

AEON Co. (M) (AEON MK)

Strong 2Q22 results

Maintain BUY with a higher TP of MYR2.35

AEON's 2Q22 results surpassed our expectation on higher-than-expected retail operating margins. Going forward, while sequential earnings may be weaker in absence of major festivities, 4Q22 earnings are likely to be robust in tandem with year-end celebratory spending. Our earnings forecasts are raised by 8%-11%. Rolling forward valuations, we lift our TP to MYR2.35 (from MYR2.00) on unchanged 25x FY23E PER (about mean).

Above expectations

AEON's core net profit of MYR46m (+963% YoY, +73% QoQ) brought 1H22 core net profit to MYR72m (+112% YoY), at 64%/68% of our/consensus full-year earnings estimates. The beat was mainly due to higher-than-expected retail segment EBIT margin.

Improved retail & property topline growth

2Q22 revenue growth (+9% QoQ) was driven by both retail (+9% QoQ) and property management services (+9% QoQ). With the reopening of international border (from 1 Apr 2022) and Malaysia transitioning to the endemic phase, shopping mall footfall improved alongside better sales commission and rental income from tenants, particularly for AEON's shopping malls in the Southern region, we suspect. 2Q22 EBIT grew 45% QoQ (margins expanded by +2.7 ppts) driven by better retail product mix from added sales in softline and hardline categories.

Raising FY22E-FY24E earnings by 8%-11%

Our FY22E/FY23E/FY24E earnings estimates are lifted by 11%/8%/8% upon adjusting our assumptions for higher retail EBIT margins by +0.7ppts/+0.5ppts/+0.5ppts. Without major festivities in 3Q22, we expect sequential earnings to be weaker before experiencing stronger sales momentum in 4Q22, which is AEON's seasonally highest earnings quarter historically.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	4,051	3,630	3,822	3,930	4,041
EBITDA	755	725	794	741	728
Core net profit	58	94	124	133	140
Core EPS (sen)	4.1	6.7	8.9	9.5	10.0
Core EPS growth (%)	(51.7)	61.5	33.1	7.0	5.1
Net DPS (sen)	1.5	4.5	4.0	4.0	4.0
Core P/E (x)	25.9	21.2	16.4	15.3	14.5
P/BV (x)	0.9	1.1	1.1	1.1	1.0
Net dividend yield (%)	1.4	3.2	2.8	2.8	2.8
ROAE (%)	2.5	5.0	7.0	7.2	7.3
ROAA (%)	0.9	1.6	2.1	2.2	2.3
EV/EBITDA (x)	3.2	3.5	2.9	2.9	2.6
Net gearing (%) (incl perps)	51.6	30.7	15.5	3.7	net cash
Consensus net profit	-	-	109	123	132
MKE vs. Consensus (%)	-	-	14.1	8.2	6.1

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BUY

Share Price	MYR 1.45
12m Price Target	MYR 2.35 (+65%)
Previous Price Target	MYR 2.00

Company Description

AEON Co. (Malaysia) Bhd. owns and operates general merchandise stores, supermarkets, and malls.

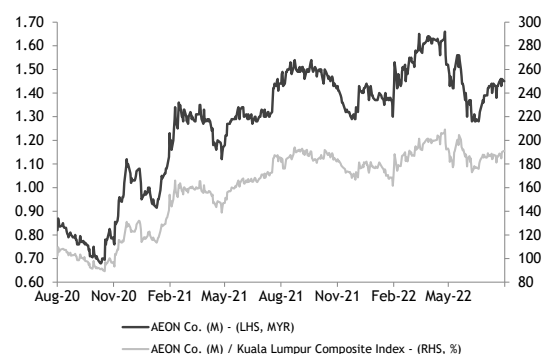
Statistics

52w high/low (MYR)	1.66/1.28
3m avg turnover (USDm)	0.4
Free float (%)	34.9
Issued shares (m)	1,404
Market capitalisation	MYR2.0B USD454M

Major shareholders:

AEON Co., Ltd.	51.7%
Employees Provident Fund	10.6%
Permodalan Nasional Bhd.	4.9%

