

AEON Co. (M) (AEON MK)

1Q22 results missed

Maintain BUY with lower TP of MYR2.00

AEON's 1Q22 results slightly missed our expectations due to higher-than-expected effective tax rate. We believe sales momentum in both retail and property management services segments will continue on an uptrend in 2Q22 driven by festive celebrations but could soften into 2H22 as cost inflation begins to curb consumer spending. Maintain BUY with lower TP of MYR2.00 (based on unchanged 25x FY22 PER, mean).

Higher-than-expected effective tax rate

1Q22 core net profit of MYR26m (-11% YoY, -66% QoQ) came in slightly below expectations at 22%/24% of our/consensus full-year earnings estimates. This largely resulted from higher-than-expected effective tax rate. 1Q22 revenue of MYR1b (-1% YoY, +1% QoQ) was however in-line at 26% of our full-year estimate.

Margins expanded YoY

AEON's revenue fell 1% YoY led by: (i) an easing in retail segment contribution (-3% YoY) where relaxed movement restrictions weakened foodline sales but was partially buffered by higher softline sales, and (ii) higher property management services revenue of +7% YoY on better sales commission and temporary space rentals post-pandemic. Meanwhile, 1Q22 EBIT grew 15% YoY on higher operating margins from both core segments (Retail: +1.4ppts YoY; Property management: +7.9ppts YoY) given the absence of lockdown restrictions on its retail segments (softline & hardline) and normalisation of footfall at shopping malls.

Revising earnings estimates

Our FY22/FY23/FY24 earnings estimates are lowered by 8%/5%/6% upon factoring in higher effective tax rates of 45%/40%/40% (from 35% p.a.) as a result of Cukai Makmur in FY22 and a normalised rate of 40% in FY23-FY24 on higher non-deductible expenses based on management guidance. We have also raised retail margins of 5% p.a. (from 3% p.a.). Sales momentum in sequential quarters are expected to be positively driven by higher sales during Hari Raya Adilfitri but could soften into 3Q22 as we believe consumer spending may turn more cautious amidst inflationary uncertainties.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	4,051	3,630	3,822	3,930	4,041
EBITDA	755	725	771	725	711
Core net profit	58	94	112	123	130
Core EPS (sen)	4.1	6.7	8.0	8.8	9.2
Core EPS growth (%)	(51.7)	61.5	19.9	10.0	5.3
Net DPS (sen)	1.5	4.5	4.0	4.0	4.0
Core P/E (x)	25.9	21.2	20.8	18.9	18.0
P/BV (x)	0.9	1.1	1.3	1.2	1.2
Net dividend yield (%)	1.4	3.2	2.4	2.4	2.4
ROAE (%)	2.5	5.0	6.3	6.7	6.8
ROAA (%)	0.9	1.6	1.9	2.0	2.1
EV/EBITDA (x)	3.2	3.5	3.4	3.4	3.2
Net gearing (%) (incl perps)	51.6	30.7	16.3	4.9	net cash
Consensus net profit	-	-	111	127	135
MKE vs. Consensus (%)	-	-	1.0	(2.7)	(4.1)

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BUY

Share Price	MYR 1.66
12m Price Target	MYR 2.00 (+23%)
Previous Price Target	MYR 2.20

Company Description

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

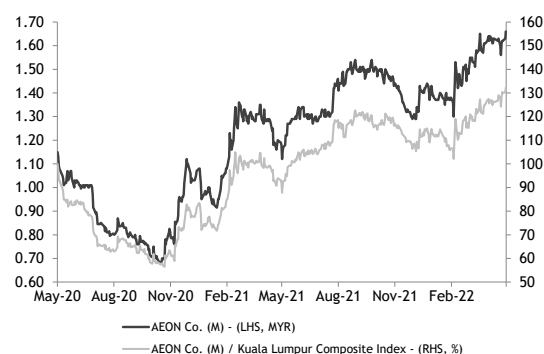
Statistics

52w high/low (MYR)	1.66/1.12
3m avg turnover (USDm)	0.8
Free float (%)	34.9
Issued shares (m)	1,404
Market capitalisation	MYR2.3B
	USD530M

Major shareholders:

AEON Co., Ltd.	51.7%
Employees Provident Fund	10.6%
Aberdeen Standard Investments (Asia) Ltd	5.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	2	20	41
Relative to index (%)	5	25	45

