

Ace Hardware Indonesia

BUY (unchanged)

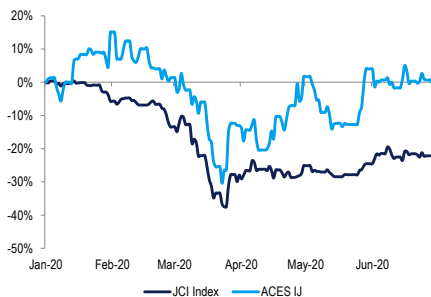
Company Update | Consumer Discretionary | ACES IJ | 29 June 2020

Stock Data

Target price	Rp1,800
Prior TP	Rp1,500
Current price	Rp1,485
Upside/downside	+21%
Shares outstanding (mn)	17,150
Market cap (Rp bn)	25,468
Free float	40%
Avg. 6m daily T/O (Rp bn)	25

Price Performance

	3M	6M	12M
Absolute	13.4%	-4.2%	-18.0%
Relative to JCI	5.5%	18.4%	5.0%
52w low/high		1,040 – 1,890	



Major Shareholders

PT Kawan Lama Sejahtera	60.0%
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1Q20: Solid set of results

- 1Q20 core earnings were above estimates; drop in 2Q20 onwards will be largely expected and most likely better than the rest.
- Nonetheless, in-stores traffic steadily improved since its bottom in Apr 2020. GPM and opex shall remain under control in our view.
- 15% FY20F core earnings decline is better amidst current condition. With solid GCG and operational, maintain Buy with higher TP Rp1,800.

1Q20 results was above expectations; drop in 2Q20 shall be expected

ACES' 1Q20 core net profit was flattish at Rp253bn (+2.5% yoy), above at 27/28% of our and consensus' estimates (3Y average of 22%). Drop in 2Q20 onwards will be largely expected and most likely better than the rest. 5M20 SSSG stood at -7.6% (vs. 3M20 SSSG of +2.5%). On a more positive note, 1Q20 GPM improved +162bps yoy (+104bps qoq) to 47.1%.

In-stores traffic steadily improved; although not yet normal

We have seen SSSG improved from -27.7% in Apr20 to -18.2% in May20 which may also imply improving stores' traffic (as it does not include loss of sales from closed stores). We expect in-stores traffic to further improve in June onwards; and possibly normalize in mid-3Q20. Meanwhile, as of today, our channel check suggests all of ACES' stores have re-opened (vs. c.17% closed in mid-May and c.21% in mid-April). ACES also managed to still open 9 stores YTD (+4.4% of total retail space).

We estimate -15% core earnings decline in FY20F, which is better considering the severity of Covid-19 impact to retailers

We cut our FY20F sales growth estimates to +0.3% yoy (previously +4.6% yoy). Nonetheless, with better product mix and stable USD/IDR, ACES may be able to maintain its GPM at 45.5% (1Q20: 47.1% - we are being conservative), while c.20% of its operational staffs' salaries was variable (dependant on meeting sales target) and rentals in closed stores were waived. All in, we cut our FY20F earnings estimates by 6.1% to Rp877bn, implying -15% yoy earnings decline, better vs. the sector's -35% yoy decline.

Expensive for a reason; maintain Buy with higher TP of Rp1,800

With current improvement trajectory, we are almost positive that ACES will get back in shape as soon as Covid-19 ends. We expect ACES' 2021F earnings to rise to Rp1.1tr (+3.2% CAGR 2019-21F). We believe ACES deserves its premium valuation as it remains the strongest retailer during pandemic backed with solid GCG and operational. We maintain our Buy call and raised our TP to Rp1,800, now pegged to 28.5x (+1 s.d. above 5-year mean) as the worst is likely over, from previously 23.1x (5-year mean).

