

Ace Hardware Indonesia (ACES)

Off to a sluggish start

Recovery path appears to be sluggish

Post Omicron in early 2022, we have yet to observe any major progress in ACES recovery. According to the latest monthly operational metrics, although Apr-22 sales have improved 10% YoY from a low base last year, this only reached ~89% of Apr-19 level despite mall traffic having improved significantly. The cumulative SSSG as of 4M22 remained negative at -2.6%. Moving ahead, we believe that upcoming SSSG improvement should be expected given the low base effect from last year (FY21 SSSG: -13.6%; FY20: -9.3%).

Tighter competition starts kicking in...

We see that the competition remains fierce within the industry. The entrance of mom-and-pops stores into e-commerce, we believe, may pose a danger to ACES as we see that company's products price are typically 20-30% higher than the average product sold at e-commerce. Another threat may come from MR. DIY, which has been very aggressive since entering Indonesia market since 2018. Currently, it already has >300 stores across the country (vs. ACES: 222 stores in Apr-22). Considering its pricing strategy appears to be lower than ACES, this may result in a significant price gap between ACES and competitors.

...putting conservative view on overall outlook

Overall, we see that ACES earnings would not recover back to pre-Covid level in mid-term, at least until 2024. We think that demand for "home improvement" may be peaking in early pandemic, when people started working from home. We believe that the next catalyst would come from stronger housing sales. Company aims to reach +5% SSSG in FY22F, while we set a more conservative outlook of +3% SSSG. This implies ~+5% SSSG for the rest of the year, resulting in 7% sales growth in FY22F.

Re-initiate coverage with SELL recommendation with TP of IDR 820

Our TP implies 18x FY22F PE (-2 SD from 5-yr mean). ACES now trades at 21.4x FY22F PE, -1.2 SD from its 5-yr mean but still deemed higher than its peers. ROE has dropped from high twenties to low teens in the last 10 years. Hefty valuation with declining ROE may be hard to justify in current situation. On the mall traffic recovery theme, we prefer companies with exposure on fashion lifestyle and F&B. We will turn into more positive if there is any meaningful progress in the recovery trajectory.

	2020A	2021A	2022F	2023F	2024F
Sales (IDR bn)	7,413	6,543	6,995	7,600	8,236
GP (IDR bn)	3,659	3,212	3,404	3,699	4,010
OP (IDR bn)	853	787	925	1,034	1,113
NP (IDR bn)	734	704	782	879	939
EBITDA (IDR bn)	991	935	1,068	1,192	1,286
Net debt/(cash) (IDR bn)	(2,220)	(2,545)	(2,698)	(2,833)	(2,885)
OP margin (%)	11.5	12.0	13.2	13.6	13.5
ROE (%)	14.9	13.2	14.0	15.0	15.2
Dividend yield (%)	1.7	3.1	3.3	3.0	3.7
EPS (IDR)	42.8	41.1	45.7	51.3	54.7
chg. (% YoY)	(27.9)	(4.1)	11.1	12.4	6.8
BPS (IDR)	304.5	321.4	332.8	353.2	369.6
DPS (IDR)	18.0	32.1	34.3	30.8	38.4
PE (x)	22.8	23.7	21.4	19.0	17.8
PB (x)	3.2	3.0	2.9	2.8	2.6
EV/EBITDA (x)	14.6	15.2	13.2	11.7	10.8

12M rating **SELL (Initiate)**

12M TP **IDR 820**

Upside **-16%**

Stock Data

JCI (May 24)	6,914
Stock price (May 24, IDR)	975
Market cap (IDR bn)	16,271
Shares outstanding (mn)	17,150
52-week high/low (IDR)	1,600 / 935
6M avg. daily turnover (IDR bn)	31.1
Free float (%)	40.0

Major shareholders (%)

PT Kawan Lama Sejahtera	59.9
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Performance

	1M	6M	12M
Absolute (%)	(6.6)	(28.9)	(29.3)
Relative to JCI (%p)	(4.3)	(33.2)	(42.8)

