

05 June 2024

# AEON Co. (M) Bhd

## Buying Land to Expand Seremban 2 Mall

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AEON is acquiring 23 acres of commercial land in Seremban 2 for RM103m cash on which it intends to build an extension to its existing mall. We believe the premium land pricing is justifiable given the location next to its existing mall. We are positive on the acquisition as it will increase its scale of operation in Seremban with a growing middle class population. We maintain our forecasts, TP of RM1.21 and MARKET PERFORM rating.

AEON is acquiring 23 acres of commercial land in Seremban 2, Negeri Sembilan from Real Attraction Sdn Bhd (controlled by the founder of construction company Road Builder, Tan Sri Dato' Sri Dr. Chua Hock Chin) for RM102.89m cash. The land is located just next to AEON Mall in Seremban 2 and as such AEON plans to construct an extension to be linked to the existing mall to expand its operation in Seremban 2.

At RM102.50 per sq ft (psf), the pricing is at a premium to the asking price of RM87 psf of a 2.6-acre commercial land in Seremban 2. We believe the premium is justifiable given that the land to be acquired is located just next to AEON's existing mall.

The RM103m outlay will raise AEON's net debt and gearing of RM149.9m and 0.08x as at end-Mar 2024 to RM252.9m and 0.13x, respectively, which are still highly manageable.

We are positive on the acquisition as it will increase its scale of operation in Seremban—the capital city of Negeri Sembilan with a growing middle class—over the medium to long term.

**Outlook.** We remain cautious over its near-term outlook given subdued consumer spending on sustained elevated inflation and consumers' anxiety over the impending fuel subsidy rationalisation. On a brighter note, a 13% salary increase for civil servants from Dec 2024 should at least partially restore spending power of consumers.

**Forecasts.** Maintained as additional earnings from the mall extension will come in beyond our forecast period.

**Valuations.** We also keep our TP unchanged at RM1.21, based on 13.5x FY25F PER, at a 10% 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).

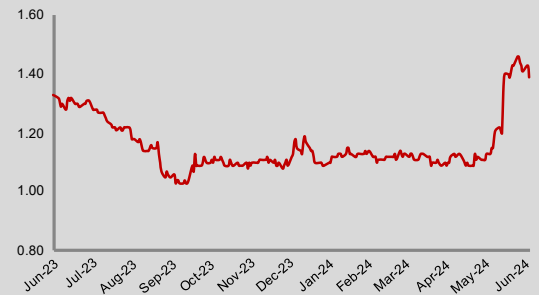
**Investment case.** We like AEON for: (i) being a proxy to consumer spending locally; (ii) its unique business model as mall operator that offers control over mall tenant mix coupled with recurring rental incomes, and (iii) its strong brand name with a long presence in the local market. However, we are mindful of the cautious consumer spending at present due to high inflation. Maintain **MARKET PERFORM**.

**Risks to our call include:** (i) consumer spending weighed down by high inflation, subsidy rationalisation and a weak job market; (ii) an influx of new players, intensifying competition for footfall, and (iii) escalation in cost pressures.

# MARKET PERFORM ↔

Price: **RM1.39**  
Target Price: **RM1.21** ↔

### Share Price Performance



KLCI 1,615.40  
YTD KLCI chg 11.1%  
YTD stock price chg 27.5%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AEON MK EQUITY
Market Cap (RM m)	1,951.6
Shares Outstanding	1,404.0
52-week Range (H)	1.48
52-week Range (L)	1.02
3-mth avg. daily vol.	3,443,798
Free Float	32%
Beta	0.7

### 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	4,211	4,305
PBT	194	203	209
<b>Net Profit</b>	115	123	125
Consensus	-	148	160
Earnings Revision	-	-	-
Core EPS (sen)	8.2	8.7	8.9
EPS Growth (%)	3	7	2
NDPS (sen)	4.0	4.0	4.0
BV/Share (RM)	1.32	1.37	1.42
Core PER (x)	17.0	15.9	15.6
P/BV (x)	1.0	1.0	1.0
Gearing (x)	0.2	-	-0.1
Net Dvd. Yield (%)	2.9	2.9	2.9

