

PT Ace Hardware Indonesia Tbk (ACES)

Company Focus

October 12, 2018

Leading home improvement and lifestyle retailer

Background. PT Ace Hardware Indonesia Tbk (ACES) engages in the retail of quality home improvement and lifestyle products. The company has been established since 1995 as a subsidiary of PT Kawan Lama Sejahtera. It offers around 68,000 stock keeping units (SKU), through 144 Ace Hardware stores and 30 Toys Kingdom store, spread in 36 cities in Indonesia.

Expecting double digit top line growth. We believe ACES would be able to surpass the company's 10% YoY target, and book revenue growth of 17.3% YoY on the back of higher same store sales growth (SSSG) which has been improving since 2016. SSSG expected to be at 13.2% YoY in 2018F, supported by the resiliency of middle and upper class segment to economic turbulence. ACES sales in 1H18 increase by 22.6% YoY to IDR 3.33Tn, or represent 48.6% of our sales target for 2018F. In the past five years, the average sales contribution in 1H accounted for 46.9% of total sales. This showed that ACES revenue usually peaked in 2H along with Christmas and New Year holiday.

Minimum impact from import tariff policy. The impact of rising import tax, which refer to import income tax (PPH impor) or PPh 22 regulation, will be minimum due to high inventory level worth IDR 2.03Tn in 1H18, with expected of 202 inventory days in 2018F. ACES also has a healthy balance sheet with a huge amount of cash to compensate the cost increase from new import tariffs. Moreover, ACES imports ~80% of its products, which makes earnings performance is subject to the currency fluctuation. However, we think that the company would be able to pass through the cost pressure to the customer, even though selling price is still stable until 9M18. Operating and profit margin remains steady as spending intention expected to improve in 2H18, reflected by the increase in CCI to 122.4 in September and higher retail sales in August to 6.1% YoY. The resiliency of the margin amid Rupiah depreciation could be seen at 2013-2015 when the net margin decreased less than 1%.

Store expansion exceeds the initial target. Up until the beginning of October 2018, the company has opened 20 new stores, already exceeds the initial target of 15 new stores until the end of 2018. This October, the company also plans to open two new Ace Hardware store in Bekasi with an area of 3,900 sqm and in North Sumatera with an area of 2,670 sqm. We expect that further expansion will strengthen the company's sales performance not only in Greater Jakarta, but also ex-Java Island.

Valuation. Based on a strong position in the retail of home improvement and lifestyle market with no significant competitor, we recommend overweight in ACES. We derived our TP at IDR 1,680 (20.9%), which implies 2019F P/E at 27x. Our TP justified by improving and double digit SSSG, also with solid fundamentals.

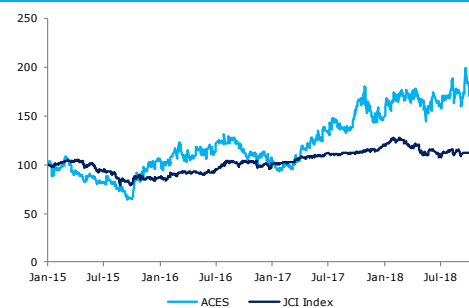
Year to Dec.	Sales (Bn IDR)	OP (Bn IDR)	Pre-tax (Bn IDR)	NP (Bn IDR)	EPS (IDR)	BPS (IDR)	PER (x)	EV/EBITDA (x)	PBV (x)	ROAE (%)
2016	4,936	881	863	711	42	179	20.0	16.3	4.7	25.0
2017	5,939	968	960	778	46	206	25.3	19.0	5.6	23.7
2018F	6,966	1,128	1,118	926	54	238	25.2	19.3	5.8	24.5
2019F	7,918	1,290	1,278	1,059	62	275	22.1	16.6	5.0	24.2
2020F	8,885	1,457	1,443	1,195	70	316	19.5	14.5	4.3	23.8

Source: Company, Shinhan Sekuritas Indonesia

Overweight

Current Price (IDR) (11/10)	1,390
Target price (IDR)	1,680
Upside/Downside (%)	20.9%
52 Week High (IDR)	1,560
52 Week Low (IDR)	1,100
Major Shareholders:	
Kawan Lama Sejahtera	59.97%
Capital Group Cos Inc	4.99%