ACES stock price

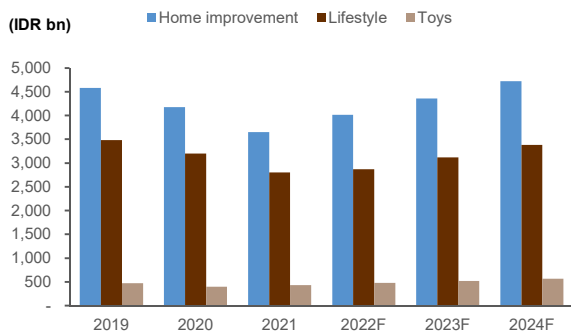


Source: Bloomberg

Elvira Natalia

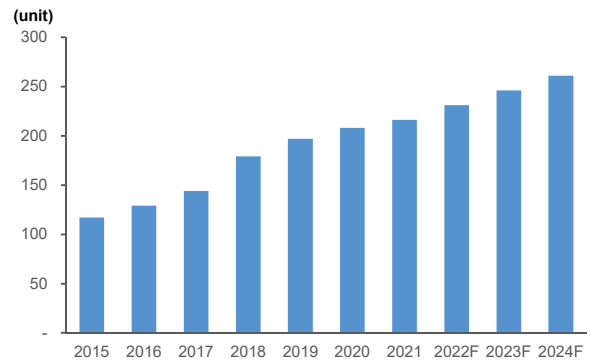
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Fig 1. Revenue breakdown by segment



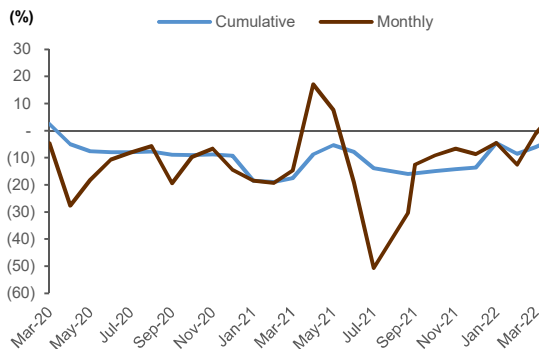
Source: Company, KISI

Fig 2. No. of stores



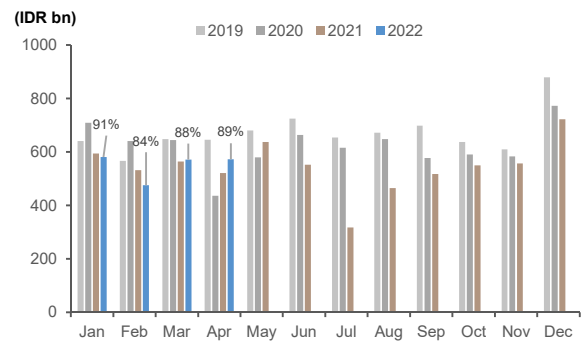
Source: Company, KISI

Fig 3. ACES SSSG



Source: Company, KISI

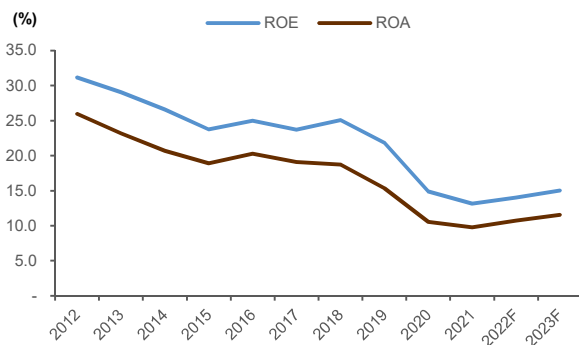
Fig 4. ACES Apr-22 sales were ~89% of Apr-19 sales



