

17 July 2024

Consumer Cyclical | Retailing

## AEON Co M (AEON MK)

## Neutral (Maintained)

### Coming Off From a 1Q Seasonal Peak

Target Price (Return): MYR1.35 (0%)  
 Price (Market Cap): MYR1.35 (USD405m)  
 ESG score: 3.3 (out of 4)  
 Avg Daily Turnover (MYR/USD) 5.75m/1.22m

- **Maintain NEUTRAL with new MYR1.35 TP (DCF) from MYR1.26, 0% downside.** We recently had a meeting with management to discuss AEON Co M's outlook and strategies. We remain cautious about AEON's prospects due to increasing competition from neighbourhood and niche grocery stores, and an oversupply of retail space. We foresee muted earnings growth ahead and choose not to stretch our valuation further.
- **Key takeaways.** The strategy for AEON's retail segment includes: i) Expanding the private brand (currently <5% of retail sales; it comprises food items and household products that yield higher margins and attract customers with unique offerings), ii) implementing digital initiatives like self-checkout counters to enhance efficiency and reduce personnel costs (30% of opex) and a mobile app to improve convenience and customer engagement, iii) intensifying marketing and promotional efforts to increase foot traffic during non-festive periods, and iv) opening one new AEON store along with 4-5 specialty stores over the next year.
- **Retail outlook.** Our SSSG assumption of 3-4% is in line with Retail Group Malaysia's FY24F-26F retail sales, which accounts for expected benefits from the Employees Provident Fund accounts restructuring and civil servants' revised salary scheme, and impact of subdued consumer spending amidst inflationary pressures. We do not anticipate AEON to outperform the broader retail industry, particularly in the competitive grocery sector, amid rising competition from neighbourhood and niche grocery stores. Recall: It posted 4.2% YoY growth in 1Q24 retail revenue, underperforming Malaysia's 7.8% overall retail sales growth for the same period. Post 1Q24's festive-driven boost (on the unusual timing of the Lunar New Year and *Eid al-Fitr* falling in 1Q), we estimate a retail sales decline (>20% QoQ).
- **Limited catalysts for property management segment (PMS).** While PMS remains a key earnings driver, we think further growth is limited by near-full occupancy rates and minimal mall expansions. Management is focused on rejuvenating malls to enhance the shopping experience and improve competitiveness. Post renovation, tenant interest has increased, and AEON aims to continue attracting brands that appeal to younger consumers. Despite management's expectation of high single-digit rental growth, we project a more conservative rental reversion of 3% for FY24, following strong rental reversion in FY23 (+9%) - in line with other REITs under our coverage, as we think the oversaturation of retail space intensifies competition.
- **Forecast and ratings.** Post meeting, we make no changes to our earnings forecasts but raise TP to MYR1.35 after rolling forward our DCF valuation base year to FY25F. Our TP implies 13x FY25F P/E (-0.5SD from its 5-year mean), ie in line with the valuation ascribed to other consumer retail stocks under our coverage. Key upside/downside risks: Stronger-/weaker-than-expected consumer sentiment and higher-/lower-than-expected opex.

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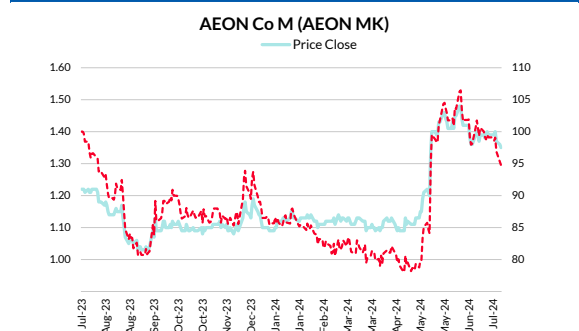


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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	23.9	(4.9)	22.7	17.4	8.9
Relative	12.1	(6.1)	16.8	8.6	(6.2)
52-wk Price low/high (MYR)					1.03 - 1.48



Source: Bloomberg

#### Overall ESG Score: 3.3 (out of 4)

##### E: GOOD

AEON implemented best practices for its premises on carbon footprint management; with their own Facility Management setting guidelines on air-conditioning and tracking annual consumption. Waste management is also emphasised, having established the Community Recycling Centre and working alongside the Ministry of Domestic Trade and Costs of Living to prevent food waste.

