

AEON Stores

Bloomberg: 984 HK EQUITY | Reuters: 984.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

18 March 2013

FULLY VALUED HK\$19.60 HSI : 22,533

Price Target : 12-Month HK\$ 15.27 (Prev HK\$ 17.69)

Reason for Report : Earnings and TP downgrades

Potential Catalyst: Better than expected SSSG recovery

DBSV vs Consensus: No consensus figures available

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Price Relative



Forecasts and Valuation

FY Dec (HK\$ m)	2011A	2012A	2013F	2014F
Turnover	7,201	7,992	8,403	9,287
EBITDA	673	438	410	458
Pre-tax Profit	570	298	263	303
Net Profit	406	239	198	228
Net Pft (Pre Ex.)	320	191	198	228
EPS (HK\$)	1.56	0.92	0.76	0.88
Core EPS (HK\$)	1.23	0.73	0.76	0.88
EPS Gth (%)	45.4	(41.1)	(17.2)	15.4
Core EPS Gth (%)	45.4	(41.1)	4.1	15.4
Diluted EPS (HK\$)	1.56	0.92	0.76	0.88
DPS (HK\$)	0.61	0.26	0.27	0.31
BV Per Share (HK\$)	6.07	6.50	6.99	7.55
PE (X)	12.6	21.3	25.7	22.3
Core PE (X)	15.9	26.8	25.7	22.3
P/Cash Flow (X)	7.5	10.6	23.3	10.2
P/Free CF (X)	35.2	2580.3	nm	25.6
EV/EBITDA (X)	4.6	7.3	6.8	5.5
Net Div Yield (%)	3.1	1.3	1.4	1.6
P/Book Value (X)	3.2	3.0	2.8	2.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	28.1	14.6	11.3	12.1
Earnings Rev (%)			(36.3)	(38.5)
Consensus EPS (HK\$)		-	-	-
Other Broker Recs:		B: 0	S: 0	H: 0

ICB Industry: Consumer Services

ICB Sector: General Retailers

Principal Business: A General Merchandise Store operator in Hong Kong and South China

Source of all data: Company, DBSV, HKEX

Lacks near-term catalysts

- FY12 core earnings dived 40% y-o-y to HK\$191m, below expectations. Final DPS of HK\$0.097 (-73%) led to full year DPS of HK\$0.262 (-57%), or 29% payout on reported profit (2011: 39%).
- YTD SSSG continued to decline at a single-digit rate. With a low base in China for 4Q13, full-year sales contribution from new stores opened in 2012, and lower pre-operating expenses from fewer new stores this year, core earnings in FY13 could recover a modest 3.9%
- Following 36-38% cut in FY13-14F earnings, our TP is lowered to HK\$15.27 on 8x ex-cash 12M rolling PE. Maintain FULLY VALUED

FY12 results below expectations. Revenue grew 10% y-o-y to HK\$7.4bn in FY12, fueled by HK (+15%) and China (+7%), attributable largely to revenue contributions from new stores. Overall, same-store sales growth (SSSG) dipped by single-digit rate, with China division declining at a rate in the teens in 4Q12 amid negative impact on Japanese brand operators caused by the Diaoyu Island dispute. For 2H12, China reported EBIT loss of HK\$46m (vs 1H12 EBIT of HK\$64m), while HK's EBIT margin dipped by 4.5ppts to 4.1%. For the full year, FY12's reported net profit fell 41% to HK\$239m, and core earnings dropped 40% to HK\$191m after stripping away revaluation gains from investment and impairment loss. As of Dec 2012, the company had a total of 43 stores (2011: 38) in HK and 25 stores (2011: 20) in China.

Margins squeezed. Gross margin dropped 0.4ppts to 33.1% in FY12 amid the increased share of lower-margin food sales. Coupled with a 196% increase in pre-operating expenses from new stores to HK\$81m, and higher operating expenses with staff cost to sales ratio of 12.3% (+1.7ppts) and rental to sales ratio of 11.1% (+1.2ppts), core net margin fell 2.2ppts to 2.6% last year.

