

10 MAY 2019

COMPANY UPDATE

BUY

STOCK INFORMATION

Bloomberg Code	ACES IJ
Sector	Retail
Current Price	Rp1,605
Target Price	Rp1,900
Prev. Target Price	Rp2,000
Upside/ Downside	18.4%
Share Out (billion shares)	17.1
Market Cap (Rpbillion)	27,405
52 – w range (low-high)	Rp1,125-1,865
52 – w average daily	Rp1,499

PRICE CHART



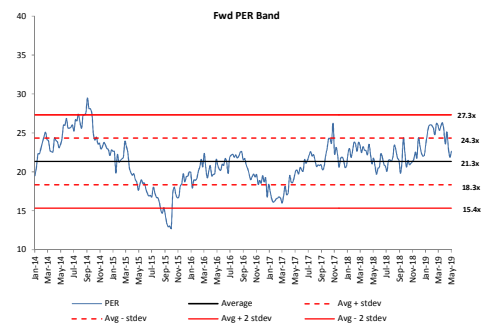
Source: Bloomberg

SHAREHOLDER'S INFORMATION

PT Kawan Lama Sejahtera	59.9%
Public	40.0%

Source: Company data

PRICE CHART



Source: Bloomberg

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PT ACE HARDWARE INDONESIA TBK

AGGRESSIVE EXPANSION LED TO SLOWER SSSG

During 1Q19, ACES booked a total sales of Rp1.88 trillion, grew by 19.6% YoY on the back of 8.2% SSSG coupled with aggressive new store rollouts since last year (179 store in 1Q19 vs 147 stores as of 1Q18). This was slightly below our expectation, made up only 20.8% to our FY19F of Rp9.03 trillion. We made a minor adjustment to our projection to reflect 1Q19 performance and therefore, our TP was slightly down from Rp2,000/ share to Rp1,900/ share, offering 17.3% upside potential. We maintain our BUY recommendation on the stock.

Temporary Decline in GPM due to Ambitious Openings

Albeit the strong sales growth during the period, the SSSG came in slower than last year (13.8% in 1Q18), which partially due to cannibalization from new stores that were opened mostly in Java ex Jakarta area. Profitability-wise, the GPM declined by 40bps YoY to 47.4%, mostly due to sales mix as well as more promotional discount in order to support company's aggressive expansion. Meanwhile, the EBIT margin remained stable, down by only 20bps to 14.6%, thanks to better store productivity (based on our rough calculation, ACES' annual sales/sqm of Rp3.9 million in 1Q19, hiked by 2.3% YoY from Rp3.8 million in 1Q18) coupled with opex efficiencies in some posts i.renovation cost (-67.5% YoY) and other GA expenses. Furthermore, NPM slumped by 60bps to 12.6% mainly due to forex loss of Rp13.12 billion (vs forex gain in 1Q18 of Rp4.2 billion) in line with weaker currency by 3-4% YoY. On the other hand, the total ACE reward card member encouragingly grew by 18.1% YoY from 1.89 million in 1Q18 to 2.24 million in 1Q19, and sales by member dominance has increased from 65.7% to 67.5% to total sales.

Organic Expansion Still On Track

During the first 3 months of 2019, the company has added in total of 3 new stores, making the total store count as of Mar19 to 179 Ace Hardware stores (+32 stores YoY from 147 stores in 1Q18), on track with initial target of 20-25 new store openings or equal to 35k sqm addition (from current total sales area of 453k sqm), including 5-7 Xpress stores and expand in 4-7 new cities. So far, the company has absorbed around 13% total capex of Rp240 billion or equal to Rp32 billion to support the store addition. Aside of the aggressive expansion this year, in order to boost sales, the company has been adding new SKUs, developing new services, offering monthly promotion as well as continuous system improvement in ruparupa.com. The company maintains its conservative guidance of 6-7% SSSG and topline growth of 15% YoY.

Minor Adjustment to FY19F SSSG, Lower TP of Rp1,900/ share

We made a minor adjustment to our projection, particularly on FY19F SSSG from 7% to 6.5% to anticipate softer SSSG – which we believe will be temporary as impact of massive new store openings. Therefore, our TP revised from Rp2,000/ share to Rp1,900, implies 27.8x and 22.5x PER and EV/EBITDA 2019F, while the stock is currently traded at 23.5x and 19.0x PER and EV/EBITDA 2019F. With upside potential of 18.4%, we maintain our BUY recommendation on the stock.