Financial Summary (Rp bn)	2018A	2019A	2020F	2021F	2022F
Revenue	7,240	8,143	8,171	9,611	10,502
EBITDA	1,168	1,279	1,077	1,339	1,409
EBITDA growth	23.6%	9.5%	-15.8%	24.3%	5.3%
Net profit	965	1,030	877	1,098	1,161
EPS (Rp)	56	60	51	64	68
EPS growth	24.0%	6.8%	-14.8%	25.1%	5.8%
ROE	25%	23%	18%	20%	19%
PER (x)	26.4	24.7	29.0	23.2	21.9
EV/EBITDA (x)	21.2	18.9	22.3	17.8	16.7
Dividend yield	1.5%	1.9%	2.0%	1.7%	2.2%
Forecast change			-6.1%	-0.7%	-0.7%
IPS vs. consensus			98%	98%	93%

Source: Company, Indo Premier

Share price closing as of: 29 June 2020

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Fig. 1: 1Q20 result summary

	1Q20	1Q19	yoy, % chg	4Q19	qoq, % chg	Prev. FY20F	Comment
Gross sales	2,071	1,960	5.7%	2,285	-9.3%	8,925	
Net sales	1,967	1,882	4.5%	2,169	-9.3%	8,515	In line at 23%/25% of ours and consensus' (3Y average of 22%)
COGS	(992)	(991)		(1,116)			
Gross profit	975	891	9.4%	1,052	-7.3%		
Opex	(708)	(616)		(712)			
EBIT	267	276	-2.9%	340	-21.3%	1,022	Above at 26%/28% of ours and consensus' (3Y average of 22%)
Other income (charges)	29	18		32			
PBT	296	294	0.7%	372	-20.4%		
Tax benefit (expense)	(52)	(55)		(68)			
Minority interest	2	(2)		(1)			
Net profit	246	237	3.7%	303	-18.9%		
Core profit	253	247	2.5%	298	-15.2%	934	Above at 27%/28% of ours and consensus' (3Y average of 22%)
Margin (%)							
Gross margin	47.1%	45.5%		46.1%			
EBIT margin	12.9%	14.1%		14.9%			
Core profit margin	12.2%	12.6%		13.0%			
*margins as % of gross sales							

Source: Company, Indo Premier

Fig. 2: ACES' FY20F SSSG simulation

	Stores opening assumption	Traffic assumption (from opened stores) *	SSSG estimates
Jan	100%	105%	5%
Feb	100%	107%	7%
Mar	100%	95%	-5%
Apr	80%	70%	-44%
May	80%	80%	-36%
Jun	95%	90%	-15%
Jul	100%	100%	0%
Aug	100%	100%	0%
Sep	100%	100%	0%
Oct	100%	105%	5%
Nov	100%	105%	5%
Dec	100%	105%	5%
Total			-6%

*) vs. 2019

Note: Our SSSG estimates include loss of sales due to stores closure
Source: Indo Premier

Fig. 3: Forecast changes

	Previous			Current			Changes		
	2020F	2021F	2022F	2020F	2021F	2022F	2020F	2021F	2022F
Key Driver									
New space added (sqm)	17,600	36,400	27,600	21,600	36,400	27,600	22.7%	0.0%	0.0%
SSSG	-2.0%	10.0%	4.0%	-6.0%	10.0%	4.0%	-4.0%	0.0%	0.0%
Financial Performance									
Gross Sales (Rp bn)	8,925	10,425	11,395	8,564	10,074	11,008	-4.0%	-3.4%	-3.4%
Net Sales (Rp bn)	8,515	9,946	10,871	8,171	9,611	10,502	-4.0%	-3.4%	-3.4%
Gross profit (Rp bn)	4,023	4,700	5,137	3,901	4,588	5,014	-3.0%	-2.4%	-2.4%
EBIT (Rp bn)	1,022	1,222	1,287	953	1,208	1,271	-6.8%	-1.2%	-1.2%
Core net profit (Rp bn)	934	1,106	1,169	877	1,098	1,161	-6.1%	-0.7%	-0.7%
Margins (%)									
Gross margin	45.1%	45.1%	45.1%	45.5%	45.5%	45.5%			
Operating margin	11.4%	11.7%	11.3%	11.1%	12.0%	11.5%			
Core net margin	10.5%	10.6%	10.3%	10.2%	10.9%	10.5%			
Growth (%)									
Gross sales growth (yoy)	4.6%	16.8%	9.3%	0.3%	17.6%	9.3%			
Net sales growth (yoy)	4.6%	16.8%	9.3%	0.3%	17.6%	9.3%			
Core net profit growth (yoy)	-9.3%	18.5%	5.7%	-14.8%	25.1%	5.8%			
* margins as % of gross sales									

