

Ace Hardware Indonesia Tbk (ACES)

Reaps Effective Strategies

Company Report | Apr 06, 2018

Buy

Dec 2018 TP (IDR)	1,575
Consensus Price (IDR)	1,440
TP to Consensus Price	+9.4%
vs. Last Price	+15.8%

Shares data

Last Price (IDR)	1,360
Price date as of	Apr 04, 2018
52 wk range (Hi/Lo)	1,410 / 890
Free float	40.0%
Outstanding sh.(mn)	17,150
Market Cap (IDR bn)	23,324
Market Cap (USD mn)	1,694
Avg. Trd Vol - 3M (mn)	8.4
Avg. Trd Val - 3M (bn)	11.0
Foreign Ownership	28.0%

Trade, Services & Investment

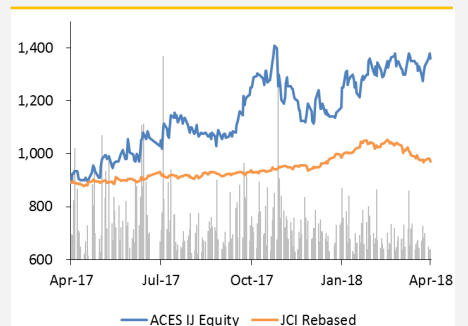
Home Improvement Retail

Bloomberg	ACES.IJ
Reuters	ACES.JK

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Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	17.7%	3.0%	8.8%	52.8%
Rel. Ret.	20.9%	9.0%	10.9%	43.9%

Impressive Sales Figures

ACES posted the **upswing of 20.3% y-y** in 2017's net sales coupled by picking up sales in its overall segments. Another to **17-store launch in 2017**, the success in **merchandising and marketing strategies** beefing up sales in new stores and mature stores. The smaller new stores also **contributed to the hike of 9.86% y-y in sales figures per sqm**.

Effective Strategies Underpinning Accelerated Growth in Sales

Likewise, it also **successfully decreased the number of days in inventory** from 216 days in 3Q17 into 202 days in 4Q17. Indeed, it was capable of posting cash of IDR902 billion despite aggressive business expansion it carried on.

We project that **ACES is likely capable of posting the growth of 9% in 2018's sales** underpinned by the internal refrainment coupled with the success in marketing and merchandising strategies. Furthermore, **its net margin likely beefs up from 13.1% in 2017 into 13.9% in 2018**; as a result, it is capable of posting the growth of 15.8% in 2018's net profit (vs 2017's net profit of 9.4%)

Target Price of IDR1,575

We use an estimate of forward P/E of 27.9x (2SD higher than the last 4-year average) as the basis of valuation method. The target price implies a 2018E P/E of 30.0x (vs 25.9x at the current time)

Ace Hardware Indonesia Tbk | Summary (IDR bn)

	2016/12A	2017/12A	2018/12E	2019/12E
Sales	4,936	5,939	6,490	7,097
<i>Sales growth</i>	4.1%	20.3%	9.3%	9.4%
EBITDA	953	1,044	1,169	1,250
Net profit	711	778	901	973
EPS (IDR)	41	45	53	57
<i>EPS growth</i>	20.8%	9.4%	15.8%	7.9%
BVPS (IDR)	178	205	239	274
EBITDA margin	19.3%	17.6%	18.0%	17.6%
Net Profit Margin	14.4%	13.1%	13.9%	13.7%
ROE	25.0%	23.7%	23.7%	22.1%
ROA	20.3%	19.1%	19.0%	18.0%
ROIC	25.3%	24.0%	23.0%	22.7%
P/E	20.1x	25.5x	25.9x	24.0x
P/BV	4.7x	5.6x	5.7x	5.0x
EV/EBITDA	14.3x	18.1x	18.8x	17.5x
DPS (IDR)	15	16	18	22
<i>Dividend yield</i>	1.8%	1.4%	1.3%	1.6%

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

A Glance at ACES

ACES is a retailer dominating home-improvement business in Indonesia. Its sold products whose 80% are imported products are categorized into home improvement and lifestyle segments. Targeting the middle to high income individuals, it operates 144 stores across big cities in Indonesia.

To extend its markets, ACES actively implements marketing strategy of sale programs throughout years such as “Ace Boom Sale”, *Siap Sedia pada Hari Raya*”, “Clearance Sales Akhir Tahun”, and “Ace Reward” membership. Another to whole-year sale off, ACES in 2016 penetrated e-commerce segment through ruparupa.com owned by its parent entity.

