

Ace Hardware Indonesia

HOLD (unchanged)

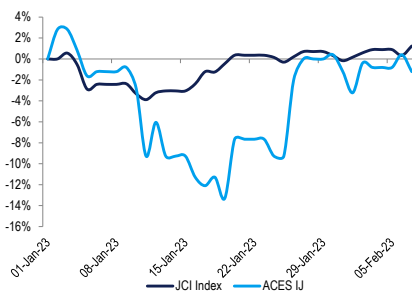
Company Update | Consumer Discretionary | ACES IJ | 07 February 2022

Stock Data

Target price	Rp500
Prior TP	Rp550
Current price	Rp490
Upside/downside	2%
Shares outstanding (mn)	17,150
Market cap (Rp bn)	8,404
Free float	40%
Avg. 6m daily T/O (Rp bn)	47

Price Performance

	3M	6M	12M
Absolute	-14.8%	-30.5%	-61.6%
Relative to JCI	-12.4%	-28.4%	-63.5%
52w low/high (Rp)	398 – 1,285		



Major Shareholders

PT Kawan Lama Sejahtera	60.0%
-------------------------	-------

Lukito Supriadi

PT Indo Premier Sekuritas
lukito.supriadi@ipc.co.id
+62 21 5088 7168 ext. 716

Andrianto Saputra

PT Indo Premier Sekuritas
andrianto.saputra@ipc.co.id
+62 21 5088 7168 ext. 712

Still lacking catalysts; maintain HOLD

- Following ACES's SSSG disclosure, we project 4Q22F sales/earnings to drop by 10/67% yoy despite boom sales and clearance sale in 4Q22.
- Current competition may hinder ACES's margin expansion & opex normalization in FY23F; as such we cut FY23's earnings by 11%.
- Store revitalization strategy is ongoing but may take time to materially improve sales, maintain HOLD with lower TP of 500.

Lacklustre 4Q22F preview on disappointing SSSG

Following Dec22 SSSG disclosure of -5.5% yoy (FY22: 0.9% yoy), we expect 4Q22F profitability to be slightly pressured (3Q/4Q22F GPM of 45.8/44.8%) due to the boom sales (Oct22) and mega clearance sale (Dec22) whilst maintaining a stable opex assumption from 3Q22. Hence we revise our 4Q22F sales/net earnings to Rp1.7tr/124bn (-10%/-67.3% yoy), noting the high base factor in 4Q21 due to reduction in post-employment benefit expenses.

GPM pressure on the back of tighter competition from online/offline

Based on Euromonitor data, e-commerce (marketplace) which offers lower price for similar items, has gained market share within the home improvement segment from 0.6% in FY16 to 11.4% in FY21 (Fig 1), at the expense of offline retailers such as ACES. In the brick-and-mortar space, MR. DIY continues its aggressive expansion with its 508th opened store in Feb23. Notably, MR. DIY offers 15-20% lower prices for similar products compared to ACES. These along with ACES's on-going clearance sales (11 stores for selected SKUs) lead to our GPM declining forecast from 46.6% in FY21's to 45.4/45.0/44.7% in FY22-24F as company prioritizes on driving sales.

Store revitalization strategy & FY23F outlook changes

In order to revitalize sales growth, ACES plans to gradually revamp store layout to offer a better shopping experience aimed at drawing younger generations (Alam Sutera flagship store renovation shall be completed by Jun 23). There is also a consideration to reduce store sizes to improve store productivity with recent example in the Living World (Alam Sutera) store. We fine tune our FY23F outlook with 6% SSSG assumption from 5% previously amidst FY22 low base factor and higher FY23F opex/sales ratio of 37.6% from 36.8% previously reflecting opex normalization (mainly rental and wage growth). In sum, we trim ACES's FY23F earnings by 11.3% from our previous forecast, with FY23/24F earnings growth of 5.0/10.1%.

Maintain Hold

In summary, we maintain our Hold call for ACES with lower TP of Rp500 based on 17.1x FY23F PE (c. 1.5 s.d. below its 5Y mean of 30.9x) vs previously at Rp550. Our hold call is underpinned by the lack of urgency from the company to address aged inventory (291 days) and competition issues.

