

## Gradual Recovery in Sales

ACES showed improving profitability in 3Q20 despite the reimpose of large-scale social restriction. We expect ACES could deliver strong result for the coming quarter coupled with SSSG improvement due to high seasonal sales.

### Gradual Recovery in Sales

Ace Hardware (ACES) reported 3Q20 sales of IDR1.8tn (-9.1% YoY; 8.6% QoQ) and SSSG of -19.4% in Sept20. Cumulatively, ACES achieved sales and net profit of IDR5.4tn (-8.3% YoY) and IDR529bn (-27.2% YoY). In September, Jakarta's decision to reimpose full-fledged large-scale social restriction was likely to deteriorate retail sales due to low footfalls. Note that traffic in malls across Jakarta only reached 30%-40% during transitional PSBB, according to Indonesia Shopping Center Management Association (APPBI). Nonetheless, ACES booked 3Q20 net profit of IDR170bn (-33% YoY; 48% QoQ). As we approach the year-end holidays, we expect ACES sales could be lifted on the back of their active promotion such as "ACE 25 Years Anniversary", margin, and SSSG improvement.

### Segment Performance Evaluation

In terms of sales contribution, home improvement products still dominated, contributing to 53.6% of total sales and notched up by 15.8% QoQ to IDR981bn. Meanwhile, lifestyle products booked steady sales growth as we notice many people taking new hobbies such as cycling, cooking, or even gardening this year. Thus, we believe this "new lifestyle" will likely continue to have some knock-on effect on sales going forward. On the flip side, toy segment (3% of total sales in 3Q20) slipped by -2.5% QoQ to IDR55bn. The company also offers an online shopping experience through *Ace online* and *Ruparupa.com*. However, we consider that online sales will not grow substantially unlike other retailers due to the nature of its business.

### Continue to Open New Stores

As of 9M20, the company has already managed to open 12 new stores amid the pandemic. Based on IDX disclosure, ACES has opened 3 new stores during 4Q in Bogor, Malang, and North Sulawesi. As such, the company has a total of 208 stores which aligns with their initial expansion plan. We forecast this should be translated into higher top-line growth once the economy grows steadily.

### Initiate at Overweight with TP of IDR1,900/shares

In our view, the company has shown sales improvement and maintained strong cash flow. Additionally, its main target is middle-upper class customers which we believe is relatively resilient to macroeconomic changes. Thus, we rolled forward our valuation to 2021F and derived a target P/E of around 35.4x (+1SD from its 3-year mean PE), we initiate our overweight recommendation on ACES with a target price of IDR1.900/shares with 5.6% upside potential.

### Ace Hardware Tbk | Summary

	2019A	2020E	2021F	2022F
Net Sales	8,143	7,573	7,750	8,089
<i>Sales Growth</i>	12.5%	-7.0%	2.3%	4.4%
Net Profit	1,035	782	920	981
EPS (IDR)	60	46	54	57
<i>EPS Growth</i>	6.8%	-24.4%	17.7%	6.6%
NPM	12.7%	10.3%	11.9%	12.1%
ROE	23.0%	15.9%	17.1%	16.5%
ROA	18.4%	11.9%	12.1%	12.0%
P/E	24.8x	40.6x	34.5x	32.3x
P/BV	5.4x	6.2x	5.6x	5.1x
DPS (IDR)	28	18	23	27
<i>Dividend Yield</i>	1.9%	1.0%	1.2%	1.5%

Unit: IDR bn, %, x

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

NH Korindo Sekuritas Indonesia

Company Update | Dec, 30 2020

## Overweight

Target Price (IDR)	1,900
Consensus Price (IDR)	1,817
TP to Consensus Price	+4.6%
vs. Last Price	+5.6%