Indonesian’ Home-Improvement Retail in ASEAN

The home-improvement retail business inextricably correlates to certain countries’ industrial property backdrop. Indonesia homes to numerous new property projects; thus, it provide lucrative opportunities for retailers such as ACES to expand its business, particularly out of Java Island. Of note, the digital era popularizing Do It Yourself trend provides another opportune moment for ACES.

Its peers in ASEAN also post the growth in sales amid the downtrend suffered by the overall retail sectors; still most of home improvement retailers are capable of posting two digit gross margin, operating margin and EBITDA margin.

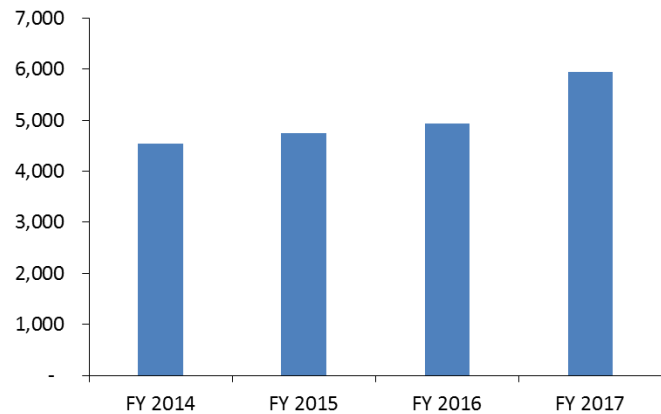
ASEAN Home Improvement Retailers

Company	Market Cap (USD mn)	Total Asset (USD mn)	Sales Growth	Gross Margin	Operating Margin	EBITDA Margin	ROE	P/E	Dividend Yield
ACES	1,694	326	20.3%	48%	16%	17.6%	23.7%	25.5x	1.4%
Thailand									
Home Product Center	5,982	1,564	5.1%	31%	10%	14.8%	27.1%	37.8x	2.0%
Siam Global House	1,974	865	10.5%	21%	10%	13.9%	12.5%	38.1x	1.2%
Philippines									
Wilcon Depot Inc	861	184	N/A	27%	10%	8.7%	N/A	N/A	N/A