Financial Summary (Rp bn)	2020A	2021A	2022F	2023F	2024F
Revenue	7,413	6,543	6,695	7,377	7,997
EBITDA	991	935	699	736	802
Net profit	733	704	476	500	551
EPS (Rp)	43	41	28	29	32
EPS growth	-27.9%	-3.9%	-32.4%	5.0%	10.1%
ROE	14.8%	13.1%	8.5%	8.7%	9.1%
PER (x)	11.5	11.9	17.6	16.8	15.3
EV/EBITDA (x)	6.2	6.3	8.5	7.9	7.0
Dividend yield	3.7%	6.5%	4.2%	2.8%	3.0%
Forecast change			-12%	-11%	-9%
IPS vs. consensus			91%	91%	91%

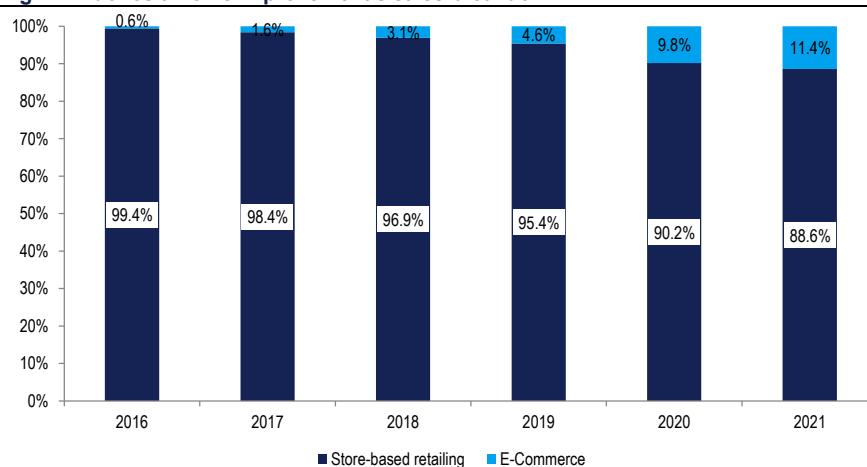
Source: Company, Indo Premier

Share price closing as of: 07 February 2023

Tangible disruption from e-commerce

Our recent update with the company indicate that e-commerce (online marketplaces) have gained market share over brick-and-mortar channels such as ACES from a market share of 0.6% in FY16 to 11.4% in FY21 within home improvement segment, according to Euromonitor data. The shift in market share to online was especially prominent during the pandemic years (FY20-21). Addressing the significant price discrepancy between similar products being offered on online marketplace and ACES, ACES is pushing more of its value products (“Good, Better” – ACES’s lower ticket items) on its online platform rather than its “Best” products with higher price tags to remain competitive. ACES’s 9M22 online sales contributed 18% to total sales, with 1/4/14% of sales attributed from third party marketplaces/rupe-rupa.com/WhatsApp sales related to offline stores.

Fig. 1: Indonesia home improvement's sales breakdown



Source: Euromonitor, Indo Premier

Competition from offline chained retailers – Mr DIY

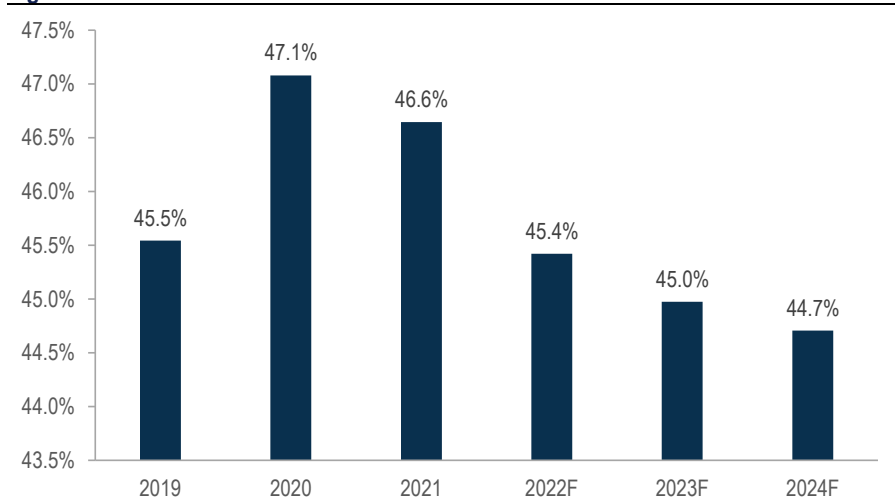
Besides disruption from e-commerce, Mr DIY has continued its aggressive store opening with its 508th store opening in Feb23. Worth noting that MR DIY opened its first store in Indonesia in 2017, implying that the group’s operational execution of store openings have been impeccable at c.2 store openings/week. Although ACES target a slightly different target market compared to MR DIY while offering more pleasant & spacious store ambience, MR DIY’s lower price offering (15-20% from ACES’s for similar products) may hinder ACES’s gross margin expansion, in our view. MR DIY’s low product offering is also derived from its scale of procurement, noting that it has more than 2500 store presence globally, across 10 countries. Presently, MR DIY focuses solely on its physical store network without any online presence yet i.e. no standalone website or partnership with e-commerce.

