

Ace Hardware Indonesia (ACES)

Fairly priced

Rocky road to recovery

ACES' performance has gone over its peak in early 2020 and has yet to reach pre-pandemic levels despite increased mobility, as indicated by its monthly results in the past 3 years. The latest SSSG reading was -2.1% in Nov2022, resulting in 11M22 SSSG of 1.4%, below co's FY guidance of +5% and our estimate of +3%. 11M22 sales were only IDR 6tn (+3% YoY), while 2022 monthly sales were generally still below the 2019-2020 levels (see Fig. 1). Aside from that, inventory days have been increasing since 2017 in comparison to peers' declining trend (see Fig. 2), which may suggest company's incrementally slowing product turnover.

Getting into more challenging circumstances; cut earnings projection

We believe that the unsatisfactory results were caused by structural changes in consumer behavior. As people are now having a busier lifestyle, many choose to shop either in smaller-format stores (where they spend less time strolling around), or online (where it is easier to compare prices). Lots of competitors with much fresher concepts, such as Miniso, KKV, IKEA, and others, are gaining traction among younger consumers, while MR. DIY's aggressive expansion – 463 stores as of Nov2022 compared to ACES' 228 – may pose challenges to ACES' expansion plan, particularly in the second and third-tier cities. For these reasons, we believe the recovery will take longer than we estimated. Hence, we trimmed our sales projection by 5%/7% in FY22/FY23F, resulting in 34%/35% lower EPS than our initial estimates.

Deep price correction suggests limited downside, upgrade to HOLD

We upgrade our call on ACES to HOLD with a TP of IDR 400, based on 12.2x FY23 PE, a 50% discount to regional peers' valuation (see Table 2). Softer sales growth, weaker margins, and declining ROE have resulted in the company's share price being heavily punished. The stock is down by 66% YTD, which is now similar to the 2011-2012 historical prices level. At current price, we think that all of the bad news has been fairly priced in; thus, any meaningful recovery should offer a better upside in the future.

	2020A	2021A	2022F	2023F	2024F
Net Sales (IDR bn)	7,413	6,543	6,660	7,036	7,422
GP (IDR bn)	3,659	3,213	3,207	3,412	3,600
OP (IDR bn)	853	788	584	651	743
NP (IDR bn)	733	704	519	571	635
EBITDA (IDR bn)	991	935	727	808	914
Net debt/(cash) (IDR bn)	(2,220)	(2,544)	(2,763)	(2,922)	(3,049)
OP margin (%)	11.5	12.0	8.8	9.3	10.0
ROE (%)	14.9	13.2	9.3	9.9	10.5
Dividend yield (%)	4.2	7.5	4.8	4.0	5.1
EPS (IDR)	43	41	30	33	37
chg. (% YoY)	(27.9)	(3.9)	(26.4)	10.0	11.2
BPS (IDR)	305	321	331	347	362
DPS (IDR)	18	32	21	17	22
PE (x)	10.1	10.5	14.2	12.9	11.6
PB (x)	1.4	1.3	1.3	1.2	1.2
EV/EBITDA (x)	5.2	5.2	6.4	5.6	4.8

Company Update

Retailers

22 December 2022

12M rating **HOLD (Upgrade)**
12M TP **IDR 400**
Upside **-7.0%**

Stock Data

JCI (Dec 21)	6,821
Stock price (Dec 21, IDR)	430
Market cap (IDR bn)	7,375
Shares outstanding (mn)	17,150
52-week high/low (IDR)	1,395 / 392
6M avg. daily turnover (IDR bn)	39.7
Free float (%)	39.8

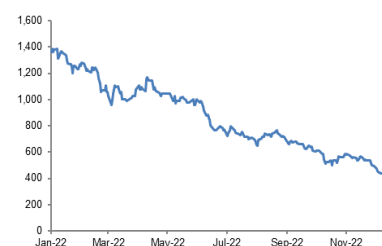
Major shareholders (%)

PT Kawan Lama Sejahtera	59.9
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Performance

	1M	6M	12M
Absolute (%)	(24.6)	(44.5)	(65.8)
Relative to JCI (%p)	(19.8)	(41.9)	(68.2)

