

# Ace Hardware Indonesia Tbk (ACES IJ)

## Hindered by Temporary Store Closures

We believe ACES will be conservative in the near future given the uncertainty surrounding the recovery pace of consumer demand and the ongoing Covid-19 pandemic. We expect digital sales and efficiency cost to be growth drivers going forward.

### Performance Increase Slightly

- ACES has posted net sales of IDR1.7tn (+1.7% YoY, +1.9% QoQ) in 2Q21, while net profit reached IDR116bn (+0.9% YoY).
- Throughout the quarter, ACES held various promotions such as Boom Sale and ACE Lebaran sale which aimed to support sales growth. This was in line with SSSG finally climbing into positive territory for two consecutive months (May and June).
- The sales performance of the two largest contributors to sales, home improvement (-2% YoY) and lifestyle product (-2% YoY) was soft.
- Meanwhile, toys segment surged by 24% YoY. We think it will enjoy stable demand given the offered product become an alternative for kids recreation in the current situation.
- All profitability margins slumped, although the company has maintained its COGS and opex level to rise at a slower rate.
- We expect rental discount to continue at least until the traffic return to normal in 4Q at the earliest.
- On a cumulative basis, 1H21's sales and net profit declined by -7% YoY and -21.3% YoY, respectively. This was below our expectations mainly due to the strict implementation of public activity restrictions.

### Counting on Store re-opening and Online Sales Growth

- As the daily covid-19 cases hit record numbers in July, the government decided to reimpose strict restrictions which led to the temporary closure of a number of ACES stores.
- Thus, we estimate the recent tighter restriction measures on Java and Bali will be a drag on the upcoming sales performance considering around 155 stores remain temporarily closed (vs. 42 stores last year).
- On a positive note, online sales have continued to improve. The contribution of online sales to total sales reached around 20% particularly in July (vs. 2% last year), owing to the ACES personal shopper service.
- ACES SSSG shrank to -50.7% in July, a disappointing figure but was larger expected due to lower footfalls.

### Valuation

- Taking into account the very weak estimation of upcoming performance, we revise our sales forecast by -9%/-11% in FY21F/22F.
- ACES' share price has underperformed by -18.2% YTD, which we believe has priced-in the soft performance due to the tighter social restriction.
- Despite cutting our sales estimation, we upgrade our call to Buy (from Overweight) on the back of store reopening prospects and the progress in Covid-19 vaccine rollouts.

### Ace Hardware Indonesia Tbk | Summary (IDR bn)

	2020	2021F	2022F	2023F
Revenue	7,413	7,151	7,565	8,777
Growth	-9.0%	-3.5%	5.8%	16.0%
Net Profit	736	776	806	895
Growth	-28.9%	5.5%	3.9%	11.0%
EPS (IDR)	43	45	47	52
P/E	40.0x	35.4x	34.0x	30.7x
P/BV	5.6x	5.0x	4.9x	4.6x
EV/EBITDA	27.7x	26.9x	26.8x	25.4x
ROE	14.8%	14.5%	14.5%	15.5%
DER	16%	16%	18%	18%
Dividend Yield	1.6%	1.1%	2.0%	2.1%

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

## BUY

Target Price (IDR)	1,600
Consensus Price (IDR)	1,556
TP to Consensus Price	2.8%
Potential Upside	15.1%

### Shares data

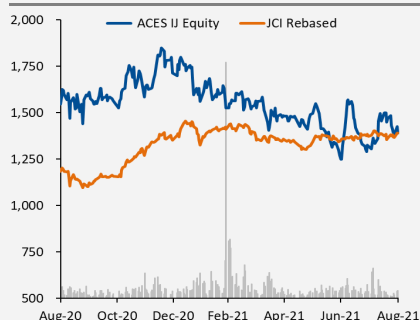
Last Price (IDR)	1,390
Price date as of	8/31/2021
52 wk range (Hi/Lo)	1,850/ 1,250
Free float (%)	40.0%
Outstanding sh.(mn)	17,150
Market Cap (IDR bn)	24,010
Market Cap (USD mn)	1,679
Avg. Trd Vol - 3M (mn)	17.1
Avg. Trd Val - 3M (bn)	24.0
Foreign Ownership	23.9%

