

10 July 2024

AEON Co. (M) Bhd

Growth Plan Undeterred by Soft Patch

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

AEON anticipates better YoY growth for 1HFY24 despite a softer 2Q in the absence of major festivities, and due to less favourable product mix as well as elevated inflation. It will deploy a premium lifestyle concept at its KL Midtown mall due for opening by end-2025. We maintain our forecasts, TP of RM1.21 and MARKET PERFORM rating.

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

- 1. Anticipates better YoY growth in 1HFY24.** AEON expects a softer 2Q sequentially in the absence of major festivities, and due to a less favourable product mix and elevated inflation hurting consumer spending. The introduction of EPF's Account 3 since 12 May 2024 has had minimal impact so far. Despite the projected weaker 2Q, AEON remains optimistic on its overall 1HFY24 performance, expecting YoY improvement supported by exceptionally strong 1Q contributions driven by festive spending and a better product mix. Additionally, ongoing cost-saving initiatives in energy and labour costs could bolster margins, providing some supports to its financial performance in 2Q. For the full financial year, AEON expects its PAT margin to be within 2.5%-2.8%, despite a strong 4.9% in 1QFY24, due to anticipated diminished contributions from high-margin products (i.e. softline) and sustained cautious consumer spending as a result of the rising cost of living.
- 2. Building an ecosystem within the Aeon group.** The group will continue developing its AEON Living Zone ecosystem, aiming to accelerate digital integration into its existing business models by increasing the number of app users and expanding the cashless payment network. Additionally, it will seamlessly provide products, services, and infrastructure from the perspective of local consumers. The group has also collaborated with its local sister companies, such as AEON Credit and AEON Bank, to enrich its customers' lifestyles by offering higher rewards, loans, and instalment schemes for shoppers (see exhibit 1).
- 3. Premium AEON in KL Midtown.** It will deploy a premium lifestyle concept at its KL Midtown mall due for opening by end-2025, probably emulating the design of its parent company's malls in Japan, with an estimated renovation budget of approximately RM50m. Recall, AEON signed an agreement with KL Midtown Sdn Bhd (70% owned by Hap Seng Consolidated) in 2023 to be the anchor tenant at the KL Midtown shopping mall encompassing a total area of 500,000 sq ft (see exhibit 2).

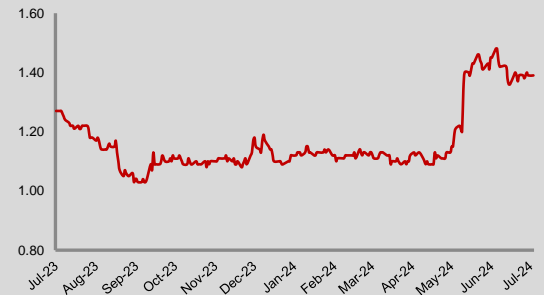
Outlook. We remain cautious over its near-term outlook given subdued consumer spending on sustained elevated inflation and consumers' anxiety over the impending fuel subsidy rationalisation. On a brighter note, a 13% salary increase for civil servants from Dec 2024 should at least partially restore spending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

Forecasts. Maintained, based on same-store sales growth (SSSG) rates of -2.0% and -0.6% and blended EBIT margin of 6.7% each in FY24-FY25.

MARKET PERFORM ↔

Price: RM1.39
Target Price: RM1.21 ↔

Share Price Performance



KLCI 1,614.42
YTD KLCI chg 11.0%
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)	1.50
52-week Range (L)	1.02
3-mth avg. daily vol.	4,299,623
Free Float	32%
Beta	0.7

Major Shareholders

Aeon Co Ltd	51.7%
Employees Provident Fund	6.6%
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
Net Profit	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)	1.1	0.9	0.8
Net Dvd. Yield (%)	2.9%	2.9%	2.9%