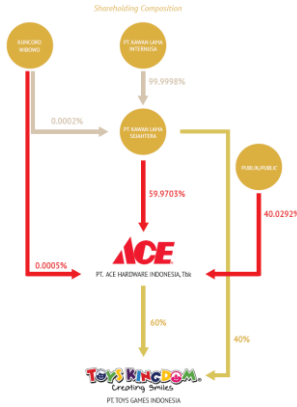
Stock Price Movement



Source: Bloomberg, Shinhan Sekuritas Indonesia

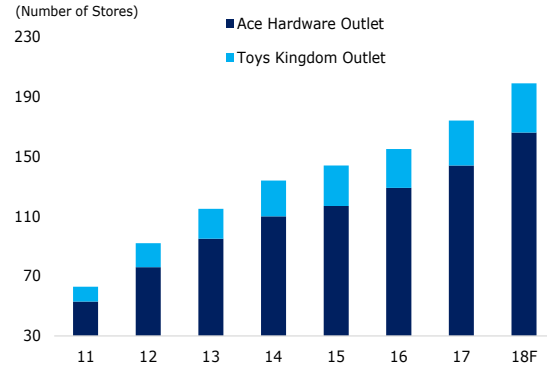
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PT Kawan Lama Sejahtera owns 59.97% of ACES shares



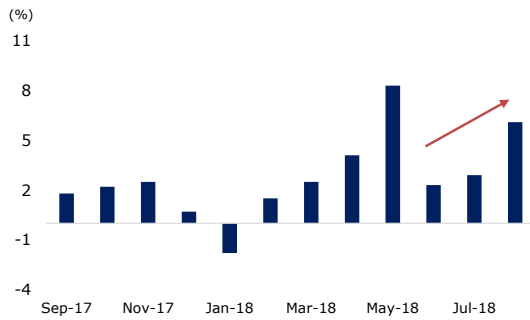
Source: Company

144 Ace Hardware and 30 Toys Kingdom outlet in 2017



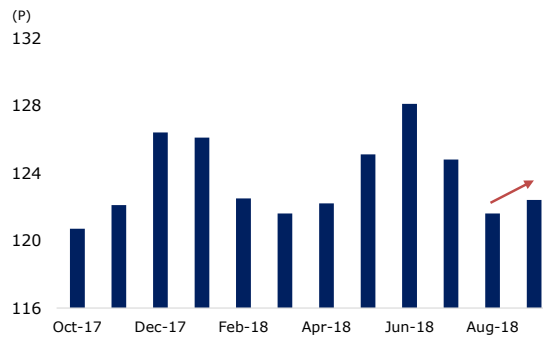
Source: Company, Shinhan Sekuritas Indonesia

Indonesia retail sales increased 6.1% YoY in August 2018



Source: Trading Economics, Shinhan Sekuritas Indonesia

Indonesia consumer confidence index recorded at 122.6 in September 2018



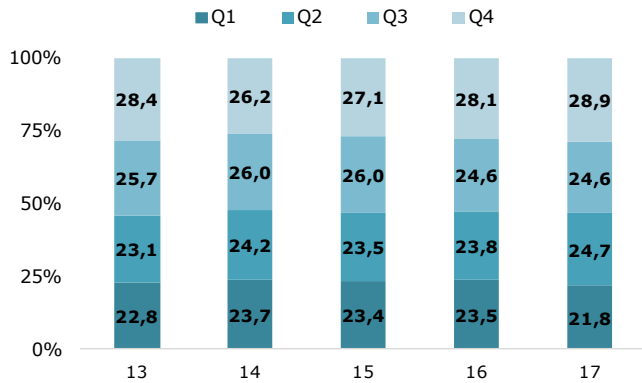
Source: Trading Economics, Shinhan Sekuritas Indonesia

Stores network spread in 36 cities in Indonesia, with a total area of more than 371,600 sqm



