

27 August 2019

AEON Co. (M) Bhd

1H19 Below Expectations

By Wan Mustaqim Bin Wan Ab Aziz | wanmustaqim@kenanga.com.my

1H19 CNP of RM55.6m (-0.3% YoY) came below expectations of our/consensus at 39%/42% of full-year estimates due to weaker-than-expected 2Q19 sales, which should have been one of the stronger quarter on seasonality. Upcoming 3Q19 is expected to register lower sales due to absence of festivities, but 4Q is still the best quarter for AEON on year-end sales. As such, we cut our FY19-20E CNP by 25-21%. Downgrade to MP from OP with a lower TP of RM1.70 (from RM2.10).

1H19 below expectations. 1H19 CNP of RM55.6m (-4% YoY) came in below expectations of our/consensus at 39%/42% of full-year estimates due to weaker-than-expected 2Q19 sales, which should have been one of the stronger quarters on seasonality. No DPS was declared for the quarter as expected. The group typically pay dividends in 4Q.

QoQ, 2Q19 CNP plunged 39% mainly due to: (i) lower sales (-9%), despite sales-boosting Hari Raya Aidilfitri from softer demand post stronger CNY festive season sales in the previous quarter, with lower Retailing segment sales (-10.4%), but softer drop in Property management services (-0.1%) from higher rental space from the new mall, and (ii) higher effective tax rate of 51.3% (1Q19: 41.4%).

YoY, 1H19 CNP decreased 0.3%, despite higher sales (+6%) mainly from the changes in accounting standards of MFRS 16 (lease interest charges). The higher operating expenses (+4%) was well-contained rising lesser than sales from higher rental and utilities in tandem with the opening of two new malls since 1H18. The stronger sales was attributed to higher contribution from the new AEON Mall Kuching (commenced in 2Q 2018) and maiden contribution from the new AEON Mall Nilai, Negeri Sembilan (commenced in January 2019) as well as its other shopping malls that were renovated and expanded. Additionally, CNP was cushioned by the lower effective tax rate at 45.5% (1H18: 52.0%).

Outlook. Management highlighted that for the retailing space, they will continue to refurbish selected stores and employ appropriate marketing and pricing strategies, merchandise assortment reformation, maintaining quality customer service and further expand its e-commerce presence. For property management services, they expect occupancy rate and rental rates to remain challenging. AEON will continue to leverage on its competitive strengths to draw customer traffic to its malls to maintain its position as a popular shopping destination. The group has opened a new AEON mall in Negeri Sembilan in January 2019. The group has allocated RM400m capex for FY19 for the construction of the new mall and renovation of existing malls.

Cut FY19-20E CNP by 25-21%. We cut our FY19-20E by 25-21% to reflect lower-than-expected sales as well as adjusting for a higher effective tax rate of 48% (previously at 40%) and lease interest charges under MFRS 16.

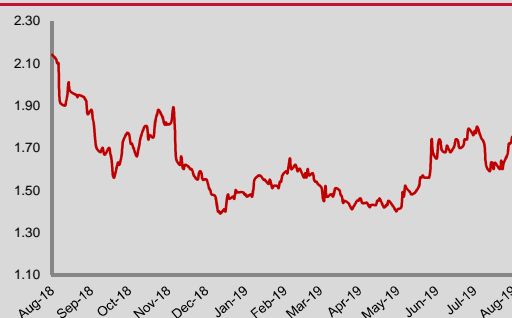
Downgrade to MP from OP with a lower TP of RM1.70 (from RM2.10) based on unchanged 21x FY20E EPS, at -1.0SD of its 5-year historical mean PER.

Risks to our call include: (i) lower-than-expected sales, and (ii) higher-than-expected operating expenses.

MARKET PERFORM ↓

Price: RM1.67
Target Price: RM1.70 ↓

Share Price Performance



KLCI 1,600.53
YTD KLCI chg -5.3%
YTD stock price chg 13.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AEON MK EQUITY
Market Cap (RM m)	2,344.7
Shares Outstanding	1,404.0
52-week range (H)	2.20
52-week range (L)	1.38
3-mth avg daily vol:	1,287,281
Free Float	28%
Beta	0.9

