (sen)	8.2	8.3	8.4
EPS Growth (%)	3	1	2
NDPS (sen)	4.0	4.0	4.0
BV/Share (RM)	1.32	1.37	1.41
Core PER (x)	13.8	13.7	13.4
P/BV (x)	0.9	0.8	0.8
Gearing (x)	-0.2	-0.1	0.1
Net Dvd. Yield (%)	3.5%	3.5%	3.5%

25 April 2024

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F	FY Dec	2021A	2022A	2023A	2024F	2025F
Revenue	3,630	4,141	4,129	4,155	4,211	Growth (%)					
EBITDA	725	760	710	712	740	Turnover	-10.4	14.1	-0.3	0.6	1.4
Depreciation	464	437	421	438	462	EBITDA	-3.9	4.8	-6.5	0.2	4.0
Operating Profit	261	323	290	274	278	Operating Profit	0.6	23.8	-10.4	-5.4	1.5
Interest Expense	21	37	45	50	51	PBT	28.6	61.5	-8.3	-0.1	2.1
Interest Income	-129	-112	-97	-84	-84	Net Profit	105.7	30.5	3.2	1.2	2.1
Associate	0	0	0	0	0	Profitability (%)					
Exceptional Items	0	0	0	0	0	EBITDA Margin	20.0	18.3	17.2	17.1	17.6
PBT	131	211	194	194	198	Operating Margin	7.2	7.8	7.0	6.6	6.6
Taxation	-46	-100	-79	-77	-79	PBT Margin	3.6	5.1	4.7	4.7	4.7
Minority Interest	0	0	0	0	0	Core Net Margin	2.3	2.7	2.8	2.8	2.8
Net Profit	85	111	115	116	119	Effective Tax Rate	-34.9	-47.4	-40.8	-40.0	-40.0
Core Net Profit	85	111	115	116	119	ROA	1.5	2.0	2.2	2.1	2.1
						ROE	4.9	6.2	6.2	6.1	6.0
Balance Sheet											
FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F	DuPont Analysis					
Fixed Assets	3,108	2,952	3,090	2,944	2,778	Net Margin	2.3%	2.7%	2.8%	2.8%	2.8%
Intangible Assets	63.0	51.8	39.3	38.3	37.3	Assets Turnover	0.6x	0.8x	0.8x	0.8x	0.8x
Other FA	1,583	1,288	1,141	1,141	1,141	Leverage Factor	3.4x	3.0x	2.8x	2.9x	2.8x
Inventories	601	606	553	553	553	ROE (%)	4.9	6.2	6.2	6.1	6.0
Receivables	131	94	98	104	110	Leverage					
Other CA	184	199	202	198	202	Debt/Asset (x)	0.1	0.1	0.1	0.1	0.1
Cash	194	238	100	505	724	Debt/Equity (x)	0.4	0.3	0.2	0.3	0.3
Total Assets	5,863	5,426	5,224	5,484	5,546	Net Cash/(Debt)	-535	-260	-320	-115	104
						Net Debt/Equity (x)	-0.3	-0.1	-0.2	-0.1	0.1
Payables	1,166	1,214	1,186	1,186	1,186	Valuations					
ST Borrowings	269	251	264	264	264	EPS (sen)	6.1	7.9	8.2	8.3	8.4
Other ST Liability	427	455	50	50	50	NDPS (sen)	3.0	4.0	4.0	4.0	4.0
LT Borrowings	2,217	1,663	1,812	2,012	2,012	BV/Share (RM)	1.24	1.29	1.32	1.37	1.41
Other LT Liability	42	37	53	53	53	PER (x)	18.6	14.3	13.8	13.7	13.4
Minorities Int.	-	-	-	-	-	Net Div. Yield	2.7%	3.5%	3.5%	3.5%	3.5%
Net Assets	1,743	1,807	1,859	1,919	1,981	P/NTA (x)	0.9	0.9	0.9	0.8	0.8
						EV/EBITDA (x)	1.5	1.7	1.8	2.1	2.3
Share Capital	702	702	702	702	702						
Reserves	1,041	1,105	1,157	1,217	1,279						
Equity	1,743	1,807	1,859	1,919	1,981						
Cashflow Statement											
FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F						
Operating CF	699	705	630	552	571						
Investing CF	-63	-112	-367	-291	-295						
Financing CF	-514	-549	-400	144	-56						
Change In Cash	122	44	-138	405	220						
Free CF	666	591	249	261	276						

Source: Kenanga Research

25 April 2024

Peer Comparison

Name	Rating	Last Price at 24-Apr (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	1.13	1.01	-10.6%	1,586.5	Y	12/2024	8.3	8.4	1.2%	2.1%	13.7	13.4	0.8	6.2%	4.0	3.5%
DUTCH LADY MILK INDUSTRIES BHD	UP	33.50	27.65	-17.5%	2,144.0	Y	12/2024	123.1	126.3	9.4%	2.5%	27.2	26.5	4.4	17.1%	50.0	1.5%
FRASER & NEAVE HOLDINGS BHD	OP	31.52	33.80	7.2%	11,560.9	Y	09/2024	150.2	155.7	13.8%	3.6%	21.0	20.2	3.2	16.0%	77.0	2.4%
MR D.I.Y. GROUP (M) BHD	OP	1.52	1.95	28.3%	14,361.3	Y	12/2024	7.0	7.8	17.6%	12.2%	21.8	19.5	7.1	34.8%	4.0	2.6%
NESTLE (MALAYSIA) BHD	UP	126.30	115.00	-8.9%	29,617.4	Y	12/2024	290.8	305.0	3.3%	4.9%	43.4	41.4	45.3	102.7%	300.0	2.4%
PADINI HOLDINGS BHD	UP	3.52	3.20	-9.1%	2,315.8	Y	06/2024	23.0	26.7	-31.9%	15.7%	15.3	13.2	2.1	14.0%	10.0	2.8%
POWER ROOT BHD	UP	1.64	1.55	-5.5%	755.3	Y	03/2024	10.2	11.6	-25.0%	13.4%	16.0	14.1	2.4	15.0%	8.0	4.9%
QL RESOURCES BHD	MP	6.35	6.25	-1.6%	15,453.7	Y	03/2024	17.8	19.5	25.2%	9.2%	35.6	32.6	5.3	17.0%	9.0	1.4%
KAREX BHD	OP	0.815	1.06	30.1%	858.6	Y	06/2024	2.3	4.2	125.7%	87.8%	36.2	19.3	1.7	4.9%	0.5	0.6%
SECTOR AGGREGATE					78,653.5					8.3%	8.3%	28.7	26.5	5.8	20.2%		2.5%

Source: Bloomberg, Kenanga Research

25 April 2024

Stock ESG Ratings:

AEON					
	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