Source: FactSet

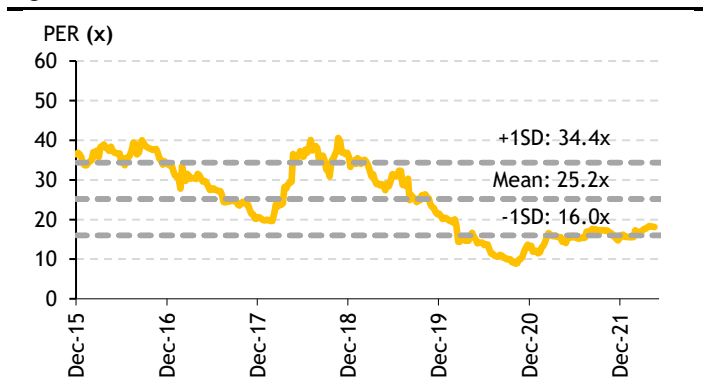
Fig 1: Results summary

FY Dec (MYR m)	Quarterly				
	1Q22	1Q21	% YoY	4Q21	% QoQ
Net revenue	1,001.8	1,013.5	(1.2)	992.1	1.0
EBITDA	194.1	193.1	0.5	241.8	(19.7)
Dep & amort	(110.7)	(120.4)	(8.0)	(113.1)	(2.1)
EBIT	83.4	72.7	14.7	128.7	(35.2)
Net interest income/(cost)	(28.6)	(32.0)	(10.5)	(33.8)	(15.5)
Associate	-	1.1	n.m.	(0.3)	n.m.
Pretax Profit	54.8	41.8	31.0	94.6	(42.1)
Tax	(26.7)	(19.8)	34.9	(23.6)	13.0
Net Profit	28.1	22.0	27.5	71.0	(60.4)
Exceptional items	1.7	(7.7)	n.m.	6.2	(72.5)
Core net profit*	26.4	29.7	(11.1)	77.2	(65.8)
	1Q22	1Q21	+/- ppt	4Q21	+/- ppt
EBIT margin (%)	8.3	7.2	1.2	13.0	(4.7)
Pre-tax profit margin (%)	5.5	4.1	1.3	9.5	(4.1)
Net profit ex-EI margin (%)	2.6	2.9	(0.3)	7.8	(5.1)
Net revenue (MYR m)	1Q22	1Q21	% YoY	4Q21	% QoQ
Retailing	857.4	879.0	(2.5)	854.3	0.4
Property management services	144.4	134.5	7.4	137.9	4.8
Total	1,001.8	1,013.5	(1.2)	992.1	1.0
Operating profit / EBIT (MYR m)	1Q22	1Q21	% YoY	4Q21	% QoQ
Retailing	61.0	50.6	20.6	88.3	(30.9)
Property management services	54.8	40.4	35.6	62.4	(12.1)
Unallocated expenses	(32.4)	(18.3)	77.1	(21.9)	47.8
Total	83.4	72.7	14.7	128.7	(35.2)
Operating margin (%)	1Q22	1Q21	+/- ppt	4Q21	+/- ppt
Retailing	7.1	5.8	1.4	10.3	(3.2)
Property management services	38.0	30.0	7.9	45.2	(7.3)
Total	8.3	7.2	1.2	13.0	(4.7)

*1Q22: Excludes reversal of impairment loss on trade receivables of MYR1.7m; 4Q22: Reversal of impairment loss on trade receivables of MYR7.3m, impairment loss on right-of-use assets of MYR13.5m; 1Q21: Excludes impairment loss on trade receivables of MYR7.7m;

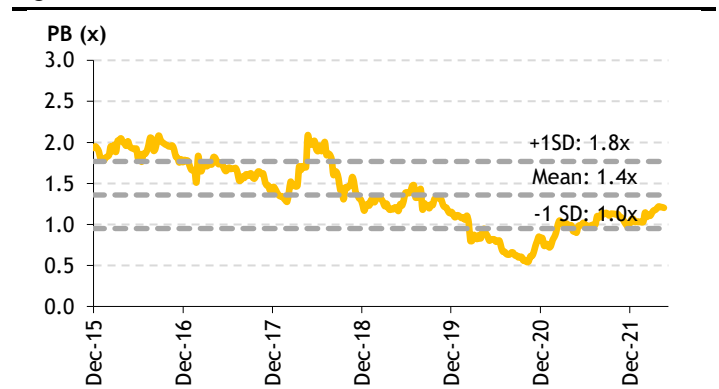
Source: Company

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's 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	20.8	18.9	18.0
Core P/E (x)	25.9	21.2	20.8	18.9	18.0
P/BV (x)	0.9	1.1	1.3	1.2	1.2
P/NTA (x)	0.9	1.2	1.3	1.3	1.2
Net dividend yield (%)	1.4	3.2	2.4	2.4	2.4
FCF yield (%)	23.5	31.9	17.1	15.3	14.6
EV/EBITDA (x)	3.2	3.5	3.4	3.4	3.2
EV/EBIT (x)	9.2	9.7	8.7	8.0	7.1

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	771.0	724.8	711.0
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	305.0	305.5	315.4
Net interest income / (exp)	(148.7)	(129.3)	(100.5)	(99.4)	(98.5)
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	203.8	205.5	216.3
Income tax	(60.3)	(45.7)	(91.7)	(82.2)	(86.5)
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	112.1	123.3	129.8
Core net profit	57.9	93.5	112.1	123.3	129.8