ACES stock price

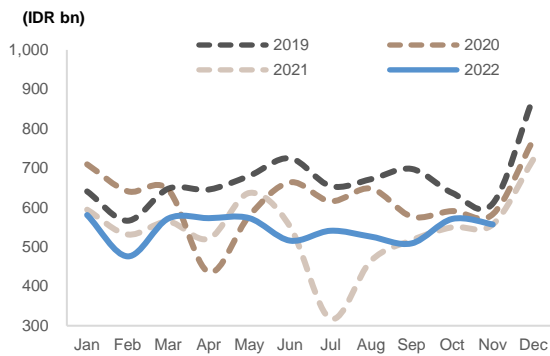


Source: Bloomberg

Elvira Natalia

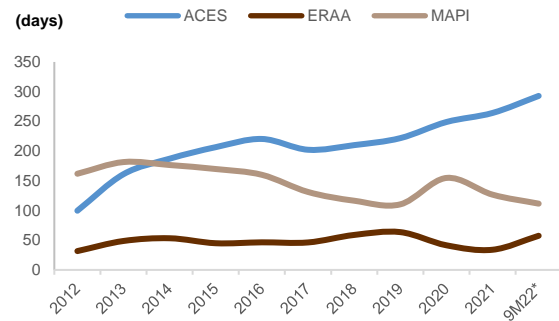
elvira.n@kisi.co.id

Fig 1. ACES' monthly sales



Source: Company, KISI

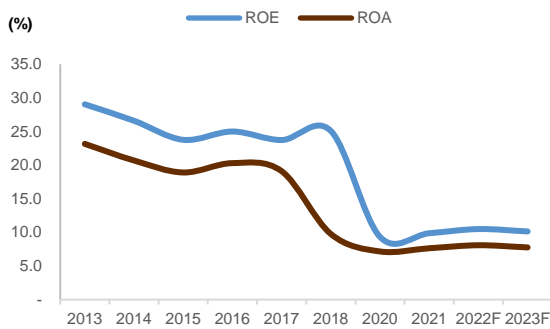
Fig 2. Retailers' inventory days



*Trailing 12month

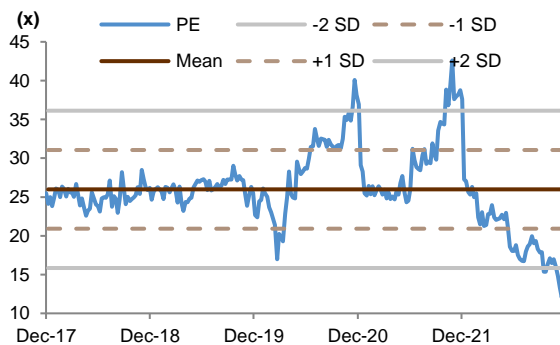
Source: Company, KISI

Fig 3. ROE and ROA



Source: Company, KISI

Fig 4. Forward PE band



Source: Bloomberg, KISI

Table 1. Forecast changes

	Old		New		Changes	
	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
Net Sales (IDR bn)	6,995	7,600	6,660	7,036	-4.8%	-7.4%
GP (IDR bn)	3,404	3,699	3,207	3,412	-5.8%	-7.8%
OP (IDR bn)	925	1,034	584	651	-36.9%	-37.0%
NP (IDR bn)	782	879	519	571	-33.7%	-35.1%
Gross margin	48.7	48.7	48.2	48.5		
EBIT margin	13.2	13.6	8.8	9.3		
Net margin	11.2	11.6	7.8	8.1		
Combined SSSG (%)	3.0	5.0	0.0	3.0		
Number of stores	231	246	226	241		