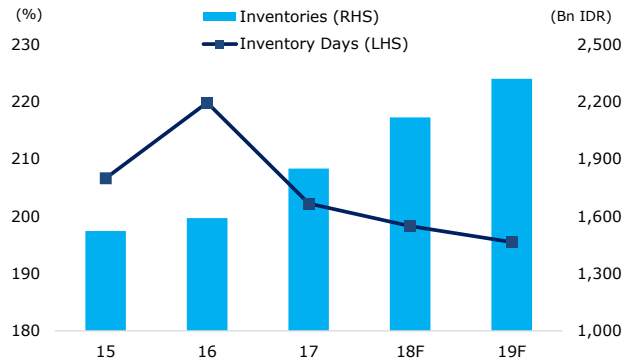
Source: Company

Revenue in the last 5 years peaked in Q4



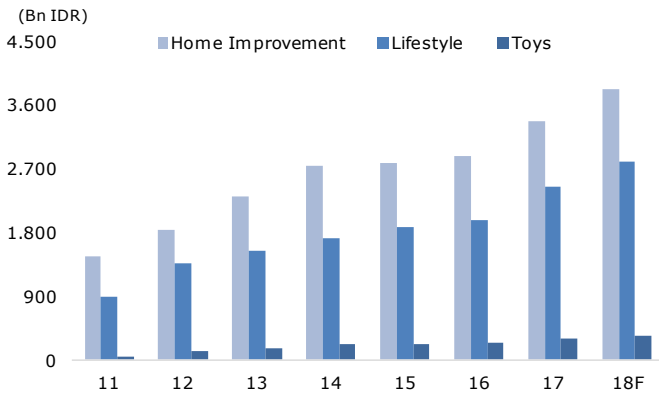
Source: Company, Shinhan Sekuritas Indonesia

High level of inventory with expected 202 inventory days in 18F



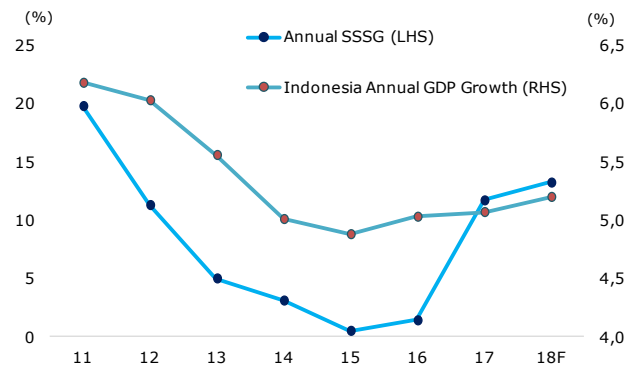
Source: Company, Shinhan Sekuritas Indonesia

Revenue contribution still dominated by home improvement products



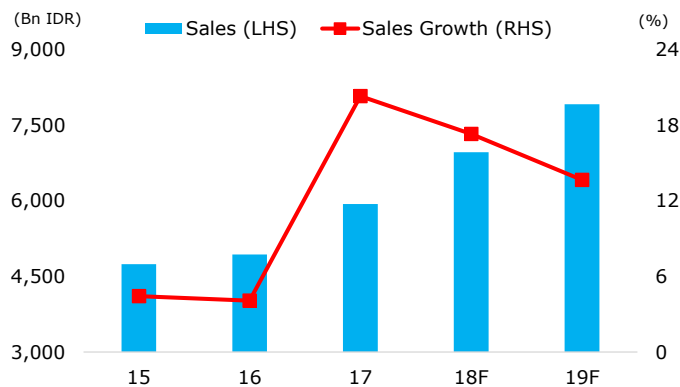
Source: Company, Shinhan Sekuritas Indonesia

SSSG has been improving since 2016



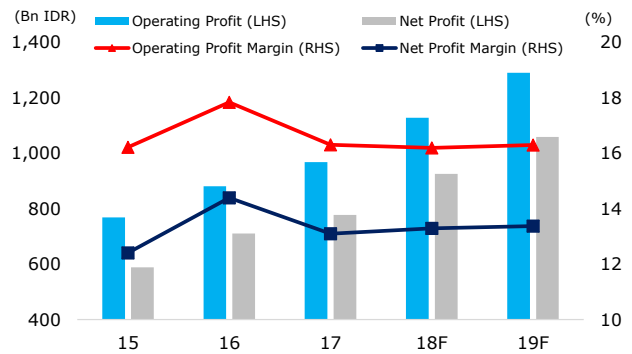
Source: Company, Shinhan Sekuritas Indonesia

