

11 April 2019

Consumer Cyclical | Retailing

Ace Hardware Indonesia (ACES IJ)

Neutral (Maintained)

SSSG Slows Down In March; Stay NEUTRAL

Target Price (Return) IDR1,600 (-16%)
 Price: IDR1,860
 Market Cap: USD2.3bn
 Avg Daily Turnover (IDR/USD) 22bn/ 1.6m

- **Stay NEUTRAL, new TP of IDR1,600** from IDR1,500, 16% downside. We roll over earnings of +4-7% for FY19F-21F. Ace Hardware Indonesia's March SSSG dropped to +5.8% YoY due to the high base last year (+17.4% YoY), mainly dragged down by Java ex-Jakarta. Nonetheless, 1Q19 SSSG remained solid at +8.2% YoY. Although this year's ACE Boom Sale is earlier (20 Mar-23 Apr vs 2018's 28 Mar-1 May, SSSG for last month stayed soft.
- **1Q19 sales rose 19.6% YoY to IDR1,885bn.** ACES clocked IDR648bn (+14% QoQ, +16% YoY) in sales in March, but SSSG decelerated to +5.8% YoY (Feb 2019: +8.3% YoY, Jan 2019: +10.8% YoY). The best performance came from its ex-Java area (7.9%), followed by Jakarta (5.7%) and Java ex-Jakarta (4.6%). This was mainly due to the high base of FY18, when it recorded SSSG of +17.4% YoY. As at 2018, Java ex-Jakarta dominated contributions to total sales (46%), followed by ex-Java (28%) and Jakarta (26%). Overall 1Q19 SSSG, however, remained strong at +8.2% YoY vs 1Q18's +13.8% YoY. Its lifestyle segment's contribution improved to 41% of total sales in 2018, vs 38% in 2015, with a slightly higher GPM margin of 47% vs the home improvement division (46%).
- **ACE Boom Sale and store network expansion to support sales growth.** It is the time of the year again where ACES hosts its biggest sale event (usually happens every April and October). April 2018 SSSG was stood at 10.3% YoY, mainly supported by ex-Java area. Going forward, we expect SSSG to normalise at a high single-digit rate, leading to 20%/13% EPS growth in FY19-20. ACES also opened three new stores in Bekasi, Batam and Madiun in 1Q19, taking its total network size to 179 stores: 34 *Home Center* stores (>3,000sqm), 138 *Ace Hardware* outlets (1-3,000sqm), and seven *Ace Xpress* stores (<1,000sqm). Last year, ACES added 61,000sqm in store area, implying 32 new stores. It plans to add 15-20 stores this year.
- **Valuation rationale and recommendation.** We adjust FY19F-21F earnings by +4%, +5% and +7%, mainly to align its network growth assumption with management's guidance. Our 12M TP of IDR1,600 is based on a simple average of its 10-year DCF value and 25x 2019F target P/E. We increase our target FY19F P/E to 25x, from 23x, ie on par with regional peers. We think ACES deserves a rerating, given its stable performance. Our DCF calculation assumes WACC of 12.5% and terminal growth of 5%. Nevertheless, the stock looks fairly valued, having outperformed the JCI by 25% YTD. It is trading at +2SD above its 3-year mean. Stay NEUTRAL.

Analysts

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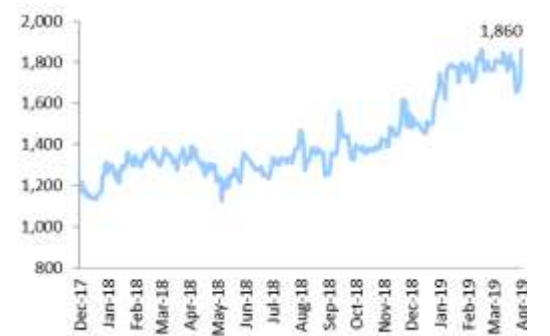
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	24.8	5.7	6.6	32.9	40.4
Relative	20.3	4.2	4.2	21.6	38.0
52-wk Price low/high (IDR)	1,125 – 1,895				

