

Ace Hardware Indonesia Tbk (ACES IJ)

Going through Steep Paths

ACES closed 1Q21 with an underwhelming performance due to high base and negative SSSG. Profitability margins were dragged lower by decline in sales growth. In view of the current situation, we slashed our earnings forecast as we believe the company will rely on cost savings and online sales.

Weak result due to high base effect

- ACES net sales decelerated by -14.5% YoY in 1Q21 due to pre Covid-19 base in 1Q20 and tight Large Scale Social Restriction (PSBB) implementation at the beginning of Jan '21.
- We saw that ACES has undertaken efficiency initiatives, which can be seen from lower COGS (-13.1% YoY) and operating expense (-9.3% YoY).
- However, underperforming sales resulted in earnings contracting by -33.8% YoY to IDR162bn; accounting for 27% of our FY21 estimate.
- This meant all profitability measure lower than last year (GPM 1Q21: 48.8%; OPM1Q21: 12.7% and NPM 1Q21: 9.7%)
- On a positive note, we see that SSSG growth recovery is on track, despite still being in negative territory with Mar'21 SSSG at -14.7%. (vs. Jan'21: -18.5% and Feb'21: -19.3%).

Lower store sales productivity assumption

- We trimmed our earnings by -18.7%/-12.5% in FY21F/FY22F on the back of lower net sales and GPM assumption to 48.9% and 49.2%, respectively.
- Our concern is on GPM, as Rupiah depreciation against USD is still an ongoing possibilities due to further uncertainties.
- It may cause negative impact for ACES as c.80% of the products are imported and Rupiah stood around IDR14,500/USD (c.3.5% above last year's average of IDR14,000/USD). Going forward, it may be a challenge for ACES to pass on higher COGS to customers.
- However, SSSG improved in April and May, recorded in the positive territory during Ramadan, before turning negative in June.
- SSSG in 3Q21 is expected to return into negative territory as Govt' implements emergency PPKM and resulted in ~70% of total stores located in Java and Bali temporarily closed.
- We notice that online sales (*ruparupa.com*, *Ace Online*) has recorded strong growth. However, it has not been strong enough to offset the losses from low footfall in physical store especially considering the nature of the business.
- With 5 new stores opening YTD, the company reached half of their initial expansion plan of 8-10 stores, but lower than the average realization of 10-15 stores in FY20.

Maintain Overweight with lower TP of IDR1,600

- We maintain Overweight recommendation with lower TP of IDR1,600 which implies a 32.0x FY21E P/E, after we factored in the limited potential growth.
- However, the company has proven to be a resilient retailer that posted positive earnings and strong net cash position despite the unfavorable situation.
- Downside to our call include: strengthening USD against IDR, extended emergency PPKM, and soft purchasing power

Ace Hardware Indonesia Tbk | Summary (IDR bn)

	2020	2021F	2022F	2023F
Revenue	7,413	7,884	8,528	9,562
Growth	-9.0%	6.4%	8.2%	12.1%
Net Profit	736	748	859	942
Growth	-28.9%	1.6%	14.8%	9.7%
EPS (IDR)	43	44	50	55
P/E	40.0x	36.7x	32.0x	29.1x
P/BV	5.6x	5.1x	4.8x	4.6x
EV/EBITDA	27.7x	25.3x	24.1x	22.7x
ROE	14.8%	14.1%	15.4%	16.1%
DER	16%	17%	18%	17%
Dividend Yield	1.6%	1.1%	2.0%	2.0%

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

Overweight

Target Price (IDR)	1,600
Consensus Price (IDR)	1,556
TP to Consensus Price	2.8%
Potential Upside	12.7%

Shares data

Last Price (IDR)	1,420
Price date as of	Jul 16, 2021
52 wk range (Hi/Lo)	1,850/ 1,250
Free float (%)	40.0%
Outstanding sh.(mn)	17,150
Market Cap (IDR bn)	24,353
Market Cap (USD mn)	1,681
Avg. Trd Vol - 3M (mn)	15.2
Avg. Trd Val - 3M (bn)	21.9
Foreign Ownership	24.9%

