

Heading towards a brighter 2024

10 November 2023



ACES IJ	BUY
Sector	Retail
Price at 09 Nov 2023 (IDR)	825
Price target (IDR)	1,025
Upside/Downside (%)	24.24

Stock Information

Ace Hardware Indonesia Tbk (ACES) is one of retail companies in Indonesia, which operates in the one-stop shopping business for home appliances and lifestyle products

Market cap (IDR bn)	14,124
Shares outstanding (mn)	17,120
52-week range (IDR)	392-890
3M average daily vol. ('000)	60,910
3M average daily val. (IDR mn)	47,486

Shareholders (%)

Kawan Lama Sejahtera	59.97
Treasury stock	0.17
Public	39.86

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance (%)	5.1	17.1	47.7

Ace Hardware Indonesia (ACES) reported solid earnings growth (+67.8% yoy/+27.3% qoq) in 3Q23 due to better cost management as productivity improved. While, ACES' topline reached IDR1.86 tn (+17.1% yoy/-3.8% qoq) in 3Q23 due to its discount and promotion events amid softer spending by customers. As a result, ACES' 9M23 revenue and net profit grew by 12.2% yoy and 38.1% yoy. We think that ACES' solid performance could continue in 4Q23 and 2024 on the back of more festive events and better cost management. Moreover, ACES has revised up its Same Store Sales Growth (SSSG) guidance to 6.5% yoy (vs 5% yoy, early this year). Thus, we expect ACES' revenue and net profit to grow by around 10% yoy and 12% yoy, with a 20bps yoy and 10bps yoy margin expansion, respectively in '23F and '24F. Thus, re-initiate our coverage on ACES with a BUY and TP of IDR1,025 (21.1x '24F P/E).

9M23' revenue came in-line

Thanks to ACES' 3 main discount and promotion events (Boom sale, Independence sale and Acepretiation sale) that boosted ACES' 3Q23 revenue (+17.1% yoy/-3.8% qoq), amid softer spending by customers. As a result, ACES' 9M23 revenue grew 12.2% yoy to IDR5.5 tn or came in-line with our and consensus expectations of 73.8% and 74.8%. Note that, historically ACES 9M revenue achievement was around 72% of its full year revenue.

Solid earnings growth with net margin expansions in 3Q23

ACES' 3Q23 earnings grew strong by 67.8% yoy/+27.3% qoq on the back of better cost management as productivity improved. ACES net margin expanded by 300bps yoy and 240bps qoq in 3Q23. As a result, ACES reported a 38.1% yoy net profit growth with 160bps yoy net margin expansion in 9M23. ACES' 9M23 earnings came at 65.2% and 68.5% of our and consensus' expectations or higher than its historical 9M achievement in the past 2 years (around 50% in average).

Higher revenue and SSSG in '23F and '24F

Early this year, ACES had set around IDR200-300 bn for 2023' capex and targets 13 new store openings. So far, ACES has opened 9 new stores, which 7 of them are outside of Java and the company also stated that they will continue its new store openings in tier 2 and tier 3 cities. This Nov'23, ACES is celebrating its 28th Anniversary by doing another discount and promotion events as also in relation with Christmas and year-end celebration. Moreover, ACES has increased its Same Store Sales Growth (SSSG) guidance from 5% to 6.5%. All in all, we expect ACES revenue to grow by around 10% yoy with 6.5-7% SSSG in '23F and '24F, respectively on the back of more store openings and festive events.

Earnings growth and margin expansions on higher productivity

Although, ACES' 9M23 gross margin contracted by 20bps yoy as the downside from its discount and promotion events, its EBIT margin still expanded 240bps yoy on better cost management and higher productivity. We think that ACES could improve its product mix and continue to increase its employees' productivity further in '23F and '24F. Thus, we expect ACES' operating profit to grow by around 11% yoy in '23F due to higher productivity or sales per employee (+6.6% yoy). All in all, we expect ACES' net profit to grow by around 12% yoy with a 20bps yoy and 10bps yoy net margin expansion in '23F and '24F, respectively.