### Consumer Cyclical

#### Retail

Bloomberg	ACES IJ
Reuters	ACES.JK

### Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-18.2%	5.3%	-7.0%	-10.0%
Rel. Ret.	-19.0%	4.3%	-10.4%	-27.4%

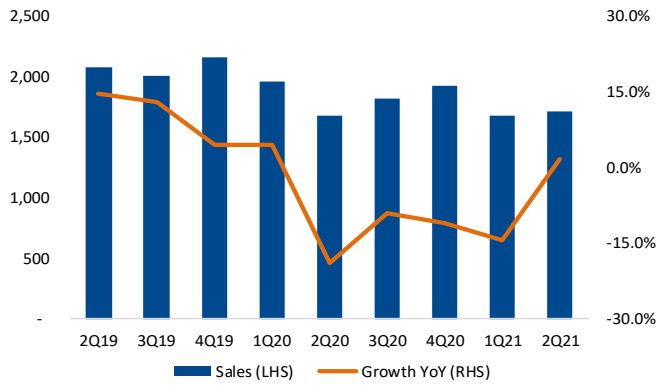
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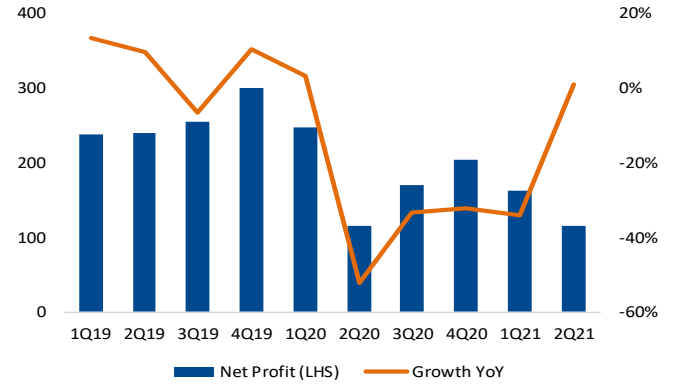
## Performance Highlights

