

## Ace Hardware Indonesia

BUY (unchanged)

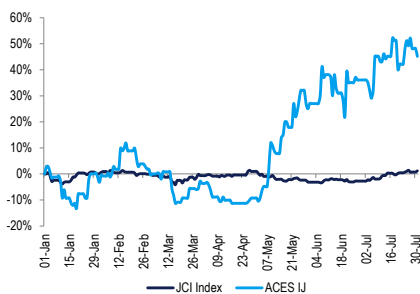
Company Update | Consumer Discretionary | ACES IJ | 31 Jul 2023

## Stock Data

Target price	Rp630
Prior TP	Rp630
Current price	Rp720
Upside/downside	-12.5%
Shares outstanding (mn)	17,150
Market cap (Rp bn)	12,348
Free float	40%
Avg. 6m daily T/O (Rp bn)	88

## Price Performance

	3M	6M	12M
Absolute	60.0%	45.2%	1.4%
Relative to JCI	59.8%	44.7%	1.7%
52w low/high (Rp)	398 – 765		



## Major Shareholders

PT Kawan Lama Sejahtera	60.0%
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## 2Q23 results: below consensus amid lower than expected margin achievement

- 1H23 net profit reached Rp302bn (+24.8% yoy) was in-line with ours (at 48%) but below consensus (at 44%) - vs. 5yr average of 47%.
- 2Q23 sales growth of +13.4% yoy (SSSG of 9% in 2Q23 vs 0.8% in 1Q23) reflects a decent Lebaran growth, boosted by Jun23 boom sales.
- Maintain HOLD with unchanged TP of Rp630 based on 17.1x FY23F PE (-1.5SD from its 5Y mean).

### 1H23 results: in-line with ours but below consensus due to lower than expected profitability

ACES's 1H23 net profit of Rp302bn (+24.8% yoy), came in-line/below at 48/44% of our/consensus FY23F estimate, vs. 5yr average of 47%. Gross sales grew by +9.1% yoy driven by 1H23 SSSG of 4.8% and 8 store openings in 1H23 (3 standalone stores and 5 within malls) which was in-line with expectations. GPM (based on gross sales) expanded to 46.1% in 1H23 from 45.6% in 1H22 while EBIT grew +38.4% yoy as opex remained well under control with opex/sales ratio declining to 37.2% in 1H23 from 38.6% in 1H22. Cost management comes mainly from better employee productivity as total salary expenses/sales ratio declined from 20.2% in 1H22 to 19.1% in 1H23. Of note, total headcount in 1H23 was lower at 13,019 vs. 1H22's 13,588. On the other hand, rental expense (including depreciation of ROU assets)/sales ratio remained stable at 4.4% in 1H23 (vs. 4.5% in 1H22). The positive operating leverage translates to a net margin improvement to 1H23 of 7.9% vs. 1H22 of 6.9%.

### 2Q23 results reflect decent Lebaran growth and boom sales program

2Q23 growth was more pronounced noting 2Q22's low base effect. 2Q23 net profit grew by +62.1% yoy on the back of decent sales growth of +13.4% yoy (SSSG of 9% in 2Q23 vs 0.8% in 1Q23). Building on the momentum from Lebaran, ACES also introduced the boom sales program in Jun-Jul23 to close off the quarter on a positive note (Jun23 SSSG of 10.7%).

### Maintain HOLD with unchanged TP of Rp630

Overall, it was a positive development in 2Q23 with uplift in SSSG potentially marking an inflection from ACES' stagnant sales growth since the pandemic. Nonetheless, we view that this has been well reflected in ACES' share price appreciation of +6.7/+45.2% in 1M/YTD. As such, we maintain our forecast and HOLD rating on ACES with unchanged TP of Rp630 based on 17.1x FY23F PE (-1.5SD from its 5Y mean).

