

25 February 2020

AEON Co. (M) Bhd

FY19 Above Our Expectation

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

FY19 CNP of RM109.3m (+4% YoY) is spot on consensus estimate, but above ours at 119% due to higher-than-expected margin. Upgrade FY20E CNP by 4% to reflect the stronger-than-expected margin from its on-going operational restructuring. Reiterate OP with a higher TP of RM1.65 (from RM1.60) based on unchanged 21x FY20E EPS, at -1.0SD of its 5-year historical mean PER.

FY19 above expectations. FY19 CNP of RM109.3m (+4% YoY) came spot on consensus, but above our expectation at 119% of estimates due to higher-than-expected margin. A final DPS of 4.0 sen (FY18:4.0 sen) was declared for FY19, as expected.

YoY, FY19 CNP increased 4%, mainly contributed by: (i) the seasonally strongest quarter which accounted for 47% of its full-year earnings which pushed overall sales higher (+4%) with both segments recording stronger sales: The Retailing segment (+5%) on higher footfalls, and Property management services (+3%) on improving rental-per-store as well as higher rental space from the new mall, and (ii) expansion in EBIT margin by 2.2ppt to 7.9% from 5.7% in FY18, on better margin sales as well as reduction in operating costs from downsizing of a store (AEON Quill City Mall department store closed and replaced with AEON MaxValu Prime) at the end of the previous year. The stronger performance was also supported by higher contribution from AEON Mall Kuching (commenced 2QCY18) and the new AEON Mall Nilai, Negeri Sembilan (commenced January 2019) as well as other shopping malls that were renovated and expanded especially AEON Maluri which was re-opened recently(November 2019).

QoQ, 4QFY19 CNP soared 581% in the seasonally strongest quarter, boosted by: (i) higher sales (+10%) on the usual year-end promotional sales with both segments recording stronger sales; Retailing segment (+11%) on higher footfalls, and Property management services (+5%) on improving rental-per-store as well as higher rental space from the new mall, (ii) expansion in EBIT margin by 5.6ppt to 11.1% from 5.5% in 3QFY19, on better margin sales as well as improving operating costs management despite the discounting activities as well as (iii) lower effective tax rate of 42.9% (3QFY19:47.6%).

Outlook. Management highlighted that for the retailing space, they will continue to refurbish selected stores (4 stores for 2020) 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. Note that, we expect the outbreak of Covid-19 could reduce mall footfalls in 1QFY20 which has also affected the general economy, including the retail sector; however, we expect a recovery starting 2QFY20 on pent-up demand caused by the outbreak.

Upgrade FY20E CNP by 4% to reflect stronger-than-expected margin from its on-going operational restructuring.

Reiterate OP with a higher TP of RM1.65 (from RM1.60) based on unchanged 21x FY20E EPS, at -1.0SD of its 5-year historical mean PER. We like AEON for its: (i) dual-income streams, which are less vulnerable to changes in consumer preferences, and (ii) on-going operational restructuring, improving retail margin, and sustained property income. **Risks to our call include:** (i) lower-than-expected sales, and (ii) higher-than-expected operating expenses.

OUTPERFORM ↔

Price: RM1.30
Target Price: RM1.65 ↑

Share Price Performance



KLCI	1,490.06
YTD KLCI chg	-6.2%
YTD stock price chg	-8.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AEON MK EQUITY
Market Cap (RM m)	1,825.2
Shares Outstanding	1,404.0
52-week range (H)	1.83
52-week range (L)	1.30
3-mth avg daily vol:	1,009,402
Free Float	28%
Beta	0.9

Major Shareholders

Aeon Co Ltd	51.7%
Employees Provident Fund	13.8%
Standard Life Aberdeen PLC	5.7%

Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Turnover	4,538.9	4,597.1	4,656.2
EBIT	358.7	366.4	371.1
PBT	196.9	200.3	205.1
Net Profit (NP)	109.3	110.9	113.5
Core NP (CNP)	109.3	110.9	113.5
Consensus (NP)	-	122.7	136.1
Earnings Revision	-	+4%	new
Core EPS (sen)	7.8	7.9	8.1
C.EPS growth (%)	4.1	1.5	2.3
NDPS (sen)	4.0	4.0	4.0
BV/Share (RM)	1.21	1.25	1.29
PER (x)	16.7	16.5	16.1
P/BV (x)	1.1	1.0	1.0
Gearing (x)	0.5	0.5	0.5
Net Dvd Yield (%)	3.1	3.1	3.1

25 February 2020

Result Highlight

	4Q	3Q	QoQ	4Q	YoY	12m	12m	YoY
FY Dec (RM m)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	1,170.1	1,062.4	10.1%	1,110.5	5.4%	4,538.9	4,353.6	4.3%
EBIT	129.8	58.4	122.2%	96.7	34.2%	358.7	247.7	44.8%
PBT	87.3	14.0	525.0%	85.1	2.5%	196.9	187.0	5.3%
Tax expense	(37.4)	(6.6)	463.3%	(31.6)	18.5%	(87.6)	(81.9)	6.9%
Net Profit (NP)	49.9	7.3	581.0%	53.5	-6.8%	109.3	105.1	4.0%
Core Net Profit (CNP)	49.9	7.3	581.0%	53.5	-6.8%	109.3	105.1	4.0%
EPS (sen)	3.6	0.5	582.7%	3.8	-6.8%	7.8	7.5	3.9%
EBIT margin (%)	11.1%	5.5%		8.7%		7.9%	5.7%	
PBT margin (%)	7.5%	1.3%		7.7%		4.3%	4.3%	
CNP margin	4.3%	0.7%		4.8%		2.4%	2.4%	
Effective tax rate (%)	42.9%	47.6%		37.1%		44.5%	43.8%	