Financial Summary

(Rp billion)	2017A	2018F	2019F	2020F	2021F
Revenue	5,938.6	7,239.8	8,864.6	10,247.3	11,256.6
EBITDA	940.7	1,164.1	1,410.6	1,663.5	1,796.0
Net profit	777.7	964.6	1,167.5	1,367.2	1,481.1
EPS (Rp)	45.6	56.5	68.4	80.1	86.7
PER (x)	35.2	28.4	23.5	20.0	18.5
BVPS (Rp)	205.9	248.1	294.1	347.1	402.2
PBV (x)	8.5	7.1	5.5	4.7	4.0
EV/EBITDA (x)	28.1	23.0	19.0	15.9	14.1
Dividend yield (%)	0.9%	1.3%	1.4%	1.7%	2.0%
RoE (%)	23.7	24.9	25.2	25.0	23.2

Source: Company data and Lotus Andalan Research

Please see important disclosures at the end of this report

**INTERIM FINANCIAL RESULT**

	FY17	FY18	YoY	FY18E	Coverage	3Q17	4Q18	QoQ	Comment
<b>P/L (In Rp billion)</b>									
Revenue	1,573.8	1,881.9	19.6%	9,030.5	20.8%	2,076.4	1,881.9	-9.4%	Slightly below expectation, SSSG as of 1Q19 8.2% vs 13.8% in 1Q18
Cost of revenue	806.3	990.5	22.8%	4,716.2	21.0%	1,111.1	990.5	-10.9%	
Gross profit	767.5	891.4	16.1%	4,314.3	20.7%	965.3	891.4	-7.7%	
Operating expense	518.6	615.8	18.8%	3,002.6	20.5%	657.6	615.8	-6.4%	
Operating profit	248.9	275.6	10.7%	1,311.7	21.0%	307.7	275.6	-10.4%	
Net profit	208.9	236.9	13.4%	1,186.1	20.0%	267.2	236.9	-11.3%	
<b>Profitability</b>									
Gross margin	47.8%	47.4%		47.8%		46.5%	47.4%		Stable GPM due to sales mix
EBIT margin	14.8%	14.6%		14.5%		14.8%	14.6%		Vast improvement in SSSG allow better operational leverage
Net margin	13.3%	12.6%		13.1%		12.9%	12.6%		

Source: Company data and Lotus Andalan Research

**Forecast Changes**

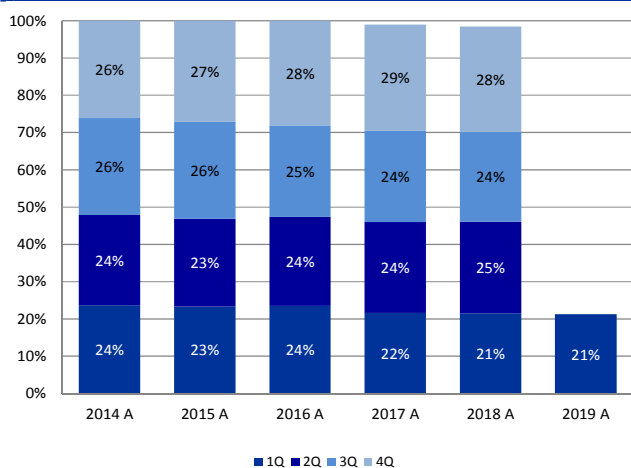
	Previous			New			% change		
	2019F	2020F	2021F	2019F	2020F	2021F	2019F	2020F	2021F
Revenue	9,031	10,539	11,688	8,865	10,247	11,257	-1.8%	-2.8%	-3.7%
Gross Profit	4,314	5,034	5,603	4,236	4,897	5,396	-1.8%	-2.7%	-3.7%
Operating Profit	1,312	1,577	1,710	1,292	1,530	1,647	-1.5%	-3.0%	-3.7%
Net Income	1,186	1,409	1,538	1,167	1,367	1,481	-1.6%	-3.0%	-3.7%
SSSG	7.0%	7.0%	7.0%	6.5%	7.0%	7.0%	-0.5%	0.0%	0.0%
Sales growth	24.9%	16.6%	10.9%	22.6%	15.5%	9.8%	-2.3%	-1.1%	-1.1%