*compared to same period in 2019

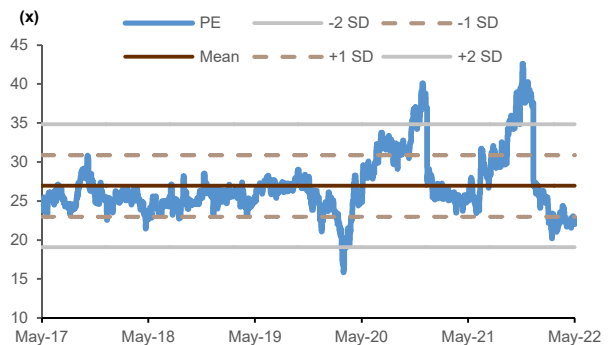
Source: Company, KISI

Fig 5. Declining ROE and ROA in the past 10 years



Source: Company, KISI

Fig 6. ACES's FY22F PE band

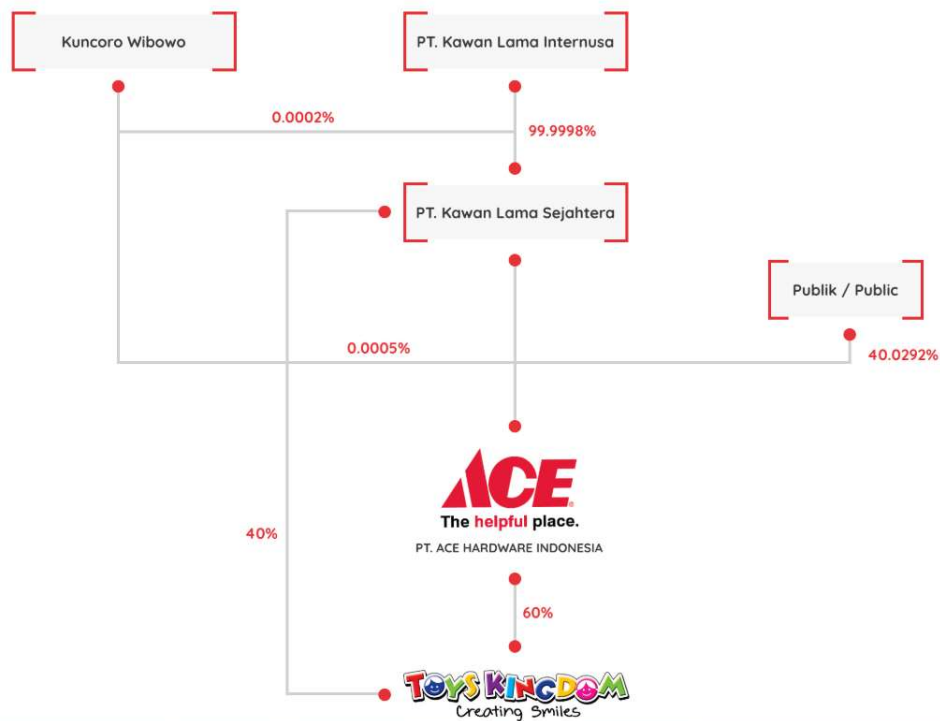


Source: Bloomberg, KISI

Company Overview

Ace Hardware Indonesia (ACES) initially started from a trading company Kawan Lama Sejahtera back in 1955, where the company was primarily trading and distributing commercial industrial tools. Since then, the Company has continued to grow as a retail company and still become one of the leading retail companies, providing various home improvement and lifestyle products all around Indonesia. The company initially sells merchandise from the USA before eventually selling its own private label. In return, ACES paid ~0.5% royalty fee to Ace Hardware USA for every good being sold in the store. The trademark agreement lasted for 15 years and is already in its second term, renewable by 31 Dec 2024.