### Shares data

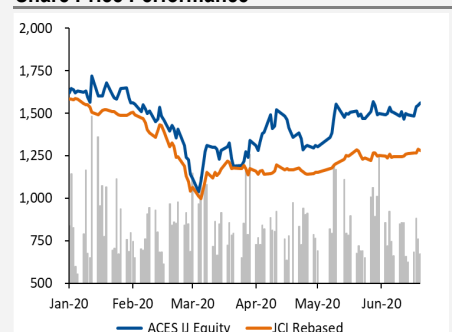
Last Price (IDR)	1,800
Price date as of	Dec 29, 2020
52 wk range (Hi/Lo)	1,850/ 1,040
Free float (%)	40.0
Outstanding sh.(mn)	17,150
Market Cap (IDR bn)	30.870
Market Cap (USD mn)	2,187
Avg. Trd Vol - 3M (mn)	15.30
Avg. Trd Val - 3M (bn)	25.60
Foreign Ownership	24.9%

### Consumer Health

#### Retail Trade

Bloomberg	ACES IJ
Reuters	ACES.JK

### Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	22.5%	6.0%	15.6%	16.0%
Rel. Ret.	25.4%	-3.8%	-5.0%	18.9%

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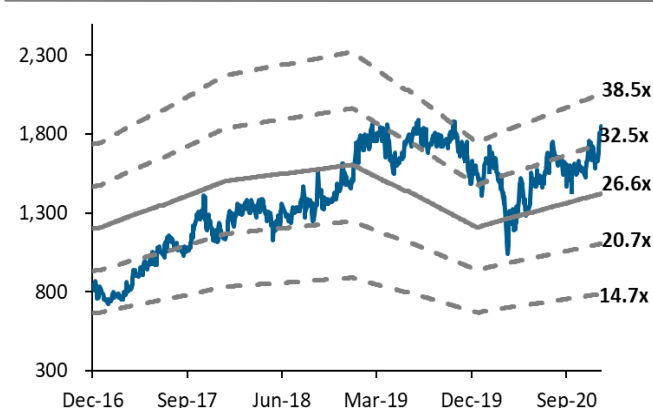
## Valuation highlights in charts