**Financial Ratios**

Gross margin	47.8%	47.8%	47.9%	47.8%	47.8%	47.9%	0.0%	0.0%	0.0%
Operating margin	14.5%	15.0%	14.6%	14.6%	14.9%	14.6%	0.0%	0.0%	0.0%
Net margin	13.1%	13.4%	13.2%	13.2%	13.3%	13.2%	0.0%	0.0%	0.0%

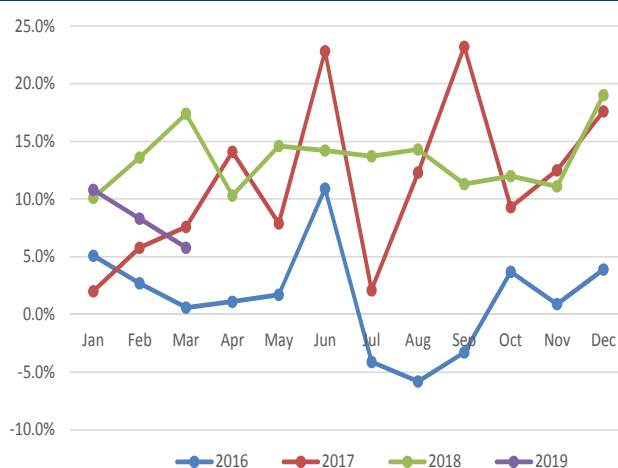
Source: Lotus Andalan Research

**Quarterly performance**



Source: Company data, Lotus Andalan Research

**Monthly SSSG**



Source: Company data, Lotus Andalan Research

## FINANCIAL HIGHLIGHTS OF PT ACE HARDWARE INDONESIA, TBK

In Rp Billion											
<b>BALANCE SHEET</b>	<b>2017A</b>	<b>2018A</b>	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>	<b>INCOME STATEMENT</b>	<b>2017A</b>	<b>2018A</b>	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>
<b>ASSETS</b>						<b>Revenue</b>	<b>5,939</b>	<b>7,240</b>	<b>8,865</b>	<b>10,247</b>	<b>11,257</b>
Cash & cash equivalents	902	799	723	987	2,044	COGS	(3,104)	(3,797)	(4,628)	(5,350)	(5,861)
Accounts receivable	90	37	89	109	98	<b>Gross profit</b>	<b>2,835</b>	<b>3,443</b>	<b>4,236</b>	<b>4,897</b>	<b>5,396</b>
Inventories - net	1,849	2,520	3,081	3,562	3,292	Operating expenses	(1,965)	(2,371)	(2,945)	(3,368)	(3,749)
Other current assets	517	741	859	978	1,106	<b>Operating profit</b>	<b>869</b>	<b>1,072</b>	<b>1,292</b>	<b>1,530</b>	<b>1,647</b>
<b>Total current assets</b>	<b>3,358</b>	<b>4,096</b>	<b>4,752</b>	<b>5,636</b>	<b>6,539</b>	<b>EBITDA</b>	<b>941</b>	<b>1,164</b>	<b>1,411</b>	<b>1,663</b>	<b>1,796</b>
Fixed assets	705	801	868	917	940	Interest income	(5)	(17)	(17)	(27)	(30)
Other noncurrent assets	365	424	578	661	708	Interest expense	(0)	(1)	(2)	(2)	(2)
<b>Total Noncurrent assets</b>	<b>1,071</b>	<b>1,225</b>	<b>1,446</b>	<b>1,578</b>	<b>1,648</b>	Other income (expenses)	96	148	165	188	215
<b>TOTAL ASSETS</b>	<b>4,429</b>	<b>5,321</b>	<b>6,198</b>	<b>7,214</b>	<b>8,188</b>	<b>Total other income/(expenses)</b>	<b>91</b>	<b>130</b>	<b>146</b>	<b>159</b>	<b>183</b>
<b>LIABILITIES &amp; EQUITY</b>						<b>Income before tax</b>	<b>960</b>	<b>1,203</b>	<b>1,438</b>	<b>1,689</b>	<b>1,830</b>
Short term bank loan	-	115	92	69	46	Tax expense	(179)	(226)	(267)	(316)	(342)
Accounts payable	169	198	228	278	300	<b>Net profit before minority interest</b>	<b>778</b>	<b>965</b>	<b>1,167</b>	<b>1,367</b>	<b>1,481</b>
Current maturities - bank loan	-	-	-	-	-	<b>Minority interest</b>	<b>(3)</b>	<b>(12)</b>	<b>(3)</b>	<b>(6)</b>	<b>(7)</b>
Other payables	309	318	454	507	546	<b>Net profit</b>	<b>778</b>	<b>965</b>	<b>1,167</b>	<b>1,367</b>	<b>1,481</b>
<b>Total Current Liabilities</b>	<b>478</b>	<b>631</b>	<b>775</b>	<b>854</b>	<b>891</b>	<b>EPS (Rp)</b>	<b>46</b>	<b>56</b>	<b>68</b>	<b>80</b>	<b>87</b>
Bank loan	0	0	0	0	0						
Other LTD	21	22	22	22	22	<b>KEY FINANCIAL RATIOS</b>	<b>2017A</b>	<b>2018A</b>	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>