Re-initiate a BUY with TP of IDR1,025

We re-initiate our coverage on ACES with a Buy and TP of IDR 1,025/share, which implies 21.1x '24 P/E or around its -0.75 stdv of 5 years mean P/E. We think ACES' solid performance could continue in 4Q23 and 2024, due to: a) more store openings in tier 2 and tier 3 cities, b) discount and promotion events, c) better product mix, and d) better cost management as productivity increases. Risks to our call includes: a) lower than expected SSSG, b) IDR depreciation vs USD, and c) higher costs than expected. Currently, ACES is trading at 16.8x '24F P/E or -1.25 stdv of 5 years mean P/E.

Exhibit 1: Key Statistics

Year end Dec	2021A	2022A	2023F	2024F	2025F
Revenue (IDR bn)	6,543	6,763	7,442	8,216	9,064
EBITDA (IDR bn)	1,033	981	1,091	1,216	1,352
Net profit (IDR bn)	691	665	745	832	926
EPS (IDR)	40	39	43	49	54
EPS growth (%)	(5.8)	(3.8)	12.0	11.7	11.3
ROE (%)	12.5	11.3	11.9	12.5	13.0
ROA (%)	9.6	9.2	9.4	9.8	10.2
PER (x)	20.6	21.4	19.1	17.1	15.4
PBV (x)	2.6	2.4	2.3	2.1	2.0
EV/EBITDA (x)	11.3	12.3	10.5	9.0	7.9
Div Yield (%)	3.9	2.5	2.6	2.9	3.3

Source: Company, KBVS Research

Analyst

Andre Suntono

Andre.suntono@kbvalbury.com

Exhibit 2: ACES 9M23 & 3Q23 results

ACES 9M23 Results (IDRbn)	9M23	9M22	YoY	3Q23	3Q22	YoY	2Q23	QoQ	2023F	% to '23F	Cons'	% to Cons'
Revenue	5,494	4,895	12.2%	1,859	1,587	17.1%	1,933	-3.8%	7,442	73.8%	7,345	74.8%
Sales	5,385	4,783	12.6%	1,822	1,551	17.5%	1,894	-3.8%				
Consignment sales	109	112	-2.6%	37	37	0.0%	38	-4.4%				
COGS	(2,849)	(2,530)	12.6%	(973)	(817)	19.1%	(999)	-2.6%				
Gross profit	2,644	2,365	11.8%	885	770	15.0%	933	-5.1%	3,603	73.4%	3,547	74.6%
Operating expenses	(2,109)	(2,006)	5.2%	(690)	(656)	5.2%	(750)	-8.0%				
Operating profit	535	359	49.0%	195	114	71.8%	183	6.5%	829	64.6%	826	64.7%
Profit before tax	586	428	36.9%	220	133	66.2%	172	27.9%	920	63.7%	887	66.1%
Tax expense	(99)	(73)	36.9%	(38)	(23)	63.1%	(28)	34.5%				
Minority interest	1	4		(1)	0		0					
Net profit	486	352	38.1%	183	109	67.8%	144	27.3%	745	65.2%	709	68.5%

Margins (%)

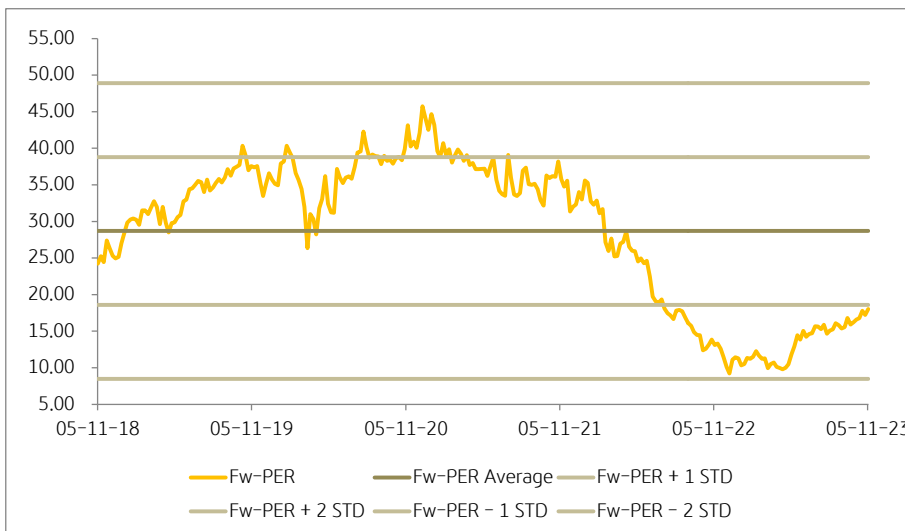
Gross margin	48.1	48.3		47.6	48.5		48.3	
Operating margin	9.7	7.3		10.5	7.2		9.5	
Pretax margin	10.7	8.7		11.9	8.4		8.9	
Net margin	8.8	7.2		9.9	6.9		7.5	