Source: Bloomberg, NHKS research

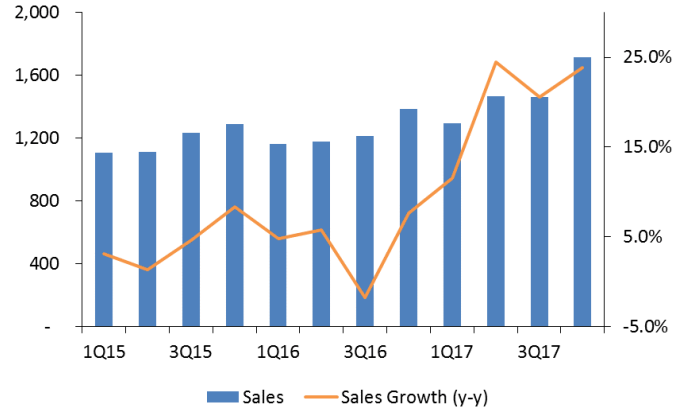
Operational Performance

Sales (IDR bn) | 2014 - 2017



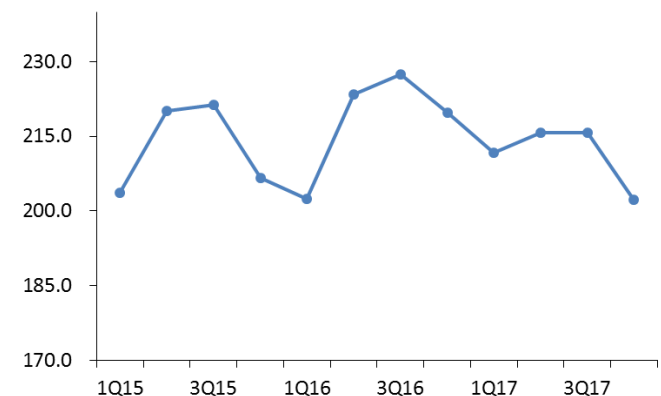
Source: Company, NHKS research

Quarterly Sales (IDR bn) | 2015 - 2017



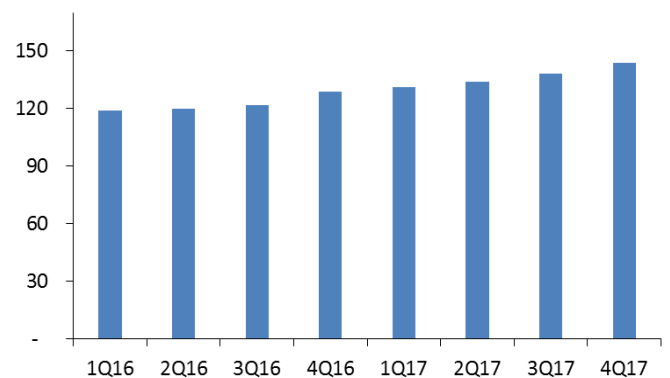
Source: Company, NHKS research

Days of Inventories | 1Q15 - 4Q17



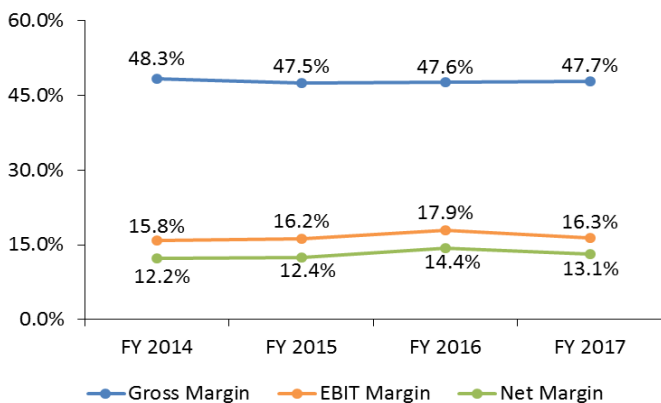
Source: Company, NHKS research

Stores Expansion | 1Q16 - 4Q17



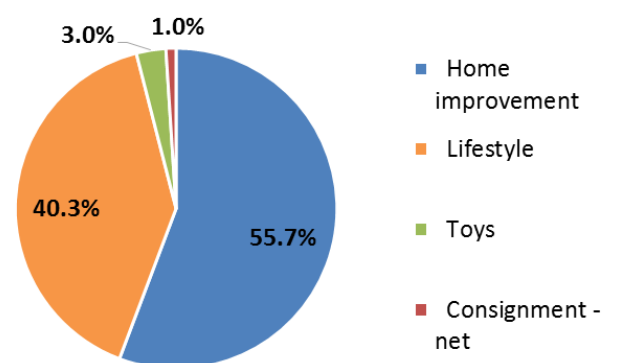
Source: Company, NHKS research

Gross, Net Profit & EBIT Margin | 2014 - 2017



Source: Company, NHKS research

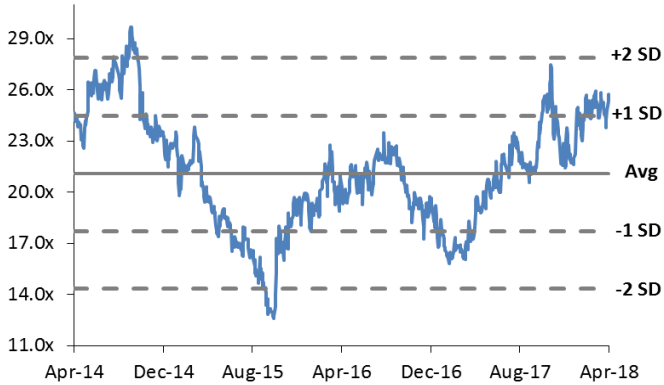
Sales Breakdown | 2017



Source: Company, NHKS research

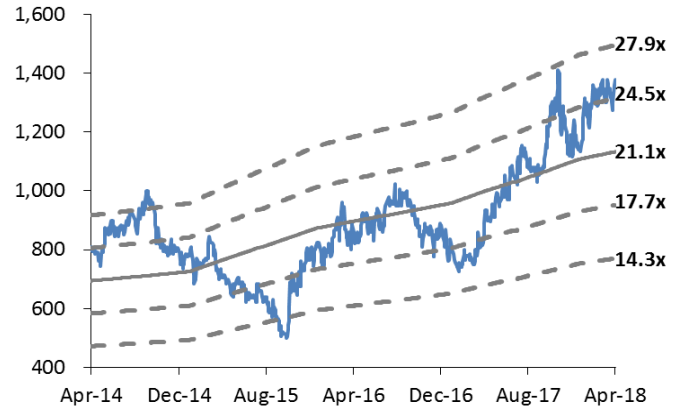
Multiple Valuation

Forward P/E band | Last 4 years



Source: NHKS research

Dynamic Forward P/E band | Last 4 years



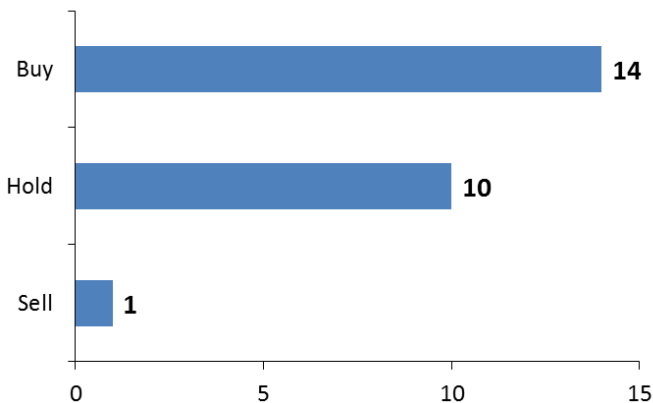
Source: NHKS research

Rating and target price

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
04/06/2018	Buy	1,575	1,360	1,440	+15.8%	+9.4%

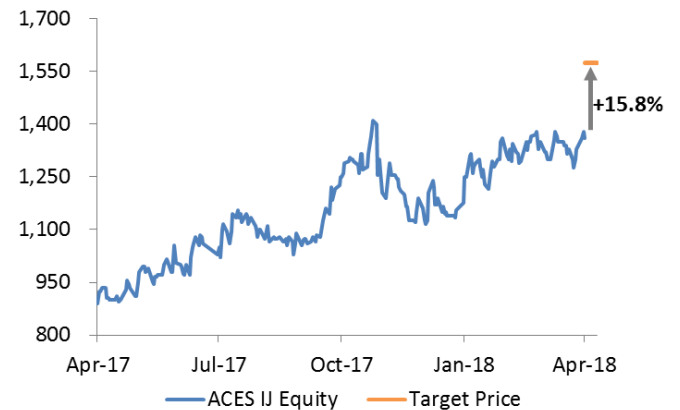
Source: Bloomberg, NHKS research

Analyst Coverage Rating



Source: Bloomberg

Closing and Target Price



Source: NHKS research

NH Korindo Sekuritas Indonesia (NHKS) stock ratings

1. Period: End of year target price
2. Rating system based on a stock's absolute return from the date of publication
