

Ace Hardware Indonesia Tbk (ACES IJ)

Slowdown in 3Q21 Sales

ACES closed 3Q21 with disappointing result due to a slowdown in SSSG, as the latest sales figure was negatively impacted by unfavourable conditions. However, we are optimistic the company would be back on the recovery track in the upcoming quarter.

Earnings stumble on slower sales growth

- ACES's revenue was below our expectation at IDR1.3tn in 3Q21 (-29.0% YoY, -24.2% QoQ), dragged by negative SSSG and weak performance across all segments.
- The government has imposed stricter PPKM during 3Q, which adversely affected retailers due to temporary store closures for some of its stores located in shopping mall in first-tier cities.
- As a result, ACES' SSSG remained in the red zone. Moreover, August was the worst month for the company in light of significantly lower footfall, which led SSSG to stand at -30.4%.
- According to the latest updated SSSG in Oct'21, a sharp decline was seen particularly in Java outside Jakarta (-11.4%), followed by Jakarta (-7.5%), and outside Java (-6.9%).
- Currently, the latest SSSG figure has already improved after PPKM regulations was relaxed (early Sept). Overall, SSSG in 4Q is expected to return into the positive territory supported by its regular events such as ACE Boom sale and Year-End sale along with higher average basket size.
- On the bottom line, ACES reported 3Q21 net profit of IDR47bn (-72.2% YoY), bringing its FY21 net profit to IDR323bn (-38.1% YoY) or 56% of our full-year forecast.
- As such, 3Q margins contracted with lower EBIT margin (-670bps to 5.3%) as well as net profit margin (-570bps to 9.3%). Meanwhile COGS dropped by 30.5% YoY, leading to GPM expansion of 110bps YoY.

Expect store performance to strengthen

- We notice the contribution of online to total sales has increased sharply although not enough to offset the loss made from walk-in stores. However, with the vaccination rate accelerating, we expect online sales growth to normalize.
- Besides, loyalty program has benefited the company in engaging with consumers through member-only promotions and events. Currently, ACES has steadily grown the membership to over 3.6 m as of 9M21.
- Moreover, the management has been conservative on guidance in this year amid the uncertainty. As of 9M21, the company added 18,600 sqm of store space expansion (vs. FY20: 41,000 sqm), and most of them are located in Java.
- In our view, mobility improvement and disposable income rebound will be the crucial growth catalysts going forward, as we are expecting further improvements in margin and sales.
- In addition, we believe the company would be back into an aggressive expansion plan in the next year on the back of economic recovery.

Valuation

- We slightly lower our earning forecast for FY21F/FY22F, due to its conservative strategy and gradual economic recovery. That being said, we maintain our BUY recommendation with lower TP of IDR1,460 based on our target P/E of 41.7x.
- Key risks to our call are stricter PPKM implementation and weakened purchasing power.

Ace Hardware Indonesia Tbk | Summary (IDR bn)

	2020	2021F	2022F	2023F
Revenue	7,413	6,841	7,686	8,708
Growth	-9.0%	-7.7%	12.4%	13.3%
Net Profit	736	601	876	953
Growth	-28.9%	-18.3%	45.7%	8.9%
EPS (IDR)	43	35	51	56
P/E	40.0x	41.7x	28.6x	26.3x
P/BV	5.6x	4.7x	4.4x	4.2x
EV/EBITDA	27.7x	28.1x	21.5x	20.0x
ROE	14.8%	11.5%	16.0%	16.4%
DER	16%	16%	15%	15%
Dividend Yield	1.6%	1.2%	2.2%	1.8%

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

BUY

Target Price (IDR)	1,460
Consensus Price (IDR)	1,536
TP to Consensus Price	-4.9%
Potential Upside	15.9%