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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	4,211	4,305	<b>Growth (%)</b>					
EBITDA	725	760	710	713	740	Turnover	-10.4	14.1	-0.3	2.0	2.2
Depreciation	464	437	421	428	452	EBITDA	-3.9	4.8	-6.5	0.4	3.8
Operating Profit	261	323	290	285	289	Operating Profit	0.6	23.8	-10.4	-1.5	1.1
Interest Expense	21	37	45	37	41	PBT	28.6	61.5	-8.3	4.9	2.7
Interest Income	-129	-112	-97	-82	-80	Net Profit	105.7	30.5	3.2	6.8	2.2
Associate	0	0	0	0	0	<b>Profitability (%)</b>					
Exceptional Items	0	0	0	0	0	EBITDA Margin	20.0	18.3	17.2	16.9	17.2
PBT	131	211	194	203	209	Operating Margin	7.2	7.8	7.0	6.8	6.7
Taxation	-46	-100	-79	-81	-84	PBT Margin	3.6	5.1	4.7	4.8	4.9
Minority Interest	0	0	0	0	0	Core Net Margin	2.3	2.7	2.8	2.9	2.9
Net Profit	85	111	115	123	125	Effective Tax Rate	-34.9	-47.4	-40.8	-39.7	-40.0
Core Net Profit	85	111	115	123	125	ROA	1.5	2.0	2.2	2.3	2.3
						ROE	4.9	6.2	6.2	6.4	6.3
Balance Sheet											
FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F	<b>DuPont Analysis</b>					
Fixed Assets	3,108	2,952	3,090	2,916	2,767	Net Margin	2.3%	2.7%	2.8%	2.9%	2.9%
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	2.7x	2.7x
Inventories	601	606	553	553	553	ROE (%)	4.9	6.2	6.2	6.4	6.3
Receivables	131	94	98	104	110	<b>Leverage</b>					
Other CA	184	199	202	206	212	Debt/Asset (x)	0.1	0.1	0.1	0.1	0.1
Cash	194	238	100	331	538	Debt/Equity (x)	0.4	0.3	0.2	0.2	0.2
Total Assets	5,863	5,426	5,224	5,290	5,359	Net Cash/(Debt)	-535	-260	-320	-89	118
						Net Debt/Equity (x)	0.3	0.1	0.2	0.0	-0.1
Payables	1,166	1,214	1,186	1,186	1,186	<b>Valuations</b>					
ST Borrowings	269	251	264	264	264	EPS (sen)	6.1	7.9	8.2	8.7	8.9
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	1,812	1,812	BV/Share (RM)	1.24	1.29	1.32	1.37	1.42
Other LT Liability	42	37	53	53	53	PER (x)	22.9	17.6	17.0	15.9	15.6
Minorities Int.	-	-	-	-	-	Net Div. Yield	2.2%	2.9%	2.9%	2.9%	2.9%
<b>Net Assets</b>	<b>1,743</b>	<b>1,807</b>	<b>1,859</b>	<b>1,925</b>	<b>1,995</b>	P/NTA (x)	1.1	1.1	1.0	1.0	1.0
						EV/EBITDA (x)	2.0	2.2	2.3	2.6	2.8
Share Capital	702	702	702	702	702						
Reserves	1,041	1,105	1,157	1,223	1,293						
<b>Equity</b>	<b>1,743</b>	<b>1,807</b>	<b>1,859</b>	<b>1,925</b>	<b>1,995</b>						
Cashflow Statement											
FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F						
Operating CF	699	705	630	541	564						
Investing CF	-63	-112	-367	-253	-301						
Financing CF	-514	-549	-400	-56	-56						
Change In Cash	122	44	-138	232	207						
Free CF	666	591	249	288	263						

Source: Kenanga Research

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### Peer Comparison

Name	Rating	Last Price at 4-Jun (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.
<b>CONSUMER</b>																	
AEON CO. (M) BHD	MP	1.39	1.21	-15.4%	2,007.7	Y	12/2024	8.7	8.9	6.9%	2.1%	16.4	16.0	1.0	6.5%	4.0	2.8%
FRASER & NEAVE HOLDINGS BHD	OP	32.56	38.25	17.5%	11,942.3	Y	09/2024	167.6	176.4	26.9%	5.3%	19.4	18.5	3.3	17.7%	85.0	2.6%
MR D.I.Y. GROUP (M) BHD	OP	1.81	1.97	8.8%	17,106.1	Y	12/2024	7.0	7.9	18.2%	12.6%	25.8	22.9	8.5	35.4%	4.0	2.2%
NESTLE (MALAYSIA) BHD	UP	127.70	115.00	-9.9%	29,945.7	Y	12/2024	292.3	306.0	3.8%	4.7%	43.7	41.7	45.6	102.9%	300.0	2.3%
PADINI HOLDINGS BHD	MP	3.80	3.63	-4.5%	2,500.1	Y	06/2024	23.5	26.9	-30.4%	14.2%	16.1	14.1	2.2	14.3%	12.0	3.2%
POWER ROOT BHD	UP	1.71	1.40	-18.1%	786.2	Y	03/2025	9.1	9.8	2.6%	7.3%	18.8	17.5	2.3	12.2%	7.0	4.1%
QL RESOURCES BHD	MP	6.33	6.25	-1.3%	15,405.1	Y	03/2025	19.5	20.8	8.7%	6.2%	32.4	30.5	4.8	16.4%	9.0	1.4%
KAREX BHD	OP	0.820	1.10	34.1%	863.8	Y	06/2024	2.4	4.4	137.1%	85.1%	34.7	18.7	1.8	5.1%	1.0	1.2%
<b>SECTOR AGGREGATE</b>					<b>80,556.9</b>					<b>9.9%</b>	<b>8.1%</b>	<b>28.9</b>	<b>26.8</b>	<b>6.0</b>	<b>20.7%</b>		<b>2.5%</b>

Source: Bloomberg, Kenanga Research

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**Stock ESG Ratings:**

AEON					
	Criterion	Rating			
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	★	
	Community Investment	★	★	★	☆
	Workers Safety & Wellbeing	★	★	★	
	Corporate Governance	★	★	★	
	Anti-Corruption Policy	★	★	★	
	Emissions Management	★	★	★	
<b>SPECIFIC</b>	Product Quality & Safety	★	★	★	☆
	Effluent/Waste Management	★	★	★	
	Digitalisation & Innovation	★	★	★	★
	Use of Biodegradable Materials	★	★	★	
	Supply Chain Management	★	★	★	☆
	Energy Efficiency	★	★	★	
<b>OVERALL</b>		★	★	★	

☆ 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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