Fig 7. ACES shareholder structure



Source: Company, KISI

Fig 8. ACES regional presence as of 2021e



Source: Company, KISI

Balance sheet (IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Current assets					
Cash & cash equivalent	2,220	2,545	2,698	2,833	2,885
Accounts & other receivables	143	67	82	89	97
Inventories	2,453	2,368	2,395	2,602	2,819
Others	218	214	214	214	214
Non-current assets					
Fixed assets	512	460	496	531	565
Intangible assets	-	-	-	-	-
Investment properties	363	348	333	318	302
Other non-current assets	1,338	1,189	1,177	1,219	1,380
Total assets	7,247	7,191	7,395	7,806	8,262
Current liabilities					
Accounts & other payables	164	127	159	173	188
ST debt	-	-	-	-	-
Current portion of LT debt	-	-	-	-	-
Others	680	596	587	606	659
Non-current liabilities					
LT debt	0	-	-	-	-
Other non-current liabilities	1,180	955	940	968	1,076
Total liabilities	2,024	1,678	1,686	1,747	1,923
Controlling interest					
Capital stock	172	172	172	172	172
Additional paid-in capital	441	441	441	441	441
Retained earnings	4,629	4,903	5,099	5,449	5,729
Others	(34)	(34)	(34)	(34)	(34)
Minority interest	15	31	31	31	31
Shareholders' equity	5,223	5,513	5,709	6,059	6,339

Cash flow (IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
C/F from operating					
Net profit	734	704	782	879	939
Depreciation	138	147	143	158	173
Net incr. in W/C	446	(33)	(21)	(196)	(210)
Others	-	5	-	-	-
C/F from investing	(166)	(85)	(163)	(177)	(192)
CAPEX	(166)	(85)	(163)	(177)	(192)
Others	-	-	-	-	-
C/F from financing	(187)	(413)	(588)	(529)	(658)
Incr. in equity	36	-	-	-	-
Incr. in debts	-	-	-	-	-
Dividends	(309)	(550)	(588)	(529)	(658)
Others	86	137	-	-	-
Increase in cash	965	325	153	135	52

Income statement (IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Sales	7,413	6,543	6,995	7,600	8,236
COGS	(3,754)	(3,331)	(3,591)	(3,901)	(4,226)
Gross profit	3,659	3,212	3,404	3,699	4,010
SG&A expense	(2,806)	(2,425)	(2,479)	(2,665)	(2,897)
Operating profit	853	787	925	1,034	1,113
Financial income					
Interest income	63	48	53	56	58
Financial expense					
Interest expense	(126)	(112)	(115)	(121)	(136)
Other non-operating profit	134	135	135	152	162
Gains (Losses) from associates and JV	-	-	-	-	-
Earnings before tax	924	858	998	1,121	1,197
Income taxes	(192)	(140)	(200)	(224)	(239)
Net profit	734	704	782	879	939
Non-controlling interest	(2)	14	16	18	19
EBITDA	991	935	1,068	1,192	1,286

Key financial data

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
per share data (IDR)					
EPS	42.8	41.1	45.7	51.3	54.7
BPS	304.5	321.4	332.8	353.2	369.6
DPS	18.0	32.1	34.3	30.8	38.4
Growth (%)					
Sales growth	(9.0)	(11.7)	6.9	8.6	8.4
OP growth	(30.0)	(7.7)	17.5	11.8	7.6
NP growth	(27.9)	(4.1)	11.1	12.4	6.8
EBITDA growth	(25.5)	(5.7)	14.2	11.6	7.9
Profitability (%)					
OP margin	11.5	12.0	13.2	13.6	13.5
NP margin	9.9	10.8	11.2	11.6	11.4
EBITDA margin	13.4	14.3	15.3	15.7	15.6
ROA	10.6	9.8	10.7	11.6	11.7
ROE	14.9	13.2	14.0	15.0	15.2
Dividend yield	1.7	3.1	3.3	3.0	3.7
Dividend payout ratio	30.4	74.9	83.5	67.6	74.9
Stability					
Net debt (IDR bn)	(2,220)	(2,545)	(2,698)	(2,833)	(2,885)
Int-bearing debt/equity (%)	-	-	-	-	-
Valuation (X)					
PE	22.8	23.7	21.4	19.0	17.8
PB	3.2	3.0	2.9	2.8	2.6
EV/EBITDA	14.6	15.2	13.2	11.7	10.8

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