Shares data

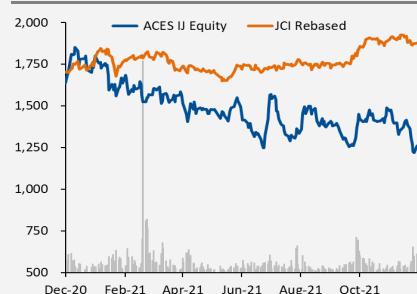
Last Price (IDR)	1,260
Price date as of	12/6/2021
52 wk range (Hi/Lo)	1,850/ 1,220
Free float (%)	40.0%
Outstanding sh.(mn)	17,150
Market Cap (IDR bn)	21,609
Market Cap (USD mn)	1,499
Avg. Trd Vol - 3M (mn)	20.0
Avg. Trd Val - 3M (bn)	27.1
Foreign Ownership	23.9%

Consumer Cyclical

Retail

Bloomberg	ACES IJ
Reuters	ACES.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-26.5%	-12.8%	-10.0%	-22.5%
Rel. Ret.	-36.0%	-12.2%	-16.9%	-35.1%

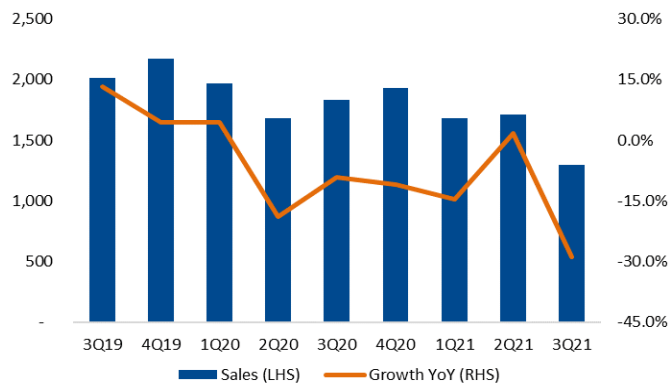
Putu Chantika Putri D

+62 21 5088 9129

Putu.chantika@nhsec.co.id

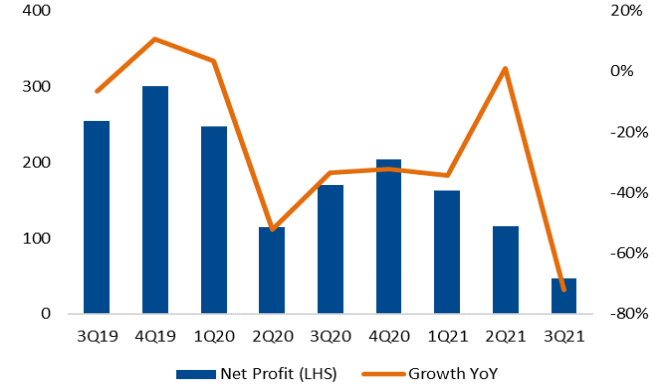
Performance Highlights

ACES Quarterly Net Revenues | 3Q19 - 3Q21



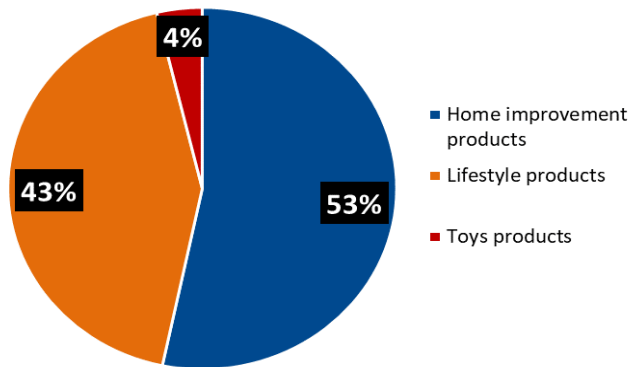
Source: Company, NHKSI Research

ACES Quarterly Net Profit | 3Q19 - 3Q21



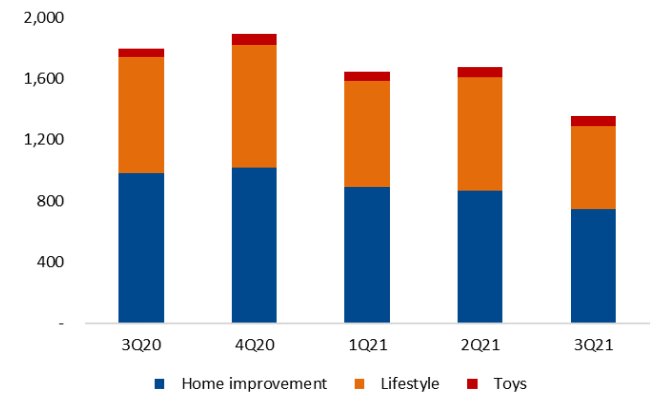
Source: Company, NHKSI Research