Ace Hardware Indonesia (IDR)



Source: RHB, Bloomberg as at 10 Apr 2019

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (IDRbn)	5,939	7,240	8,670	9,302	10,443
Reported net profit (IDRbn)	778	965	1,155	1,309	1,488
EPS growth (%)	10	24	20	13	14
EPS (IDR)	45	56	67	76	87
DPS (IDR)	16	23	30	38	43
P/E (x)	41.0	33.1	27.6	24.4	21.4
P/B (x)	9.1	7.5	6.7	5.9	5.2
Dividend Yield (%)	0.9	1.2	1.6	2.1	2.3
EV/EBITDA (x)	33.6	27.5	22.0	19.5	17.3
ROAE (%)	23.7	24.9	25.6	25.6	25.7
Net gearing (%)	nc	nc	nc	nc	nc

Note: As at 10 Apr 2019
 Source: RHB, Bloomberg

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Financial Exhibits

Financial model updated on: 2019-08-04

Asia							
Indonesia							
Consumer Cyclical							
Retailing							
Major shareholders (%)							
Kawan Lama Sejahtera PT	59.97						
Valuation basis							
Our 12-month TP of IDR1,600 is based on a simple average of its 10-year DCF value and 25x 2019F target P/E (on par with regional peers). Our DCF calculation assumes WACC of 12.5% and terminal growth of 5%.							
Key drivers							
i. Robust SSSG due to lower competition stemming from stricter government customs controls at the border and aggressive store openings;							
ii. Rising trend of lifestyle spending habits and rising middle income population of Indonesia.							
Key risks							
i. Rising fixed costs, as ACES plans to open 18-20 new stores this year;							
ii. Weaken macroeconomic conditions leading to slower sales volume growth;							
iii. USD/IDR currency fluctuations;							
iv. Competition from another retail store in lifestyle and homeware business such as IKEA							
Company Profile							
Ace Hardware Indonesia is the country's leading home improvement and lifestyle modern-trade retailer with 176 stores and total selling area of 453,000sqm as at FY18. The company has three business pillars: home improvement (54% of sales), lifestyle (41%) and toys (5%).							
		Financial Summary					
		2017	2018F	2019F	2020F	2021F	
		EPS (IDR)	45	56	67	76	87
		DPS (IDR)	16	23	30	38	43
		BVPS (IDR)	205	247	279	317	359
		Valuation Metrics					
		2017	2018F	2019F	2020F	2021F	
		P/E (x)	41.0	33.1	27.6	24.4	21.4
		P/B (x)	9.1	7.5	6.7	5.9	5.2
		Dividend Yield (%)	0.9	1.2	1.6	2.1	2.3
		EV/EBITDA (x)	33.6	27.5	22.0	19.5	17.3
		EV/EBIT (x)	35.9	29.1	23.2	20.6	18.2
		Income Statement (IDRb)					
		2017	2018F	2019F	2020F	2021F	
		Total Turnover	5,939	7,240	8,670	9,302	10,443
		Gross Profit	2,835	3,443	3,992	4,431	4,934
		EBITDA	928	1,137	1,419	1,598	1,801
		Depreciation and Amortisation	59	65	74	80	86
		Operating Profit	869	1,072	1,345	1,518	1,715
		Net Interest	(5)	(18)	(26)	(28)	(23)
		Pre-Tax Profit	960	1,203	1,430	1,620	1,841
		Taxation	179	226	286	324	368
		Minority Interests	(3)	(12)	11	13	15
		Net Profit	778	965	1,155	1,309	1,488
		Cash Flow (IDRb)					
		2017	2018F	2019F	2020F	2021F	
		Working Capital	(260)	(588)	(188)	(137)	(442)
		Cash Flow from Operations	594	226	962	1,194	1,159
		Capex	(141)	(150)	(86)	(95)	(98)
		Cash Flow from Investing Activities	(221)	(219)	263	(103)	(107)
		Shares issued (net of buyback)	(316)	(239)	(602)	(667)	(759)
		Cash Flow from Financing Activities	(175)	(109)	(587)	(608)	(794)
		Cash at Beginning of Period	704	902	799	1,437	1,920
		Net Change in Cash	198	(103)	638	483	259
		Ending Balance Cash	902	799	1,437	1,920	2,179
		Balance Sheet (IDRb)					
		2017	2018F	2019F	2020F	2021F	
		Total Cash and Equivalents	902	799	1,437	1,920	2,179
		Tangible Fixed Assets	359	444	456	471	483
		Total Assets	4,429	5,321	5,889	6,595	7,328
		Short-Term Debt	-	115	100	100	-
		Total Long-Term Debt	-	-	-	-	-
		Other Liabilities	918	971	1,000	1,065	1,169
		Total Liabilities	918	1,086	1,100	1,165	1,169
		Shareholders' Equity	3,510	4,235	4,788	5,430	6,159
		Minority Interests	(3)	(12)	11	13	15
		Total Liabilities & Equity	4,429	5,321	5,889	6,595	7,328
		Key Metrics					
		2017	2018F	2019F	2020F	2021F	
		Revenue Growth (%)	20.3	21.9	19.8	7.3	12.3
		EPS Growth (%)	9.5	24.0	19.8	13.3	13.6
		Gross Margin (%)	47.7	47.6	46.0	47.6	47.3
		EBITDA Margin (%)	15.6	15.7	16.4	17.2	17.2
		Net Profit Margin (%)	13.1	13.3	13.3	14.1	14.2
		Dividend Payout Ratio (%)	36.1	40.4	45.0	50.0	50.0
		Cash Conversion Cycle (days)	203	225	209	209	209
		Net gearing (%)	nc	nc	nc	nc	nc