Tepid outlook. YTD SSSG sustained its decline at the single-digit rate, while there was a slight improvement seen in MTD Mar. We expect SSSG in China to rebound significantly in 4Q13 given the low base. Pre-operating expenses should be lower this year with a mere 5 new stores planned for 2013 (capex: HK\$276m), including 4 GMS in Guangzhou, Shenzhen, Dongguan and Huizhou, and 1 supermarket in Shenzhen, vs a net opening of 10 stores in 2012 (capex: HK\$482m). While we remain concerned about the rising proportion of sales of low-margin food items at 50% of group revenue (vs 2011: 48%) to dilute overall profitability in longer term, AEON Stores may see a slight growth in core earnings in FY13, given the low base in FY12. But, without any strong near-term catalysts, plus risks of disputes between China and Japan re-emerging that could indirectly affect AEON Stores' performance, we maintain Fully Valued on the stock.

At A Glance

Issued Capital (m shrs)	260
Mkt. Cap (HK\$/US\$m)	5,096 / 657
Major Shareholders	
Aeon Co. Ltd (%)	71.6
Free Float (%)	28.4
Avg. Daily Vol.('000)	69

Company Focus

AEON Stores

2012 Results Summary

Year to Dec/HK\$m	1H11	1H12	chg (%y-o-y)	2H11	2H12	chg (%y-o-y)	2011	2012	chg (%y-o-y)
- Income from concessionaire sales	447	468	4.7%	473	496	4.8%	920	964	4.8%
- Direct sales	2,796	3,114	11.4%	2,970	3,299	11.1%	5,766	6,413	11.2%
Operating revenue	3,244	3,582	10.4%	3,443	3,795	10.2%	6,686	7,377	10.3%
COGS	(2,189)	(2,421)	10.6%	(2,253)	(2,512)	11.5%	(4,443)	(4,933)	11.0%
Gross profit	1,054	1,161	10.1%	1,189	1,283	7.8%	2,244	2,444	8.9%
Other income	241	285	17.9%	273	330	21.1%	514	615	19.6%
Investment income	13	13	4.8%	18	12	-33.2%	31	25	-17.3%
Staff costs	(333)	(418)	25.4%	(372)	(488)	31.2%	(706)	(906)	28.4%
Depreciation	(64)	(75)	17.2%	(68)	(89)	30.9%	(132)	(164)	24.3%
Revaluation gain on an investment property	86	30	n.a.	-	70	n.a.	86	100	n.a.
Pre-operating expenses	(5)	(24)	395.3%	(22)	(57)	153.5%	(27)	(81)	196.1%
Loss on disposal of fixed assets	(0.3)	0.1	n.m.	(0)	(2)	n.m.	(0.3)	(1.7)	501.0%
Impairment loss on fixed assets	-	(9.73)	n.a.	-	(40)	n.a.	-	(50)	n.a.
Other expenses	(683)	(787)	15.1%	(754)	(896)	18.8%	(1,438)	(1,683)	17.0%
Finance costs	(1)	(1)	-55.2%	(1)	(0)	-70.8%	(2)	(1)	-61.9%
Profit before taxation	308	177	-42.7%	262	122	-53.5%	570	298	-47.7%
Income tax expenses	(62)	(28)	-54.9%	(54)	(20)	-63.6%	(115)	(47)	-59.0%
Minority interests	(28)	(16)	-43.9%	(21)	4	n.m.	(48)	(12)	-75.4%
Reported attributable profits	219	133	-39.2%	187	106	-43.4%	406	239	-41.1%
Core attributable profits*	133	113	-15.2%	187	78	-58.4%	320	191	-40.5%
Profitability (%):	1H11	1H12	Chg (ppt y-o-y)	2H11	2H12	Chg (ppt y-o-y)	2011	2012	Chg (ppt y-o-y)
Gross margin	32.5%	32.4%	(0.1)	34.5%	33.8%	(0.7)	33.6%	33.1%	(0.4)
PBT margin	9.5%	4.9%	(4.6)	7.6%	3.2%	(4.4)	8.5%	4.0%	(4.5)
Reported net margin	6.7%	3.7%	(3.0)	5.4%	2.8%	(2.6)	6.1%	3.2%	(2.8)
Core net margin*	4.1%	3.1%	(0.9)	5.4%	2.0%	(3.4)	4.8%	2.6%	(2.2)

(* Excluding revaluation gain on investment of HK\$86m in 2011 and HK\$100m in 2012, and impairment losses of HK\$50m in 2012)