ACES Revenue Breakdown | 9M21



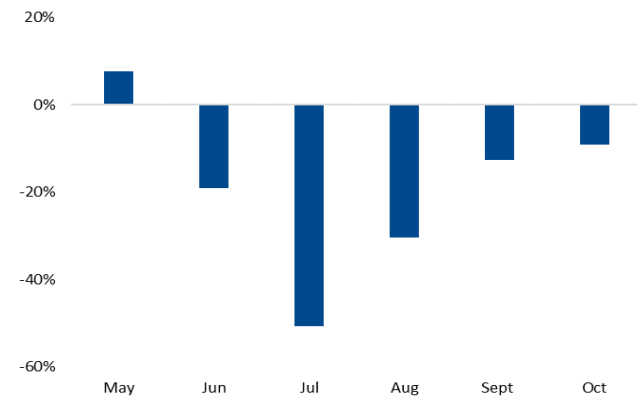
Source: Company, NHKSI Research

ACES Segment Contribution | 3Q20-3Q21



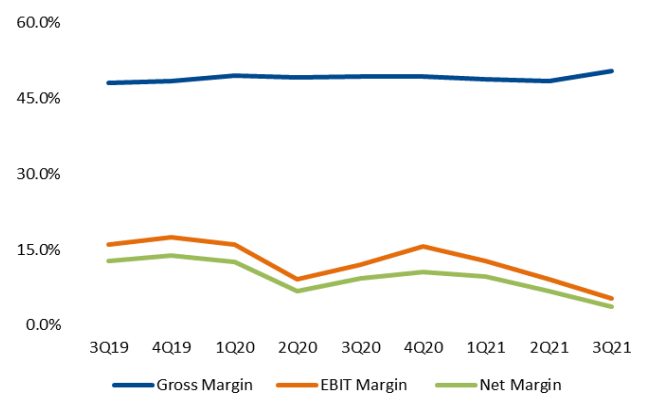
Source: Company, NHKSI Research

ACES SSSG | May-Oct'21



Source: Company, NHKSI Research

Margin Ratios | 3Q19 - 3Q21



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									
ACE HARDWARE INDONESIA	1,499	520	462	37	-36.22%	7.9%	10.7%	41.0x	4.3x
RAMAYANA LESTARI SENTOSA	335	380	182	4	#N/A	2.3%	1.6%	73.3x	1.2x
MATAHARI DEPARTMENT STORE	749	454	390	13	#N/A	3.3%	19.7%	59.6x	10.0x
MITRA ADIPERKASA	835	1,268	1,169	(2)	89.88%	-0.2%	-0.6%	#N/A	2.3x
Thailand									
HOME PRODUCT CENTER PCL	5,437	1,870	1,897	167	-2.75%	8.8%	25.4%	35.2x	8.7x
SIAM GLOBAL HOUSE PCL	2,650	1,201	1,048	95	36.95%	9.1%	16.8%	29.9x	4.6x
Philippine									
WILCON DEPOT INC	2,554	588	552	50	65.91%	9.0%	15.5%	41.9x	7.7x