##### S: EXCELLENT

Emphasis on cost-effective internal training modules for the development of employees, to complement a diverse workforce - with 58% female employees and 59% of management roles held by women. The formalisation of Person with Disabilities Programme in 2018 to hire persons with disabilities is also commendable. Malaysian AEON Foundation continues to raise funds to provide quality education and medical attention for underprivileged children.

##### G: EXCELLENT

The board comprises four independent directors and four non-independent directors who endeavour to meet at least four times a year, and have attended various trainings to enhance their skills.

#### Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	4,141	4,129	4,260	4,388	4,547
Recurring net profit (MYRm)	135	139	137	146	154
Recurring net profit growth (%)	44.2	3.0	(1.1)	6.1	5.4
Recurring P/E (x)	14.05	13.65	13.80	13.00	12.34
P/B (x)	1.0	1.0	1.0	0.9	0.9
P/CF (x)	2.69	3.01	2.86	2.66	2.52
Dividend Yield (%)	3.0	3.0	3.6	3.8	4.1
EV/EBITDA (x)	2.75	3.02	2.82	2.50	2.22
Return on average equity (%)	6.3	6.3	7.3	7.4	7.5
Net debt to equity (%)	14.4	17.2	11.6	4.0	net cash

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

## Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	Recurring EPS	0.10	0.10	0.10	0.10	0.11
Consumer Cyclical	DPS	0.04	0.04	0.05	0.05	0.05
<b>AEON Co M</b>	BVPS	1.29	1.32	1.37	1.42	1.48
AEON MK	Return on average equity (%)	6.3	6.3	7.3	7.4	7.5
Neutral						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
<b>Valuation basis</b>	Recurring P/E (x)	14.05	13.65	13.80	13.00	12.34
DCF	P/B (x)	1.0	1.0	1.0	0.9	0.9
	FCF Yield (%)	30.9	13.2	21.7	24.4	23.9
<b>Key drivers</b>	Dividend Yield (%)	3.0	3.0	3.6	3.8	4.1
i. Buoyant consumer sentiment;	EV/EBITDA (x)	2.75	3.02	2.82	2.50	2.22
ii. Market share gain.	EV/EBIT (x)	6.21	7.06	6.44	5.76	5.18
	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
<b>Key risks</b>	Total turnover	4,141	4,129	4,260	4,388	4,547
Key upside risks include stronger-than-expected consumer sentiment and higher-than-expected opex.	Gross profit	4,141	4,129	4,260	4,388	4,547
	EBITDA	783	734	750	792	833
Key downside risks include weaker-than-expected consumer sentiment and lower-than-expected opex.	Depreciation and amortisation	(437)	(421)	(421)	(449)	(477)
	Operating profit	347	314	329	343	356
	Net interest	(112)	(97)	(97)	(97)	(97)
	Pre-tax profit	211	194	232	246	259
	Taxation	(100)	(79)	(95)	(100)	(106)
	Reported net profit	111	115	137	146	154
	Recurring net profit	135	139	137	146	154
	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	60	(2)	7	21	25
	Cash flow from operations	705	630	662	713	752
	Capex	(118)	(381)	(250)	(250)	(300)
	Cash flow from investing activities	(112)	(367)	(250)	(250)	(300)
	Dividends paid	(42)	(56)	(69)	(73)	(77)
	Cash flow from financing activities	(549)	(400)	(315)	(320)	(323)
	Cash at beginning of period	194	237	100	196	339
	Net change in cash	44	(138)	97	143	129
	Ending balance cash	237	100	196	339	468
	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	237	100	196	339	468
	Tangible fixed assets	4,215	4,201	4,179	4,131	4,103
	Total investments	1	1	1	1	1
	Total assets	5,426	5,224	5,344	5,456	5,582
	Short-term debt	448	50	50	50	50
	Total long-term debt	50	370	370	370	370
	Total liabilities	3,619	3,365	3,416	3,456	3,505
	Total equity	1,807	1,859	1,928	2,001	2,077
	Total liabilities & equity	5,426	5,224	5,344	5,456	5,582
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	14.1	(0.3)	3.2	3.0	3.6
	Recurrent EPS growth (%)	44.2	3.0	(1.1)	6.1	5.4
	Gross margin (%)	100.0	100.0	100.0	100.0	100.0
	Operating EBITDA margin (%)	18.9	17.8	17.6	18.0	18.3
	Net profit margin (%)	2.7	2.8	3.2	3.3	3.4
	Dividend payout ratio (%)	50.5	48.9	50.0	50.0	50.0
	Capex/sales (%)	2.9	9.2	5.9	5.7	6.6
	Interest cover (x)	3.02	2.97	3.40	3.55	3.68