Source: Company, Kenanga Research

Segmental breakdown

	4Q	3Q	QoQ	4Q	YoY	12m	12m	YoY
FY Dec (RM m)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Segment Revenue								
Retailing	987.5	888.6	11.1%	933.6	5.8%	3832.2	3666.3	4.5%
Property management services	182.6	173.8	5.0%	176.9	3.2%	706.6	687.3	2.8%
Group Revenue	1170.1	1062.4	10.1%	1110.5	5.4%	4538.9	4353.6	4.3%
Segment EBIT*								
Retailing	55.0	-1.7	>100%	35.1	56.5%	98.9	51.7	91.3%
Property management services	39.7	46.3	-14.3%	54.1	-26.7%	182.3	209.8	-13.1%
Group EBIT	94.7	44.6	112.1%	96.7	-2.1%	281.3	247.7	13.6%
Segment margin								
Retailing	5.6%	N.M		3.8%		2.6%	1.4%	
Property management services	21.8%	26.7%		30.6%		25.8%	30.5%	
Group EBIT	8.1%	4.2%		8.7%		6.2%	5.7%	

*After adjustment for MFRS 16

Source: Company, Kenanga Research

25 February 2020

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 (%)	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.	1-Yr. Fwd.		
F&B AND RETAIL																	
7-ELEVEN MALAYSIA HOLDINGS BHD	1.40	1,610.3	N	12/2019	12.4%	4.9%	13.6%	5.5%	33.6	29.6	28.1	23.3	22.6	77.5%	2.9%	1.35	MP
AEON CO (M) BHD	1.30	1,825.2	Y	12/2020	1.3%	1.3%	1.5%	2.3%	16.7	16.5	16.1	1.1	1.0	6.4%	3.1%	1.65	OP
AMWAY MALAYSIA HOLDINGS BHD	5.57	915.6	Y	12/2019	2.2%	2.0%	5.5%	6.3%	16.8	15.9	15.0	3.9	3.7	23.8%	4.9%	5.90	MP
DUTCH LADY MILK INDUSTRIES BHD	44.48	2,846.7	Y	12/2019	-3.0%	2.0%	-17.5%	10.1%	22.9	27.8	25.3	27.0	26.6	97.8%	3.6%	49.30	MP
FRASER & NEAVE HOLDINGS BHD	30.30	11,113.4	Y	09/2020	2.4%	3.0%	2.5%	6.0%	26.5	25.8	24.4	4.4	4.1	16.4%	2.1%	35.20	OP
HAI-O ENTERPRISE BHD	1.95	566.1	N	04/2020	1.7%	2.3%	-24.9%	8.7%	11.9	15.9	14.6	1.8	1.8	11.4%	5.1%	1.50	UP
MYNEWS HOLDINGS BHD	0.845	576.4	N	10/2020	24.3%	17.0%	11.2%	20.8%	21.5	19.3	16.0	1.9	1.8	9.5%	1.2%	1.10	MP
NESTLE (MALAYSIA) BHD	142.40	33,392.8	Y	12/2019	2.5%	3.8%	3.5%	7.2%	51.4	49.7	46.4	51.0	50.3	104.6%	2.0%	128.00	UP
PADINI HOLDINGS BHD	3.36	2,210.6	Y	06/2020	0.5%	4.8%	12.8%	5.3%	14.1	12.5	11.9	3.3	2.9	24.5%	3.4%	4.00	OP
PARKSON HOLDINGS BHD	0.180	192.1	Y	06/2020	0.4%	0.5%	749.4%	16.5%	N.A.	23.1	19.9	0.1	0.1	0.3%	0.0%	0.220	MP
POWER ROOT BHD	2.32	949.5	Y	03/2020	13.3%	10.5%	53.9%	12.3%	27.4	18.4	16.9	4.2	3.7	21.8%	3.9%	2.75	OP
QL RESOURCES BHD	8.40	13,628.5	Y	03/2020	10.9%	11.6%	13.1%	9.6%	62.9	55.6	50.7	6.7	6.3	12.1%	0.7%	8.30	MP
SPRITZER BHD	2.16	453.5	Y	12/2019	8.0%	1.2%	27.7%	6.5%	18.7	14.7	13.8	1.2	1.1	7.7%	1.9%	2.50	OP
Simple Average					5.9%	5.0%	65.6%	9.0%	27.0	25.0	23.0	10.0	9.7	31.8%	2.7%		
SIN																	
BRITISH AMERICAN TOBACCO (M) BHD	13.96	3,986.0	N	12/2020	-11.0%	-3.0%	-5.6%	-4.3%	11.0	11.7	12.2	9.3	9.0	78.2%	8.2%	16.70	OP
CARLSBERG BREWERY MALAYSIA BHD	34.96	10,689.0	N	12/2020	13.8%	9.2%	12.0%	9.5%	37.0	33.1	30.2	64.8	63.0	200.4%	3.0%	29.00	UP
HEINEKEN MALAYSIA BHD	28.36	8,567.5	N	12/2020	13.0%	4.0%	16.1%	5.6%	27.4	23.6	22.3	23.9	22.0	97.3%	3.9%	28.90	MP
Simple Average					5.3%	3.4%	7.5%	3.6%	25.1	22.8	21.6	32.7	31.3	125.3%	5.0%		

Source: Bloomberg, Kenanga Research

25 February 2020

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