Source: Company data, RHB

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Figure 1: Changes to our estimates

	New			Old			New/ Old (%)		
	2019F	2020F	2020F	2019F	2020F	2021F	2019F	2020F	2021F
Income Statement (IDRbn)									
Total Turnover	8,670	9,302	10,443	7,877	8,779	9,630	10.1	6.0	8.4
Gross Profit	3,992	4,431	4,934	3,755	4,195	4,591	6.3	5.6	7.5
EBITDA	1,419	1,598	1,801	1,374	1,546	1,730	3.2	3.3	4.1
Net Profit	1,155	1,309	1,488	1,111	1,246	1,391	4.0	5.1	7.0
Key Metrics									
EPS (IDR)	67	76	87	65	73	81	4.0	5.1	7.0
DPS (IDR)	30	38	43	29	36	41	4.0	5.1	7.0
BVPS (IDR)	279	317	359	270	306	345	3.4	3.6	4.0
Revenue Growth (%)	20	7	12	13	11	10			
EPS Growth (%)	20	13	14	15	12	12			
Gross Margin (%)	46	48	47	48	48	48			
EBITDA Margin (%)	16	17	17	17	18	18			
Net Profit Margin (%)	13	14	14	14	14	14			
Dividend Payout Ratio (%)	45	50	50	45	50	50			
Return on average equity (%)	26	26	26	26	25	25			

Source: Company data, RHB

Figure 2: RHB vs Street estimates

IDRbn	RHB			Consensus			RHB/Cons (%)		
	2019F	2020F	2021F	2019F	2020F	2021F	2019F	2020F	2021F
Net revenue	8,670	9,302	10,443	8,495	9,760	10,821	102	95	97
Gross profit	3,992	4,431	4,934	4,028	4,627	5,135	99	96	96
EBITDA	1,419	1,598	1,801	1,464	1,655	1,870	97	97	96
EBIT	1,345	1,518	1,715	1,376	1,551	1,700	98	98	101
PBT	1,430	1,620	1,841	1,453	1,661	1,912	98	98	96
NPAT	1,155	1,309	1,488	1,174	1,332	1,529	98	98	97
CCC (Days)	209	209	209	198	198	198	105	105	105
ROE (%)	26	26	26	26	25	24	99	101	105