Source: Bloomberg, NHKSI research

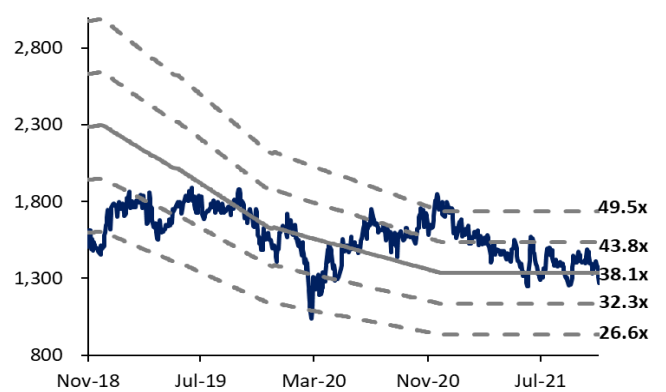
Valuation highlights in charts

Forward P/E Band | Last 3 Years



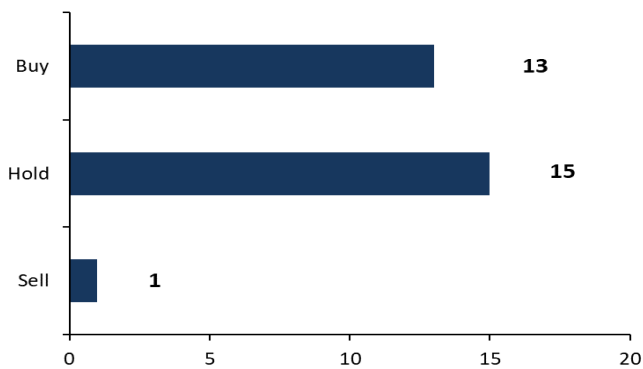
Source: Company Data, NHKSI Research

Dynamic Forward P/E Band | Last 3 Years



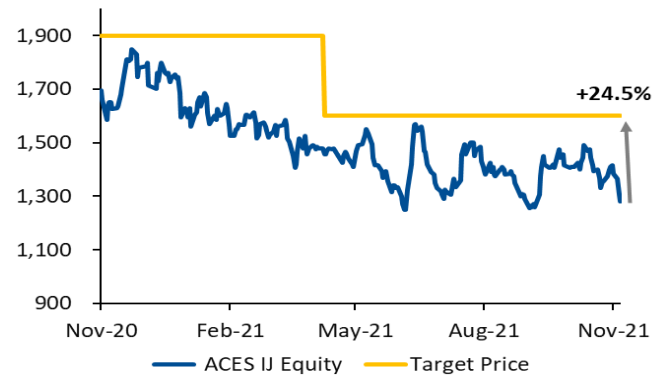
Source: Company Data, NHKSI Research

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%
07/12/2021	Buy	IDR1,460	IDR1,260	IDR1,536	+15.9%	-4.9%

Source: NHKSI research, Bloomberg

Summary of Financials

INCOME STATEMENT

(IDR bn)	2020/12A	2021/12E	2022/12E	2023/12E
Sales	7,413	6,841	7,686	8,708
<i>Growth</i>	-9.0%	-7.7%	12.4%	13.3%
Cost of Good Sold	(3,754)	(3,441)	(3,812)	(4,267)
Gross Profit	3,659	3,400	3,874	4,441
<i>Gross Margin</i>	49.4%	49.7%	50.4%	51.0%
Operating Expenses	(2,670)	(2,596)	(2,768)	(3,233)
EBIT	990	804	1,106	1,208
<i>EBIT Margin</i>	13.3%	11.8%	14.4%	13.9%
Depreciation	123	132	142	151
EBITDA	1,113	936	1,248	1,359
<i>EBITDA Margin</i>	15.0%	13.7%	16.2%	15.6%
Interest Expenses	(126)	(108)	(17)	(20)
EBT	926	926	762	1,131
Income Tax	(192)	(192)	(259)	(299)
Minority Interest	2	31	5	10
Net Profit	736	601	876	953
<i>Growth</i>	-28.9%	-18.3%	45.7%	8.9%
<i>Net Profit Margin</i>	9.9%	8.8%	11.4%	10.9%