3-year forward P/E band



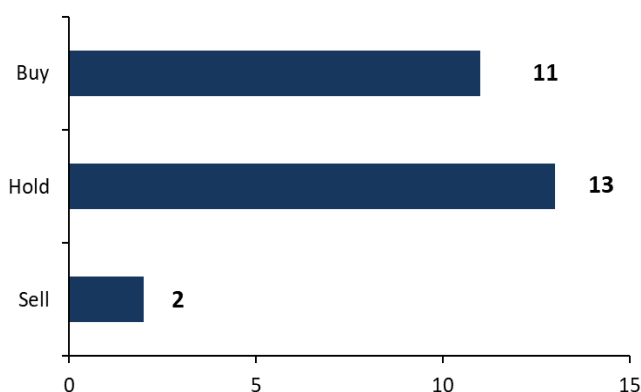
Source: NHKSI Research

3-year dynamic forward P/E band



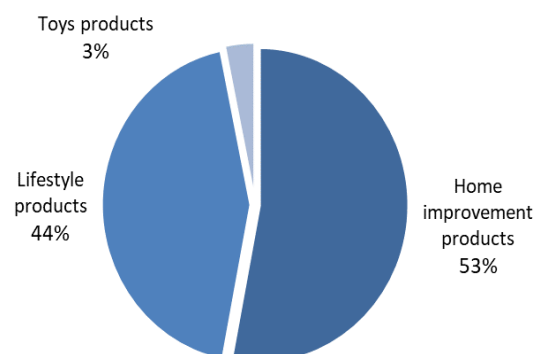
Source: NHKSI Research

## Consensus of analyst recommendation



Source: Bloomberg, NHKSI Research

## ACES's Revenue Breakdown



Source: Company Data, NHKSI Research

## Quarterly review

	3Q19	4Q19	1Q20	2Q20	3Q20					4Q20E
					Actual	Estimate	Y-Y	Q-Q	Surprise	
<b>Income statement</b>										
Net Sales	2,012	2,169	1,967	1,685	1,829		-9.1%	8.6%		2,092
Gross Profit	968	1,052	975	829	902		-6.8%	8.8%		1,030
EBIT	322	377	315	154	219		-31.9%	42.5%		306
EBITDA	352	408	348	189	256		-19.8%	25.2%		338
Net Profit	255	301	247	115	170		-33.0%	48%		250
<b>Margin</b>										
Gross Margin	48.1%	48.5%	49.6%	49.2%	49.3%		1.2%	0.1%		49.2%
EBIT Margin	16.0%	17.4%	16.0%	9.1%	12.0%		-4.0%	2.9%		14.6%
EBITDA Margin	17.5%	18.8%	17.7%	11.2%	14.0%		-3.5%	2.8%		16.1%
Net Profit Margin	12.7%	13.9%	12.5%	6.8%	9.3%		-3.4%	2.5%		12.0%

Unit: IDR bn, %, USD/ton

Source: Company Data, NHKSI Research

## Company Overview

ACES is a retailer dominating home-improvement business in Indonesia. Its mostly imported products are categorized into home improvement and lifestyle segments. Targeting the middle to high income individuals, it operates 208 stores across big cities in Indonesia.

To expand its markets, ACES aggressively promotes marketing strategy of sale programs throughout years such as “Ace Boom Sale”, “Clearance Sales Akhir Tahun”, and “Ace Reward” membership. Another to whole-year sale off, ACES in 2016 penetrated e-commerce segment through ruparupa.com owned by its parent entity.

Closing and target price update



Source: NHKSI Research

Rating and target price update

Date	Rating	Target price	Consensus
2020.12.30	Overweight	IDR1,900 (12M)	IDR1,817

Source: NHKSI Research

## Summary of Financials

INCOME STATEMENT					PROFITABILITY & STABILITY				
(IDR bn)	2019/12A	2020/12E	2021/12E	2022/12E		2019/12A	2020/12E	2021/12E	2022/12E
<b>Sales</b>	<b>8,143</b>	<b>7,573</b>	<b>7,750</b>	<b>8,089</b>	ROE	23.0%	15.9%	17.1%	16.5%
<i>Growth</i>	12.5%	-7.0%	2.3%	4.4%	ROA	18.4%	11.9%	12.1%	12.0%
Cost of Good Sold	(4,256)	(3,837)	(3,865)	(4,061)	ROIC	22.3%	16.0%	15.9%	15.4%
<b>Gross Profit</b>	<b>3,887</b>	<b>3,736</b>	<b>3,885</b>	<b>4,028</b>	Cash Dividend (IDR bn)	484	309	390	460
<i>Gross Margin</i>	47.7%	49.3%	50.1%	49.8%	Dividend Yield	1.9%	1.0%	1.2%	1.5%
Operating Expenses	(2,582)	(2,742)	(2,766)	(2,859)	Payout Ratio	46.7%	39.6%	42.4%	46.9%
<b>EBIT</b>	<b>1,305</b>	<b>994</b>	<b>1,119</b>	<b>1,169</b>	DER	0.0x	0.0x	0.0x	0.0x
<i>EBIT Margin</i>	16.0%	13.1%	14.4%	14.5%	Net Gearing	0.0x	0.1x	0.1x	0.1x
Depreciation	97	122	126	151	LT Debt to Equity	0.0%	0.0%	0.0%	0.0%
<b>EBITDA</b>	<b>1,402</b>	<b>1,116</b>	<b>1,245</b>	<b>1,320</b>	Capitalization Ratio	0.0%	1.0%	0.9%	0.8%
<i>EBITDA Margin</i>	17.2%	14.7%	16.1%	16.3%	Equity Ratio	80.1%	70.5%	71.9%	73.4%
Interest Expenses	(53)	(131)	(25)	(21)	Debt Ratio	19.9%	29.5%	28.1%	26.6%
<b>EBT</b>	<b>1,284</b>	<b>936</b>	<b>1,132</b>	<b>1,198</b>	Financial Leverage	125.2%	133.7%	140.5%	137.6%
Income Tax	(243)	(160)	(208)	(212)	Current Ratio	8.1x	7.0x	7.1x	7.8x
Minority Interest	(7)	6	(4)	(4)	Par Value (IDR)	10	10	10	10
<b>Net Profit</b>	<b>1,035</b>	<b>782</b>	<b>920</b>	<b>981</b>	Total Shares (mn)	17,150	17,150	17,150	17,150
<i>Growth</i>	6.8%	-24.4%	17.7%	6.6%	Share Price (IDR)	1,495	1,850	1,850	1,850
<i>Net Profit Margin</i>	12.7%	10.3%	11.9%	12.1%	Market Cap (IDR tn)	25.6	31.7	31.7	31.7