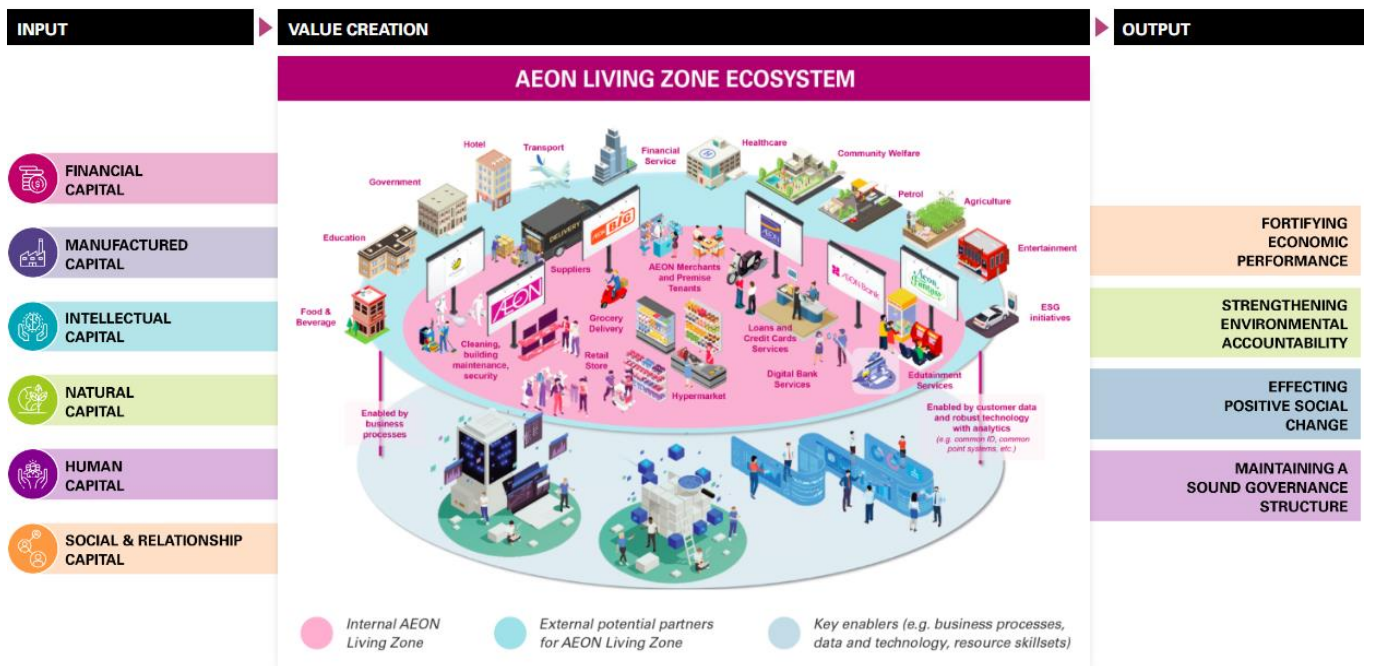
10 July 2024

Valuations. We also keep our TP of 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 weakened 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.

Exhibit 1: AEON Living Zone Ecosystem



Source: Kenanga Research, Company

Exhibit 2: KL Midtown

As a renowned property developer, KL MidTown SDN BHD is proudly developing a unique mixed-use project, where sustainability and energy efficiency are predominantly featured.

Known as KL Midtown, it is set to create an elevated quality of life for those who are working and living here.

8.95

acres of prime land

FREEHOLD

land title

- 1 Hyatt Regency Kuala Lumpur
- 2 Retail Mall
- 3 Signature Office Towers
- 4 Residential Towers
- 5 Corporate Office Tower



Source: Kenanga Research, KL Midtown

10 July 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	4,211	4,305	Growth (%)					
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	6.9	2.2
Associate	0	0	0	0	0	Profitability (%)					
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						DuPont Analysis					
FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F	Net Margin	2.3%	2.7%	2.8%	2.9%	2.9%
Fixed Assets	3,108	2,952	3,090	2,916	2,767	Assets Turnover	0.6x	0.8x	0.8x	0.8x	0.8x
Intangible Assets	63.0	51.8	39.3	38.3	37.3	Leverage Factor	3.4x	3.0x	2.8x	2.7x	2.7x
Other FA	1,583	1,288	1,141	1,141	1,141	ROE (%)	4.9	6.2	6.2	6.4	6.3
Inventories	601	606	553	553	553	Leverage					
Receivables	131	94	98	104	110	Debt/Asset (x)	0.5	0.4	0.4	0.4	0.4
Other CA	184	199	202	206	212	Debt/Equity (x)	1.7	1.3	1.1	1.1	1.1
Cash	194	238	100	331	538	Net Cash/(Debt)	-2,692	-2,124	-2,026	-1,794	-1,587
Total Assets	5,863	5,426	5,224	5,290	5,359	Net Debt/Equity (x)	1.5	1.2	1.1	0.9	0.8
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	8.7	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%
Net Assets	1,743	1,807	1,859	1,925	1,995	P/NTA (x)	1.1	1.1	1.0	1.0	1.0
Share Capital	702	702	702	702	702	EV/EBITDA (x)	-1.0	-0.2	-0.1	0.2	0.5
Reserves	1,041	1,105	1,157	1,223	1,293						
Equity	1,743	1,807	1,859	1,925	1,995						
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

10 July 2024

Peer Comparison

Name	Rating	Last Price at 9-Jul (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	MP	1.39	1.21	-12.9%	1,951.6	Y	12/2024	8.7	8.9	6.9%	2.1%	15.9	15.6	1.0	6.5%	4.0	2.9%
FRASER & NEAVE HOLDINGS BHD	OP	31.38	38.25	21.9%	11,509.5	Y	09/2024	167.6	176.4	26.9%	5.3%	18.7	17.8	3.2	17.7%	85.0	2.7%
MR D.I.Y. GROUP (M) BHD	MP	1.94	1.97	1.5%	18,337.6	Y	12/2024	7.0	7.9	18.2%	12.6%	27.7	24.6	9.2	35.4%	4.0	2.1%
NESTLE (MALAYSIA) BHD	UP	122.40	115.00	-6.0%	28,702.8	Y	12/2024	292.3	306.0	3.8%	4.7%	41.9	40.0	43.7	102.9%	300.0	2.5%
PADINI HOLDINGS BHD	MP	3.58	3.63	1.4%	2,355.3	Y	06/2024	23.5	26.9	-30.4%	14.2%	15.2	13.3	2.1	14.3%	12.0	3.4%
POWER ROOT BHD	UP	1.58	1.40	-11.4%	726.3	Y	03/2025	9.1	9.8	2.6%	7.3%	17.3	16.2	2.1	12.2%	7.0	4.4%
QL RESOURCES BHD	MP	6.53	6.25	-4.3%	15,891.8	Y	03/2025	19.5	20.8	8.7%	6.2%	33.4	31.5	4.9	16.4%	9.0	1.4%
KAREX BHD	OP	0.870	1.10	26.4%	916.5	Y	06/2024	2.4	4.4	137.1%	85.1%	36.8	19.9	1.9	5.1%	1.0	1.1%
SECTOR AGGREGATE					80,391.4					9.9%	8.1%	28.9	26.7	6.0	20.7%		2.6%

Source: Bloomberg, Kenanga Research

Stock ESG Ratings:

	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