Price Performance



	-1M	-3M	-12M
Absolute (%)	4	(5)	1
Relative to index (%)	3	(1)	3

Source: FactSet

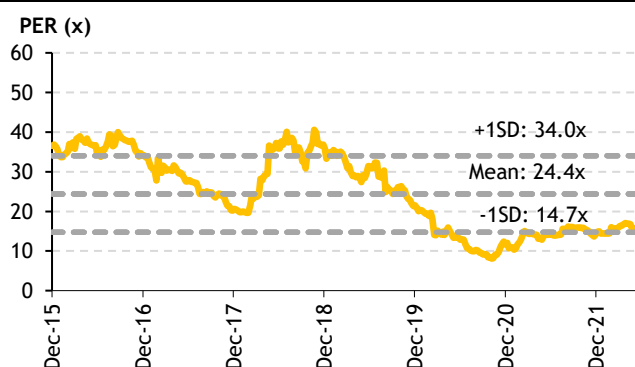
Fig 1: Results summary

FY Dec (MYR m)	Quarterly			Cumulative				
	2Q22	2Q21	% YoY	1Q22	% QoQ	6M22	6M21	% YoY
Net revenue	1,095.5	874.2	25.3	1,001.8	9.4	2,097.3	1,887.7	11.1
EBITDA	233.7	176.6	32.4	194.1	20.4	427.8	369.6	15.7
Dep & amort	(112.4)	(115.9)	(3.0)	(110.7)	1.5	(223.1)	(236.3)	(5.6)
EBIT	121.3	60.7	99.9	83.4	45.4	204.7	133.4	53.5
Net interest income/(cost)	(29.0)	(31.3)	(7.3)	(28.6)	1.4	(57.6)	(63.2)	(8.9)
Associate	-	(1.4)	n.m.	-	n.m.	-	(0.3)	n.m.
Pretax Profit	92.3	28.0	>100.0	54.8	68.4	147.1	69.8	>100.0
Tax	(45.0)	(17.1)	>100.0	(26.7)	68.5	(71.7)	(36.9)	94.6
Net Profit	47.3	10.9	>100.0	28.1	68.3	75.4	33.0	>100.0
Exceptional items	1.7	6.7	(74.4)	1.7	-	3.4	(1.0)	n.m.
Core net profit*	45.6	4.3	>100.0	26.4	72.7	72.0	34.0	>100.0
	2Q22	2Q21	+/- ppt	1Q22	+/- ppt	6M22	6M21	+/- ppt
EBIT margin (%)	11.1	6.9	4.1	8.3	2.7	9.8	7.1	2.7
Pre-tax profit margin (%)	8.4	3.2	5.2	5.5	3.0	7.0	3.7	3.3
Net profit ex-EI margin (%)	4.2	0.5	3.7	2.6	1.5	3.4	1.8	1.6
Net revenue (MYR m)	2Q22	2Q21	% YoY	1Q22	% QoQ	6M22	6M21	+/- ppt
Retailing	938.3	733.0	28.0	857.4	9.4	1,795.7	1,612.0	11.4
Property management services	157.2	141.2	11.3	144.4	8.9	301.6	275.7	9.4
Total	1,095.5	874.2	25.3	1,001.8	9.4	2,097.3	1,887.7	11.1
Operating profit / EBIT (MYR m)	2Q22	2Q21	% YoY	1Q22	% QoQ	6M22	6M21	+/- ppt
Retailing	79.7	13.2	>100.0	61.0	30.7	140.7	63.7	>100.0
Property management services	54.1	58.3	(7.2)	54.8	(1.3)	108.9	98.7	10.3
Unallocated expenses	(12.5)	(10.8)	16.0	(32.4)	(61.4)	(44.9)	(29.1)	54.4
Total	121.3	60.7	99.9	83.4	45.4	204.7	133.4	53.5
Operating margin (%)	2Q22	2Q21	+/- ppt	1Q22	+/- ppt	6M22	6M21	+/- ppt
Retailing	8.5	1.8	6.7	7.1	1.4	7.8	4.0	3.9
Property management services	34.4	41.3	(6.9)	38.0	(3.5)	36.1	35.8	0.3
Total	11.1	6.9	4.1	8.3	2.7	9.8	7.1	2.7

*1Q22: Reversal of impairment loss on trade receivables of MYR1.7m; 2Q22: Reversal of impairment loss on trade receivables of MYR1.7m; 6M22: Reversal of impairment loss on trade receivables of MYR3.4m