Source: Company, KISI

Table 2. Peers comparison

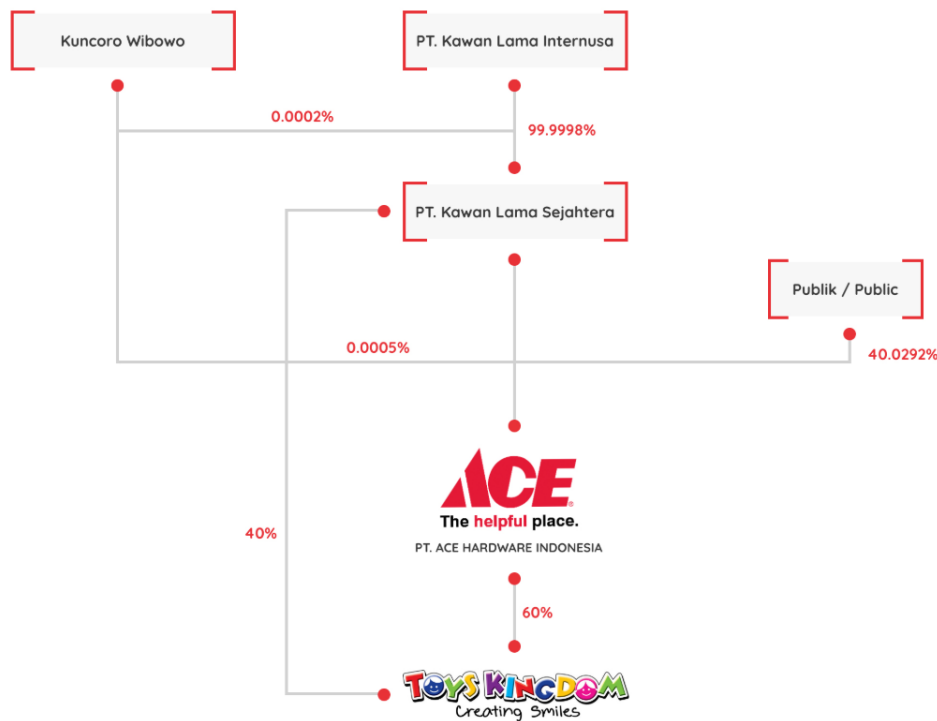
Company	Mkt Cap (USD mn)	PE (x)		PB (x)		EV/EBITDA (x)		EPS growth (%)		Div. yield (%)		ROE (%)	
		FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
ACE HARDWARE INDONESIA	473	14.2	12.9	6.4	5.6	1.3	1.2	(26.4)	10.0	4.8	4.0	9.3	9.9
MR DIY GROUP M BHD	5,721	29.5	28.0	8.1	7.5	18.7	17.1	18.5	10.9	2.4	2.7	26.6	27.5
SIAM GLOBAL HOUSE PCL	4,399	35.8	31.8	13.9	11.1	21.2	17.8	13.0	25.0	1.2	1.4	38.9	38.9
WILCON DEPOT INC	2,960	26.4	25.3	4.6	4.1	20.2	18.6	11.8	9.3	1.4	1.6	17.6	17.1
ALLHOME CORP	2,202	30.0	27.4	6.0	5.2	16.9	15.2	46.5	19.1	0.7	1.1	19.3	19.1
HOME PRODUCT CENTER PCL	98	4.8	4.1	0.4	0.3	5.1	4.1	(33.3)	35.8	5.9	2.4	5.5	7.6
WILCON DEPOT INC	473	14.2	12.9	6.4	5.6	1.3	1.2	(26.4)	9.9	4.8	4.0	9.3	9.9
Regional peers' average		26.1	24.0	6.5	5.6	16.5	14.7	17.2	19.8	2.1	1.7	21.2	21.5

Source: Bloomberg, KISI

Company Overview

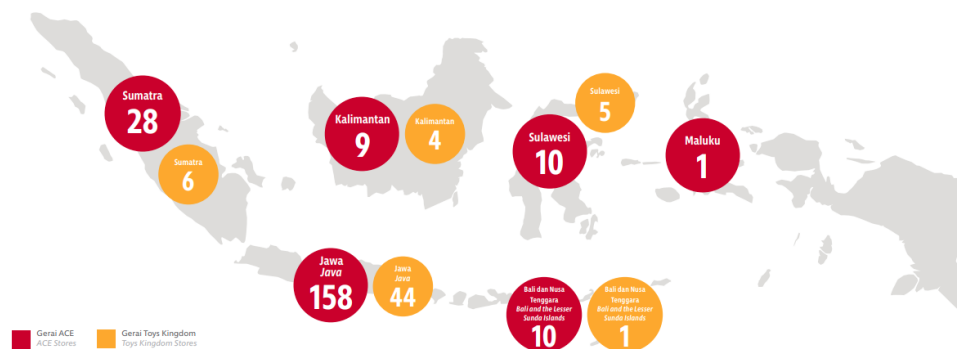
Ace Hardware Indonesia (ACES) initially started from a trading company Kawan Lama Sejahtera back in 1955, where the company was primarily trading and distributing commercial industrial tools. Since then, the Company has continued to grow as a retail company and still become one of the leading retail 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 5. ACES shareholder structure