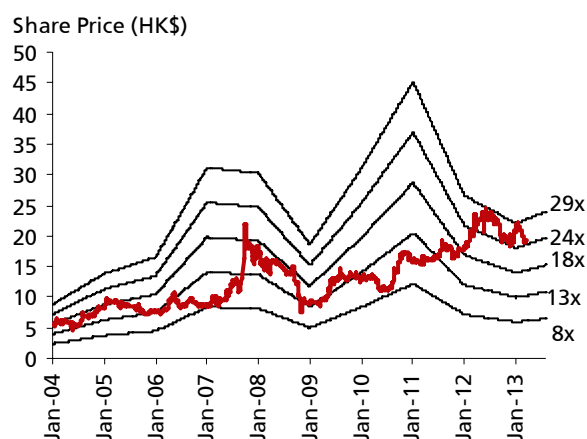
2012 Segmental Breakdown

Year to Dec/HK\$m	1H11	1H12	chg (%y-o-y)	2H11	2H12	chg (%y-o-y)	2011	2012	chg (%y-o-y)
<u>Sales breakdown</u>									
Hong Kong	1,483	1,668	12.5%	1,589	1,857	16.9%	3,071	3,525	14.8%
China	1,761	1,914	8.7%	1,854	1,938	4.5%	3,615	3,852	6.6%
Turnover	3,244	3,582	10.4%	3,443	3,795	10.2%	6,686	7,377	10.3%
<u>EBIT breakdown</u>									
Hong Kong	97	60	-37.5%	137	76	-44.3%	234	137	-41.5%
China	105	64	-39.7%	98	(46)	-147.2%	203	17	-91.4%
EBIT*	202	124	-38.6%	235	30	-87.1%	437	154	-64.7%
<u>Margin breakdown</u>									
Hong Kong	6.5%	3.6%	(2.9)	8.6%	4.1%	(4.5)	7.6%	3.9%	(3.7)
China	6.0%	3.3%	(2.7)	5.3%	-2.4%	(7.7)	5.6%	0.5%	(5.2)
EBIT Margin*	6.2%	3.5%	(2.8)	6.8%	0.8%	(6.0)	6.5%	2.1%	(4.4)

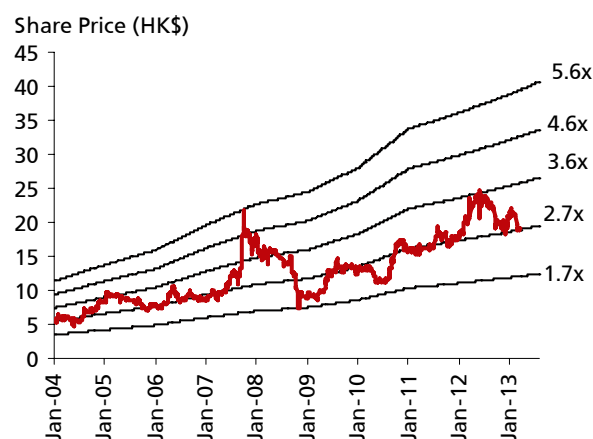
(* Excluding revaluation gain on investment of HK\$86m in 2011 and HK\$100m in 2012)

