

Ace Hardware Indonesia

HOLD (unchanged)

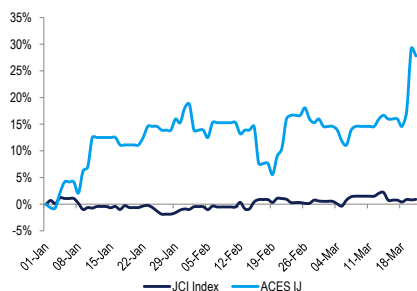
Company Update | Consumer Discretionary | ACES IJ | 22 March 2024

Stock Data

Target price	Rp890
Prior TP	Rp740
Current price	Rp920
Upside/downside	-3.2%
Shares outstanding (mn)	17,150
Market cap (Rp bn)	15,778
Free float	40%
Avg. 6m daily T/O (Rp bn)	48

Price Performance

	3M	6M	12M
Absolute	27.8%	16.5%	104.4%
Relative to JCI	26.1%	11.8%	94.8%
52w low/high (Rp)	440 – 930		



Major Shareholders

PT Kawan Lama Sejahtera	60.0%
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Sales recovery trend is sustained but has been priced-in through recent rally

- 4Q23 expectation likely to be in-line with estimates despite lower yoy headline profit from one-off normalization.
- We upgrade FY24F earnings by 6.8% on higher SSSG assumption at 6.5% based on a promising realized 2M24 SSSG of 10%
- Future re-rating hinges on sales productivity metrics (leading indicator for P/E). For now, we maintain our HOLD rating with higher TP of Rp890 as share price has rallied 15.7/27.8% in 1M/3M

4Q23F results preview

We expect ACES's 4Q23 earnings to be in-line with our expectation at Rp275bn (-12.0% yoy/+47.3% qoq). The lower profit is attributed to a normalization of one-off employment benefit expense reduction in 4Q22 amounting to c.Rp87bn. Adjusting for that, 4Q23F core profit grew +12.3% yoy on the back of a +11.3% yoy sales recovery. GPM is expected to be largely stable at 48.1% (vs. FY22's 48.3%), while opex/sales ratio is still well maintained at 37.6% (vs. FY22's 37.3%) despite the economy reopening from the pandemic, high wage growth and rental normalization in FY23F.

FY24F forecast upgrade on the back of sustained sales recovery

ACES posted 2M24 SSSG growth of +10.0% thus far YTD. Even though it was a low sales base in 1Q23, this proves that ACES' monthly sales momentum of >Rp600bn is well sustained. Store opening is expected to be slightly more aggressive in FY24F than FY23's 10 net store addition, with details to be disclosed in the earnings call. Thus far, ACES have opened 4 new stores YTD. We slightly upgrade our SSSG assumption from 5% to 6.5% in FY24F. Coupled with the benign national wage growth of <4%, we expect a slight positive operating leverage translating to EBIT margin improvement of +64bps yoy in FY24F to 10.6%. As such, we upgrade our FY24F earnings by 6.8%.

Re-rating hinges on sustained SSSG and store productivity

We analysed that ACES's store productivity has been the leading indicator for P/E valuation multiple (Fig 2). Hence, future re-rating may be contingent on whether its strong sales momentum can be maintained. ACES' current FY24F P/E of 19.2 is quite similar to regional comps (Fig 3).

Maintain HOLD with unchanged TP of Rp890

Given that share price have rallied 15.7/27.8% in 1M/3M, we view that the recovery is largely priced-in. For now, we maintain HOLD rating on ACES with higher TP of Rp890 as we roll forward our TP basis to 18.5x FY24F PE (c.-1.0SD from its 5Y mean). Key catalyst/risk is sales performance.