Source: Company, KISI

Fig 6. 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	2,544	2,763	2,922	3,049
Accounts & other receivables	143	67	78	83	87
Inventories	2,453	2,368	2,303	2,417	2,550
Others	218	214	214	214	214
Non-current assets					
Fixed assets	512	460	488	511	529
Intangible assets	-	-	-	-	-
Investment properties	363	348	333	318	302
Other non-current assets	1,338	1,189	1,132	1,174	1,335
Total assets	7,247	7,190	7,310	7,637	8,066
Current liabilities					
Accounts & other payables	164	127	152	160	169
ST debt	-	-	-	-	-
Current portion of LT debt	-	-	-	-	-
Others	681	596	569	585	637
Non-current liabilities					
LT debt	-	-	-	-	-
Other non-current liabilities	1,180	955	911	939	1,046
Total liabilities	2,025	1,677	1,632	1,684	1,852
Controlling interest					
Capital stock	172	172	172	172	172
Additional paid-in capital	441	441	441	441	441
Retained earnings	4,629	4,903	5,069	5,344	5,604
Others	(34)	(34)	(34)	(34)	(34)
Minority interest	15	31	31	31	31
Shareholders' equity	5,222	5,513	5,678	5,953	6,213

Cash flow

(IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
C/F from operating					
Net profit	733	704	519	571	635
Depreciation	138	147	143	156	171
Net incr. in W/C	446	(33)	66	(108)	(130)
Others	0	5	0	(0)	(0)
C/F from investing					
CAPEX	(166)	(85)	(156)	(164)	(173)
Others	-	-	-	-	-
C/F from financing					
Incr. in equity	36	-	-	-	-
Incr. in debts	-	-	-	-	-
Dividends	(309)	(550)	(353)	(296)	(375)
Others	86	137	-	-	-
Increase in cash	965	324	219	159	127

Income statement

(IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Net Sales	7,413	6,543	6,660	7,036	7,422
COGS	(3,754)	(3,331)	(3,453)	(3,623)	(3,822)
Gross profit	3,659	3,213	3,207	3,412	3,600
SG&A expense	(2,806)	(2,425)	(2,623)	(2,761)	(2,857)
Operating profit	853	788	584	651	743
Financial income					
Interest income	63	48	49	52	55
Financial expense					
Interest expense	(126)	(112)	(107)	(111)	(124)
Other non-operating profit	134	135	136	136	136
Gains (Losses) from associates and JV	-	-	-	-	-
Earnings before tax	923	859	662	728	810
Income taxes	(192)	(140)	(132)	(146)	(162)
Non-controlling interest	(2)	14	11	12	13
Net profit	733	704	519	571	635
EBITDA	991	935	727	808	914

Key financial data

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
per share data (IDR)					
EPS	42.8	41.1	30.2	33.3	37.0
BPS	304.5	321.4	331.1	347.1	362.3
DPS	18.0	32.1	20.6	17.3	21.8
Growth (%)					
Sales growth	(9.0)	(11.7)	1.8	5.6	5.5
OP growth	(30.0)	(7.7)	(25.8)	11.5	14.1
NP growth	(27.9)	(3.9)	(26.4)	10.0	11.2
EBITDA growth	(25.5)	(5.7)	(22.2)	11.1	13.2
Profitability (%)					
OP margin	11.5	12.0	8.8	9.3	10.0
NP margin	9.9	10.8	7.8	8.1	8.6
EBITDA margin	13.4	14.3	10.9	11.5	12.3
ROA	10.6	9.8	7.2	7.6	8.1
ROE	14.9	13.2	9.3	9.9	10.5
Dividend yield	4.2	7.5	4.8	4.0	5.1
Dividend payout ratio	30.4	75.1	50.1	57.1	65.6
Stability					
Net debt (IDR bn)	(2,220)	(2,544)	(2,763)	(2,922)	(3,049)
Int-bearing debt/equity (%)	-	-	-	-	-
Valuation (X)					
PE	10.1	10.5	14.2	12.9	11.6
PB	1.4	1.3	1.3	1.2	1.2
EV/EBITDA	5.2	5.2	6.4	5.6	4.8

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