

Tuesday, 17 December 2019

HOLD Upgrade

Last price (IDR) 1,550
 Target Price (IDR) 1,550
 Upside/Downside 0.0%
 Previous Target Price (IDR) 1,550

Stock Statistics

Sector Retail
 Bloomberg Ticker ACES IJ
 No of Shrs (mn) 17,150
 Mkt. Cap (IDRbn/USDmn) 26,583/1,897
 Avg. daily T/O (IDRbn/USDmn) 37.1/2.6

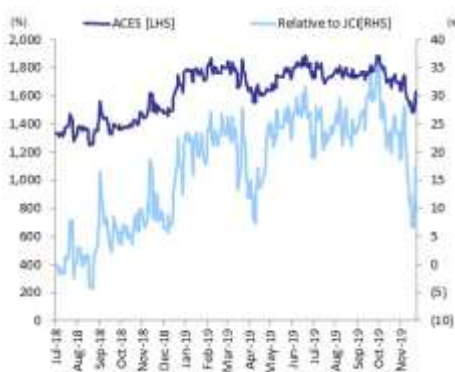
Major shareholders (%)

PT Kawan Lama Sejahtera 60.0
 Estimated Free Float 40.0

EPS Consensus (IDR)

	2019F	2020F	2021F
Danareksa	61.0	66.0	71.8
Consensus	61.9	69.7	77.8
Danareksa/Cons	(1.5)	(5.4)	(7.8)

ACES relative to JCI Index



Source : Bloomberg



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Ace Hardware Indonesia(ACES IJ) 4Q19 Slower as Expected

ACES' YTD SSSG dropped as reflected in Nov 19's sales of IDR610bn, bringing the YTD sales to IDR7.1tn (+15.5% yoy) or 86.1% of our full year sales forecast, i.e. in-line. The yoy growth bounced from negative MoM in Oct19 even though the company opened 18 additional stores. The SSSG was 0.7% in Nov19 and 6.0% in 11M19, in-line with our view of risk in 4Q SSSG being lower than market expectations. The 11M19 SSSG is barely within the management's guidance of 6-7% for FY19, but the risk of falling short is even higher than previous months and will likely to carry on in Dec19. We upgrade to HOLD as performance is in-line with what we expected that performance will taper further throughout 2019 before normalizing in 2020.

SSSG reflects an anaemic purchasing power. SSSG slipped to 6.0% in 11M19 from 6.5% in 10M19 we suspect due to low purchasing power along with high base effect of last year's 4Q19 performance. YTD figure is still within the management's guidance of 6-7%, in-light of its Nov19 performance might breach below 6% there are clear risks given that 4Q typically accounts for more than 28% of both the full year's top and bottom lines with the lacklustre outlook not as bright as it was last year.

Monthly promotions fails to lift production. Historically, ACES revenues have been volume driven, and to attract customers the company has launched promotions. Worth noting that ACES launched a promotion called "Bikin Hidup Jadi Mudah" focusing on home appliances product which makes, but has failed to lift SSSG. The result come amidst an on-track expansion plan which saw 18 net stores, but result might not show immediately as the company only started the rapid expansion in 4Q19, November to be more specific. All in all margins would ultimately take a hit from the pedestrian sales growth rate.

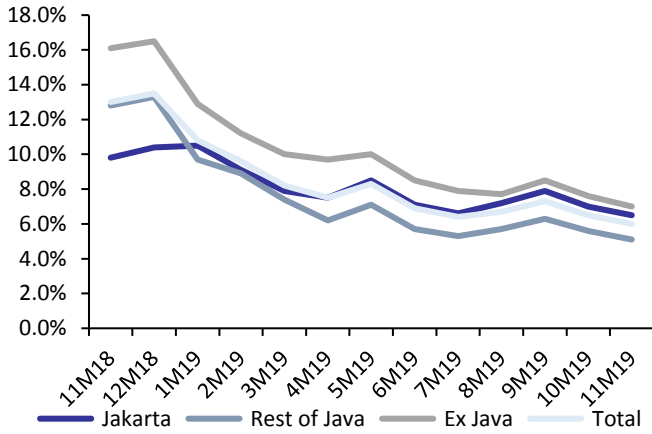
Upgrade to HOLD, with same TP of IDR1,550. We upgrade our call on ACES to HOLD, while we still foresee normalizing in YTD SSSG and possible estimate cut by consensus, we believe ACES is now about fairly valued. ACES' valuation now is trading at 23.5x 2020 PE or still slightly below +1 STD of its 5 years forward earnings. The risks to our call are better-than-expected SSSG and margins improvements, rupiah appreciation, and a significant improvement in macro conditions purchasing power.