ACES 9M23 Segment Results (IDRbn)

ACES 9M23 Segment Results (IDRbn)	9M23	9M22	YoY	3Q23	3Q22	YoY	2Q23	QoQ
Home Improvement								
Revenue	2,917	2,618	11.4%	992	876	13.2%	1,001	-0.9%
Gross profit	1,342	1,199	11.9%	456	399	14.2%	460	-0.9%
Gross margin	46.0%	45.8%		46.0%	45.6%		45.9%	
Lifestyle								
Revenue	2,243	1,976	13.5%	760	621	22.3%	810	-6.2%
Gross profit	1,054	915	15.2%	357	292	22.4%	387	-7.8%
Gross margin	47.0%	46.3%		47.0%	47.0%		46.0%	
Toys								
Revenue	225	190	18.6%	71	53	32.7%	84	-15.8%
Gross profit	92	77	20.3%	27	21	30.9%	35	-20.6%
Gross margin	41.0%	40.4%		38.8%	39.4%		40.8%	

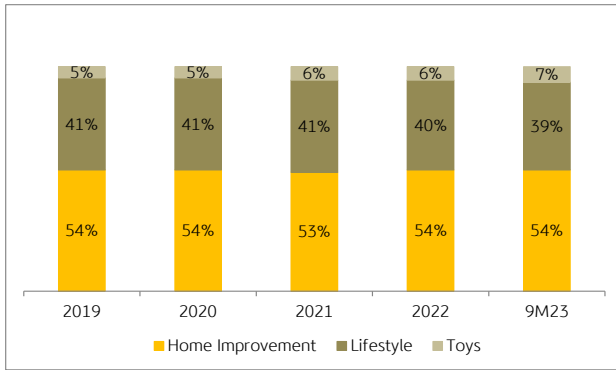
Source: Company, KBVS Research

Exhibit 3: ACES PE Band



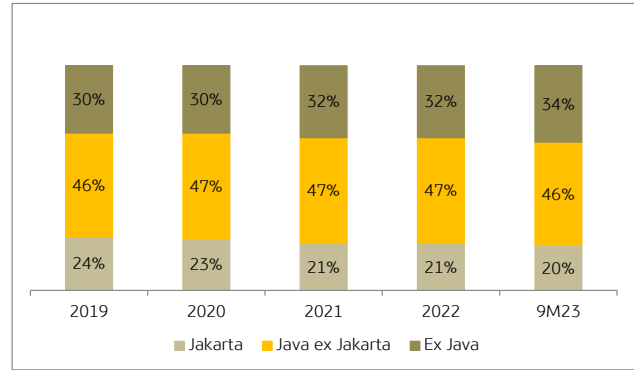
Source: Company, KBVS Research

Exhibit 4: Net revenue contribution by business segment



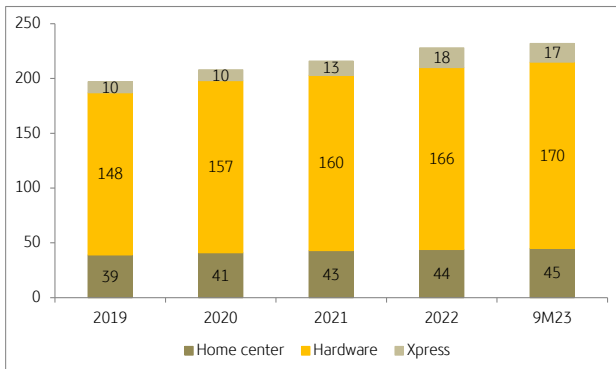
Source: Company, KBVS Research

Exhibit 5: Regional contribution to ACES' sales



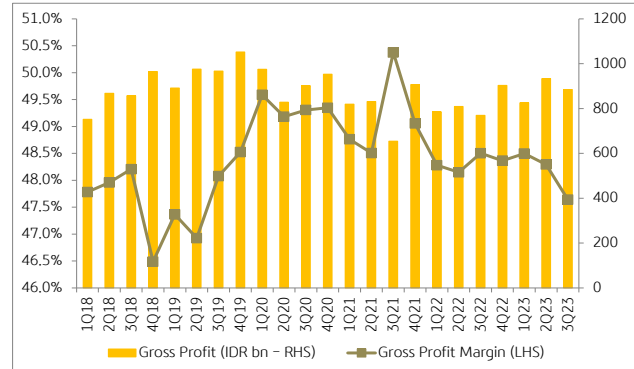
Source: Company, KBVS Research

Exhibit 6: Per store category



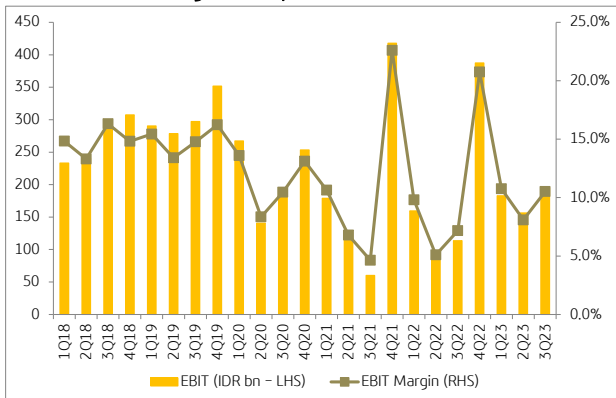
Source: Company, KBVS Research

Exhibit 7: Gross profit & margin each quarter



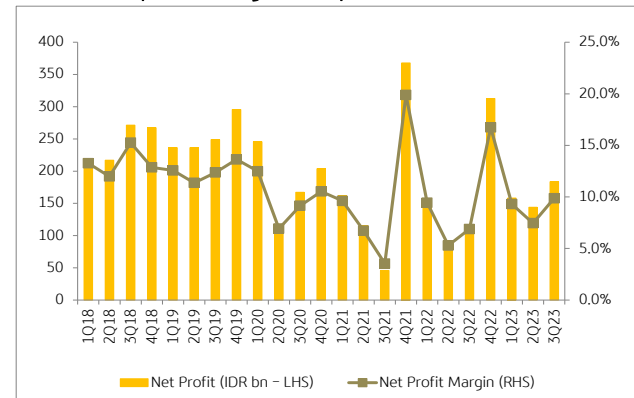
Source: Company, KBVS Research

Exhibit 8: EBIT & margin each quarter