Source: Bloomberg, RHB as at 10 Apr 2019

Figure 3: ACES' 10-year DCF valuation

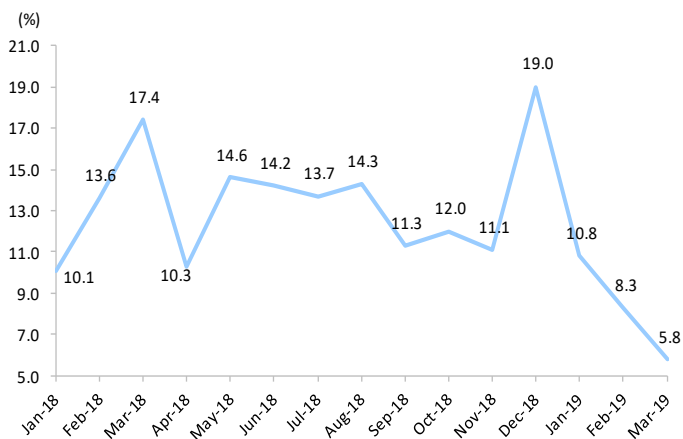
IDRbn	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F
EBIT	1,345	1,518	1,715	2,149	2,535	2,900	3,306	3,733	4,188	4,690	5,206
EBIT (1-t)	1,076	1,215	1,372	1,719	2,028	2,320	2,645	2,987	3,351	3,752	4,165
Depreciation & Amortization	74	80	86	92	98	105	112	119	127	136	146
Change in working capital	(188)	(137)	(442)	(298)	(370)	(394)	(417)	(442)	(466)	(497)	(523)
Capex	(86)	(95)	(98)	(94)	(104)	(106)	(108)	(118)	(130)	(143)	(158)
Net free cash flow to firm	875	1,062	917	1,418	1,653	1,925	2,232	2,546	2,882	3,248	3,630
Terminal Value											50,826
PV	875	944	725	996	1,032	1,068	1,101	1,116	1,123	1,125	16,769
Terminal growth	5.0%										
WACC	12.5%										
Total discounted firm value	26,875										
Less: net debt	762										
Less: minority interest	10										
Equity value	26,103										
Number of shares (bn)	17.2										
Equity value per share (IDR)	1,522										

Source: Company data, RHB

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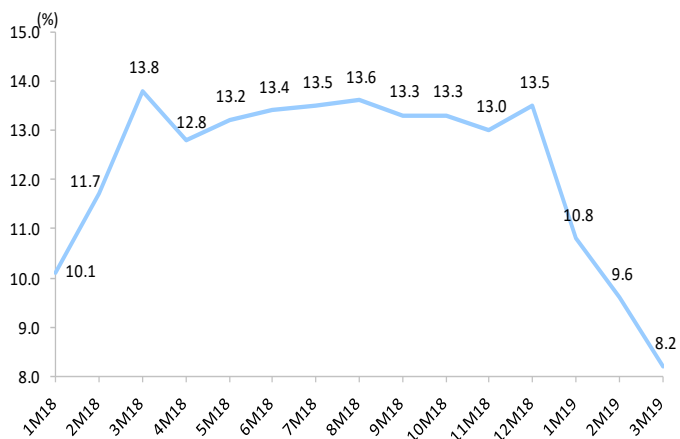
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Figure 4: ACES' monthly SSSG (%)