Financial Summary (Rp bn)	2021A	2022A	2023F	2024F	2025F
Revenue	6,543	6,763	7,409	8,033	8,694
EBITDA	921	894	871	955	1,050
Net profit	691	664	636	698	769
EPS (Rp)	40	39	37	41	45
EPS growth	-5.8%	-3.8%	-4.3%	9.8%	10.2%
ROE	12.8%	11.5%	10.6%	11.4%	12.1%
PER (x)	17.9	18.6	19.4	17.7	16.1
EV/EBITDA (x)	10.6	11.4	10.7	9.8	8.8
Dividend yield	4.5%	4.5%	4.3%	4.1%	4.5%
Forecast change			0%	0%	0%
IPS vs. consensus			92%	83%	89%

Source: Company, Indo Premier

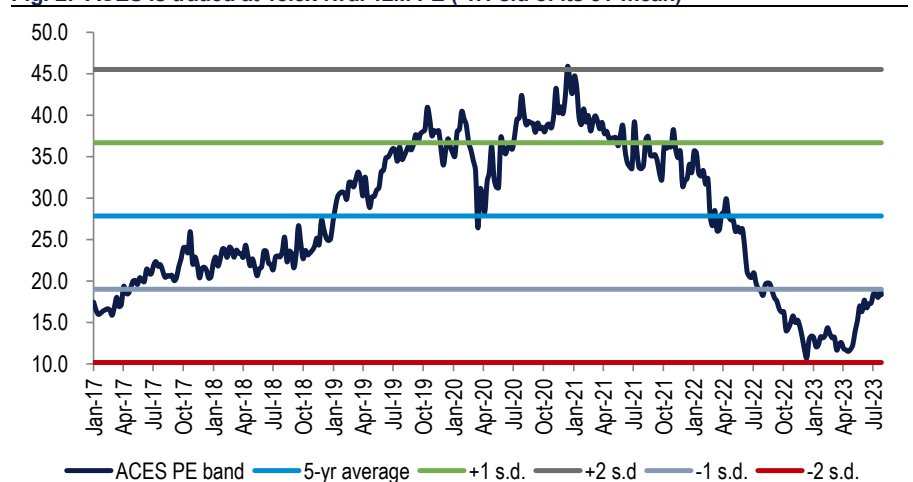
Share price closing as of: 31 July 2023

Fig. 1: ACES 2Q23 result summary

(Rp bn)	2Q23	2Q22	% YoY	1Q23	% QoQ	6M23	6M22	% YoY	IPS FY23F	% IPS	Cons FY23F	% Cons	3yr avg precovid period	Comment
Gross sales	2,029	1,781	13.9%	1,789	13.4%	3,817	3,499	9.1%	7,834					
Net sales	1,894	1,641	15.4%	1,668	13.6%	3,635	3,308	9.9%	7,409	49%	7,361	49%	48%	In-line
COGS	(999)	(872)		(877)		(1,876)	(1,713)							
Gross profit	933	810	15.3%	826	13.1%	1,759	1,595	10.3%						
Opex	(777)	(724)		(642)		(1,419)	(1,349)	-5.2%						
EBIT	157	86	82.4%	183	-14.5%	340	245	38.4%	714	48%	801	42%	46%	In-line
EBITDA	125	123	1.3%	215	-41.8%	340	320	6.1%						
Other income (charges)	16	22		10		26	50							
PBT	172	107	60.6%	193	-10.9%	366	296	23.8%						
Tax benefit (expense)	(28)	(17)		(33)		(61)	(49)							
Net profit	144	89	62.1%	158	-9.0%	302	242	24.8%	636	48%	693	44%	47%	In-line
Margin (%)														
Gross margin	46.0%	45.4%		46.2%		46.1%	45.6%							
EBIT margin	7.7%	4.8%		10.2%		8.9%	7.0%							
EBITDA margin	6.2%	6.9%		12.0%		8.9%	9.1%							
Net profit margin	7.1%	5.0%		8.9%		7.9%	6.9%							
Segment information														
Revenue breakdown														
Home improvement	1,071	941	13.8%	994	7.7%	2,065	1,877	10.0%						
Life style	817	708	15.3%	679	20.3%	1,496	1,379	8.5%						
Toys product	141	132	6.8%	116	22.2%	257	243	5.5%						

Source: Company, Bloomberg, Indo Premier

Fig. 2: ACES is traded at 18.3x fwd. 12M PE (-1.1 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	7,409	8,033	8,694
Cost of sales	(3,331)	(3,495)	(3,858)	(4,198)	(4,552)
<b>Gross profit</b>	<b>3,213</b>	<b>3,268</b>	<b>3,551</b>	<b>3,835</b>	<b>4,142</b>
SG&A Expenses	(2,439)	(2,521)	(2,837)	(3,050)	(3,276)
<b>Operating profit</b>	<b>774</b>	<b>747</b>	<b>714</b>	<b>785</b>	<b>866</b>
Net interest	(64)	(51)	(44)	(43)	(42)
Forex gain (loss)	5	15	0	0	0
Others	130	109	112	117	122
<b>Pre-tax income</b>	<b>845</b>	<b>821</b>	<b>782</b>	<b>859</b>	<b>946</b>
Income tax	(140)	(147)	(146)	(161)	(177)
<b>Net income</b>	<b>691</b>	<b>664</b>	<b>636</b>	<b>698</b>	<b>769</b>

