

Ace Hardware Indonesia

BUY (upgrade)

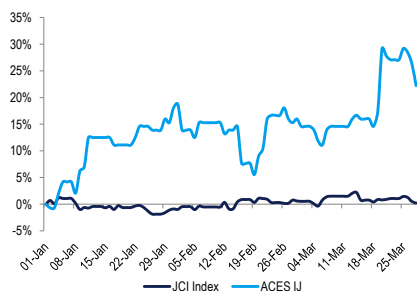
Company Update | Consumer Discretionary | ACES IJ | 01 April 2024

Stock Data

Target price	Rp1,080
Prior TP	Rp890
Current price	Rp910
Upside/downside	18.6%
Shares outstanding (mn)	17,150
Market cap (Rp bn)	15,607
Free float	40%
Avg. 6m daily T/O (Rp bn)	41

Price Performance

	3M	6M	12M
Absolute	26.4%	21.3%	90.4%
Relative to JCI	27.3%	17.5%	84.5%
52w low/high (Rp)	440 – 930		



Major Shareholders

PT Kawan Lama Sejahtera	60.0%
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4Q23 results: beat amidst sales recovery and costs discipline

- ACES booked FY23 net profit of Rp764bn (+14.9% yoy), above our/consensus estimate at 108/106%.
- 4Q23 net profit of Rp274bn was driven by robust sales and GPM; We upgrade ACES FY24/25F earnings by +4/6% post robust FY23 results
- Upgrade to BUY with TP of Rp1,080 as ACES still trades at 18.2x FY24F PE lower compared to regional peers' (avg: 20.6x FY24F P/E)

FY23 profits beat expectations

ACES's FY23 net profit of Rp764bn (+14.9% yoy) was above our/consensus estimate at 108/106%. Net sales grew +12.6% yoy on the back of FY23 SSSG of 8.1%. In terms of profitability, GPM/EBIT margin slightly improved by +26/30bps to 48.6%/11.3%. Opex to sales ratio was relatively unchanged yoy at 37.2%, bringing net profit margin to 10.0% (+21bps yoy). Inventory days improve to 255 days in Dec23 vs. Dec22's 270 days.

4Q23 driven by strong sales growth and GPM attainment

4Q23 net profit of Rp274bn was -12.2% lower yoy due to one-off employee benefit expense reduction of c.Rp87bn in 4Q22. Adjusting for this, 4Q23's net profit grew by +13.9% yoy. 4Q23 sales rose +13.4% yoy on the back of c.9% SSSG for the quarter. GPM expanded by +138bps yoy/ +211bps qoq, partly driven by toys' segment margin recovery and product mix (potentially higher private labels sales), in our view. In 4Q23, ACES has opened 5 stores taking the FY23 store opening count to 13 stores. In 1Q24, the company has opened another 4 stores YTD.

Expect further re-rating on SSSG recovery and store productivity

Reflecting the robust FY23 results, we upgrade our FY24/24F earnings by 4.2/6.1%. As discussed in our recent report, our FY24F SSSG estimate of +6.5% has room to deliver positive operating leverage on the back of benign wage growth this year (FY24F EBIT margin improvement of +75bps yoy), even after accounting for Apr-Dec23's normalized base effect. Furthermore, we think that ACES's store productivity has been the leading indicator for P/E valuation multiple (Fig 3).

Upgrade to BUY with TP of Rp1,080 as ACES still trails regional peers

We upgrade our rating on ACES to BUY as we expect further re-rating from further store productivity improvement in FY24F. Additionally, ACES is still trading at lower valuation of 18.2x FY24F P/E to regional home-improvement retailer peers (FY24F P/E of 20.6x). Our TP of Rp1,080 is based on 21.5x FY24F PE (-0.5 s.d. from its 5yr avg). Key risk is worsening SSSG.

Financial Summary (Rp bn)	2022A	2023A	2024F	2025F	2026F
Revenue	6,763	7,612	8,249	9,017	9,850
EBITDA	894	1,006	1,151	1,288	1,422
Net profit	702	764	857	965	1,071
EPS (Rp)	41	45	50	56	62
EPS growth	1.6%	8.8%	12.2%	12.7%	11.0%
ROE	12.2%	12.6%	13.6%	14.6%	15.5%
PER (x)	22.2	20.4	18.2	16.2	14.6
EV/EBITDA (x)	15.1	13.2	9.8	8.8	8.8
Dividend yield	3.5%	3.5%	3.8%	4.3%	4.9%
Forecast change			4%	6%	N/A
IPS vs. consensus			104%	100%	89%