ACES Quarterly Net Revenues | 2Q19 - 2Q21



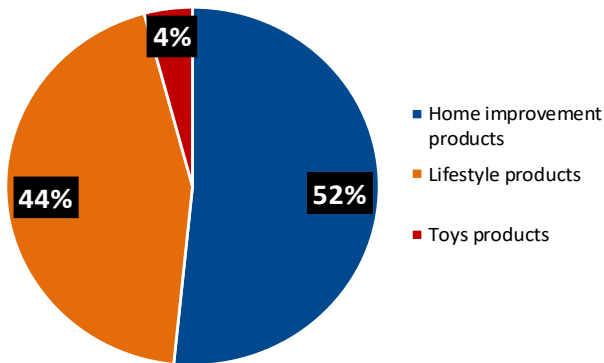
Source: Company, NHKSI Research

ACES Quarterly Net Profit | 2Q19 - 2Q21



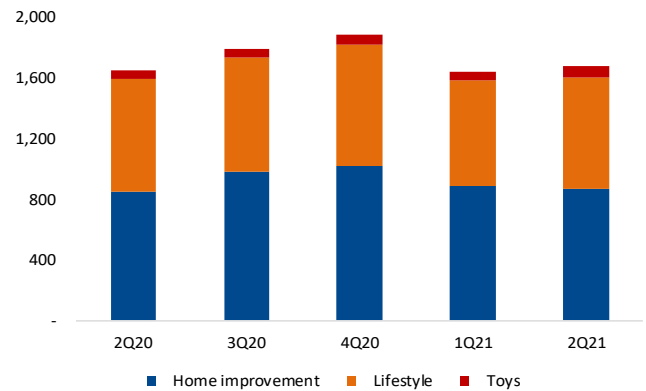
Source: Company, NHKSI Research

ACES Revenue Breakdown | 2Q21



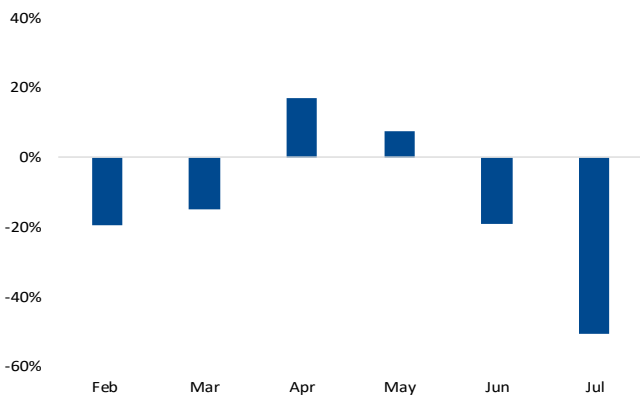
Source: Company, NHKSI Research

ACES Segment Contribution | 2Q20-2Q21



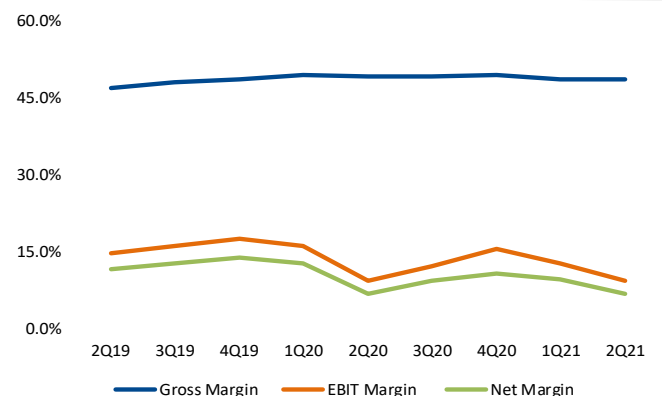
Source: Company, NHKSI Research

ACES SSSG | Feb-July'21



Source: Company, NHKSI Research

Margin Ratios | 2Q19 - 2Q21



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.

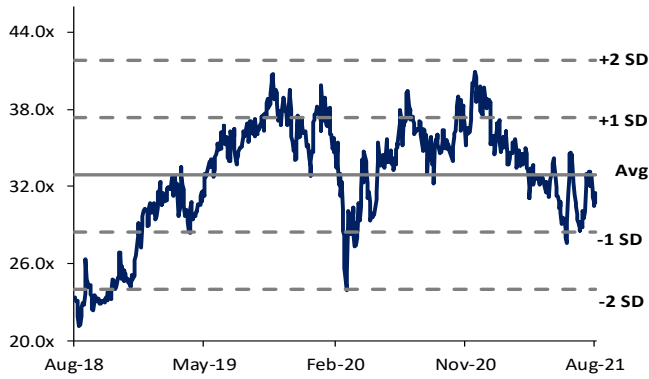
### Retail Companies Peers Analysis

	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
<b>Indonesia</b>									
MATAHARI DEPARTMENT STORE	540	454	427	1	N/A	0.3%	1.4%	0.3x	0.1x
RAMAYANA LESTARI SENTOSA	318	380	192	(0)	N/A	-0.2%	-0.2%	N/A	1.1x
ACE HARDWARE INDONESIA	1,679	520	497	45	-28.32%	9.1%	13.1%	36.8x	4.9x
MITRA ADIPERKASA	859	1,268	1,193	9	379.93%	0.7%	2.3%	92.1x	2.1x
<b>Thailand</b>									
HOME PRODUCT CENTER PCL	5,732	1,870	1,981	186	5.54%	9.4%	27.5%	32.2x	8.5x
SIAM GLOBAL HOUSE PCL	3,058	1,201	1,014	90	28.62%	8.9%	16.2%	35.4x	5.5x
<b>Philippine</b>									
WILCON DEPOT INC	2,059	588	558	48	58.11%	8.7%	15.5%	43.6x	6.4x

