

Ace Hardware Indonesia

HOLD (unchanged)

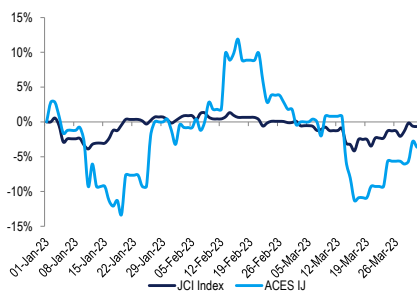
Company Update | Consumer Discretionary | ACES IJ | 31 March 2023

Stock Data

Target price	Rp500
Prior TP	Rp500
Current price	Rp478
Upside/downside	5%
Shares outstanding (mn)	17,150
Market cap (Rp bn)	8,198
Free float	40%
Avg. 6m daily T/O (Rp bn)	50

Price Performance

	3M	6M	12M
Absolute	-3.6%	-25.3%	-53.4%
Relative to JCI	-2.8%	-22.0%	-49.6%
52w low/high (Rp)	398 – 1,170		



Major Shareholders

PT Kawan Lama Sejahtera	60.0%
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FY22 results: beat from lower than expected opex including restatements

- ACES's FY22 net profit came at Rp664bn (-3.8% yoy), above at 139/128% of our/consensus estimate due to restatement.
- FY22 net revenue of Rp6.8tr (+3.4% yoy) was in-line at 101/100% of our/consensus estimate.
- Maintain Hold with unchanged TP of Rp500 as we await clarity on its strategy to revive sales growth and negative earnings growth.

FY22 earnings beat due to employee benefit liability restatement

FY22 net profit of Rp664bn (-3.8% yoy) was above at 139/128% of our/consensus estimate. The strong earnings beat is due to an accounting treatment related to the restatement of employee benefit liability which declined from 9M22's Rp414bn to Rp191bn in FY22 after restatement (based on a set of revised parameters such as higher normal pension age at 60 years from previously 55 years, estimated future wage growth rate of 5% from 6%, among others). FY22 net revenue stood at Rp6.8tr (+3.4% yoy), coming in-line at 101/100% of ours/consensus estimate. On the other hand, FY22 GPM slightly declined to 45.7% (slightly better from our expectation of 45.4%) from FY21's 46.7%. Inventory days remained high at 262 days (vs FY21's 230 days), although this has declined from 9M22's inventory days of 305 days following their boom sales and clearance sales events in 4Q22.

4Q22 sales was flattish yoy but seasonally stronger at +17.3%qoq

The impact of restatement is evident in 4Q22 as net profit grew 186% qoq despite revenue/gross profit growth of +17.3% qoq (in-line with seasonality). On a yoy basis, ACES gross sales grew only 0.9% on the back of -2.0% SSSG in 4Q22, while gross profit margin declined slightly from 46.4% in 4Q21 to 45.8% in 4Q22.

FY23F challenges remain from significant wage hike; maintain Hold

Our forecasts in FY23F remain unchanged as we factor in a 6% SSSG and new space addition of c.4% resulting in 10.2% sales growth. Additionally, we expect that FY23's wage growth of 7% yoy may pose as headwind for ACES's substantial salary/sales ratio of 18.9% while we seek clarity from the company regarding their strategy on reviving sales growth. On a net profit level, we note that bottom line may decline in FY23F by -32.8% following the normalization of restatement in FY22. In summary, we maintain our Hold call for ACES with unchanged TP of Rp500 based on 17.1x FY23F PE (c. 1.5 s.d. below its 5Y mean of 30.9x).

Financial Summary (Rp bn)	2021A*	2022A*	2023F	2024F	2025F
Revenue	6,543	6,763	7,377	7,997	8,654
EBITDA	921	901	736	802	869
Net profit	691	664	500	551	602
EPS (Rp)	40	39	29	32	35
EPS growth	-5.8%	-3.8%	-32.8%	10.1%	9.2%
ROE	12.8%	11.5%	8.7%	9.1%	9.5%
PER (x)	11.9	12.3	16.4	14.9	13.6
EV/EBITDA (x)	6.1	6.7	7.6	6.8	6.0
Dividend yield	6.7%	6.7%	2.9%	3.1%	3.4%
Forecast change			0%	0%	0%
IPS vs. consensus			92%	91%	92%

