

# AEON Co. (M) (AEON MK)

## Ended FY21 with a bang!

### Raised TP to MYR2.20; maintain BUY

4QFY21 results outperformed both our and consensus expectations on higher-than-expected core segment margins. As the pandemic's adverse effects on consumer consumption gradually subside, we expect earnings growth momentum to continue in FY22. Our FY22-FY23E earnings are lifted by 18%-19% and we introduce FY24E. We raise TP to MYR2.20 (+60sen) on a higher 25x FY22E PER (mean; 22x PER previously on -0.5SD to mean) reflecting earnings recovery to pre-pandemic levels in FY22.

### Above expectations

4Q21 core net profit of MYR77m (+147% YoY, 3Q21 core net loss: MYR18m) brought FY21 core net profit to MYR94m (+62% YoY), reflecting 216%/188% of our/consensus estimates. The beat was due to higher-than-expected retail and property management services segment EBIT margins. AEON also positively surprised on dividends, with a final DPS of 3sen, against FY20 DPS of 1.5sen.

### Margin expansion in retail and property segments

4Q21 group revenue grew 8% YoY driven by (i) retail sales growth (+10% YoY) as eased movement restrictions propelled sales from its hardline and softline categories, but (ii) partially offset by weaker property management services contribution (-2% YoY) on lower rental rates after transitioning to higher variable rental structures to stifle decreasing occupancy rates. 4Q21 group EBIT also jumped 64% YoY due to stronger margins from both retail (+7 ppts YoY) and property management services' segments (+11 ppts YoY). Notably, 4Q21 effective tax rate of 25% was also markedly lower versus 32% in 4Q20 (-7 ppts YoY).

### FY22 outlook remains positive

Our FY22/FY23 earnings estimates are raised by 19%/18% after adjusting for higher segmental EBIT margins (retail: c.+1 ppt p.a., property management services: c.+2 ppt p.a) and lower effective tax rates of 35% p.a. (from 48%/45% previously) based on AEON's latest run rates. Further business disruptions (eg. lockdowns) appear unlikely in FY22 given high vaccination rates in Malaysia; hence, we expect robust retail segment earnings recovery while better shopping mall traffic will also help sustain its property management services' contribution.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	4,051	3,630	3,822	3,930	4,041
EBITDA	755	725	750	721	711
Core net profit	58	94	122	129	139
Core EPS (sen)	4.1	6.7	8.7	9.2	9.9
Core EPS growth (%)	(51.7)	61.5	30.8	5.9	7.1
Net DPS (sen)	1.5	3.0	4.0	4.0	4.0
Core P/E (x)	26.0	21.2	15.7	14.9	13.9
P/BV (x)	0.9	1.1	1.1	1.0	1.0
Net dividend yield (%)	1.4	2.1	2.9	2.9	2.9
ROAE (%)	2.5	5.0	6.9	7.0	7.2
ROAA (%)	0.9	1.6	2.1	2.1	2.3
EV/EBITDA (x)	3.2	3.5	3.0	2.8	2.6
Net gearing (%) (incl perps)	51.6	30.7	16.0	4.2	net cash
Consensus net profit	-	-	103	117	na
MKE vs. Consensus (%)	-	-	19.2	10.9	na

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# BUY

Share Price	MYR 1.37
12m Price Target	MYR 2.20 (+64%)
Previous Price Target	MYR 1.60

### Company Description

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

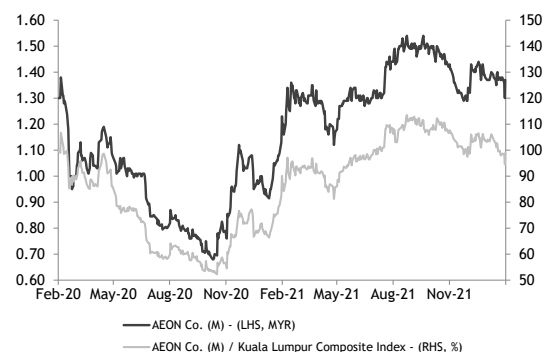
### Statistics

52w high/low (MYR)	1.54/1.12
3m avg turnover (USDm)	0.3
Free float (%)	34.2
Issued shares (m)	1,404
Market capitalisation	MYR1.9B USD460M

### Major shareholders:

AEON Co., Ltd.	51.7%
Employees Provident Fund	11.3%
Aberdeen Standard Investments (Asia) Ltd	5.0%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	(4)	11
Relative to index (%)	(4)	(7)	11