Major Shareholders

Aeon Co Ltd	51.7%
Employees Provident Fund	13.4%
Standard Life Aberdeen PLC	7.2%

Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Turnover	4,353.6	4,592.3	4,841.3
EBIT	239.7	345.6	364.3
PBT	187.0	186.6	205.5
Net Profit (NP)	105.0	101.8	111.7
Core NP (CNP)	124.4	101.8	111.7
Consensus (NP)		128.1	133.5
Earnings Revision		-25%	-21%
Core EPS (sen)	8.9	7.3	8.0
C.EPS growth (%)	17.3	-18.2	9.6
NDPS (sen)	4.0	4.0	4.0
BV/Share (RM)	1.44	1.47	1.51
PER	18.8	23.0	21.0
P/BV (x)	1.2	1.1	1.1
Gearing (x)	0.5	0.4	0.4
Net Dvd Yield (%)	2.4	2.4	2.4

27 August 2019

Result Highlight

	2Q	1Q	QoQ	2Q	YoY	6m	6m	YoY
FY Dec (RM m)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	1,099.5	1,206.9	-8.9%	1,064.0	3.3%	2,306.4	2,178.3	5.9%
EBIT	78.3	92.2	-15.1%	56.8	37.7%	170.4	117.3	45.3%
PBT	39.9	55.7	-28.3%	28.7	38.9%	95.6	78.5	21.8%
Tax expense	(20.5)	(23.1)	-11.1%	(19.0)	8.1%	(43.5)	(40.8)	6.7%
Net Profit (NP)	19.5	32.6	-40.4%	9.8	99.4%	52.1	37.7	38.1%
Core Net Profit (CNP)	21.1	34.4	-38.6%	27.8	-23.8%	55.6	55.7	-0.3%
EPS (sen)	1.4	2.3	-40.1%	0.7	98.6%	3.7	2.7	37.9%
EBIT margin (%)	7.1%	7.6%		5.3%		7.4%	5.4%	
PBT margin (%)	3.6%	4.6%		2.7%		4.1%	3.6%	
CNP margin	1.9%	2.9%		2.6%		2.4%	2.6%	
Effective tax rate (%)	51.3%	41.4%		65.9%		45.5%	52.0%	

Source: Company, Kenanga Research

Segmental breakdown

	2Q*	1Q*	QoQ	2Q	YoY	6m*	6m	YoY
FY Dec (RM m)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Segment Revenue								
Retailing	924.5	1031.7	-10.4%	893.2	3.5%	1956.1	1837.0	6.5%
Property management services	175.0	175.2	-0.1%	170.9	2.4%	350.2	341.3	2.6%
Group Revenue	1099.5	1206.9	-8.9%	1064.0	3.3%	2306.4	2178.3	5.9%
Segment EBIT								
Retailing	15.9	29.8	-46.6%	17.0	-6.4%	45.7	23.7	92.3%
Property management services	50.3	46.0	9.3%	50.1	0.4%	96.3	107.4	-10.3%
Unallocated expenses	0.0	0.0	N/A	-10.2	N/A	0.0	-13.9	N/A
Group EBIT	66.2	75.8	-12.7%	56.8	16.4%	142.0	117.3	21.0%
Segment margin								
Retailing	1.7%	2.9%		1.9%		2.3%	1.3%	
Property management services	28.7%	26.3%		29.3%		27.5%	31.5%	
Group EBIT	6.0%	6.3%		5.3%		6.2%	5.4%	