Source: Company, Indo Premier

Share price closing as of: 01 April 2024

Fig. 1: ACES 4Q23 Result summary

(Rp bn)	4Q23	4Q22	% YoY	3Q23	% QoQ	12M23	12M22	% YoY	IPS FY23F	% IPS	Cons FY23F	% Cons	Comment
Net sales	2,118	1,868	13.4%	1,859	14.0%	7,612	6,763	12.6%	7,573	101%	7,468	102%	In-line
COGS	(1,064)	(964)	10.4%	(973)	9.4%	(3,914)	(3,495)	12.0%					
Gross profit	1,054	903	16.7%	885	19.0%	3,698	3,268	13.2%					
Opex	(726)	(516)	40.7%	(690)	5.2%	(2,835)	(2,521)	12.4%					
EBIT	328	388	-15.4%	195	67.8%	863	747	15.6%	798	108%	822	105%	Above
Other income (charges)	36	5	599.7%	28	25.9%	90	74	21.3%					
PBT	364	393	-7.4%	224	62.5%	953	821	16.1%					
Tax benefit (expense)	(90)	(75)	20.4%	(38)	136.2%	(189)	(147)	28.5%					
Net profit	274	313	-12.2%	187	47.0%	764	664	14.9%	706	108%	721	106%	Above
Core profit	274	241	13.9%	187	47.0%	764	634	20.5%					
Margin (%)													
Gross margin	49.7%	48.4%	1.38%	47.6%	2.11%	48.6%	48.3%	0.26%					
EBIT margin	15.5%	20.8%	-5.27%	10.5%	4.97%	11.3%	11.0%	0.30%					
Net profit margin	13.0%	16.7%	-3.78%	10.0%	2.91%	10.0%	9.8%	0.21%					
Opex to sales	-34.3%	-27.6%	-6.65%	-37.1%	2.86%	-37.2%	-37.3%	0.04%					

*Based on net sales

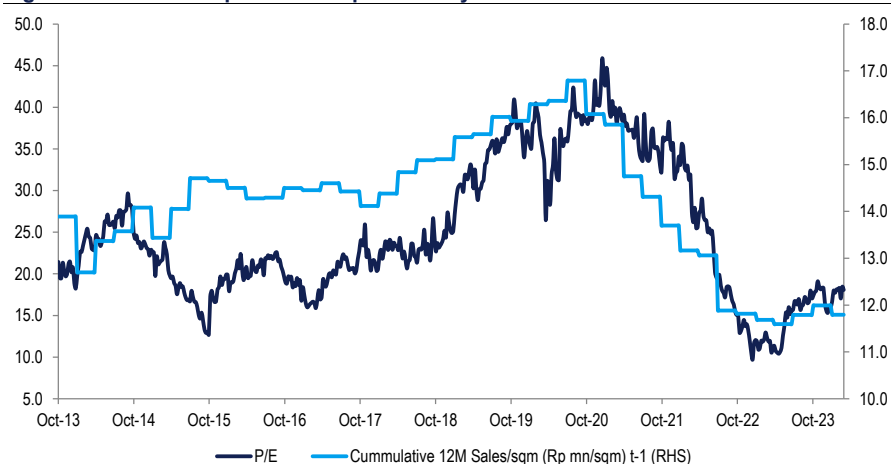
Source: Company, Bloomberg, Indo Premier

Fig. 2: ACES Forecast changes

	2024F	2025F	2024F	2025F	2024F	2025F
Key Driver						
SSSG (%)	6.5%	5.0%	6.5%	5.0%	0.0%	0.0%
Financial Performance						
Gross Sales (Rp bn)	8,802	9,576	8,665	9,472	-1.6%	-1.1%
Net Sales (Rp bn)	8,324	9,056	8,249	9,017	-0.9%	-0.4%
Gross profit (Rp bn)	3,990	4,332	4,048	4,452	1.5%	2.8%
EBIT (Rp bn)	934	1,035	1,000	1,128	7.1%	8.9%
Net profit (Rp bn)	822	910	857	965	4.2%	6.1%
Margins (%)						
Gross margin	47.9%	47.8%	49.1%	49.4%	1.1%	1.5%
Operating margin	11.2%	11.4%	12.1%	12.5%	0.9%	1.1%
Net profit margin	9.9%	10.1%	10.4%	10.7%	0.5%	0.7%
Growth (%)						
Gross sales growth (yoy)	9.9%	8.8%	8.4%	9.3%	-1.5%	0.5%
Net sales growth (yoy)	9.9%	8.8%	8.4%	9.3%	-1.5%	0.5%
Net profit growth (yoy)	16.4%	10.7%	12.2%	12.7%	-4.3%	2.0%