Sales expected to grow by 14.2% YoY to IDR 3,458Bn in 18F



Source: Company, Shinhan Sekuritas Indonesia

Operating and profit margin steady at 7% and 5% in 18F



Company, Shinhan Sekuritas Indonesia

Income Statement

Year-end 31 Dec (Bn IDR)	2016	2017	2018F	2019F
Sales	4,936	5,939	6,966	7,918
COGS	(2,584)	(3,104)	(3,650)	(4,141)
Gross Profit	2,352	2,835	3,316	3,777
EBITDA	874	1,036	1,221	1,405
Operating Expense	(1,471)	(1,866)	(2,188)	(2,487)
Operating Profit	881	968	1,128	1,290
Pre-Tax Profit	863	960	1,118	1,278
Income Tax - Net	(157)	(179)	(201)	(230)
Net Profit	711	778	926	1,059
EPS (IDR)	42	46	54	62

Source: Company, Shinhan Sekuritas Indonesia Estimates

Balance Sheet

Year-end 31 Dec (Bn IDR)	2016	2017	2018F	2019F
Assets				
Cash and Equivalent	704	902	1,058	1,599
Receivables	28	90	105	79
Inventories	1,590	1,849	2,117	2,319
Others	500	517	606	633
Total Current Assets	2,822	3,358	3,887	4,631
Net Fixed Assets	277	359	666	851
Other Assets	632	711	756	810
Total Assets	3,731	4,429	5,309	6,292
Liabilities and Equities				
Payables	161	258	348	475
Other Short-Term Liabilities	227	220	418	633
Total Current Liabilities	389	478	766	1,109
LT. Debt	0	0	25	19
Other Long Term Liabilities	294	440	462	485
Total Long-Term Liabilities	294	440	487	505
Total Liabilities	682	918	1,253	1,613
Shareholders' Equity	2,329	2,629	3,049	3,510
BVPS (Rp)	3,049	3,510	4,056	4,679

Source: Company, Shinhan Sekuritas Indonesia Estimates

Valuation

Year-end 31 Dec	2016	2017	2018F	2019F
PER (x)	20.0	25.3	25.2	22.1
PBV (x)	4.7	5.6	5.8	5.0
EV/EBITDA (x)	16.3	19.0	19.3	16.6
EV/Sales (x)	2.9	3.3	3.4	3.0

Source: Company, Shinhan Sekuritas Indonesia Estimates

Cashflow Analysis

Year-end 31 Dec (Bn IDR)	2016	2017	2018F	2019F
CFs from Operation				
Net Profit	711	778	926	1,059
Change in NWC	(1,007)	(1,026)	(1,010)	(919)
CFs from Operation	(296)	(248)	(85)	140
CFs from Investments	(109)	(162)	(351)	(240)
CFs from Financing	62	150	22	42
Net Inc./ (Dec.) in Cash	82	198	131	566
Cash at End Period	704	902	1,058	1,599

Source: Company, Shinhan Sekuritas Indonesia Estimates

Key Ratio Analysis

Year-end 31 Dec (Bn IDR)	2016	2017	2018F	2019F
Profitability				
Gross Margin	47.6%	47.7%	47.6%	47.7%
Operating Margin	17.8%	16.3%	16.2%	16.3%
EBITDA Margin	17.7%	17.5%	17.5%	17.7%
Net Income Margin	14.4%	13.1%	13.3%	13.4%
ROAA	20.3%	19.1%	19.0%	18.3%
ROAE	25.0%	23.7%	24.5%	24.2%
Growth				
Revenue	4.1%	20.3%	17.3%	13.7%
Operating Profit	14.5%	10.0%	16.5%	14.4%
EBITDA	4.7%	18.6%	17.9%	15.0%
Net Income	20.8%	9.4%	19.0%	14.4%
Solvability				
Current Ratio (x)	7.3	7.0	5.1	4.2
Quick Ratio (x)	3.2	3.2	2.3	2.1
Debt to Equity (x)	0.2	0.3	0.3	0.3
Interest Coverage (x)	60.4	193.6	323.9	325.9

Source: Company, Shinhan Sekuritas Indonesia Estimates



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