Fig. 2: ACES' forecast changes

	Previous			Changes			Changes		
	2022F	2023F	2024F	2022F	2023F	2024F	2022F	2023F	2024F
Key Driver									
New space added (sqm)	23,306	18,506	18,506	22,120	18,620	18,620	-5.1%	0.6%	0.6%
SSSG (%)	2.0%	5.0%	5.0%	0.9%	6.0%	5.0%	-1.1%	1.0%	0.0%
Financial Performance									
Gross Sales (Rp bn)	7,342	7,995	8,661	7,048	7,765	8,418	-4.0%	-2.9%	-2.8%
Net Sales (Rp bn)	6,975	7,596	8,228	6,695	7,377	7,997	-4.0%	-2.9%	-2.8%
Gross profit (Rp bn)	3,318	3,592	3,868	3,201	3,492	3,763	-3.5%	-2.8%	-2.7%
EBIT (Rp bn)	617	646	690	544	571	627	-11.8%	-11.7%	-9.2%
Net profit (Rp bn)	539	564	605	476	500	551	-11.6%	-11.3%	-8.9%
Margins (%)									
Gross margin	45.2%	44.9%	44.7%	45.4%	45.0%	44.7%	0.2%	0.0%	0.0%
Operating margin	8.4%	8.1%	8.0%	7.7%	7.4%	7.4%	-0.7%	-0.7%	-0.5%
Net profit margin	7.3%	7.1%	7.0%	6.8%	6.4%	6.5%	-0.6%	-0.6%	-0.4%
Growth (%)									
Gross sales growth (yoy)	6.6%	8.9%	8.3%	2.3%	10.2%	8.4%			
Net sales growth (yoy)	6.6%	8.9%	8.3%	2.3%	10.2%	8.4%			
Net profit growth (yoy)	-20.2%	4.7%	7.2%	-29.5%	5.0%	10.1%			
* margins as % of gross sales									

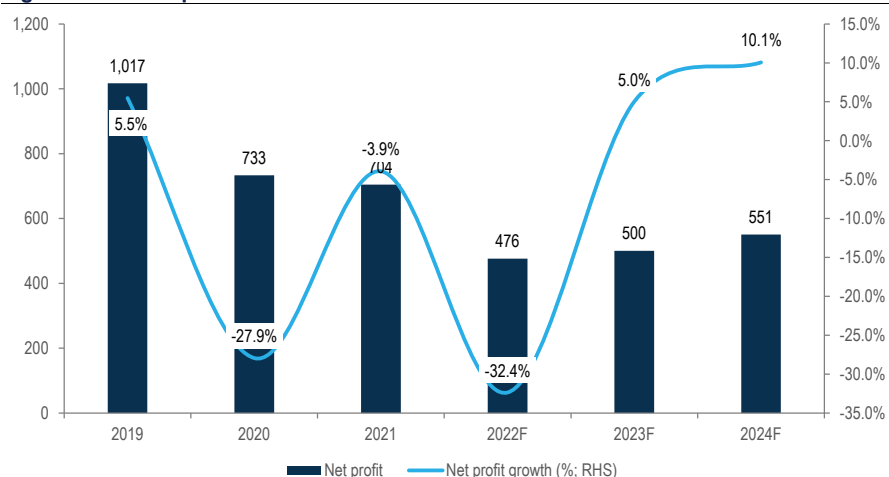
Source: Company, Indo Premier

Fig. 3: ACES' GPM trend



Source: Company, Indo Premier

Fig. 4: ACES' net profit trend



Source: Indo Premier

Fig. 5: ACES is currently trading at 16.6x 12M fwd. P/E (c.-1.5 s.d. from its 5Y mean of 30.9x)