Consumer Cyclical

Retail

Bloomberg	ACES IJ
Reuters	ACES.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-17.9%	2.9%	-6.3%	-13.9%
Rel. Ret.	-18.0%	3.0%	-5.1%	-33.0%

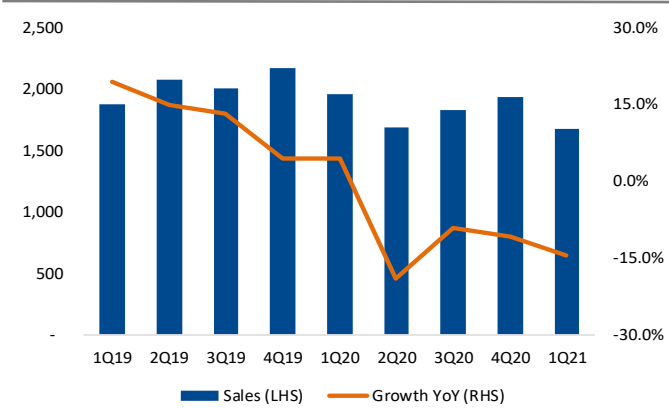
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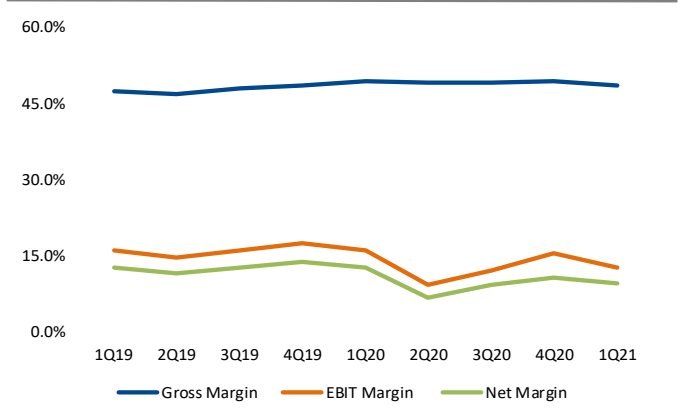
Performance Highlights