BALANCE SHEET					VALUATION INDEX				
(IDR bn)	2019/12A	2020/12E	2021/12E	2022/12E		2019/12A	2020/12E	2021/12E	2022/12E
Cash	1,255	1,896	2,494	3,059	Price /Earnings	24.8x	40.6x	34.5x	32.3x
Receivables	89	84	91	78	Price /Book Value	5.4x	6.2x	5.6x	5.1x
Inventories	2,653	2,603	2,543	2,397	Price/Revenue	3.1x	4.2x	4.1x	3.9x
<b>Total Current Assets</b>	<b>4,584</b>	<b>4,808</b>	<b>5,352</b>	<b>5,768</b>	PE/EPS Growth	0.9x	-0.3x	-0.3x	0.4x
Net Fixed Assets	847	891	949	1,003	EV/EBITDA	15.9x	24.9x	22.5x	21.2x
Other Non Current Asset	489	1,548	1,612	1,683	EV/EBIT	17.1x	27.9x	25.0x	24.0x
<b>Total Assets</b>	<b>5,920</b>	<b>7,248</b>	<b>7,913</b>	<b>8,453</b>	EV (IDR bn)	22,330	27,735	28,026	28,033
Payables	178	71	225	220	Revenue CAGR (3-Yr)	18.2%	8.4%	2.3%	-0.2%
Other Current Liabilities	390	414	379	395	EPS CAGR (3-Yr)	13.3%	0.2%	-1.7%	-1.7%
ST Liabilities	-	151	102	77	Basic EPS (IDR)	60	46	54	57
<b>Total Liabilities</b>	<b>1,178</b>	<b>2,141</b>	<b>2,227</b>	<b>2,247</b>	Diluted EPS (IDR)	60	46	54	57
Capital Stock	172	172	172	172	BVPS (IDR)	276.53	298	332	362
Retained Earnings	4,170	4,574	5,153	5,674	Revenue PS (IDR)	475	442	452	472
<b>Shareholders' Equity</b>	<b>4,742</b>	<b>5,107</b>	<b>5,686</b>	<b>6,206</b>	DPS (IDR)	28.2	18.0	22.7	26.8

CASH FLOW STATEMENT					OWNERSHIP			
(IDR bn)	2019/12A	2020/12E	2021/12E	2022/12E	By Geography	% Shareholders	%	
Operating Cash Flow	1,160	1,213	1,220	1,293	Indonesia	75.1	PT Kawan Lama Sejaht	59.7
Investing Cash Flow	(158)	(272)	(232)	(241)	United States	14.6	Capital Grup Company	4.1
Financing Cash Flow	(548)	(294)	(390)	(486)	Luxembourg	3.5	Standard Life Aberdeer	1.8
<b>Net Changes in Cash</b>	<b>454</b>	<b>647</b>	<b>598</b>	<b>565</b>	Ireland	1.8	Vanguard Group Inc	1.3

Source: Company data, NHKSI Research

**NH Korindo Sekuritas Indonesia (NHKSI) Stock Ratings**

1. Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
2. Rating system based on a stock's potential upside from the date of publication
  - Buy : Greater than +15%
  - Overweight : +5% to 15%
  - Hold : -5% to +5%
  - Underweight : -5% to -15%
  - Sell : Less than -15%

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