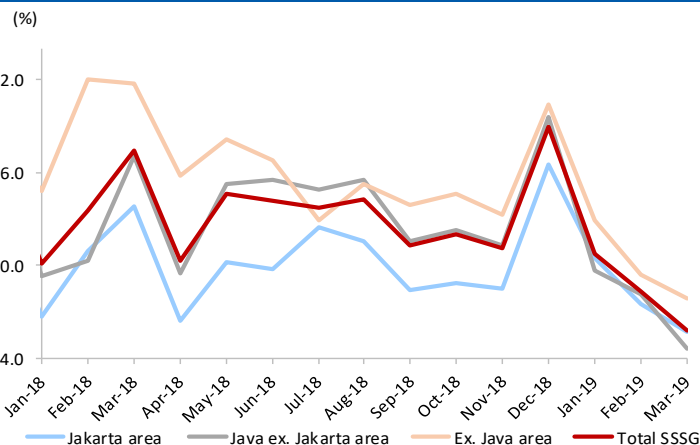
Source: Company data, RHB

Figure 5: ACES' cumulative SSSG (%)



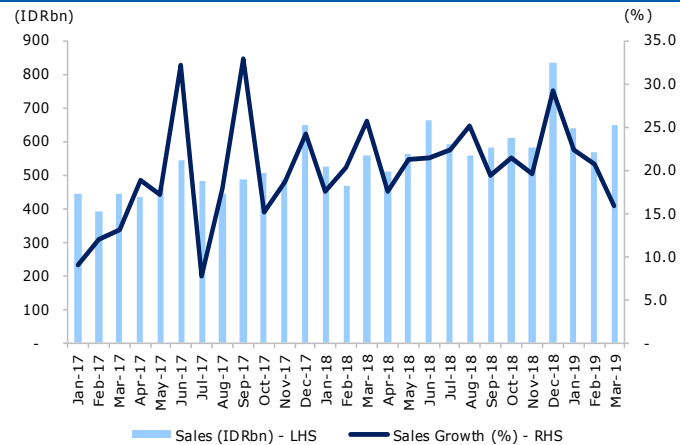
Source: Company data, RHB

Figure 6: ACES' monthly SSSG breakdown (%)



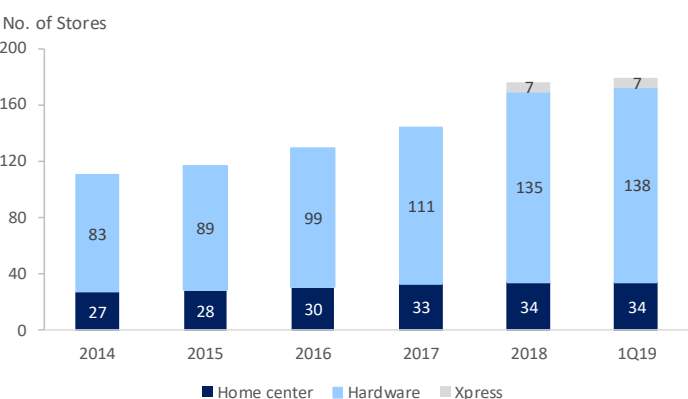
Source: Company data, RHB

Figure 7: ACES' monthly sales growth (% YoY)



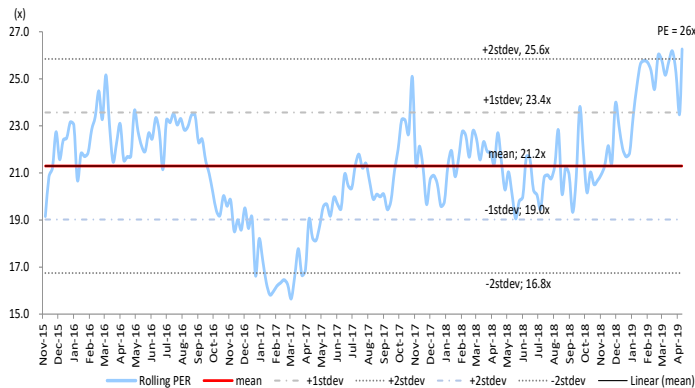
Source: Company data, RHB

Figure 8: Number of stores, 2014-1Q19



Source: Company data, RHB

Figure 9: ACES' 3-year P/E band. It is trading at 2SD above the mean



Note: Data as at 10 Apr 2019

Source: Bloomberg, RHB

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