ACES Quarterly Net Revenues | 1Q19 - 1Q21



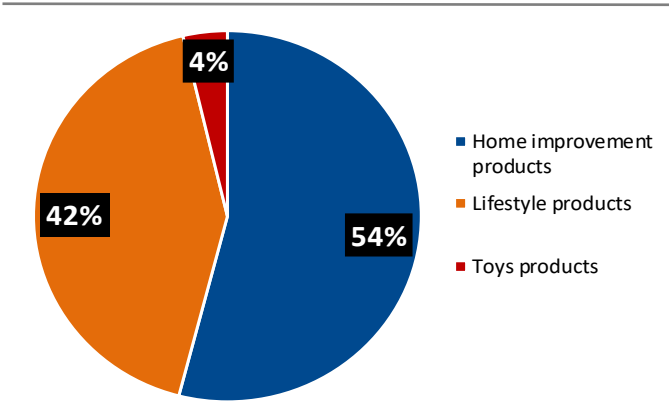
Source: Company, NHKSI Research

Margin Ratios | 1Q19 - 1Q21



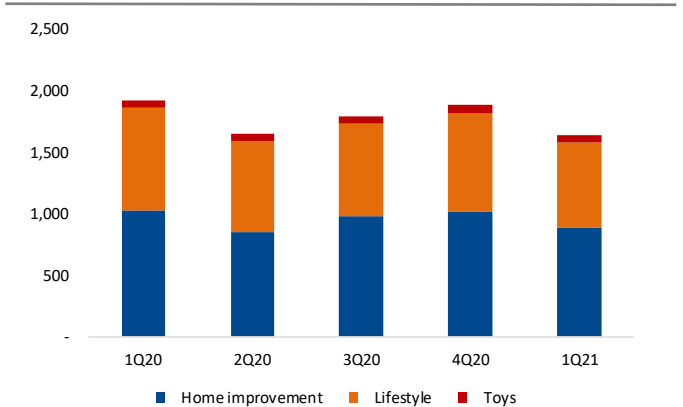
Source: Company, NHKSI Research

ACES Revenue Breakdown | 1Q21



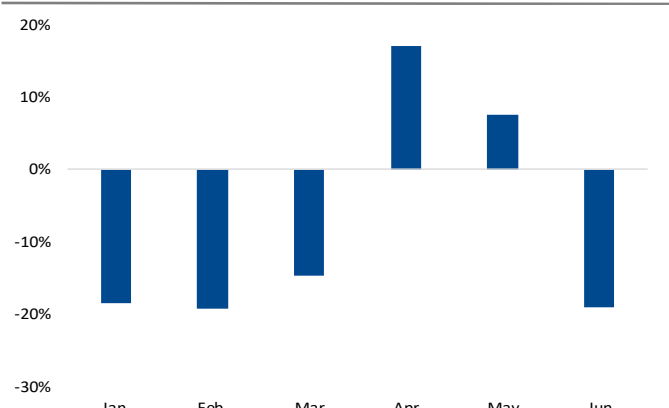
Source: Company, NHKSI Research

ACES Segment Contribution | 1Q20-1Q21



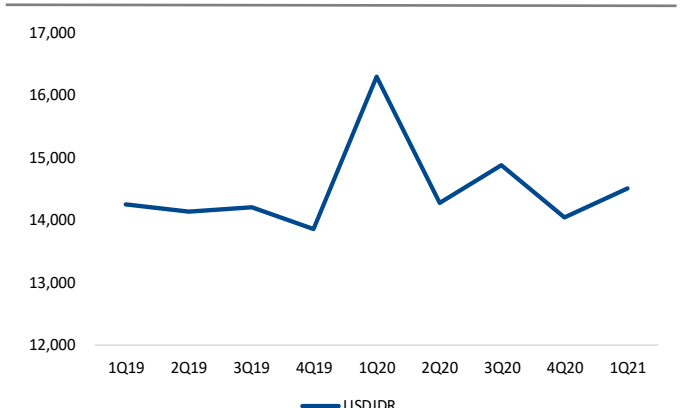
Source: Company, NHKSI Research

ACES SSSG | Jan-Jun'21



Source: Company, NHKSI Research

USDIDR | 1Q19 - 1Q21



Source: Bloomberg, 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.

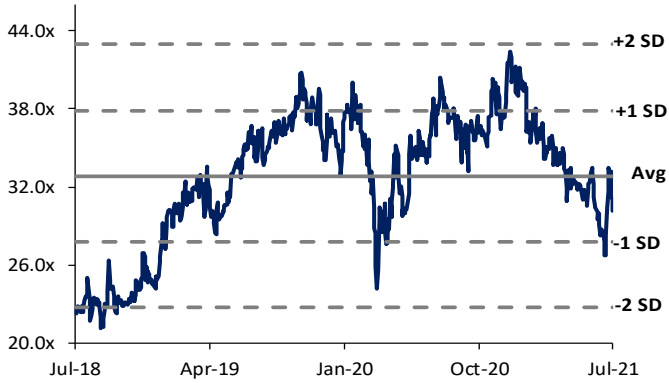
Retail Companies Peers Analysis

	Market Cap (USD mn)	Asset	Sales LTM (USD mn)	Net Profit LTM	Net Profit Growth LTM	Net Profit Margin	ROE (LTM)	P/E LTM	P/BV
Indonesia									
MATAHARI DEPARTMENT STORE	390	454	306	(60)	N/A	-19.6%	-100.3%	N/A	13.2x
RAMAYANA LESTARI SENTOSA	294	380	145	(16)	N/A	-11.3%	-6.1%	N/A	1.1x
ACE HARDWARE INDONESIA	1,681	520	509	50	-27.93%	9.9%	14.9%	35.1x	4.7x
MITRA ADIPERKASA	716	1,268	994	(37)	N/A	-3.7%	-9.5%	N/A	1.9x
Thailand									
HOME PRODUCT CENTER PCL	5,614	1,870	1,897	169	-12.83%	8.9%	23.5%	35.2x	8.0x
SIAM GLOBAL HOUSE PCL	3,396	1,201	917	74	6.37%	8.1%	13.4%	47.7x	5.9x
Philippine									
WILCON DEPOT INC	1,723	588	484	35	-12.43%	7.3%	11.6%	49.6x	5.6x