Source: Company, Indo Premier

*Restated

Share price closing as of: 31 March 2023

Fig. 1: ACES FY22 result summary

ACES FY22 Result	4Q22*	4Q21*	yoy, % chg	3Q22*	qoq, % chg	12M22*	12M21*	yoy, % chg	Prev. Comment FY22F
Gross sales	1,971	1,954	0.9%	1,681	17.3%	7,151	6,888	3.8%	7,048
Net sales	1,829	1,808	1.2%	1,551	18.0%	6,763	6,543	3.4%	6,695
COGS	(964)	(942)		(817)		(3,495)	(3,331)		In-line at 101/100% of ours/consensus' estimates
Gross profit	903	907	-0.4%	770	17.3%	3,268	3,213	1.7%	
Opex	(516)	(489)		(656)		(2,521)	(2,439)		
EBIT	388	418	-7.3%	114	240.7%	747	774	-3.5%	544
EBITDA	409	455	-10.2%	150	171.7%	879	921	-4.5%	Above 137/124% of ours/consensus' estimate
Other income (charges)	5	35		19		74	71		
PBT	393	453	-13.3%	133	196.0%	821	845	-2.8%	
Tax benefit (expense)	(75)	(72)		(23)		(147)	(140)		
Net profit	313	368	-15.0%	109	186.0%	664	691	-3.8%	476
									Above at 139/128% of ours/consensus estimates
Margin (%)									
Gross margin	45.8%	46.4%		45.8%		45.7%	46.6%		
EBIT margin	19.7%	21.4%		6.8%		10.4%	11.2%		
EBITDA margin	20.7%	23.3%		8.9%		12.3%	13.4%		
Net profit margin	15.9%	18.8%		6.5%		9.3%	10.0%		
Segment information									
Revenue breakdown									
Home improvement	985	940	4.8%	876	12.4%	3,603	3,392	6.2%	
Life style	772	783	-1.3%	621	24.3%	2,748	2,758	-0.4%	
Toys product	72	86	-15.7%	53	36.2%	262	260	0.9%	

Source: Company, Bloomberg, Indo Premier

*Restated

Fig. 2: ACES is traded at 16.0x fwd. 12M PE (-1.6 s.d of its 5Y mean)



Source: Bloomberg, Indo Premier

Income Statement (Rp bn)	2021A*	2022A*	2023F	2024F	2025F
Net revenue	6,543	6,763	7,377	7,997	8,654
Cost of sales	(3,331)	(3,495)	(3,885)	(4,234)	(4,606)
Gross profit	3,213	3,268	3,492	3,763	4,048
SG&A Expenses	(2,439)	(2,521)	(2,921)	(3,136)	(3,365)
Operating profit	774	747	571	627	683
Net interest	(64)	(51)	(67)	(66)	(65)
Forex gain (loss)	5	15	0	0	0
Others	130	109	111	116	122
Pre-tax income	845	821	615	677	739
Income tax	(140)	(147)	(115)	(126)	(138)
Net income	691	664	500	551	602

Balance Sheet (Rp bn)	2021A*	2022A*	2023F	2024F	2025F
Cash & equivalent	2,544	2,133	2,571	2,761	2,979
Receivable	67	86	102	111	120
Inventory	2,368	2,811	2,379	2,535	2,695
Other current assets	214	333	509	551	596
Total current assets	5,192	5,363	5,562	5,958	6,390
Fixed assets	460	427	388	342	289
Other non-current assets	0	0	0	0	0
Total non-current assets	1,979	1,977	2,014	1,969	1,918
Total assets	7,171	7,340	7,576	7,927	8,307
ST loans	0	0	0	0	0
Payable	127	144	181	197	214
Other payables	45	7	57	62	68
Current portion of LT loans	0	0	0	0	0
Total current liab.	723	670	683	713	745
Long term loans	0	0	0	0	0
Other LT liab.	298	196	422	443	465
Total liabilities	1,592	1,315	1,677	1,728	1,781
Equity	612	612	612	612	612
Retained earnings	4,969	5,312	5,290	5,590	5,917
Minority interest	32	44	31	31	31
Total SHE + minority int.	5,579	5,934	5,899	6,200	6,526
Total liabilities & equity	7,171	7,249	7,576	7,927	8,307

Source: Company, Indo Premier

*Restated

Cash Flow Statement (Rp bn)	2021A*	2022A*	2023F	2024F	2025F
Net income	691	664	500	551	602
Depr. & amortization	121	155	165	175	186
Changes in working capital	(192)	(718)	(195)	(157)	(161)
Others	685	518	0	0	0
Cash flow from operating	1,305	619	470	569	627
Capital expenditure	(69)	(122)	(125)	(129)	(133)
Others	(14)	19	0	0	0
Cash flow from investing	(83)	(102)	(125)	(129)	(133)
Loans	(4)	0	0	0	0
Equity	18	12	0	0	0
Dividends	(550)	(550)	(238)	(250)	(275)
Others	(361)	(401)	0	0	0
Cash flow from financing	(898)	(939)	(238)	(250)	(275)
Changes in cash	324	(423)	107	190	218

Key Ratios	2021A*	2022A*	2023F	2024F	2025F
Gross margin	49.1%	48.3%	47.3%	47.1%	46.8%
Operating margin	11.8%	11.0%	7.7%	7.8%	7.9%
Pre-tax margin	12.9%	12.1%	8.3%	8.5%	8.5%
Net margin	10.6%	9.8%	6.8%	6.9%	7.0%
ROA	9.6%	9.2%	6.7%	7.1%	7.4%
ROE	12.8%	11.5%	8.7%	9.1%	9.5%
Acct. receivables TO (days)	5.9	4.1	4.8	4.9	4.9
Inventory TO (days)	264.2	270.4	214.6	211.8	207.2
Payable TO (days)	15.9	14.2	16.1	16.3	16.3
Debt to equity	0.0%	0.0%	0.0%	0.0%	0.0%
Interest coverage ratio (x)	N/A	N/A	5.1	5.6	6.1
Net gearing	-42.6%	-36.2%	-43.8%	-44.8%	-45.9%

Source: Company, Indo Premier

*Restated

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

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