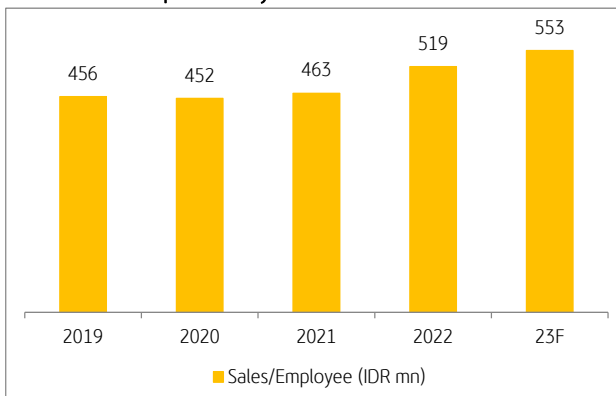
Source: Company, KBVS Research

Exhibit 9: Net profit & margin each quarter



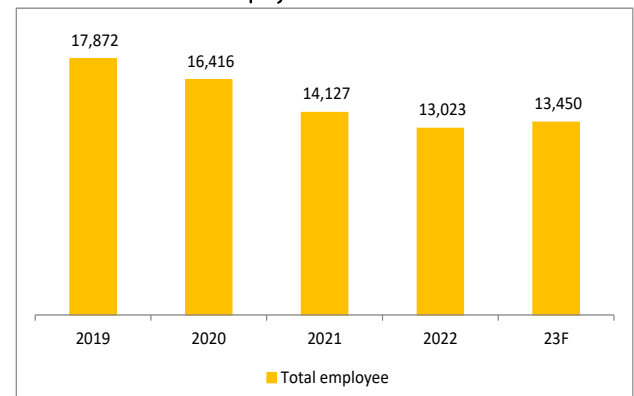
Source: Company, KBVS Research

Exhibit 10: ACES' productivity chart



Source: Company, KBVS Research

Exhibit 11: ACES' total employee



Source: Company, KBVS Research

Exhibit 12: Profit & loss summary

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Revenue	6,543	6,763	7,442	8,216	9,064
COGS	(3,331)	(3,495)	(3,839)	(4,225)	(4,651)
Gross profit	3,213	3,268	3,603	3,991	4,413
Operating expenses	(2,775)	(3,064)	(3,380)	(3,653)	(3,946)
EBIT	438	204	223	338	467
EBITDA	1,033	981	1,091	1,216	1,352
Pre-tax income	845	821	920	1,028	1,144
Net profit	691	665	745	832	926
EPS	40	39	43	49	54
EPS growth	-6%	-4%	12%	12%	11%

Source: Company, KBVS Research

Exhibit 13: Balance sheet

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Cash & cash equivalent	2,544	2,133	2,753	3,227	3,514
Accounts receivables	80	95	96	106	117
Inventories	2,368	2,811	2,845	2,894	3,185
Others	201	324	289	550	614
Total current assets	5,192	5,363	5,982	6,777	7,431
Fixed assets - Net	1,321	1,261	1,203	904	802
Others	658	625	708	782	862
Total non-current assets	1,979	1,886	1,911	1,685	1,664
Total assets	7,171	7,249	7,893	8,463	9,094