 - Buy : Greater than +15%
 - Hold : -15% to +15%
 - Sell : Less than -15%

Summary of Financials

ACES Summary		
Last Price (IDR)	April 4, 2018	1,360
Target Price (IDR)	Dec 2018	1,575
Analyst: Michael Tjahjadi	Rating:	Buy

INCOME STATEMENT				
In IDR bn	2016/12A	2017/12A	2018/12E	2019/12E
Net Sales	4,936	5,939	6,490	7,097
Growth (% y/y)	4.1%	20.3%	9.3%	9.4%
COGS	(2,584)	(3,104)	(3,386)	(3,700)
Gross Profit	2,352	2,835	3,104	3,397
Gross Margin	47.6%	47.7%	47.8%	47.9%
Operating Expenses	(1,471)	(1,866)	(2,022)	(2,244)
EBIT	881	969	1,082	1,153
EBIT Margin	17.9%	16.3%	16.7%	16.2%
Depreciation	(71)	(75)	(87)	(97)
EBITDA	953	1,044	1,169	1,250
EBITDA Margin	19.3%	17.6%	18.0%	17.6%
Interest Expense	(37)	(38)	-	-
EBT	864	960	1,111	1,201
Income Tax	(157)	(179)	(214)	(231)
Net Profit	711	778	901	973
Growth (% y/y)	20.8%	9.4%	15.8%	7.9%
Net Profit Margin	14.4%	3.0%	13.9%	13.7%

BALANCE SHEET				
In IDR bn	2016/12A	2017/12A	2018/12E	2019/12E
Cash	704	902	1,288	1,472
Inventories	1,590	1,849	2,039	2,229
Other Current Assets	500	517	547	645
Total Current Assets	2,822	3,358	3,898	4,430
Net Fixed Assets	589	705	802	891
Other Non Current Assets	320	365	351	436
Total Assets	3,731	4,429	5,052	5,758
ST Bank loans	5	-	-	-
Payables	108	169	136	195
Total Current Liabilities	389	478	489	579
LT Debt	-	-	-	-
Other Non Current Liab.	287	420	459	472
Total Liabilities	682	918	947	1,051
Shareholders' Equity	3,049	3,510	4,104	4,707