*After adjustment for MFRS 16

Source: Company, Kenanga Research

27 August 2019

Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%) 1-Yr. Fwd.	Target Price (RM)	Rating	
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.					
F&B AND RETAIL																			
7-ELEVEN MALAYSIA HOLDINGS BHD	1.50	1,757.2	N	12/2019	12.4%	4.9%	13.6%	5.5%	36.1	31.7	30.1	25.0	24.2	77.5%	2.7%	1.35	UP		
AEON CO (M) BHD	1.67	2,344.7	Y	12/2019	5.5%	5.4%	-18.2%	9.6%	18.8	23.0	21.0	1.2	1.1	5.0%	2.4%	1.70	MP		
AMWAY MALAYSIA HOLDINGS BHD	6.11	1,004.4	Y	12/2019	2.2%	2.0%	5.5%	6.3%	18.4	17.5	16.4	4.3	4.1	23.8%	4.5%	5.90	MP		
DUTCH LADY MILK INDUSTRIES BHD	63.90	4,089.6	Y	12/2019	1.0%	2.0%	-2.2%	7.0%	33.0	33.7	31.5	38.8	38.9	115.2%	3.0%	62.90	MP		
FRASER & NEAVE HOLDINGS BHD	35.66	13,079.3	Y	09/2019	5.9%	7.0%	9.4%	2.9%	33.0	30.1	29.3	5.7	5.2	18.0%	1.9%	36.60	MP		
HAI-O ENTERPRISE BHD	2.16	627.2	N	04/2020	1.7%	2.3%	0.1%	1.8%	13.2	13.2	13.0	2.0	2.0	15.1%	6.0%	1.95	UP		
MYNEWS HOLDINGS BHD	1.40	955.0	N	10/2019	27.3%	14.2%	21.0%	20.7%	36.0	29.8	24.7	3.1	3.0	10.2%	0.7%	1.55	OP		
NESTLE (MALAYSIA) BHD	148.30	34,776.4	Y	12/2019	2.3%	3.8%	12.8%	4.3%	53.5	47.5	45.5	53.1	53.2	114.7%	2.2%	137.00	MP		
PADINI HOLDINGS BHD	3.26	2,144.8	Y	06/2019	2.0%	2.4%	-13.2%	21.8%	12.0	13.9	11.4	3.3	2.9	22.3%	3.5%	3.75	MP		
PARKSON HOLDINGS BHD	0.22	234.8	Y	06/2019	1.2%	0.2%	-50.4%	718.1%	N.A.	N.A.	28.4	0.1	0.1	-1.7%	0.0%	0.24	UP		
POWER ROOT BHD	1.96	776.3	Y	03/2020	12.3%	9.7%	26.6%	16.0%	23.4	19.1	17.0	3.5	3.3	18.1%	4.6%	2.30	OP		
QL RESOURCES BHD	6.92	11,227.3	Y	03/2020	10.9%	4.5%	13.0%	4.2%	51.8	45.8	44.0	5.6	5.2	12.1%	0.8%	6.05	UP		
SPRITZER BHD	2.30	482.9	Y	12/2019	5.1%	1.2%	14.6%	13.0%	19.9	17.4	15.4	1.2	1.2	7.0%	1.7%	2.40	MP		
Simple Average					6.9%	4.6%	2.5%	63.9%	29.1	26.9	25.2	11.3	11.1	33.6%	2.6%				
SIN																			
BRITISH AMERICAN TOBACCO (M) BHD	20.52	5,859.1	N	12/2019	-12.8%	0.6%	-22.3%	0.7%	12.5	14.1	13.9	13.9	13.3	84.5%	5.9%	24.40	UP		
CARLSBERG BREWERY MALAYSIA BHD	25.86	7,955.1	N	12/2019	11.4%	4.6%	6.9%	4.8%	29.0	27.1	25.9	46.7	51.1	186.7%	3.9%	25.95	OP		
HEINEKEN MALAYSIA BHD	24.74	7,473.9	N	12/2019	6.1%	5.0%	2.8%	5.1%	26.5	25.7	24.5	20.1	19.9	77.9%	3.8%	23.25	MP		
Simple Average					1.6%	3.4%	-4.2%	3.5%	22.7	22.3	21.4	26.9	28.1	116.4%	4.5%				
CONSENSUS ESTIMATES																			
BERJAYA FOOD BHD	1.56	559.5	N	06/2019	9.8%	8.4%	14.3%	9.1%	21.3	18.6	17.1	1.5	1.5	7.5%	2.9%	1.94	BUY		
BONIA CORPORATION BHD	0.27	213.1	Y	06/2019	3.4%	3.1%	-29.7%	18.2%	10.8	15.3	13.0	0.6	0.6	3.2%	2.6%	0.30	SELL		
COCOALAND BHD	1.92	439.3	Y	12/2019	5.7%	7.1%	2.9%	7.0%	14.2	13.8	12.9	1.8	1.8	13.1%	4.0%	2.29	NEUTRAL		
LAY HONG BHD	1.23	442.2	Y	12/2019	10.5%	14.5%	-41.0%	61.1%	19.4	32.8	20.4	1.4	1.3	4.1%	2.0%	1.14	SELL		
KAWAN FOOD BHD	5.15	837.7	Y	04/2020	18.8%	4.5%	13.0%	5.2%	8.2	7.2	6.9	1.6	N/A	20.3%	N/A	6.60	BUY		
MAGNI-TECH INDUSTRIES BHD	1.56	559.5	N	06/2019	9.8%	8.4%	14.3%	9.1%	21.3	18.6	17.1	1.5	1.5	7.5%	2.9%	1.94	BUY		

Source: Bloomberg, Kenanga Research

27 August 2019

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.

Published and printed 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

