Dragged down by retail sales

Aeon's 1Q16 core net profit of RM28.3m (-42.7% yoy) came below our and street expectations, accounting for 16% and 18%, respectively. The retail segment continues to suffer from lower revenue which more than offset the increase from the property segment. EBIT margin continues to be compressed due to higher operating costs. Nevertheless, we maintain a HOLD call on the stock with higher TP of RM 2.70.

1Q16 core earnings below expectations

AEON registered 1Q16 revenue contraction of 2.8% yoy, to RM1.1bn as the increase in the property management segment by 5.1% yoy to RM143.2m was not enough to mitigate the drop in retail revenue by 4% yoy to RM 932.5m. 1Q16 core earnings declined by 42.7% to RM 28.3m, coming in below our and street expectations, accounting for 16% and 18% of full-year estimates. The EBIT margin moderated by 1.9 ppts to 4.6% due to increased operating costs from initial start-up losses for new stores and higher promotional expenses.

Property management continues to perform amidst retail weakness

Retail revenue was weaker yoy due to the poor consumer sentiment as well as the pre-GST buying in 1Q15 whereas revenue from the property management segment grew mainly from contributions of new shopping centres. We continue to note that while the retail segment contributed 87% to 1Q16 revenue, the reverse is seen where the property management division contributed to 97% of segmental profit and therefore acts as a solid base as compared to the retail segment during the consumer spending downturn.

Maintain HOLD with higher TP of RM2.70

We make some housekeeping adjustments to our forecasts post 2015 results and also cut FY16-18E earnings by 1-23% by assuming lower retail sales due to lower SSSG growth and higher operating costs. We maintain AEON as a HOLD with a higher TP of RM2.70 (previously RM 2.60) pegged to an unchanged 20x PE (which is in-line with its historical mean PE) and roll forward valuations to 2017E EPS. We continue to like AEON's prudent management and renowned brand name. While this year continues to be a challenging year especially for retail sales, earnings should see an improvement in FY17 onwards as consumer sentiment improves, following the Group's strategy to open 1-2 malls these few years. Key upside risks include: i) stronger-than-expected domestic consumer spending; and ii) lower-than-expected operating expenses.

Earnings & Valuation Summary

FYE Dec	2014	2015	2016E	2017E	2018E
Revenue (RMm)	3,705.5	3,834.6	3,887.6	4,220.0	4,439.4
EBITDA (RMm)	485.7	443.9	472.7	559.5	610.8
Pretax profit (RMm)	301.3	210.8	193.8	262.1	296.2
Net profit (RMm)	212.7	133.4	138.4	186.5	210.5
EPS (sen)	15.2	9.5	9.9	13.3	15.0
PER (x)	18.5	29.5	28.4	21.1	18.7
Core net profit (RMm)	212.7	133.4	138.4	186.5	210.5
Core EPS (sen)	15.2	9.5	9.9	13.3	15.0
Core EPS growth (%)	(7.9)	(37.3)	3.7	34.7	12.9
Core PER (x)	18.5	29.5	28.4	21.1	18.7
Net DPS (sen)	4.0	3.2	3.3	4.5	5.4
Dividend Yield (%)	1.4	1.1	1.2	1.6	1.9
EV/EBITDA (x)	8.2	10.1	9.5	7.8	6.9
Chg in EPS (%)			-22.9%	-3.1%	-1.4%
Affin/Consensus (x)			0.9	1.0	1.1

Source: Company, Affin Hwang estimates

Results Note

Aeon Co. (M)

AEON MK
Sector: Consumer

RM2.80 @ 19 May 2016

HOLD (maintain)

Downside 3.6%

Price Target: RM2.70

Previous Target: RM2.60

Price Performance

	1M	3M	12M
Absolute	-1.1%	8.9%	-10.8%
Rel to KLCI	3.6%	11.7%	-1.2%

Stock Data

Issued shares (m)	1,404.0
Mkt cap (RMm)/(US$m)	3931.2/964
Avg daily vol - 6mth (m)	0.6
52-wk range (RM)	2.47-3.33
Est free float	32.2%
BV per share (RM)	1.31
P/BV (x)	2.14
Net cash/ (debt) (RMm) (1Q16)	(655.2)
ROE (2016E)	7.4%
Derivatives	Nil
Shariah Compliant	YES

Key Shareholders

Aeon Co Ltd	51.7%
Aberdeen	19.2%
EPF	8.2%

Source: Affin Hwang, Bloomberg

Yap Po Leen
(603) 2146 7547
poleen.yap@affinhwang.com

Fig 1: Results Comparison

FYE 30 June (RMm)	1Q16	QoQ % chg	YoY % chg	Comment
Revenue	1,075.7	*10.3*	*(2.8)*	Increase in the property management segment by 5.1% yoy to RM143.2m was not enough to mitigate the drop in retail revenue by 4% yoy to RM 932.5m
Op costs	(1026.17)	*14.5*	*(0.9)*	
EBIT	49.5	*(37.4)*	*(31.0)*	
EBIT margin (%)	*4.6*	*(3.5)*	*(1.9)*	EBIT margin contraction due to increased operating costs from initial start-up losses for new stores and higher promotional expenses
Int expense	(5.7)	*(15.4)*	*180.7*	
Int and other inc	0.6	*31.4*	*18.8*	
Associates	0.2	*(24.8)*	*>(100)*	
EI	0.3	*n.m*	*n.m*	
Pretax profit	**44.9**	***(38.5)***	***(36.1)***	
Tax	(16.9)	*(52.1)*	*(20.2)*	
Tax rate (%)	*37.6*	*(10.7)*	*7.5*	Higher as certain expenses are not deductible for tax purposes
MI	0.0	*(100.0)*	*(100.0)*	
Net profit	**28.0**	***(26.9)***	***(43.3)***	
EPS (sen)	11.9	*(26.9)*	*(43.3)*	
Core net profit	**28.3**	***(26.1)***	***(42.7)***	Below expectations

Source: Affin Hwang, Company data

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

This report is printed and published by:
Affin Hwang Investment Bank Berhad (14389-U)
(formerly known as HwangDBS Investment Bank Berhad)
A Participating Organisation of Bursa Malaysia Securities Bhd
Chulan Tower Branch,
3rd Floor, Chulan Tower,
No 3, Jalan Conlay,
50450 Kuala Lumpur.
www.affinhwang.com
Email : affin.research@affinhwang.com
Tel : + 603 2143 8668
Fax : + 603 2145 3005