Source: FactSet

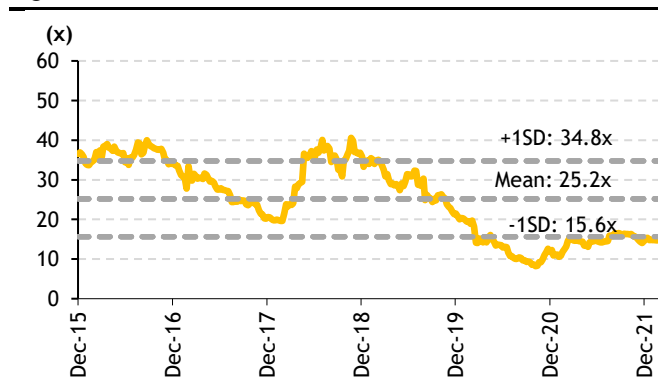
Fig 1: Results summary

FY Dec (MYR m)	Quarterly					Cumulative		
	4Q21	4Q20	% YoY	3Q21	% QoQ	FY21	FY20	% YoY
Net revenue	992.1	916.5	8.3	750.6	32.2	3,630.4	4,051.3	(10.4)
EBITDA	241.8	205.8	17.5	113.9	>100.0	725.3	754.9	(3.9)
Dep & amort	(113.1)	(127.4)	(11.2)	(115.1)	(1.7)	(464.4)	(495.7)	(6.3)
EBIT	128.7	78.4	64.3	(1.2)	n.m.	260.9	259.3	0.6
Net interest income/(cost)	(33.8)	(36.4)	(7.0)	(32.2)	5.1	(129.3)	(148.7)	(13.1)
Associate	(0.3)	(2.2)	(86.2)	(0.0)	>100.0	(0.6)	(8.8)	(92.7)
Pretax Profit	94.6	39.8	>100.0	(33.4)	n.m.	131.0	101.8	28.8
Tax	(23.6)	(12.7)	86.7	14.8	n.m.	(45.7)	(60.3)	(24.2)
Net Profit	71.0	27.2	>100.0	(18.7)	n.m.	85.3	41.4	>100.0
Exceptional items	(6.2)	(4.1)	49.3	1.1	n.m.	(8.3)	(16.5)	(49.9)
Core net profit*	77.2	31.3	>100.0	(17.6)	n.m.	93.5	57.9	61.6
	4Q21	4Q20	+/- ppt	3Q21	+/- ppt	FY21	FY20	+/- ppt
EBIT margin (%)	13.0	8.6	4.4	(0.2)	13.1	7.2	6.4	0.8
Pre-tax profit margin (%)	9.5	4.3	5.2	(4.5)	14.0	3.6	2.5	1.1
Net profit ex-EI margin (%)	7.8	3.4	4.4	(2.3)	10.1	2.6	1.4	1.1
<b>Net revenue (MYR m)</b>	4Q21	4Q20	% YoY	3Q21	% QoQ	FY21	FY20	+/- ppt
Retailing	854.3	775.9	10.1	632.9	35.0	3,099.1	3,444.7	(10.0)
Property management services	137.9	140.6	(2.0)	117.7	17.1	531.3	606.6	(12.4)
Total	992.1	916.5	8.3	750.6	32.2	3,630.4	4,051.3	(10.4)
<b>Operating profit / EBIT (MYR m)</b>	4Q21	4Q20	% YoY	3Q21	% QoQ	FY21	FY20	+/- ppt
Retailing	88.3	23.7	>100.0	(22.4)	n.m.	129.7	77.9	66.5
Property management services	62.4	48.0	29.8	38.5	61.9	199.6	229.6	(13.1)
Unallocated expenses	(21.9)	6.7	n.m.	(17.3)	26.4	(68.3)	(48.2)	41.7
Total	128.7	78.4	64.3	(1.2)	n.m.	260.9	259.3	0.6
<b>Operating margin (%)</b>	4Q21	4Q20	+/- ppt	3Q21	+/- ppt	FY21	FY20	+/- ppt
Retailing	10.3	3.0	7.3	(3.5)	13.9	4.2	2.3	1.9
Property management services	45.2	34.2	11.1	32.7	12.5	37.6	37.9	(0.3)
Total	13.0	8.6	4.4	(0.2)	13.1	7.2	6.4	0.8