Source: Bloomberg, NHKSI research

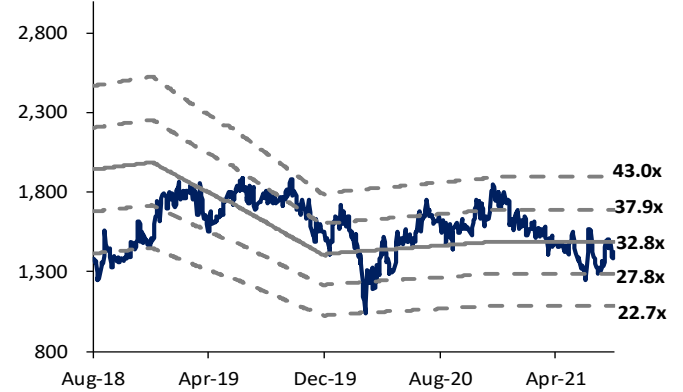
## Valuation highlights in charts

Forward P/E Band | Last 3 Years



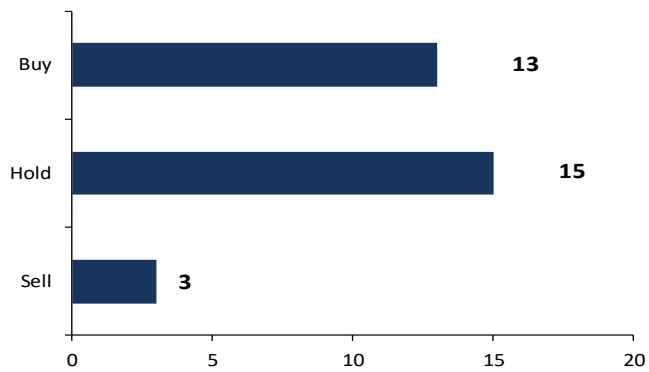
Source: Company Data, NHKSI Research

Dynamic Forward P/E Band | Last 3 Years



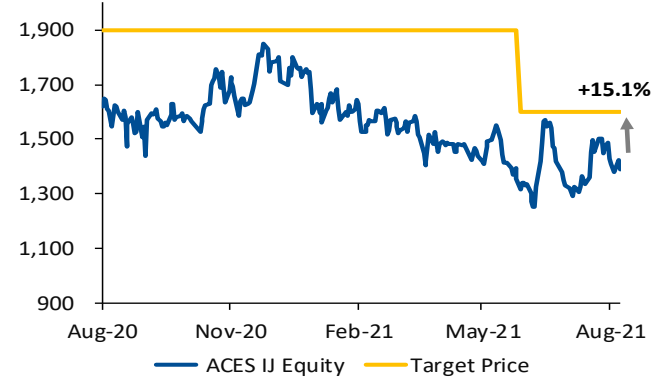
Source: Company Data, NHKSI Research

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%
1/9/2021	Buy	IDR1,600	IDR1,390	IDR1,556	+15.1%	+2.8%

Source: NHKSI research, Bloomberg

## Summary of Financials

INCOME STATEMENT				
(IDR bn)	2020/12A	2021/12E	2022/12E	2023/12E
<b>Sales</b>	<b>7,413</b>	<b>7,151</b>	<b>7,565</b>	<b>8,777</b>
<i>Growth</i>	-9.0%	-3.5%	5.8%	16.0%
Cost of Good Sold	(3,754)	(3,576)	(3,828)	(4,406)
<b>Gross Profit</b>	<b>3,659</b>	<b>3,575</b>	<b>3,737</b>	<b>4,371</b>
<i>Gross Margin</i>	49.4%	50.0%	49.4%	49.8%
Operating Expenses	(2,670)	(2,612)	(2,773)	(3,312)
<b>EBIT</b>	<b>990</b>	<b>962</b>	<b>964</b>	<b>1,058</b>
<i>EBIT Margin</i>	13.3%	13.5%	12.7%	12.1%
Depreciation	123	133	142	152
<b>EBITDA</b>	<b>1,113</b>	<b>1,096</b>	<b>1,106</b>	<b>1,210</b>
<i>EBITDA Margin</i>	15.0%	15.3%	14.6%	13.8%
Interest Expenses	(126)	(109)	(18)	(20)
<b>EBT</b>	<b>926</b>	<b>926</b>	<b>950</b>	<b>1,005</b>
Income Tax	(192)	(168)	(193)	(204)
Minority Interest	2	(5)	(6)	(4)
<b>Net Profit</b>	<b>736</b>	<b>776</b>	<b>806</b>	<b>895</b>
<i>Growth</i>	-28.9%	5.5%	3.9%	11.0%
<i>Net Profit Margin</i>	9.9%	10.9%	10.7%	10.2%

