

December 22, 2022



Research Center

# Morning KISI/

- Market Commentary
- Company Update  
ACE Hardware Indonesia, Tbk (ACES): Fairly priced
- Macro Calendar

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# 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

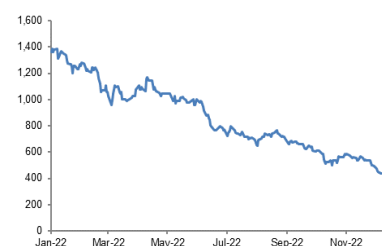
#### Major shareholders (%)

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

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## Market Commentary

### Market Commentary

- JCI finished 47 points higher on Wednesday, snapping its two-day losses on a sign of improving risk appetite on a weaker dollar and rebound in commodity prices.
- Commodity stocks were the main driver for the index gains and tempted to poise the positive sentiments to the broader market.
- Energy stocks led and contributed most to index gains, followed by Tech, Basic Materials, and Consumers. While Property and Financials remain the lags.
- RUPIAH -0.10% at 15,588 against USD.
- BYAN IJ +13.19% once again become the savior and contributed 41 points to the index gains.
- While commodity stocks were mixed. ANTM IJ +1.49%, ADMR IJ +1.52%, MEDC IJ +0.93%, and MDKA IJ -1.92%.
- Banking stocks were mixed as gains in BBCA IJ +1.17% offsetting the losses in digital banking and mid-banking stocks. BBYB IJ -6.01%, BNBA IJ -6.70%.
- While BRIS IJ +4.55% jumped most after BMRI IJ injected IDR 2.75tn capital to maintain its stake in BRIS IJ as part of the right issue.
- Panin's stocks remain under pressure as an unclear outlook over its M&A plans weighed their shares. PNBN IJ -3.14%, PNLF IJ -6.47%, PNIN IJ -1.95%, PNBS IJ -1.56%.
- Top value were: TLKM IJ +1.88%, BBRI IJ -0.41% IJ, BBCA IJ +1.17%
  - Top Gainers : BYAN (+13.19%), TLKM (+1.88%), BBCA (+1.17%)
- Top Losers: BBRI (-0.41%), BMRI (-0.50%), MDKA (-1.92%)

## News

### Macroeconomic, Sector and Corporate News

- Bauxite - Indonesia gov't implements export bans on bauxite ore starting Jun2023. (Investor daily)
- META - interested to acquire additional 20% stakes in MBZ toll road after completing 40% stakes acquisition from JSMR for IDR4.38tn. (Investor daily)
- TOPS – targets FY23 new contracts of IDR 1.75tn (+30% YoY). (Kontan)
- TCPI - allocates IDR450bn capex next year to add 10 tug & barge sets. (Kontan)
- ASLC – targets FY23 cars sales of 3,500-4,000 units, a 75-100% increase from its FY22 target of 2,000 units. (Kontan)
- ADHI – targets 20% YoY growth for new contracts growth next year (from FY22 target of IDR 23tn). (Kontan)
- HITS – allocates USD94mn capex to purchase 11 harbour tug boats and petrochemical vessels. (Bisnis)
- BNBR – plans to do private placement with mandatory convertible bond (OWK) issuance of up to 923.6mn shares (~4.3% of capital). (Bisnis)

## Outliers

### Outlier Stocks

- Sharp Movers (Up) : NZIA (+25%), TRIN (+21.9%), KRYA (+18.7%)
- Sharp Movers (Down) : BBYB (-7%), PNLF (-7%), GPSO (-6.9%)

Mon	Tue	Wed	Thu	Fri
3	4	5	6	7
<p>Korea &gt; <b>Market closed (National Foundation Day)</b> September exports and imports (announced October 1)</p> <p>US&gt; September ISM manufacturing PMI</p> <p>China&gt; <b>Market closed (National Day)</b></p>	<p>US&gt; August durable goods (F)</p> <p>China&gt; <b>Market closed (National Day)</b></p>	<p><b>OPEC+ ministerial meeting</b></p> <p>Korea&gt; September CPI</p> <p>US&gt; September ISM services PMI MBA mortgage applications</p> <p>China&gt; <b>Market closed (National Day)</b></p>	<p>US&gt; New jobless claims</p> <p>China&gt; <b>Market closed (National Day)</b></p>	<p>US&gt; September non-farm payrolls September jobless rate</p> <p>China&gt; <b>Market closed (National Day)</b> September FX reserves</p>
10	11	12	13	14
<p>Korea&gt; <b>Market closed (substitute holiday for Hangul Day)</b></p> <p>US&gt; <b>Market closed (Columbus Day)</b></p> <p>China&gt; September Caixin services PMI (announced October 8)</p> <p>Japan&gt; <b>Market closed (Sports Day)</b></p>	<p><b>OECD leading economic index</b></p>	<p><b>The OPEC Monthly Oil Market Report</b></p> <p>Korea&gt; <b>MPC meeting</b></p> <p>US&gt; <b>FOMC minutes release</b> MBA mortgage applications September PPI</p>	<p>Korea&gt; <b>Stock options expiry</b></p> <p>US&gt; September CPI Initial jobless claims</p>	<p>Korea&gt; September jobless rate</p> <p>US&gt; September retail sales October Michigan Consumer Confidence (P)</p> <p>China&gt; September PPI September CPI September exports and imports September trade balance</p>
17	18	19	20	21
<p>US&gt; October manufacturing index (New York)</p> <p>China&gt; September mining and manufacturing production September retail sales September fixed asset investment 3Q22 GDP</p> <p>Japan&gt; August mining and manufacturing production (F)</p>	<p>US&gt; September industrial production</p>	<p>US&gt; <b>Fed Beige Book release</b> MBA mortgage applications September housing starts</p> <p>Europe&gt; September CPI (F)</p>	<p>US&gt; Initial jobless claims September existing home sales</p> <p>China&gt; <b>PBOC LPR release</b></p>	<p>Japan&gt; September CPI</p>
24	25	26	27	28
	<p>US&gt; October Conference Board Consumer Expectations Index</p>	<p>US&gt; September new home sales</p>	<p>Korea&gt; 3Q22 GDP (A)</p> <p>US&gt; Initial jobless claims September durable goods orders (P) 3Q22 GDP (A)</p> <p>Europe&gt; <b>ECB MPC meeting</b></p>	<p>US&gt; September PCE October Michigan Consumer Confidence (F)</p> <p>Japan&gt; <b>BoJ MPC meeting</b></p>
31				
<p>Korea&gt; September mining and manufacturing production</p> <p>China&gt; October manufacturing PMI October services PMI</p> <p>Europe&gt; October CPI (P)</p> <p>Japan&gt; September manufacturing production (P)</p>				

Note: 1) Figures in parentheses represent the latest reported figures, Bloomberg estimates and previous reported figures

in that order. For example: Data (actual reported figures, Bloomberg estimate, previous reported figures). Bloomberg estimates are subject to change 2) Earnings release date is from Bloomberg or company announcement