PE band chart

PB band chart



Source: Thomson Reuters, DBS Vickers



Source: Thomson Reuters, DBS Vickers

Company Focus

AEON Stores

Peer Table

Company Name	Code	Currency	Price Local\$	Mkt Cap US\$m	Fiscal Yr	13F				14F			
						PE x	P/Sales x	Yield %	ROE %	PE x	P/Sales x	Yield %	ROE %
China													
Golden Eagle*	3308 HK	HKD	14.88	3,710	Dec	16.6	5.3	1.8	23.4	13.9	4.3	2.2	23.4
Intime Dept	1833 HK	HKD	8.71	2,257	Dec	13.2	3.0	3.3	13.4	11.6	2.4	3.6	13.7
Maoye Int'l	848 HK	HKD	1.7	1,177	Dec	9.1	1.7	3.7	13.0	8.5	1.5	3.7	12.5
NW Dept Store**^	825 HK	HKD	5.35	1,163	Jun	14.2	2.1	3.5	10.1	12.2	1.7	4.1	10.8
Parkson Retail*	3368 HK	HKD	4.84	1,753	Dec	11.5	1.9	4.0	16.0	10.0	1.6	4.6	16.7
Pcd Stores (Group)	331 HK	HKD	1.17	635	Dec	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Shirble	312 HK	HKD	0.445	143	Dec	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Springland*	1700 HK	HKD	4.4	1,418	Dec	12.2	2.1	3.3	15.4	10.7	1.8	3.7	15.9
Average						12.8	2.7	3.3	15.2	11.2	2.2	3.7	15.5
Hong Kong / China													
Aeon Stores*	984 HK	HKD	19.6	657	Dec	25.7	0.6	1.4	11.3	22.3	0.5	1.6	12.1
Lifestyle Intl.Hdg.*^	1212 HK	HKD	17.94	3,850	Dec	14.6	4.9	2.7	20.1	13.7	4.7	2.9	19.0
Average						20.2	2.8	2.1	15.7	18.0	2.6	2.3	15.6
Overseas													
Isetan Mitsukoshi#	3099 JP	JPY	1267	5,204	Mar	30.7	0.4	0.8	3.4	27.8	0.4	0.9	3.5
Takashimaya#	8233 JP	JPY	872	3,001	Feb	19.6	0.3	1.2	4.7	19.0	0.3	1.2	4.5
Debenhams	DEB LN	GBP	82.6	1,548	Aug	8.5	0.4	4.1	17.1	8.0	0.4	4.5	16.8
Marks & Spencer#	MKS LN	GBP	376.17	9,057	Mar	10.8	0.6	4.7	21.1	10.1	0.6	5.1	20.8
Penney Jc#	JCP US	USD	15.39	3,374	Jan	n.a.	0.3	0.0	(13.9)	n.a.	0.3	0.0	(4.5)
Saks#	SKS US	USD	11.67	1,766	Jan	25.9	0.5	0.0	6.3	22.0	0.5	0.0	6.4
Kohl'S#	KSS US	USD	49.08	11,510	Jan	11.2	0.6	2.7	16.0	10.1	0.6	2.8	16.2
Average						17.8	0.4	1.9	7.8	16.2	0.4	2.1	9.1

^ Core PE

FY13: FY14; FY14: FY15

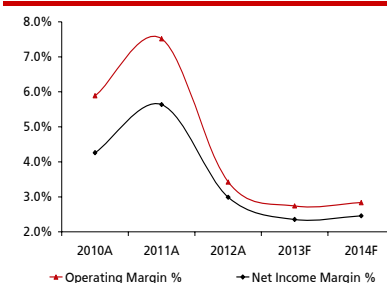
Source: Thomson Reuters, *DBS Vickers

Income Statement (HK\$ m)

FY Dec	2010A	2011A	2012A	2013F	2014F
Revenue	6,553	7,201	7,992	8,403	9,287
Cost of Goods Sold	(4,075)	(4,443)	(4,933)	(5,179)	(5,724)
Gross Profit	2,478	2,758	3,059	3,224	3,563
Other Opng (Exp)/Inc	(2,092)	(2,217)	(2,785)	(2,993)	(3,300)
Operating Profit	386	541	274	230	264
Other Non Opng (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	16	29	25	33	39
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	402	570	298	263	303
Tax	(82)	(115)	(47)	(52)	(60)
Minority Interest	(41)	(48)	(12)	(13)	(14)
Preference Dividend	0	0	0	0	0
Net Profit	279	406	239	198	228
Net Profit before Except.	279	406	239	198	228
EBITDA	505	673	438	410	458
Growth					
Revenue Gth (%)	3.8	9.9	11.0	5.1	10.5
EBITDA Gth (%)	27.3	33.4	(35.0)	(6.4)	11.7
Opg Profit Gth (%)	55.1	40.3	(49.4)	(15.8)	14.3
Net Profit Gth (%)	67.0	45.4	(41.1)	(17.2)	15.4
Margins & Ratio					
Gross Margins (%)	37.8	38.3	38.3	38.4	38.4
Opg Profit Margin (%)	5.9	7.5	3.4	2.7	2.8
Net Profit Margin (%)	4.3	5.6	3.0	2.4	2.5
ROAE (%)	22.8	28.1	14.6	11.3	12.1
ROA (%)	7.5	9.5	4.9	3.9	4.3
ROCE (%)	19.6	24.6	11.6	8.7	9.3
Div Payout Ratio (%)	50.0	39.3	28.5	35.8	35.8
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS Vickers