Post-Employment Benefit	420	433	380	411	408	<b>Growth (%)</b>					
<b>Total Non-Current Liabilities</b>	<b>440</b>	<b>455</b>	<b>402</b>	<b>433</b>	<b>430</b>	Sales	20.3	21.9	22.4	15.6	9.9
Capital Stock	172	172	172	172	172	Gross profit	20.5	21.5	23.0	15.6	10.2
Additional PIC	369	404	404	404	404	Operating Profit	19.1	23.4	20.4	18.4	7.7
Treasury stock	(54)	(19)	(19)	(19)	(19)	EBITDA	18.3	23.7	21.2	17.9	8.0
Diff in transaction with non-controlling interest	0	0	0	0	0	Net Profit	9.4	24.0	21.0	17.1	8.3
RE	3,026	3,669	4,455	5,360	6,300	<b>Profitability (%)</b>					
<b>Non-controlling Interest</b>	<b>(2)</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>	Gross margin	47.7	47.6	47.8	47.8	47.9
<b>Total Equity</b>	<b>3,513</b>	<b>4,225</b>	<b>5,011</b>	<b>5,917</b>	<b>6,857</b>	Operating margin	14.6	14.8	14.6	14.9	14.6
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>4,429</b>	<b>5,321</b>	<b>6,198</b>	<b>7,214</b>	<b>8,188</b>	EBITDA margin	15.8	16.1	15.9	16.2	16.0
						Net Profit margin	13.1	13.3	13.2	13.3	13.2
<b>CASH FLOW STATEMENT</b>	<b>2017A</b>	<b>2018A</b>	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>	ROA	19.1	19.8	20.3	20.4	19.2
Net profit	778	965	1,167	1,367	1,481	ROE	23.7	24.9	25.2	25.0	23.2
Depreciation & Amortization	71	92	119	134	149	<b>Solvency (x)</b>					
Change in WC	(260)	(588)	(583)	(451)	303	Current ratio	7.0	6.5	6.1	6.6	7.3
Others	17	(216)	19	(66)	(90)	Quick ratio	3.2	2.5	2.2	2.4	3.6
<b>Net Operating Cash Flow</b>	<b>606</b>	<b>252</b>	<b>722</b>	<b>984</b>	<b>1,843</b>	DER	-	0.0	0.0	0.0	0.0
Change in fixed assets - net	(188)	(188)	(185)	(183)	(172)	EBITDA coverage	409.3	8,475.1	1,628.1	700.4	863.0
Others	(45)	(58)	(155)	(83)	(47)	Net debt to equity	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Net Investing Cash Flow</b>	<b>(233)</b>	<b>(246)</b>	<b>(340)</b>	<b>(266)</b>	<b>(219)</b>						
Change in borrowings - net	(5)	115	(23)	(23)	(23)						
Change in equity	4	82	-	-	-						
Change in other liabilities	132	13	(53)	31	(3)						
Dividend payment	(281)	(389)	(382)	(462)	(541)						
Adjustment	(24)	69	-	-	-						
<b>Net Financing Cash Flow</b>	<b>(175)</b>	<b>(110)</b>	<b>(458)</b>	<b>(454)</b>	<b>(567)</b>						
<b>Change in cash</b>	<b>198</b>	<b>(104)</b>	<b>(76)</b>	<b>264</b>	<b>1,057</b>						
Cash at the beginning period	704	902	799	723	987						
Cash at the ending period	902	799	723	987	2,044						

Source: Company data and Lotus Andalan Research

**Notes:**

The definitions of Lotus Andalan Research for Investment Ratings:

- **BUY** : +15% and above, over the next 12 months
- **NEUTRAL** : -15% to +15%, over the next 12 months
- **SELL** : -15% and worse, over the next 12 months

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