Key Financials

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Revenue (IDRbn)	5,938	7,240	8,335	9,209	10,110
EBITDA (IDRbn)	944	1,168	1,287	1,403	1,528
EBITDA Growth (%)	17.8	23.7	10.2	9.0	8.9
Net profit (IDRbn)	778	965	1,047	1,132	1,231
EPS (IDR)	45.3	56.3	61.0	66.0	71.8
EPS growth (%)	9.4	24.1	8.5	8.1	8.8
BVPS (IDR)	204.8	246.4	276.8	309.8	345.6
DPS (IDR)	16.4	22.7	30.6	33.0	35.9
PER (x)	34.2	27.6	25.4	23.5	21.6
PBV (x)	7.6	6.3	5.6	5.0	4.5
Dividend yield (%)	1.1	1.5	2.0	2.1	2.3
EV/EBITDA (x)	27.2	22.2	19.8	17.9	16.2

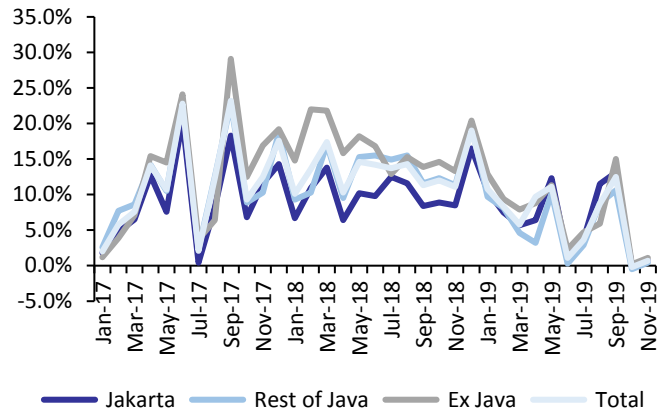
Source : ACES, Danareksa Estimates

Exhibit 1. 11M18-11M19 YTD SSSG



Source: Company, Danareksa Sekuritas

Exhibit 2. SSSG per region



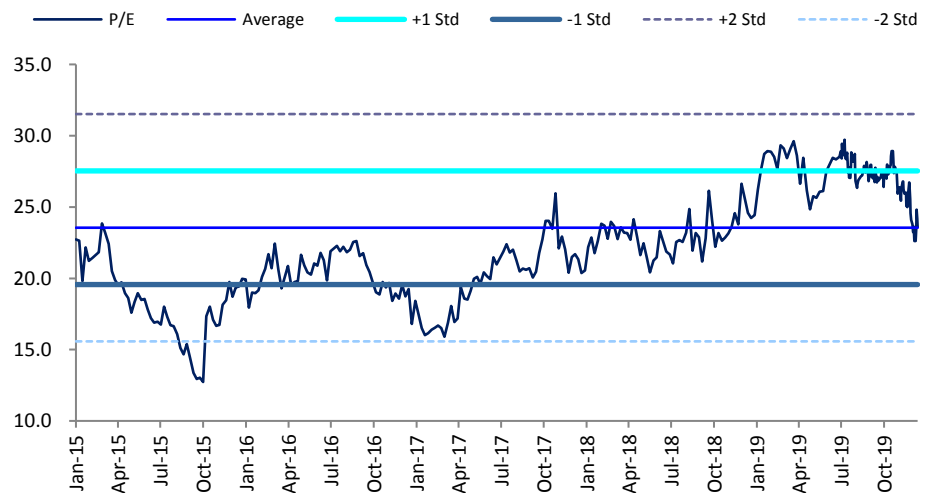
Source: Company, Danareksa Sekuritas

Exhibit 3. Nov - Dec 2019 Promotions Campaign



Source: Company, Danareksa Sekuritas

Exhibit 4. ACES' 4-year forward PE band 2014-2019



Source: Company, Danareksa Sekuritas

Exhibit 5. Income Statement

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Revenue	5,938	7,240	8,335	9,209	10,110
COGS	(3,104)	(3,797)	(4,390)	(4,839)	(5,297)
Gross profit	2,834	3,443	3,946	4,369	4,813
EBITDA	944	1,168	1,287	1,403	1,528
Oper. profit	869	1,073	1,182	1,284	1,395
Interest income	33	29	27	29	35
Interest expense	(38)	(47)	(56)	(62)	(67)
Forex Gain/(Loss)	0	0	0	0	0
Income From Assoc. Co's	(3)	(4)	(6)	(9)	(9)
Other Income (Expenses)	99	152	160	172	184
Pre-tax profit	960	1,203	1,308	1,415	1,538
Income tax	(179)	(226)	(247)	(268)	(291)
Minority interest	(3)	(12)	(14)	(15)	(16)
Net profit	778	965	1,047	1,132	1,231
Core Net Profit	778	965	1,047	1,132	1,231

Exhibit 6. Balance Sheet

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Cash & cash equivalent	902	799	1,115	1,444	1,852
Receivables	90	37	42	47	28
Inventory	1,849	2,520	2,526	2,718	2,903
Other Curr. Asset	517	741	762	803	841