BALANCE SHEET (MYR m)

Cash & Short Term Investments	71.4	193.6	434.7	636.8	822.2
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	5,964.2	6,068.3	6,179.9
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	1,798.7	1,865.8	1,939.4
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	1,671.0	1,742.7	1,798.7	1,865.8	1,939.4
Total liabilities and equity	6,093.4	5,862.8	5,964.2	6,068.3	6,179.9

CASH FLOW (MYR m)

Pretax profit	101.8	131.0	203.8	205.5	216.3
Depreciation & amortisation	495.7	464.4	466.1	419.3	395.6
Adj net interest (income)/exp	32.2	128.1	100.5	99.4	98.5
Change in working capital	(296.7)	35.7	18.5	15.0	15.5
Cash taxes paid	(62.3)	(75.4)	(91.7)	(82.2)	(86.5)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	398.9	698.9	697.8	657.7	640.0
Capex	(46.4)	(66.4)	(300.0)	(300.0)	(300.0)
Free cash flow	352.5	632.5	397.8	357.7	340.0
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)	(98.5)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	4.4	122.2	241.1	202.1	185.4

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)	6.3	(6.0)	(1.9)
EBIT growth	(27.7)	0.6	16.9	0.2	3.2
Pretax growth	(48.3)	28.8	55.6	0.8	5.3
Reported net profit growth	(62.1)	105.9	31.5	10.0	5.3
Core net profit growth	(51.7)	61.5	19.9	10.0	5.3
Profitability ratios (%)					
EBITDA margin	18.6	20.0	20.2	18.4	17.6
EBIT margin	6.4	7.2	8.0	7.8	7.8
Pretax profit margin	2.5	3.6	5.3	5.2	5.4
Payout ratio	50.8	74.1	50.1	45.6	43.3
DuPont analysis					
Net profit margin (%)	1.0	2.3	2.9	3.1	3.2
Revenue/Assets (x)	0.7	0.6	0.6	0.6	0.7
Assets/Equity (x)	3.6	3.4	3.3	3.3	3.2
ROAE (%)	2.5	5.0	6.3	6.7	6.8
ROAA (%)	0.9	1.6	1.9	2.0	2.1
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	2.0	2.2	2.3
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	16.3	4.9	net cash
Net gearing (%) (excl. perps)	51.6	30.7	16.3	4.9	net cash
Net interest cover (x)	1.7	2.0	3.0	3.1	3.2
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	293.6	91.5	(93.9)

Source: Company; Maybank IBG Research

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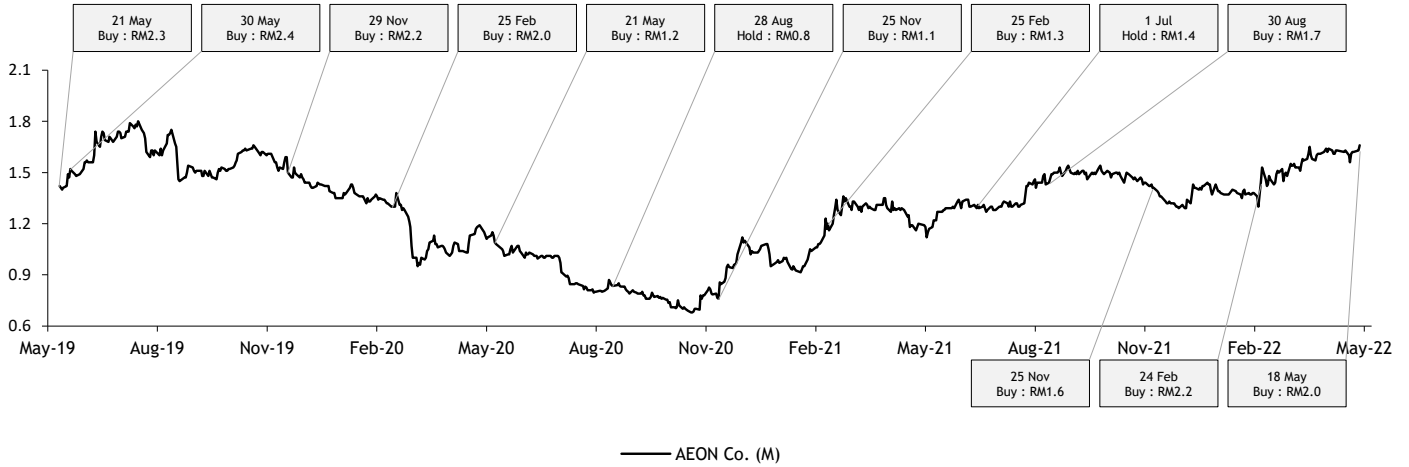
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