Source: Company, Bloomberg, Indo Premier

Fig. 3: ACES PE multiple vs. sales productivity



Source: Company, Bloomberg, Indo Premier

Fig. 4: Regional' retailer valuation summary

Ticker	Name	Region	Cur. Mkt cap USD mn	P/E		EPS Growth	
				FY24F	FY25F	FY24F	FY25F
ACES U Equity	Ace Harw are Indonesia	Indonesia	959	18.2	16.2	12.2%	12.7%
GLOBAL TB Equity	Siam Global House PCL	Thailand	2,375	25.2	22.6	12.8%	11.4%
HIMPRO TB Equity	Home Products Center PCL	Thailand	3,834	19.8	18.3	4.3%	8.4%
MRDIY MK Equity	MR. DIY Group	Malaysia	2,979	22.0	19.6	9.8%	12.5%
WLCON PM Equity	Wilcon Depot	Phillipine	1,296	15.3	13.2	15.1%	16.2%
Simple Average				20.1	18.0	10.8%	12.2%
Regional Average (ex-ACES)				20.6	18.4	10.5%	12.1%

Source: Bloomberg, Indo Premier

Fig. 5: ACES is traded at 17.7x fwd. 12M PE (-0.9s.d. from its 5yr avg)



Source: Bloomberg, Indo Premier

Income Statement (Rp bn)	2022A	2023A	2024F	2025F	2026F
Net revenue	6,763	7,612	8,249	9,017	9,850
Cost of sales	(3,495)	(3,914)	(4,201)	(4,565)	(4,958)
Gross profit	3,268	3,698	4,048	4,452	4,892
SG&A Expenses	(2,521)	(2,835)	(3,048)	(3,324)	(3,641)
Operating profit	747	863	1,000	1,128	1,251
Net interest	47	74	(55)	(54)	(52)
Forex gain (loss)	15	(5)	0	0	0
Others	49	21	120	127	134
Pre-tax income	858	953	1,065	1,201	1,333
Income tax	(147)	(189)	(209)	(235)	(261)
Net income	702	764	857	965	1,071

Balance Sheet (Rp bn)	2022A	2023A	2024F	2025F	2026F
Cash & equivalent	2,133	2,312	2,339	2,392	2,392
Receivable	86	199	114	125	137
Inventory	2,811	2,665	2,516	2,671	2,833
Other current assets	333	486	637	682	682
Total current assets	5,363	5,662	5,602	5,858	5,858
Fixed assets	426	406	383	354	319
Other non-current assets	0	0	0	0	0
Total non-current assets	1,886	2,073	2,164	2,137	2,103
Total assets	7,249	7,735	7,610	7,864	7,864
ST loans	0	0	0	0	0
Payable	144	126	195	212	231
Other payables	7	15	62	67	73
Current portion of LT loans	0	0	0	0	0
Total current liab.	670	764	768	801	837
Long term loans	0	0	0	0	0
Other LT liab.	196	202	212	222	233
Total liabilities	1,315	1,567	1,581	1,624	1,671
Equity	612	612	612	612	612
Retained earnings	5,312	5,565	5,823	6,117	6,431
Minority interest	44	43	43	43	43
Total SHE + minority int.	5,934	6,186	6,444	6,738	7,052
Total liabilities & equity	7,249	7,753	8,025	8,362	8,723

Source: Company, Indo Premier

Cash Flow Statement (Rp bn)	2022A	2023A	2024F	2025F	2026F
Net income	702	764	857	965	1,071
Depr. & amortization	105	109	151	161	170
Changes in working capital	(718)	(30)	67	(176)	(185)
Others	530	514	0	0	0
Cash flow from operating	619	1,356	1,075	950	1,057
Capital expenditure	(70)	(89)	(128)	(132)	(135)
Others	(32)	(41)	(105)	0	0
Cash flow from investing	(102)	(131)	(233)	(132)	(135)
Loans	0	1	0	0	0
Equity	12	(1)	0	0	0
Dividends	(550)	(550)	(599)	(672)	(757)
Others	(401)	(491)	0	0	0
Cash flow from financing	(939)	(1,042)	(599)	(672)	(757)
Changes in cash	(423)	184	243	146	164

Key Ratios	2022A	2023A	2024F	2025F	2026F
Gross margin	48.3%	48.6%	49.1%	49.4%	49.7%
Operating margin	11.0%	11.3%	12.1%	12.5%	12.7%
Pre-tax margin	12.7%	12.5%	12.9%	13.3%	13.5%
Net margin	10.4%	10.0%	10.4%	10.7%	10.9%
ROA	9.7%	10.2%	9.3%	9.9%	9.9%
ROE	12.2%	12.6%	13.6%	14.6%	15.5%
Acct. receivables TO (days)	4.1	6.8	6.9	4.8	4.9
Inventory TO (days)	270.4	255.3	225.0	207.3	202.6
Payable TO (days)	14.2	12.6	13.9	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	10.0	11.2	12.5
Net gearing	-36.2%	-37.6%	-37.8%	-37.4%	-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

ANALYSTS CERTIFICATION

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