Margins Trend



Company Focus

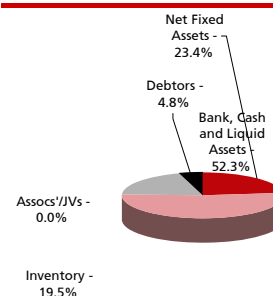
AEON Stores

Balance Sheet (HK\$ m)

FY Dec	2010A	2011A	2012A	2013F	2014F
Net Fixed Assets	495	608	924	1,045	1,150
Invts in Associates & JVs	0	0	0	0	0
Other LT Assets	440	716	802	323	323
Cash & ST Invts	2,168	2,178	2,060	2,510	2,757
Inventory	585	700	770	749	828
Debtors	84	178	189	152	168
Other Current Assets	91	260	310	326	342
Total Assets	3,864	4,640	5,055	5,105	5,568
ST Debt	23	25	0	0	0
Other Current Liab	2,262	2,731	3,000	2,904	3,202
LT Debt	23	0	3	3	3
Other LT Liabilities	98	121	189	198	208
Shareholder's Equity	1,311	1,579	1,690	1,817	1,964
Minority Interests	146	184	173	182	191
Total Cap. & Liab.	3,864	4,640	5,055	5,105	5,568
Non-Cash Wkg. Capital	(1,502)	(1,594)	(1,730)	(1,677)	(1,864)
Net Cash/(Debt)	2,122	2,154	2,057	2,506	2,753
Debtors Turn (avg days)	5.5	6.6	8.4	7.4	6.3
Creditors Turn (avg days)	190.1	201.0	209.5	205.7	192.2
Inventory Turn (avg days)	52.8	54.4	56.2	55.4	52.0
Asset Turnover (x)	1.8	1.7	1.6	1.7	1.7
Current Ratio (x)	1.3	1.2	1.1	1.3	1.3
Quick Ratio (x)	1.0	0.9	0.7	0.9	0.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	188.8	2,183.6	14,080.4	8,800.2	8,800.2
Z-Score (X)	NA	3.7	3.8	3.7	3.7

Source: Company, DBS Vickers

Asset Breakdown

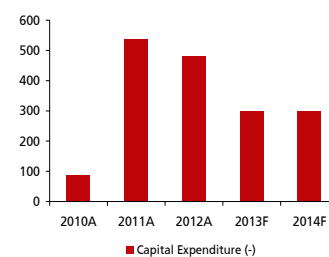


Cash Flow Statement (HK\$ m)

FY Dec	2010A	2011A	2012A	2013F	2014F
Pre-Tax Profit	402	570	298	263	303
Dep. & Amort.	119	132	164	179	194
Tax Paid	0	0	0	0	0
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	105	177	184	(44)	196
Other Operating CF	(55)	(198)	(164)	(179)	(194)
Net Operating CF	571	681	482	219	499
Capital Exp.(net)	(88)	(537)	(480)	(300)	(300)
Other Invts.(net)	0	0	0	0	0
Invts in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	0	0	0	0	0
Net Investing CF	(88)	(537)	(480)	(300)	(300)
Div Paid	0	0	0	0	0
Chg in Gross Debt	0	0	0	0	0
Capital Issues	0	0	0	0	0
Other Financing CF	(287)	(246)	(220)	440	(34)
Net Financing CF	(287)	(246)	(220)	440	(34)
Currency Adjustments	35	56	50	45	41
Chg in Cash	230	(46)	(168)	404	206
Opg CFPS (HK\$)	1.79	1.94	1.15	1.01	1.16
Free CFPS (HK\$)	1.85	0.56	0.01	(0.31)	0.77

Source: Company, DBS Vickers

Capital Expenditure



Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1:	19-Mar-12	HK\$23.00	HK\$21.43	Hold
2:	14-Sep-12	HK\$20.20	HK\$17.69	Fully Valued

Source: DBS Vickers

Company Focus

AEON Stores

DBSV recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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