Financial Summary (Rp bn)	2021A	2022A	2023F	2024F	2025F
Revenue	6,543	6,763	7,573	8,324	9,056
EBITDA	921	894	955	1,105	1,220
Net profit	691	664	706	822	910
EPS (Rp)	40	39	41	48	53
EPS growth	-5.8%	-3.8%	6.3%	16.4%	10.7%
ROE	12.8%	11.5%	11.7%	13.2%	14.0%
PER (x)	22.8	23.7	22.4	19.2	17.3
EV/EBITDA (x)	14.4	15.3	10.7	9.8	8.8
Dividend yield	3.5%	3.5%	3.4%	3.6%	4.2%
Forecast change			0%	7%	7%
IPS vs. consensus			97%	99%	94%

Source: Company, Indo Premier

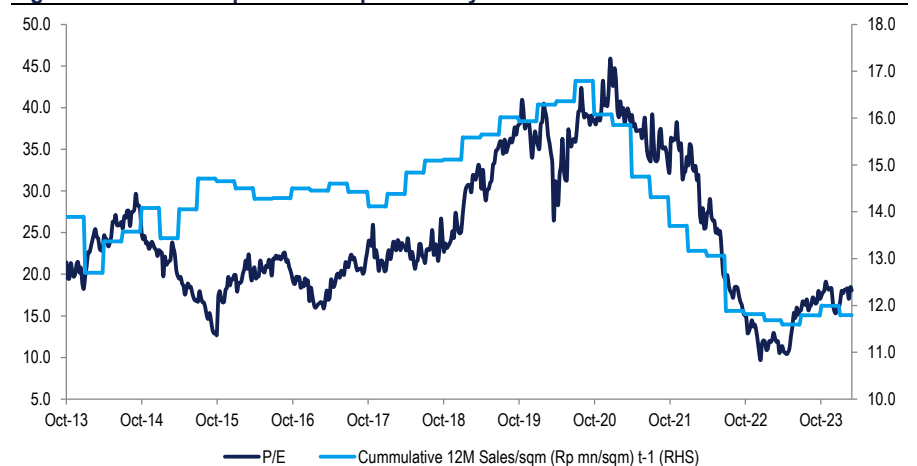
Share price closing as of: 21 March 2024

Fig. 1: ACES Forecast changes

	Previous			Current			Changes		
	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
Key Driver									
New space added (sqm)	18,620	18,620	18,620	18,620	21,868	21,868	0.0%	17.4%	17.4%
SSSG (%)	8.0%	5.0%	5.0%	8.0%	6.5%	5.0%	0.0%	1.5%	0.0%
Financial Performance									
Gross Sales (Rp bn)	8,008	8,654	9,367	8,008	8,802	9,576	0.0%	1.7%	2.2%
Net Sales (Rp bn)	7,573	8,184	8,858	7,573	8,324	9,056	0.0%	1.7%	2.2%
Gross profit (Rp bn)	3,645	3,923	4,237	3,645	3,990	4,332	0.0%	1.7%	2.2%
EBIT (Rp bn)	798	872	960	799	934	1,035	0.0%	7.2%	7.9%
Net profit (Rp bn)	706	770	847	706	822	910	0.0%	6.8%	7.5%
Margins (%)									
Gross margin	45.5%	45.3%	45.2%	45.5%	45.3%	45.2%	0.0%	0.0%	0.0%
Operating margin	10.0%	10.1%	10.3%	10.0%	10.6%	10.8%	0.0%	0.5%	0.6%
Net profit margin	8.8%	8.9%	9.0%	8.8%	9.3%	9.5%	0.0%	0.4%	0.5%
Growth (%)									
Gross sales growth (yoy)	12.0%	8.1%	8.2%	12.0%	9.9%	8.8%	0.0%	1.8%	0.6%
Net sales growth (yoy)	12.0%	8.1%	8.2%	12.0%	9.9%	8.8%	0.0%	1.8%	0.6%
Net profit growth (yoy)	21.5%	9.1%	10.0%	21.5%	16.4%	10.7%	0.0%	7.4%	0.7%
* margins as % of gross sales									

Source: Company, Bloomberg, Indo Premier

Fig. 2: ACES PE multiple vs. sales productivity



Source: Company, Bloomberg, Indo Premier

Fig. 3: Retailers' regional peers

Ticker	Name	Region	Cur. Mkt cap	Cur. EV	P/E		EPS growth	
			USD mn	USD mn	FY23F	FY24F	FY23F	FY24F
ACES LJ Equity	Ace Hardware Indonesia	Indonesia	1,014	938	22.4	19.2	6.3%	16.4%
GLOBAL TB Equity	Siam Global House PCL	Thailand	2,476	2,786	29.6	26.2	-16.1%	12.8%
HMPRO TB Equity	Home Products Center PCL	Thailand	3,931	4,434	21.2	20.1	4.2%	5.5%
MRDIY MK Equity	MR. DIY Group	Malaysia	2,972	3,244	24.1	21.9	14.3%	10.5%
WLCON PM Equity	Wilcon Depot	Phillipine	1,345	1,502	20.1	17.6	-5.5%	14.5%
Average					23.5	21.0	0.7%	11.9%
Median					22.4	20.1		