Source: Bloomberg, Indo Premier

Income Statement (Rp bn)	2020A	2021A	2022F	2023F	2024F
Net revenue	7,413	6,543	6,695	7,377	7,997
Cost of sales	(3,754)	(3,331)	(3,494)	(3,885)	(4,234)
Gross profit	3,659	3,213	3,201	3,492	3,763
SG&A Expenses	(2,806)	(2,425)	(2,657)	(2,921)	(3,136)
Operating profit	853	788	544	571	627
Net interest	(64)	(64)	(64)	(67)	(66)
Forex gain (loss)	0	5	0	0	0
Others	134	130	104	111	116
Pre-tax income	923	859	585	615	677
Income tax	(192)	(140)	(108)	(115)	(126)
Minority interest	2	(14)	0	0	0
Net income	733	704	476	500	551

Balance Sheet (Rp bn)	2020A	2021A	2022F	2023F	2024F
Cash & equivalent	2,220	2,544	2,464	2,571	2,761
Receivable	143	67	93	102	111
Inventory	2,453	2,368	2,188	2,379	2,535
Other current assets	218	214	463	509	551
Total current assets	5,035	5,192	5,208	5,562	5,958
Fixed assets	512	460	427	388	342
Other non-current assets	0	0	0	0	0
Total non-current assets	2,212	1,998	2,052	2,014	1,969
Total assets	7,247	7,190	7,260	7,576	7,927
ST loans	0	0	0	0	0
Payable	164	127	162	181	197
Other payables	55	45	52	57	62
Current portion of LT loans	0	0	0	0	0
Total current liab.	845	723	650	683	713
Long term loans	0	0	0	0	0
Other LT liab.	603	383	402	422	443
Total liabilities	2,025	1,677	1,623	1,677	1,728
Equity	612	612	612	612	612
Retained earnings	4,629	4,903	5,028	5,290	5,590
Minority interest	15	31	31	31	31
Total SHE + minority int.	5,222	5,513	5,637	5,899	6,200
Total liabilities & equity	7,247	7,190	7,260	7,576	7,927

Source: Company, Indo Premier

Cash Flow Statement (Rp bn)	2020A	2021A	2022F	2023F	2024F
Net income	733	704	476	500	551
Depr. & amortization	118	121	155	165	175
Changes in working capital	385	(125)	(163)	(195)	(157)
Others	302	605	0	0	0
Cash flow from operating	1,539	1,305	469	470	569
Capital expenditure	(158)	(69)	(122)	(125)	(129)
Others	(8)	(14)	(74)	0	0
Cash flow from investing	(166)	(83)	(196)	(125)	(129)
Loans	(7)	(4)	0	0	0
Equity	36	16	0	0	0
Dividends	(309)	(550)	(352)	(238)	(250)
Others	(125)	(360)	0	0	0
Cash flow from financing	(405)	(898)	(352)	(238)	(250)
Changes in cash	968	324	(80)	107	190

Key Ratios	2020A	2021A	2022F	2023F	2024F
Gross margin	49.4%	49.1%	47.8%	47.3%	47.1%
Operating margin	11.5%	12.0%	8.1%	7.7%	7.8%
Pre-tax margin	12.5%	13.1%	8.7%	8.3%	8.5%
Net margin	9.9%	10.8%	7.1%	6.8%	6.9%
ROA	10.6%	9.8%	6.6%	6.7%	7.1%
ROE	14.8%	13.1%	8.5%	8.7%	9.1%
ROIC					
Acct. receivables TO (days)	5.7	5.9	4.4	4.8	4.9
Inventory TO (days)	248.3	264.2	237.9	214.6	211.8
Payable TO (days)	16.6	15.9	15.1	16.1	16.3
Debt to equity	0.0%	0.0%	0.0%	0.0%	0.0%
Interest coverage ratio (x)	N/A	N/A	4.9	5.1	5.6
Net gearing	-42.6%	-46.4%	-44.0%	-43.8%	-44.8%

Source: Company, Indo Premier

INVESTMENT RATINGS

BUY	: Expected total return of 10% or more within a 12-month period
HOLD	: Expected total return between -10% and 10% within a 12-month period
SELL	: Expected total return of -10% or worse within a 12-month period

ANALYSTS CERTIFICATION

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

DISCLAIMERS

This research is based on information obtained from sources believed to be reliable, but we do not make any representation or warranty nor accept any responsibility or liability as to its accuracy, completeness or correctness. Opinions expressed are subject to change without notice. This document is prepared for general circulation. Any recommendations contained in this document do not have any regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is not and should not be construed as an offer or a solicitation of an offer to purchase or subscribe or sell any securities. PT Indo Premier Sekuritas or its affiliates may seek or will seek investment banking or other business relationships with the companies in this report.