Source: Company data, RHB

## Ongoing And Upcoming Key Projects

Figure 1: Store facelift at AEON IOI Bandar Puchong



Source: RHB

Figure 2: Store facelift at AEON Ipoh Station 18



Source: RHB

Figure 3: Store facelift of AEON Tebrau City



Source: RHB

Figure 4: Store facelift at AEON Bukit Indah



Source: RHB

Figure 5: Store count

	FY17	FY18	FY19	FY20	FY21	FY22	FY23
AEON Mall	26	27	28	28	28	28	28
AEON Store	34	33	34	34	34	35	35
AEON Max Value	3	6	9	9	9	8	7
AEON wellness	52	61	75	66	65	62	64
Daiso	33	37	43	44	42	41	44
Komai-so					4	3	3

Source: Company data, RHB

Figure 6: Peer Tables

Company	Country	FYE	Mkt cap (USDm)	Price	P/E (x)		Div. yld (%)	ROE (%)	EV/ EBITDA	NP growth (%)		
				16-Jul-24 (Local currency)	Actual	1-yr fwd	2-yr fwd	1-yr fwd	1-yr fwd	1-yr fwd	1-yr fwd	2-yr fwd
AEON	MA	Dec	414.5	1.38	16.4	13.2	12.2	3.3	7.9	4.8	24.4	8.7
<b>Local retailers</b>												
Padini	MA	Jun	490.9	3.49	9.9	14.0	12.4	3.2	15.9	5.4	-29.2	12.4
Senheng New Retail	MA	Dec	99.4	0.31	18.1	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Focus Point	MA	Dec	82.5	0.84	12.5	10.6	9.7	4.6	30.7	4.8	17.4	10.0
SDS	MA	Mar	78.8	0.90	11.2	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Bonia	MA	Jun	72.4	1.69	5.9	9.1	8.4	3.7	8.2	3.8	-35.1	8.4
Parkson	MA	Dec	62.6	0.26	-14.9	N/A	N/A	N/A	N/A	N/A	N/A	N/A
SSF Home	MA	Apr	67.6	0.40	43.9	15.9	12.6	1.3	12.1	6.7	175.7	26.3
Innature	MA	Dec	40.8	0.27	17.7	16.0	13.4	4.1	8.2	4.3	10.5	19.3
<b>Mkt. cap weighted avg.</b>			<b>280.7</b>		<b>11.8</b>	<b>13.4</b>	<b>11.8</b>	<b>3.3</b>	<b>16.0</b>	<b>5.2</b>	<b>-4.2</b>	<b>13.4</b>
<b>Simple avg.</b>			<b>124.4</b>		<b>13.0</b>	<b>13.1</b>	<b>11.3</b>	<b>3.4</b>	<b>15.0</b>	<b>5.0</b>	<b>27.8</b>	<b>15.3</b>