ST borrowing	263	258	284	314	346
Accounts payable	127	144	149	164	180
Others	333	267	330	364	402
Total current liabilities	723	670	763	842	929
Others non-current liabilities	870	645	834	920	1,015
Total non-current liabilities	870	645	834	920	1,015
Total liabilities	1,592	1,315	1,597	1,763	1,944
Shareholders equity	612	612	612	612	612
Minority interests	32	44	34	22	9
Retained earnings	4,934	5,278	5,650	6,066	6,529
Total Equity	5,547	5,890	6,262	6,678	7,141
Total Liabilities & Equity	7,171	7,249	7,893	8,463	9,094

Source: Company, KBVS Research

Exhibit 14: Cash flow

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Net profit	691	665	745	832	926
D&A	121	105	115	127	140
Changes in working capital	114	(441)	(30)	(44)	(286)
Others	379	290	321	132	142
Operating cash flow	1,305	619	1,150	1,047	923
Capital expenditures	(84)	(107)	(92)	(101)	(112)
Others	1	5	(82)	(74)	(81)
Investing cash flow	(85)	(102)	(174)	(175)	(192)
Net change in LT borrowings	-	-	-	-	-
Net change in ST borrowings	-	-	26	30	32
Cash dividends paid	(550)	(353)	(372)	(416)	(463)
Others	(347)	(587)	(10)	(12)	(13)
Financing cash flow	(898)	(939)	(357)	(398)	(444)
Net change in cash	324	(423)	620	474	287
Cash in beginning of the year	2,220	2,544	2,133	2,753	3,227
Cash at the end of the year	2,544	2,133	2,753	3,227	3,514