Source: Bloomberg, NHKSI research

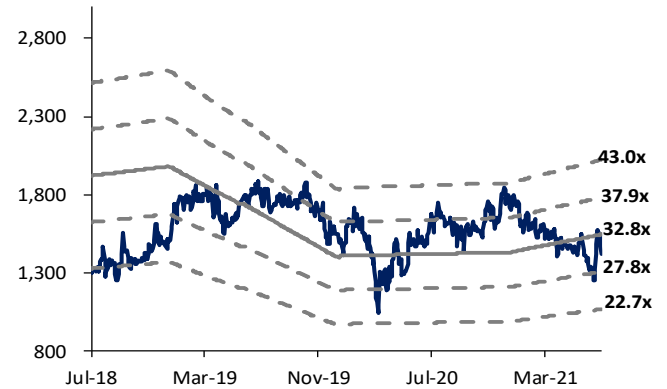
Valuation highlights in charts

3-year trailing P/E band



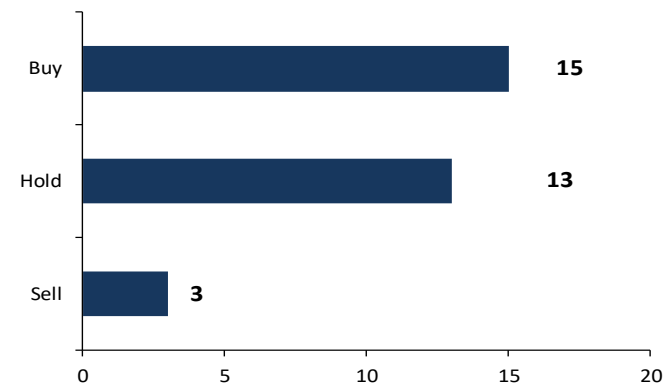
Source: Company Data, NHKSI Research

MAPI and Jaktrade Index



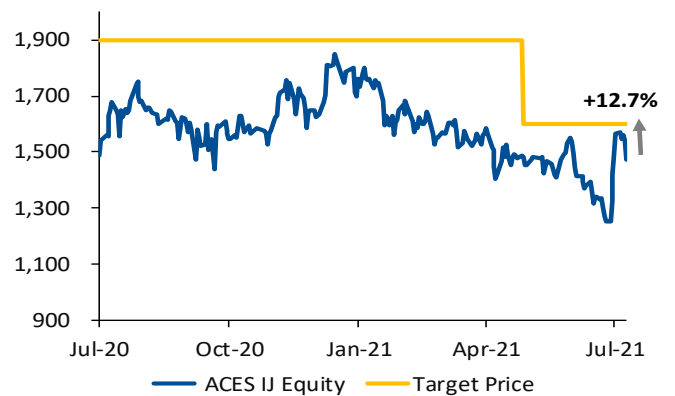
Source: Company Data, NHKSI Research

Consensus of analyst recommendation



Source: Bloomberg

Closing and Target Price Update



Source: NHKSI research

Rating and Target Price Update

Target Price Revision

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
30/12/2020	Overweight	IDR1,900	IDR1,800	IDR1,817	+5.6%	+4.6%
19/7/2021	Overweight	IDR1,600	IDR1,420	IDR1,556	+12.7%	+2.8%

Source: NHKSI research, Bloomberg

Summary of Financials

INCOME STATEMENT				
(IDR bn)	2020/12A	2021/12E	2022/12E	2023/12E
Sales	7,413	7,884	8,528	9,562
<i>Growth</i>	-9.0%	6.4%	8.2%	12.1%
Cost of Good Sold	(3,754)	(4,025)	(4,332)	(4,800)
Gross Profit	3,659	3,859	4,196	4,762
<i>Gross Margin</i>	49.4%	48.9%	49.2%	49.8%
Operating Expenses	(2,670)	(2,850)	(3,119)	(3,586)
EBIT	990	1,009	1,077	1,176
<i>EBIT Margin</i>	13.3%	12.8%	12.6%	12.3%
Depreciation	123	135	144	155
EBITDA	1,113	1,144	1,221	1,331
<i>EBITDA Margin</i>	15.0%	14.5%	14.3%	13.9%
Interest Expenses	(126)	(178)	(35)	(41)
EBT	926	926	953	1,092
Income Tax	(192)	(198)	(227)	(248)
Minority Interest	2	(7)	(7)	(5)
Net Profit	736	748	859	942
<i>Growth</i>	-28.9%	1.6%	14.8%	9.7%
<i>Net Profit Margin</i>	9.9%	9.5%	10.1%	9.8%