Source: Bloomberg, RHB

Figure 7: DCF valuation

FYE Dec	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F	FY34F
EBIT	343	356	367	397	439	472	507	543	580	620
EBIT*(1-tax rate)	242	250	257	274	299	319	339	361	383	406
Add: D&A	176	178	181	183	186	188	192	196	201	206
Less: WC investments (WC Inv)	21	25	22	26	32	27	28	29	-25	-111
Less: Fixed investments (FC Inv)	-250	-300	-300	-300	-300	-300	-350	-350	-350	-350
FCFF	190	153	159	183	217	235	210	236	209	151
Disc. FCFF	175	130	124	131	143	142	117	122	99	66
Terminal value at T=10	1984									
PV of terminal value	864									
NPV	1249									
Less debt	-320									
Less minority interest	0									
Equity value of firm	1792									
ESG premium/discount	6%									
<b>Fair Value per share</b>	<b>1.35</b>									
Implied FY25F P/E	13.0									
Rf	4.0%									
Beta	0.7									
Risk premium	9.0%									
Rm	13.0%									
TG (%)	1.0%									
CoE	10.0%									
CoD	4.0%									
WACC	8.7%									

Source: RHB

## Emissions And ESG

### Trend analysis

Greenhouse gas (GHG) emissions increased in FY23 due to increases in Scope 2 emissions by 67%.

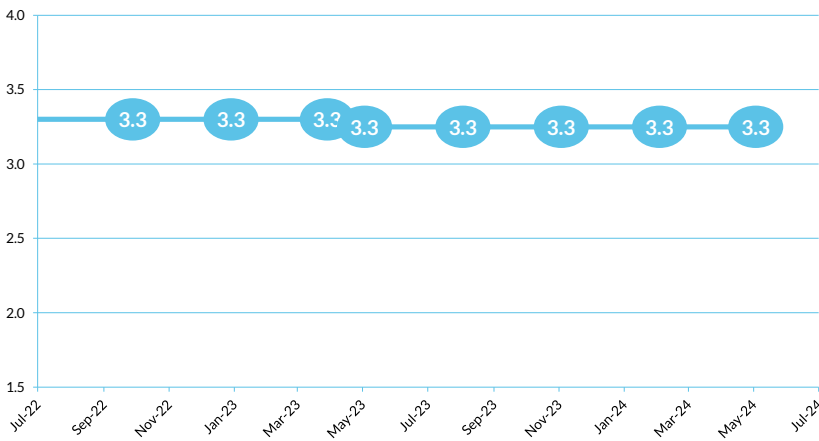
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	1,506	1,663	1,482
Scope 2	198,056	61,548	103,026
Scope 3	23,909	27,959	26,094
Total emissions	223,471	91,170	130,602

Source: Company data, RHB

## Latest ESG-Related Developments

- Looking ahead to 2024, AEON has established plans to implement energy management system over the next 12 months, ensuring a comprehensive approach to energy conservation and sustainability.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-05-16	Neutral	1.26	1.34
2024-02-26	Neutral	1.15	1.14
2023-11-27	Neutral	1.15	1.08
2023-09-20	Neutral	1.15	1.13
2023-08-22	Neutral	1.29	1.17
2023-05-19	Neutral	1.35	1.30
2023-02-23	Neutral	1.43	1.37
2022-11-24	Neutral	1.48	1.37
2022-08-24	Neutral	1.51	1.42
2022-05-19	Neutral	1.51	1.56
2022-02-24	Neutral	1.41	1.44
2021-11-25	Neutral	1.41	1.41
2021-10-14	Neutral	1.41	1.50
2021-08-30	Neutral	1.33	1.44
2021-05-20	Neutral	1.22	1.15

Source: RHB, Bloomberg

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
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