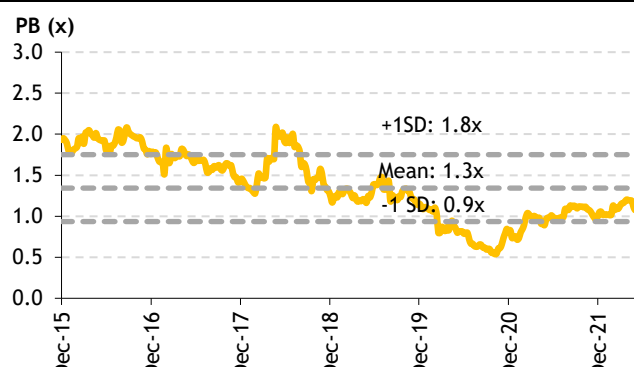
Source: Company

Fig 2: 12M forward PER



Source: Bloomberg, Maybank IBG Research

Fig 3: 12M forward P/BV



Source: Bloomberg, Maybank IBG Research

Risk statement

There are several risk factors for our earnings estimates, target price and rating for AEON. Shortfall in retailing segment sales and higher-than-expected operating expenses may lead to lower earnings for AEON. Increasing competition and weak consumer sentiment are additional earnings risk factors.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	34.1	21.5	16.4	15.3	14.5
Core P/E (x)	25.9	21.2	16.4	15.3	14.5
P/BV (x)	0.9	1.1	1.1	1.1	1.0
P/NTA (x)	0.9	1.2	1.1	1.1	1.0
Net dividend yield (%)	1.4	3.2	2.8	2.8	2.8
FCF yield (%)	23.5	31.9	20.1	18.1	17.2
EV/EBITDA (x)	3.2	3.5	2.9	2.9	2.6
EV/EBIT (x)	9.2	9.7	7.1	6.6	5.8

INCOME STATEMENT (MYR m)

Revenue	4,051.3	3,630.4	3,821.9	3,930.1	4,041.4
EBITDA	754.9	725.3	793.5	741.3	728.0
Depreciation	(489.7)	(457.7)	(422.5)	(405.9)	(391.5)
Amortisation	(6.0)	(6.7)	(43.5)	(13.4)	(4.1)
EBIT	259.3	260.9	327.4	322.0	332.4
Net interest income / (exp)	(148.7)	(129.3)	(100.5)	(99.3)	(98.4)
Associates & JV	(8.8)	(0.6)	(0.6)	(0.6)	(0.6)
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	101.8	131.0	226.3	222.1	233.4
Income tax	(60.3)	(45.7)	(101.8)	(88.8)	(93.3)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	41.4	85.3	124.5	133.2	140.0
Core net profit	57.9	93.5	124.5	133.2	140.0

BALANCE SHEET (MYR m)

Cash & Short Term Investments	71.4	193.6	447.1	659.1	854.7
Accounts receivable	108.8	145.4	150.6	154.9	159.3
Inventory	623.6	601.2	622.9	640.5	658.7
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	3,367.0	3,108.2	2,985.7	2,879.8	2,788.3
Intangible assets	9.6	63.0	19.4	6.0	1.9
Investment in Associates & JVs	2.1	0.7	0.0	(0.6)	(1.3)
Other assets	1,910.9	1,750.8	1,750.8	1,750.8	1,750.8
Total assets	6,093.4	5,862.8	5,976.5	6,090.6	6,212.5
ST interest bearing debt	933.6	400.6	400.6	400.6	400.6
Accounts payable	1,201.7	1,258.1	1,303.5	1,340.5	1,378.5
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	0.0	327.8	327.8	327.8	327.8
Other liabilities	2,287.0	2,134.0	2,134.0	2,134.0	2,134.0
Total Liabilities	4,422.4	4,120.1	4,165.5	4,202.4	4,240.5
Shareholders Equity	1,671.0	1,742.7	1,811.1	1,888.1	1,972.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	1,671.0	1,742.7	1,811.1	1,888.1	1,972.0
Total liabilities and equity	6,093.4	5,862.8	5,976.5	6,090.6	6,212.5

CASH FLOW (MYR m)

Pretax profit	101.8	131.0	226.3	222.1	233.4
Depreciation & amortisation	495.7	464.4	466.1	419.3	395.6
Adj net interest (income)/exp	32.2	128.1	100.5	99.3	98.4
Change in working capital	(296.7)	35.7	18.5	15.0	15.5
Cash taxes paid	(62.3)	(75.4)	(101.8)	(88.8)	(93.3)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	398.9	698.9	710.1	667.5	650.1
Capex	(46.4)	(66.4)	(300.0)	(300.0)	(300.0)
Free cash flow	352.5	632.5	410.1	367.5	350.1
Dividends paid	(56.2)	(21.1)	(56.2)	(56.2)	(56.2)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	4.9	(205.2)	0.0	0.0	0.0
Other invest/financing cash flow	(296.8)	(284.0)	(100.5)	(99.3)	(98.4)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	4.4	122.2	253.5	212.1	195.6