Balance Sheet (Rp bn)	2021A	2022A	2023F	2024F	2025F
Cash & equivalent	2,544	2,133	2,304	2,326	2,379
Receivable	67	86	103	111	121
Inventory	2,368	2,811	2,363	2,514	2,663
Other current assets	214	333	595	637	682
<b>Total current assets</b>	<b>5,192</b>	<b>5,363</b>	<b>5,365</b>	<b>5,589</b>	<b>5,845</b>
Fixed assets	460	426	440	445	442
Other non-current assets	0	0	0	0	0
<b>Total non-current assets</b>	<b>1,979</b>	<b>1,886</b>	<b>2,002</b>	<b>2,008</b>	<b>2,006</b>
<b>Total assets</b>	<b>7,171</b>	<b>7,249</b>	<b>7,366</b>	<b>7,597</b>	<b>7,851</b>
ST loans	0	0	0	0	0
Payable	127	144	179	195	212
Other payables	45	7	57	62	67
Current portion of LT loans	0	0	0	0	0
<b>Total current liab.</b>	<b>723</b>	<b>670</b>	<b>684</b>	<b>713</b>	<b>744</b>
Long term loans	0	0	0	0	0
Other LT liab.	298	196	205	215	226
<b>Total liabilities</b>	<b>1,592</b>	<b>1,315</b>	<b>1,339</b>	<b>1,378</b>	<b>1,420</b>
Equity	612	612	612	612	612
Retained earnings	4,969	5,312	5,418	5,610	5,822
Minority interest	32	44	44	44	44
<b>Total SHE + minority int.</b>	<b>5,579</b>	<b>5,934</b>	<b>6,040</b>	<b>6,232</b>	<b>6,444</b>
<b>Total liabilities &amp; equity</b>	<b>7,171</b>	<b>7,249</b>	<b>7,379</b>	<b>7,610</b>	<b>7,864</b>

Source: Company, Indo Premier

Cash Flow Statement (Rp bn)	2021A	2022A	2023F	2024F	2025F
Net income	691	664	636	698	769
Depr. & amortization	121	105	157	171	185
Changes in working capital	(192)	(718)	181	(164)	(163)
Others	685	568	0	0	0
<b>Cash flow from operating</b>	<b>1,305</b>	<b>619</b>	<b>973</b>	<b>705</b>	<b>790</b>
Capital expenditure	(69)	(70)	(171)	(176)	(181)
Others	(14)	(32)	(90)	0	0
<b>Cash flow from investing</b>	<b>(83)</b>	<b>(102)</b>	<b>(261)</b>	<b>(176)</b>	<b>(181)</b>
Loans	(4)	0	0	0	0
Equity	18	12	0	0	0
Dividends	(550)	(550)	(529)	(506)	(556)
Others	(361)	(401)	0	0	0
<b>Cash flow from financing</b>	<b>(898)</b>	<b>(939)</b>	<b>(529)</b>	<b>(506)</b>	<b>(556)</b>
<b>Changes in cash</b>	<b>324</b>	<b>(423)</b>	<b>183</b>	<b>22</b>	<b>53</b>

Key Ratios	2021A	2022A	2023F	2024F	2025F
Gross margin	49.1%	48.3%	47.9%	47.7%	47.6%
Operating margin	11.8%	11.0%	9.6%	9.8%	10.0%
Pre-tax margin	12.9%	12.1%	10.6%	10.7%	10.9%
Net margin	10.6%	9.8%	8.6%	8.7%	8.8%
ROA	9.6%	9.2%	8.7%	9.3%	10.0%
ROE	12.8%	11.5%	10.6%	11.4%	12.1%
Acct. receivables TO (days)	5.9	4.1	4.6	4.9	4.9
Inventory TO (days)	264.2	270.4	244.8	212.0	207.6
Payable TO (days)	15.9	14.2	15.3	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	8.1	8.8	9.8
Net gearing	-42.6%	-36.2%	-38.4%	-37.6%	-37.2%

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

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