CASH FLOW STATEMENT				
In IDR bn	2016/12A	2017/12A	2018/12E	2019/12E
Net Income	711	781	901	973
Deprec & Amortization	71	75	87	97
Chg. In Working Capital	(293)	(166)	(144)	(257)
CFO	490	690	844	812
Capex	(277)	(190)	(190)	(190)
CFI	(127)	(187)	(151)	(258)
Dividends Paid	(263)	(281)	(308)	(370)
Net Borrowing	(11)	(5)	-	-
CFB	(275)	(302)	(308)	(370)
Net Changes in Cash	87	201	385	184

OWNERSHIP			
By Geography	% Shareholders		%
Indonesia	71.6	Kawan Lama Sejahtera	60.0
United States	16.3	Capital Group	6.0
Luxembourg	7.9	Standard Life Aberdeen	4.7
United Kingdom	1.2	Vanguard Group	1.3

PROFITABILITY & STABILITY				
	2016/12A	2017/12A	2018/12E	2019/12E
ROE	25.0%	23.7%	23.7%	22.1%
ROA	20.3%	19.1%	19.0%	18.0%
ROIC	25.3%	24.0%	23.0%	22.7%
EBITDA/Equity	33.6%	31.8%	30.7%	28.4%
EBITDA/Assets	27.2%	25.6%	24.7%	23.1%
Cash Dividend (IDR bn)	263	281	308	370
Dividend Yield (%)	1.8%	1.4%	1.3%	1.6%
Payout Ratio (%)	44.2%	39.6%	39.6%	41.1%
DER	0.0x	0.0x	0.0x	0.0x
Net Gearing	0.0x	0.0x	0.0x	0.0x
LT Debt to Equity	0.0x	0.0x	0.0x	0.0x
Capitalization Ratio	0.0x	0.0x	0.0x	0.0x
Equity Ratio	0.8x	0.8x	0.8x	0.8x
Debt Ratio	0.0x	0.0x	0.0x	0.0x
Financial Leverage	1.2x	1.2x	1.2x	1.2x
Current Ratio	7.3x	7.0x	8.0x	7.6x
Quick Ratio	3.2x	3.2x	3.8x	3.8x
Cash Ratio	1.8x	1.9x	2.6x	2.5x
Par Value (IDR)	50	50	50	50
Total Shares (mn)	17,150	17,150	17,150	17,150
Share Price (IDR)	835	1,155	1,360	1,360
Market Cap (IDR tn)	14.3	19.8	23.3	23.3

VALUATION INDEX				
	2016/12A	2017/12A	2018/12E	2019/12E
Price /Earnings	20.1x	25.5x	25.9x	24.0x
Price /Book Value	4.7x	5.6x	5.7x	5.0x
Price/Sales	2.9x	3.3x	3.6x	3.3x
PE/EPS Growth	1.0x	2.7x	1.6x	3.0x
EV/EBITDA	14.3x	18.1x	18.8x	17.5x
EV/EBIT	15.5x	19.5x	20.4x	18.9x
EV (IDR bn)	13,622	18,906	22,036	21,852
Sales CAGR (3-Yr)	8.2%	9.4%	11.0%	12.9%
EPS CAGR (3-Yr)	11.8%	11.9%	15.3%	11.0%
Basic EPS (IDR)	41	45	53	57
Diluted EPS (IDR)	41	45	53	57
BVPS (IDR)	178	205	239	274
Sales PS (IDR)	288	346	378	414
DPS (IDR)	15.3	16.4	17.9	21.6

DCF, RIM & EVA				
	2016/12A	2017/12A	2018/12E	2019/12E
DCF (IDR bn)				
NOPAT	721	788	874	931
+Depr./Amor.	71	75	87	97
-CAPEX	(277)	(190)	(190)	(190)
-Incr. (Decr.) in Working Cap.	(293)	(166)	(144)	(257)
(Unlevered) FCF	222	507	627	581
WACC				
Cost of Debt (Tax Adj.)	7.8%	0.0%	0.0%	0.0%
Cost of Equity (COE)	10.1%	11.4%	10.6%	11.2%
WACC (%)	10.1%	11.4%	10.6%	11.2%
RIM				
Spread (FROE-COE) (%)	16.9%	14.1%	15.0%	12.5%
Residual Income (IDR)	472	479	577	579
Equity Charge	239	300	324	394
EVA				
Invested Capital (IDR bn)	2,651	3,054	3,510	4,104
ROIC-WACC (%)	17.1%	14.4%	14.3%	11.5%
EVA (IDR bn)	452	440	501	471

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