Fixed assets - Net	705	801	918	1,033	1,144
Other non-curr.asset	365	424	445	472	500
Total asset	4,429	5,321	5,807	6,518	7,267
ST Debt	0	115	0	0	0
Payables	169	198	229	269	294
Other Curr. Liabilities	309	318	367	407	448
Long Term Debt	0	0	0	0	0
Other LT. Liabilities	440	455	440	491	543
Total Liabilities	918	1,086	1,036	1,166	1,285
Shareholder's Funds	3,513	4,225	4,748	5,313	5,927
Minority interests	(2)	10	24	39	55
Total Equity & Liabilities	4,429	5,321	5,807	6,518	7,267

Exhibit 7. Cash Flow

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Net income	778	965	1,047	1,132	1,231
Depreciation and Amort.	75	95	106	119	133
Change in Working Capital	(260)	(588)	20	(157)	(141)
Other Oper. Cash Flow	126	(230)	35	70	76
Operating Cash Flow	719	242	1,207	1,164	1,300
Capex	(192)	(191)	(222)	(235)	(243)
Others Inv. Cash Flow	33	29	27	29	35
Investing Cash Flow	(159)	(162)	(195)	(206)	(208)
Net change in debt	(5)	115	(115)	0	0
New Capital	(38)	138	0	0	0
Dividend payment	(281)	(389)	(524)	(567)	(616)
Other Fin. Cash Flow	(38)	(47)	(56)	(62)	(67)
Financing Cash Flow	(362)	(183)	(695)	(628)	(684)
Net Change in Cash	198	(104)	316	329	408
Cash - begin of the year	704	902	799	1,115	1,444
Cash - end of the year	902	799	1,115	1,444	1,852

Exhibit 8. Key Ratios

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Growth (%)					
Sales	20.3	21.9	15.1	10.5	9.8
EBITDA	17.8	23.7	10.2	9.0	8.9
Operating profit	19.1	23.4	10.2	8.6	8.7
Net profit	9.4	24.1	8.5	8.1	8.8
Profitability (%)					
Gross margin	47.7	47.6	47.3	47.4	47.6
EBITDA margin	15.9	16.1	15.4	15.2	15.1
Operating margin	14.6	14.8	14.2	13.9	13.8
Net margin	13.1	13.3	12.6	12.3	12.2
ROAA	19.1	19.8	18.8	18.4	17.9
ROAE	23.7	24.9	23.3	22.5	21.9
Leverage					
Net Gearing (x)	(0.3)	(0.2)	(0.2)	(0.3)	(0.3)
Interest Coverage (x)	22.8	22.9	21.0	20.9	20.7

Source : ACES, Danareksa Estimates

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