Source: Company, KBVS Research

Exhibit 15: Ratio analysis

Year End Dec	2021A	2022A	2023F	2024F	2025F
Growth					
Revenue	-11.7%	3.4%	10.0%	10.4%	10.3%
Gross profit	-12.2%	1.7%	10.2%	10.8%	10.6%
Operating profit	-9.3%	-3.5%	10.9%	11.9%	11.4%
EBITDA	-6.8%	-5.0%	11.2%	11.5%	11.2%
Net profit	-5.8%	-3.8%	12.0%	11.7%	11.3%
Profitability					
Gross margin	49.1%	48.3%	48.4%	48.6%	48.7%
Operating margin	11.8%	11.0%	11.1%	11.3%	11.4%
EBITDA margin	15.8%	14.5%	14.7%	14.8%	14.9%
Net margin	10.6%	9.8%	10.0%	10.1%	10.2%
ROA	9.6%	9.2%	9.4%	9.8%	10.2%
ROE	12.5%	11.3%	11.9%	12.5%	13.0%
Solvency (x)					
Current ratio	7.2	8.0	7.8	8.0	8.0
Quick ratio	3.9	3.8	4.1	4.6	4.6
Debt to equity	0.0	0.0	0.0	0.0	0.0
Interest coverage	6.9	4.0	4.0	5.5	6.9
Net gearing	(0.5)	(0.4)	(0.4)	(0.5)	(0.5)


Source: Company, KBVS Research

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KB Valbury Sekuritas Head Office

Sahid Sudirman Center 41st Floor Unit A-C
 Jalan Jenderal Sudirman No. 86 Kelurahan Karet Tengsin,
 Kecamatan Tanah Abang, Jakarta Pusat 10220, Indonesia
 T. +62 21 – 250 98 300
 F. +62 21 – 255 33 778

Branch Office

Jakarta – Sudirman

Sahid Sudirman Center 41st Floor Unit A-C
 Jalan Jenderal Sudirman No. 86 Karet Tengsin,
 Tanah Abang, Jakarta Pusat 10220
 T. (021) 25098300/301

Jakarta – Kelapa Gading

Rukan Plaza Pasifik
 Jl. Raya Boulevard Barat Blok A1 No. 10
 Jakarta Utara 11620
 T. (021) 29451577

Jakarta – Puri Indah

Rukan Grand Aries Niaga Blok E1 No. IV
 Jl. Taman Aries, Kembangan
 Jakarta Barat 11620
 T. (021) 22542390

Jakarta – Pluit

Jl. Pluit Putra Raya No. 2
 Jakarta Utara 14450
 T. (021) 6692119

Bandung

Jl. HOS Cokroaminoto No. 82
 Bandung 40171
 T. (022) 87255800

Malang

Jl. Pahlawan Trip No. 7
 Malang 65112
 T. (0341) 585888

Banjarmasin

Jl. Gatot Subroto No. 33
 Banjarmasin 70235
 T. (0511) – 3265918

Pekanbaru

Jl. Tuanku Tambusai, Komplek CNN
 Blok A No. 3 Pekanbaru 28291
 T. (0761) 839393

Palembang

Komplek PTC Mall Blok I No. 7
 Jl. R. Sukanto
 Palembang 30114
 T. (0711) 5700281

Surabaya

Pakuwon Center Lt 21
 Jl. Embong Malang No.1
 Surabaya 60261
 T. (031) 2955788

Padang

Jl. Kampung Nias II No. 10,
 Padang 25211
 T. (0751) 8955747

Yogyakarta

Jl. Magelang KM 5,5 No. 75
 Yogyakarta 55000
 T. (0274) 623111

Semarang

Candi Plaza Building Lt. Dasar
 Jl. Sultan Agung No. 90-90A
 Semarang 50252
 T. (024) 8501122

Makassar

Komplek RUKO Citraland City Losari
 Business Park, Blok B2 No. 09
 Jl. Citraland Boulevard Makassar 90111
 T. (0241) 16000818

Medan

Komplek Jati Junction No. P5-5A
 Jl. Perintis Kemerdekaan
 Medan 20218
 T. (061) 88816222

Denpasar

Jl. Teuku Umar No. 177
 Komplek Ibis Styles Hotel
 Denpasar Bali 80114
 T. (0361) 225229

Investment Gallery

Jakarta

Citra Garden 6 Ruko Sixth Avenue
 Blok J.1 A/18, Cengkareng
 Jakarta Barat 11820
 T. (021) 522592181

Semarang

Jl. MT Haryono 637
 Semarang 50242
 T. (024) 8415195

Salatiga

Jl. Diponegoro No. 68
 Salatiga 50711
 T. (0298) 313007

Solo

Jl. Ronggowarsito No. 34
 Surakarta 57118
 T. (0271) 6726306