Source: Indo Premier

Fig. 4: ACES is currently trading at 26.2x 12M forward P/E, or almost at 1 s.d. above its 5-year mean of 23.7x



Source: Bloomberg, Indo Premier

Income Statement (Rp bn)	2018A	2019A	2020F	2021F	2022F
Net revenue	7,240	8,143	8,171	9,611	10,502
Cost of sales	(3,797)	(4,256)	(4,270)	(5,023)	(5,488)
Gross profit	3,443	3,887	3,901	4,588	5,014
SG&A Expenses	(2,371)	(2,725)	(2,948)	(3,381)	(3,743)
Operating profit	1,072	1,163	953	1,208	1,271
Net interest	29	31	42	48	57
Forex gain (loss)	16	(16)	0	0	0
Others	86	103	90	101	105
Pre-tax income	1,203	1,280	1,085	1,357	1,433
Income tax	(226)	(243)	(208)	(259)	(272)
Minority interest	(12)	(7)	0	0	0
Net income	965	1,030	877	1,098	1,161

Balance Sheet (Rp bn)	2018A	2019A	2020F	2021F	2022F
Cash & equivalent	799	1,255	1,433	1,623	1,997
Receivable	37	89	45	53	58
Inventory	2,520	2,653	2,662	3,131	3,421
Other current assets	551	372	616	714	775
Total current assets	3,906	4,369	4,756	5,521	6,251
Fixed assets	444	502	443	424	374
Goodwill	0	0	0	0	0
Total non-current assets	1,962	2,277	2,275	2,259	2,211
Total assets	5,868	6,646	7,031	7,781	8,462
ST loans	115	0	0	0	0
Payable	198	178	178	210	229
Other payables	12	52	52	61	67
Current portion of LT loans	0	0	0	0	0
Total current liab.	786	785	778	839	876
Long term loans	0	0	0	0	0
Other LT liab.	455	610	640	671	704
Total liabilities	1,685	1,969	1,993	2,085	2,155
Equity	576	576	576	576	576
Retained earnings	3,617	4,104	4,465	5,123	5,734
Minority interest	10	16	16	16	16
Total SHE + minority int.	4,184	4,677	5,038	5,696	6,306
Total liabilities & equity	5,868	6,646	7,031	7,781	8,462

Source: Company, Indo Premier

Cash Flow Statement (Rp bn)	2018A	2019A	2020F	2021F	2022F
Net income	965	1,030	877	1,098	1,161
Depr. & amortization	65	82	124	131	138
Changes in working capital	(533)	87	(198)	(487)	(287)
Others	(216)	(40)	0	0	0
Cash flow from operating	281	1,160	803	742	1,012
Capital expenditure	(150)	(140)	(65)	(112)	(88)
Others	(11)	(18)	(44)	0	0
Cash flow from investing	(161)	(158)	(109)	(112)	(88)
Loans	116	(121)	0	0	0
Equity	47	6	0	0	0
Dividends	(391)	(484)	(516)	(440)	(550)
Others	35	51	0	0	(0)
Cash flow from financing	(193)	(548)	(516)	(440)	(550)
Changes in cash	(73)	454	178	190	374

Key Ratios	2018A	2019A	2020F	2021F	2022F
Gross margin	47.6%	47.7%	47.7%	47.7%	47.7%
Operating margin	14.8%	14.3%	11.7%	12.6%	12.1%
Pre-tax margin	16.6%	15.7%	13.3%	14.1%	13.7%
Net margin	13.3%	12.7%	10.7%	11.4%	11.1%
ROA	18.7%	16.5%	12.8%	14.8%	14.3%
ROE	25.1%	23.3%	18.1%	20.5%	19.3%
Acct. receivables TO (days)	3.2	2.8	3.0	1.9	1.9
Inventory TO (days)	210.0	221.8	227.1	210.5	217.9
Payable TO (days)	17.6	16.1	15.2	14.1	14.6
Debt to equity	2.8%	0.0%	0.0%	0.0%	0.0%
Interest coverage ratio (x)	1,500.9	627.6	N/A	N/A	N/A
Net gearing	-16.4%	-26.9%	-28.5%	-28.6%	-31.7%

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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