\*4Q21: Reversal of impairment loss on trade receivables of MYR7.3m, Impairment loss on right-of-use assets of MYR13.5m; 3Q21: Impairment loss on trade receivables of MYR1.1m; 4Q20: Impairment loss of trade receivables of MYR3.0m, bad debts written off of MYR1.2m; FY21: Reversal of impairment loss on trade receivables of MYR5.3m, impairment of right-of-use assets of MYR13.5m; FY20: Impairment loss of trade receivables of MYR15.3m, bad debts written off of MYR1.2m

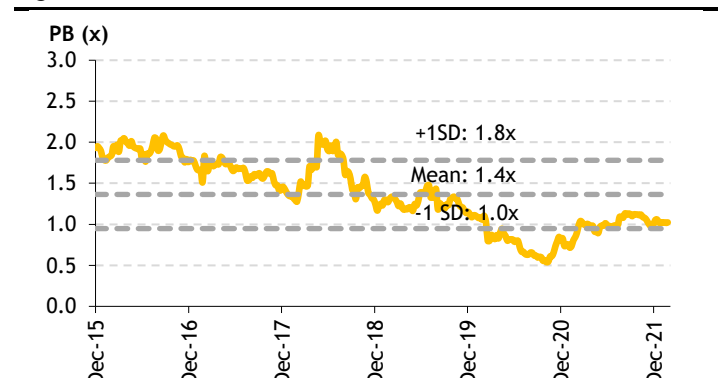
Source: Company

Fig 2: Forward PER



Source: Bloomberg, Maybank IBG Research

Fig 3: 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
<b>Key Metrics</b>					
P/E (reported) (x)	34.1	21.5	15.7	14.9	13.9
Core P/E (x)	26.0	21.2	15.7	14.9	13.9
P/BV (x)	0.9	1.1	1.1	1.0	1.0
P/NTA (x)	0.9	1.2	1.1	1.0	1.0
Net dividend yield (%)	1.4	2.1	2.9	2.9	2.9
FCF yield (%)	23.5	31.9	20.9	19.1	18.3
EV/EBITDA (x)	3.2	3.5	3.0	2.8	2.6
EV/EBIT (x)	9.2	9.7	7.7	6.8	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	749.6	721.1	710.8
Depreciation	(489.7)	(458.7)	(423.5)	(406.7)	(392.1)
Amortisation	(6.0)	(5.6)	(36.9)	(15.3)	(6.3)
EBIT	259.3	260.9	289.2	299.2	312.3
Net interest income / (exp)	(148.7)	(129.3)	(100.5)	(99.4)	(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	188.1	199.2	213.3
Income tax	(60.3)	(45.7)	(65.8)	(69.7)	(74.6)
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	122.3	129.5	138.6
Core net profit	57.9	93.5	122.3	129.5	138.6

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	71.4	193.6	439.1	650.1	847.1
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	2,984.7	2,878.1	2,785.9
Intangible assets	9.6	63.0	26.1	10.8	4.5
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
<b>Total assets</b>	<b>6,093.4</b>	<b>5,862.8</b>	<b>5,974.3</b>	<b>6,084.6</b>	<b>6,205.1</b>
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
<b>Total Liabilities</b>	<b>4,422.4</b>	<b>4,120.1</b>	<b>4,165.5</b>	<b>4,202.4</b>	<b>4,240.5</b>
Shareholders Equity	1,671.0	1,742.7	1,808.8	1,882.2	1,964.6
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>1,671.0</b>	<b>1,742.7</b>	<b>1,808.8</b>	<b>1,882.2</b>	<b>1,964.6</b>
<b>Total liabilities and equity</b>	<b>6,093.4</b>	<b>5,862.8</b>	<b>5,974.3</b>	<b>6,084.6</b>	<b>6,205.1</b>

**CASH FLOW (MYR m)**

Pretax profit	101.8	131.0	188.1	199.2	213.3
Depreciation & amortisation	495.7	464.4	460.4	421.9	398.5
Adj net interest (income)/exp	32.2	128.1	100.5	99.4	98.4
Change in working capital	(296.7)	35.7	18.5	15.0	15.5
Cash taxes paid	(62.3)	(75.4)	(65.8)	(69.7)	(74.6)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	398.9	698.9	702.2	666.4	651.6
Capex	(46.4)	(66.4)	(300.0)	(300.0)	(300.0)
Free cash flow	352.5	632.5	402.2	366.4	351.6
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)	(99.4)	(98.4)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>4.4</b>	<b>122.2</b>	<b>245.6</b>	<b>210.9</b>	<b>197.0</b>