PROFITABILITY & STABILITY				
	2020/12A	2021/12E	2022/12E	2023/12E
ROE	14.8%	14.5%	14.5%	15.5%
ROA	10.2%	10.3%	10.0%	10.5%
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%	2.1%
Payout Ratio	29.9%	74.8%	74.9%	75.0%
DER	16%	16%	18%	18%
Net Gearing	0.0x	0.0x	0.0x	0.0x
Equity Ratio	72.1%	72.5%	70.1%	69.7%
Debt Ratio	11.5%	11.4%	12.7%	12.2%
Financial Leverage	1.3x	1.4x	1.4x	1.4x
Current Ratio	8.1x	6.0x	7.2x	5.8x
Quick Ratio	3.1x	4.5x	3.5x	4.3x
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	2,951	3,252	4,319
Receivables	143	24	134	97
Inventories	2,453	1,897	2,298	1,638
<b>Total Current Assets</b>	<b>5,035</b>	<b>5,182</b>	<b>5,902</b>	<b>6,308</b>
Net Fixed Assets	875	814	795	793
Other Non Current Assets	1,338	1,522	1,347	1,404
<b>Total Non Current Asset</b>	<b>2,212</b>	<b>2,336</b>	<b>2,141</b>	<b>2,197</b>
<b>Total Assets</b>	<b>7,247</b>	<b>7,518</b>	<b>8,043</b>	<b>8,506</b>
Payables	164	156	263	244
Other Current Liabilities	425	413	437	507
<b>Total Current Liabilities</b>	<b>845</b>	<b>723</b>	<b>1,019</b>	<b>1,091</b>
LT Liabilities	-	-	-	-
<b>Total Liabilities</b>	<b>2,025</b>	<b>2,070</b>	<b>2,402</b>	<b>2,581</b>
Capital Stock	172	172	172	172
Retained Earnings	4,629	4,853	5,045	5,329
<b>Shareholders' Equity</b>	<b>5,222</b>	<b>5,448</b>	<b>5,641</b>	<b>5,925</b>

VALUATION INDEX				
	2020/12A	2021/12E	2022/12E	2023/12E
Price /Earnings	40.0x	35.4x	34.0x	30.7x
Price /Book Value	5.6x	5.0x	4.9x	4.6x
PE/EPS Growth	-1.4x	6.4x	8.8x	2.8x
EV/EBITDA	27.7x	26.9x	26.8x	25.4x
EV/EBIT	31.1x	30.7x	30.8x	29.0x
EV (IDR bn)	30,784	29,518	29,654	30,700
Revenue CAGR (3-Yr)	7.7%	-0.4%	-2.4%	5.8%
Net Income CAGR (3-Yr)	-1.8%	-7.1%	-8.0%	6.8%
Basic EPS (IDR)	43	45	47	52
BVPS (IDR)	304.50	318	329	345
DPS (IDR)	28.2	18.0	32.1	33.9

OWNERSHIP	
<b>Shareholders</b>	%
PT Kawan Lama Sejahtera	60.0
JP Morgan Chase &Co	2.6
Capital Grup Company Inc	2.0
Standard Life Aberdeen	1.6
<b>By Geography</b>	%
Indonesia	75.3
United States	12.7
Luxembourg	4.6
United Kindom	2.1

CASH FLOW STATEMENT				
(IDR bn)	2020/12A	2021/12E	2022/12E	2023/12E
Operating Cash Flow	1,136	1,632	660	1,759
Investing Cash Flow	(101)	(159)	81	(101)
Financing Cash Flow	(370)	(370)	(699)	(440)
<b>Net Changes in Cash</b>	<b>454</b>	<b>665</b>	<b>774</b>	<b>301</b>

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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