PROFITABILITY & STABILITY

	2020/12A	2021/12E	2022/12E	2023/12E
ROE	14.8%	11.5%	16.0%	16.4%
ROA	10.2%	8.2%	11.0%	11.4%
Inventory Turnover	1.5x	1.4x	1.4x	1.5x
Receivable Turnover	63.7x	62.9x	96.1x	96.1x
Payables Turnover	22.0x	22.3x	18.3x	17.4x
Dividend Yield	1.6%	1.2%	2.2%	1.8%
Payout Ratio	29.9%	74.8%	74.7%	75.0%
DER	16%	16%	15%	15%
Net Gearing	0.0x	0.0x	0.0x	0.0x
Equity Ratio	72.1%	72.2%	71.0%	71.1%
Debt Ratio	11.5%	11.7%	10.9%	10.6%
Financial Leverage	1.3x	1.4x	1.4x	1.4x
Current Ratio	8.1x	6.0x	7.6x	6.6x
Quick Ratio	3.1x	3.7x	3.4x	3.9x
Par Value (IDR)	10	10	10	10
Total Shares (mn)	17,150	17,150	17,150	17,150
Share Price (IDR)	1,715	1,460	1,460	1,460
Market Cap (IDR tn)	29.4	25.0	25.0	25.0

BALANCE SHEET

(IDR bn)	2020/12A	2021/12E	2022/12E	2023/12E
Cash	2,220	2,114	2,709	3,095
Receivables	143	74	86	95
Inventories	2,453	2,637	2,794	2,747
Total Current Assets	5,035	5,163	5,812	6,190
Net Fixed Assets	875	810	798	795
Other Non Current Assets	1,338	1,331	1,368	1,393
Total Non Current Asset	2,212	2,141	2,166	2,189
Total Assets	7,247	7,305	7,978	8,378
Payables	164	144	274	217
Other Current Liabilities	425	408	458	519
Total Current Liabilities	845	676	877	894
LT Liabilities	-	-	-	-
Total Liabilities	2,025	2,033	2,311	2,421
Capital Stock	172	172	172	172
Retained Earnings	4,629	4,678	5,073	5,363
Shareholders' Equity	5,222	5,272	5,667	5,957

CASH FLOW STATEMENT

(IDR bn)	2020/12A	2021/12E	2022/12E	2023/12E
Operating Cash Flow	1,136	1,220	1,144	1,118
Investing Cash Flow	(101)	(192)	(90)	(81)
Financing Cash Flow	(370)	(758)	(459)	(651)
Net Changes in Cash	665	269	595	386

Source: NHKSI research

VALUATION INDEX

	2020/12A	2021/12E	2022/12E	2023/12E
Price /Earnings	40.0x	41.7x	28.6x	26.3x
Price /Book Value	5.6x	4.7x	4.4x	4.2x
PE/EPS Growth	-1.4x	-2.3x	0.6x	3.0x
EV/EBITDA	27.7x	28.1x	21.5x	20.0x
EV/EBIT	31.1x	32.7x	24.3x	22.6x
EV (IDR bn)	30,784	26,285	26,860	27,234
Revenue CAGR (3-Yr)	7.7%	-1.9%	-1.9%	5.5%
Net Income CAGR (3-Yr)	-1.8%	-14.7%	-5.4%	9.0%
Basic EPS (IDR)	43	35	51	56
BVPS (IDR)	304.50	307	330	347
DPS (IDR)	28.2	18.0	32.1	26.2

OWNERSHIP

	%
Shareholders	
PT Kawan Lama Sejahtera	60.0
JP Morgan Chase &Co	2.6
Standard Life Aberdeen	1.5
Vanguard Group	1.5
By Geography	
Indonesia	77.8
United States	9.8
Luxembourg	5.4
United Kindom	2.5

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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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