Source: Bloomberg, Indo Premier

Fig. 4: ACES is traded at 18.7x fwd. 12M PE



Source: Bloomberg, Indo Premier

Income Statement (Rp bn)	2021A	2022A	2023F	2024F	2025F
Net revenue	6,543	6,763	7,573	8,324	9,056
Cost of sales	(3,331)	(3,495)	(3,928)	(4,334)	(4,724)
Gross profit	3,213	3,268	3,645	3,990	4,332
SG&A Expenses	(2,439)	(2,521)	(2,846)	(3,056)	(3,296)
Operating profit	774	747	799	934	1,035
Net interest	(64)	(51)	(44)	(43)	(42)
Forex gain (loss)	5	15	0	0	0
Others	130	109	114	121	127
Pre-tax income	845	821	869	1,012	1,121
Income tax	(140)	(147)	(163)	(190)	(211)
Net income	691	664	706	822	910

Balance Sheet (Rp bn)	2021A	2022A	2023F	2024F	2025F
Cash & equivalent	2,544	2,133	2,317	2,339	2,392
Receivable	67	86	105	116	126
Inventory	2,368	2,811	2,406	2,595	2,764
Other current assets	214	333	595	637	682
Total current assets	5,192	5,363	5,377	5,602	5,858
Fixed assets	460	426	440	445	442
Other non-current assets	0	0	0	0	0
Total non-current assets	1,979	1,886	2,002	2,009	2,007
Total assets	7,171	7,249	7,379	7,610	7,864
ST loans	0	0	0	0	0
Payable	127	144	183	202	220
Other payables	45	7	58	64	70
Current portion of LT loans	0	0	0	0	0
Total current liab.	723	670	690	726	760
Long term loans	0	0	0	0	0
Other LT liab.	298	196	205	215	226
Total liabilities	1,592	1,315	1,345	1,391	1,435
Equity	612	612	612	612	612
Retained earnings	4,969	5,312	5,489	5,748	6,003
Minority interest	32	44	44	44	44
Total SHE + minority int.	5,579	5,934	6,111	6,370	6,625
Total liabilities & equity	7,171	7,249	7,456	7,761	8,061

Source: Company, Indo Premier

Cash Flow Statement (Rp bn)	2021A	2022A	2023F	2024F	2025F
Net income	691	664	706	822	910
Depr. & amortization	121	105	157	171	185
Changes in working capital	(192)	(718)	130	(206)	(185)
Others	685	568	0	0	0
Cash flow from operating	1,305	619	993	786	910
Capital expenditure	(69)	(70)	(171)	(176)	(181)
Others	(14)	(32)	(90)	0	0
Cash flow from investing	(83)	(102)	(261)	(176)	(181)
Loans	(4)	0	0	0	0
Equity	18	12	0	0	0
Dividends	(550)	(550)	(529)	(562)	(655)
Others	(361)	(401)	0	0	0
Cash flow from financing	(898)	(939)	(529)	(562)	(655)
Changes in cash	324	(423)	203	48	74

Key Ratios	2021A	2022A	2023F	2024F	2025F
Gross margin	49.1%	48.3%	48.1%	47.9%	47.8%
Operating margin	11.8%	11.0%	10.5%	11.2%	11.4%
Pre-tax margin	12.9%	12.1%	11.5%	12.2%	12.4%
Net margin	10.6%	9.8%	9.3%	9.9%	10.1%
ROA	9.6%	9.2%	8.7%	9.3%	9.9%
ROE	12.8%	11.5%	11.7%	13.2%	14.0%
Acct. receivables TO (days)	5.9	4.1	4.6	4.8	4.9
Inventory TO (days)	264.2	270.4	242.4	210.6	207.0
Payable TO (days)	15.9	14.2	15.2	16.2	16.3
Debt to equity	0.0%	0.0%	0.0%	0.0%	0.0%
Interest coverage ratio (x)	N/A	N/A	9.0	10.5	11.7
Net gearing	-45.9%	-36.2%	-38.6%	-37.8%	-37.4%

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

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