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(10.7)	(10.4)	5.3	2.8	2.8
EBITDA growth	(10.5)	(3.9)	9.4	(6.6)	(1.8)
EBIT growth	(27.7)	0.6	25.5	(1.7)	3.2
Pretax growth	(48.3)	28.8	72.7	(1.9)	5.1
Reported net profit growth	(62.1)	105.9	46.0	7.0	5.1
Core net profit growth	(51.7)	61.5	33.1	7.0	5.1
Profitability ratios (%)					
EBITDA margin	18.6	20.0	20.8	18.9	18.0
EBIT margin	6.4	7.2	8.6	8.2	8.2
Pretax profit margin	2.5	3.6	5.9	5.7	5.8
Payout ratio	50.8	74.1	45.1	42.2	40.1
DuPont analysis					
Net profit margin (%)	1.0	2.3	3.3	3.4	3.5
Revenue/Assets (x)	0.7	0.6	0.6	0.6	0.7
Assets/Equity (x)	3.6	3.4	3.3	3.2	3.2
ROAE (%)	2.5	5.0	7.0	7.2	7.3
ROAA (%)	0.9	1.6	2.1	2.2	2.3
Liquidity & Efficiency					
Cash conversion cycle	(100.5)	(90.3)	(94.8)	(95.1)	(95.1)
Days receivable outstanding	7.9	12.6	13.9	14.0	14.0
Days inventory outstanding	105.6	102.1	99.5	99.9	99.9
Days payables outstanding	214.0	205.0	208.2	209.0	209.0
Dividend cover (x)	2.0	1.3	2.2	2.4	2.5
Current ratio (x)	0.3	0.5	0.6	0.7	0.8
Leverage & Expense Analysis					
Asset/Liability (x)	1.4	1.4	1.4	1.4	1.5
Net gearing (%) (incl perps)	51.6	30.7	15.5	3.7	net cash
Net gearing (%) (excl. perps)	51.6	30.7	15.5	3.7	net cash
Net interest cover (x)	1.7	2.0	3.3	3.2	3.4
Debt/EBITDA (x)	1.2	1.0	0.9	1.0	1.0
Capex/revenue (%)	1.1	1.8	7.8	7.6	7.4
Net debt/ (net cash)	862.2	534.8	281.3	69.2	(126.4)

Source: Company; Maybank IBG Research

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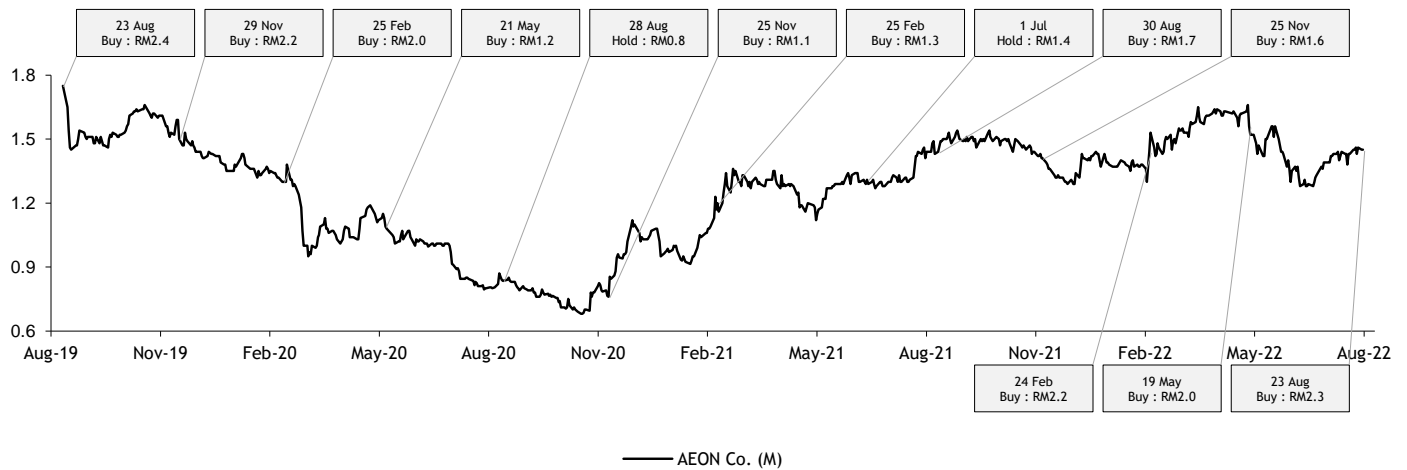
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