PROFITABILITY & STABILITY				
	2020/12A	2021/12E	2022/12E	2023/12E
ROE	14.8%	14.1%	15.4%	16.1%
ROA	10.2%	9.9%	10.6%	11.0%
Inventory Turnover	1.5x	1.6x	1.8x	2.2x
Receivable Turnover	63.7x	85.4x	96.1x	76.0x
Payables Turnover	22.0x	22.3x	18.3x	17.4x
Dividend Yield	1.6%	1.1%	2.0%	2.0%
Payout Ratio	29.9%	74.7%	75.0%	75.0%
DER	16%	17%	18%	17%
Net Gearing	0.0x	0.0x	0.0x	0.0x
Equity Ratio	72.1%	71.5%	70.3%	70.1%
Debt Ratio	11.5%	12.3%	12.5%	12.1%
Financial Leverage	1.3x	1.4x	1.4x	1.4x
Current Ratio	8.1x	6.0x	6.3x	5.6x
Quick Ratio	3.1x	3.4x	3.3x	3.8x
Par Value (IDR)	10	10	10	10
Total Shares (mn)	17,150	17,150	17,150	17,150
Share Price (IDR)	1,715	1,600	1,600	1,600
Market Cap (IDR tn)	29.4	27.4	27.4	27.4

BALANCE SHEET				
(IDR bn)	2020/12A	2021/12E	2022/12E	2023/12E
Cash	2,220	2,492	3,052	3,782
Receivables	143	41	136	115
Inventories	2,453	2,443	2,305	1,982
Total Current Assets	5,035	5,254	5,740	6,157
Net Fixed Assets	875	842	845	859
Other Non Current Assets	1,338	1,484	1,518	1,530
Total Non Current Asset	2,212	2,326	2,363	2,389
Total Assets	7,247	7,581	8,104	8,546
Payables	164	197	278	274
Other Current Liabilities	425	403	436	489
Total Current Liabilities	845	837	1,033	1,103
LT Liabilities	-	-	-	-
Total Liabilities	2,025	2,158	2,405	2,556
Capital Stock	172	172	172	172
Retained Earnings	4,629	4,828	5,104	5,395
Shareholders' Equity	5,222	5,422	5,699	5,990

VALUATION INDEX				
	2020/12A	2021/12E	2022/12E	2023/12E
Price /Earnings	40.0x	36.7x	32.0x	29.1x
Price /Book Value	5.6x	5.1x	4.8x	4.6x
PE/EPS Growth	-1.4x	22.4x	2.2x	3.0x
EV/EBITDA	27.7x	25.3x	24.1x	22.7x
EV/EBIT	31.1x	28.7x	27.4x	25.7x
EV (IDR bn)	30,784	28,986	29,464	30,173
Revenue CAGR (3-Yr)	7.7%	2.9%	1.6%	8.9%
Net Income CAGR (3-Yr)	-1.8%	-8.3%	-6.0%	8.6%
Basic EPS (IDR)	43	44	50	55
BVPS (IDR)	304.50	316	332	349
DPS (IDR)	28.2	18.0	32.1	32.7

CASH FLOW STATEMENT				
(IDR bn)	2020/12A	2021/12E	2022/12E	2023/12E
Operating Cash Flow	1,136	1,099	1,191	1,460
Investing Cash Flow	(101)	(168)	(131)	(100)
Financing Cash Flow	(370)	(370)	(616)	(500)
Net Changes in Cash	454	665	316	559

OWNERSHIP	
Shareholders	%
PT Kawan Lama Sejahtera	59.7
Capital Grup Company Inc	2.9
Standard Life Aberdeen	1.8
JP Morgan Chase &Co	1.7
By Geography	%
Indonesia	75.3
United States	13.7
Luxembourg	3.6
United Kindom	2.1

Source: 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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