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(10.7)	(10.4)	5.3	2.8	2.8
EBITDA growth	(10.5)	(3.9)	3.3	(3.8)	(1.4)
EBIT growth	(27.7)	0.6	10.8	3.5	4.4
Pretax growth	(48.3)	28.8	43.6	5.9	7.1
Reported net profit growth	(62.1)	105.9	43.4	5.9	7.1
Core net profit growth	(51.7)	61.5	30.8	5.9	7.1
<b>Profitability ratios (%)</b>					
EBITDA margin	18.6	20.0	19.6	18.3	17.6
EBIT margin	6.4	7.2	7.6	7.6	7.7
Pretax profit margin	2.5	3.6	4.9	5.1	5.3
Payout ratio	50.8	49.4	45.9	43.4	40.5
<b>DuPont analysis</b>					
Net profit margin (%)	1.0	2.3	3.2	3.3	3.4
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	6.9	7.0	7.2
ROAA (%)	0.9	1.6	2.1	2.1	2.3
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(100.5)	(93.1)	(94.8)	(95.1)	(95.1)
Days receivable outstanding	7.9	12.6	13.9	14.0	14.0
Days inventory outstanding	105.6	104.8	99.5	99.9	99.9
Days payables outstanding	214.0	210.5	208.2	209.0	209.0
Dividend cover (x)	2.0	2.0	2.2	2.3	2.5
Current ratio (x)	0.3	0.5	0.6	0.7	0.8
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.4	1.4	1.4	1.4	1.5
Net gearing (%) (incl perps)	51.6	30.7	16.0	4.2	net cash
Net gearing (%) (excl. perps)	51.6	30.7	16.0	4.2	net cash
Net interest cover (x)	1.7	2.0	2.9	3.0	3.2
Debt/EBITDA (x)	1.2	1.0	1.0	1.0	1.0
Capex/revenue (%)	1.1	1.8	7.8	7.6	7.4
Net debt/ (net cash)	862.2	534.8	289.2	78.3	(118.8)

Source: Company; Maybank

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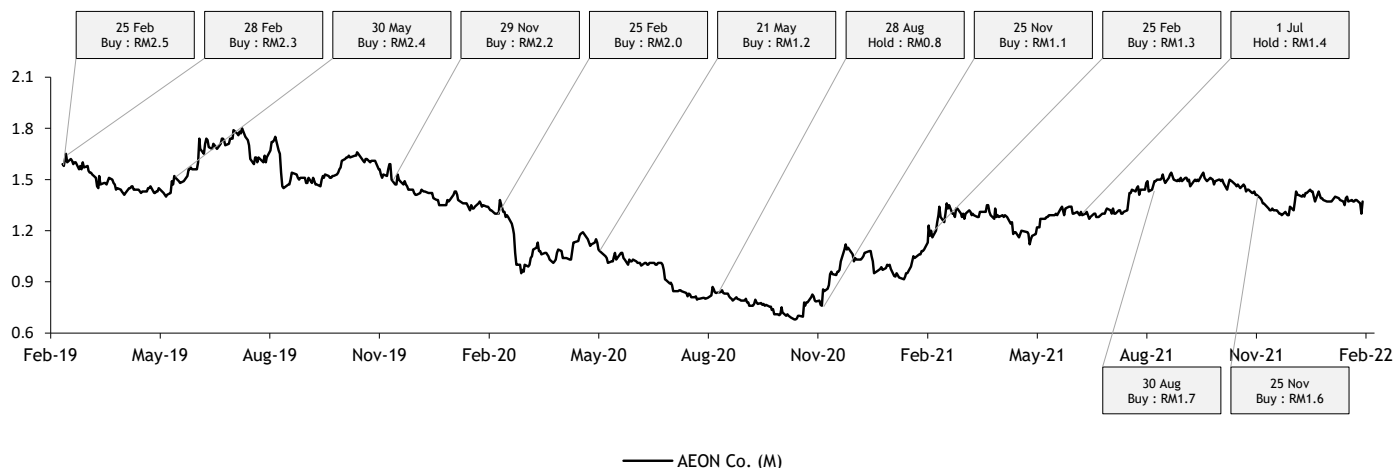
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