

16 AUGUST 2018

COMPANY UPDATE

BUY

STOCK INFORMATION

Bloomberg Code	ACES IJ
Sector	Retail
Current Price	Rp1,275
Target Price	Rp1,750
Prev. Target Price	Rp1,500
Upside/ Downside	37.3%
Share Out (billion shares)	17.1
Market Cap (Rp billion)	21,734
52 – w range (low-high)	Rp1,030-1,470
52 – w average daily	Rp1,258

PRICE CHART



Source: Bloomberg

SHAREHOLDER'S INFORMATION

PT Kawan Lama Sejahtera	59.9%
Public	40.0%

Source: Company data

PRICE CHART



Source: Bloomberg

PT ACE HARDWARE INDONESIA TBK

FIT AS A FIDDLE

During 1H18, ACES booked an outstanding sales growth of 22.6% YoY from Rp 2.76 trillion in 1H17 to Rp 3.38 trillion in 1H18, on the back of strong 13.4% SSSG. This was slightly above our expectation, made up 49.8% of our FY18E Rp 6.8 trillion (3-year average 1H sales contributed c.46% to annual sales). The net profit, in line with solid topline, grew by 29.8% YoY to Rp 426 billion, thanks to efficiencies in opex coupled with forex gain of Rp 8.6 billion. To reflect the better than expected result and using 2019F as our base year, we come up with new fair value of Rp 1,750/ share. With 27.7% upside potential, we maintain our BUY recommendation on the stock.

Good Vibes Only

Appealing assortments – including new products, better service and marketing efforts, coupled with persistently strong mid-up segment shopping appetite drove the solid 13.4% SSSG in 1H18. Profitability-wise, GPM remained stable at 47.9% from 47.9% in 1H17. However, despite increase in 1H18 salary cost by 28.2% YoY from Rp 463 billion (16.9% to 1H17 sales) to Rp 593 billion (17.8% to 1H18 sales), and allocation of annual employee bonus which was moved from 3Q17 to 2Q18, the company still enjoyed higher EBIT margin by 50bps YoY to 14.0%, mostly due to better store productivity and as a result of the 5-year annual renovation that has been done last year (renovation cost declined by 30.5% YoY). On the bottomline, net profit margin significantly improved by 70bps to 12.6%, mainly derived by forex gain of Rp 8.6 billion in 1H18 (which we salute amid current weakening Rupiah) and as a result of tax penalty of Rp11.63 billion paid last year. On the more positive note, ACES' inventory position has reached its 5-year low level of 208 days.

Conservative 2018F Guidance

Considering the continued improvement in sales performance, the company revised its guidance from previous 10% sales/net profit growth on the back of 5% SSSG to 13% growth backed by 8% SSSG, with only 45-46% GPM target. In our view, the target is still conservative, while we expect in 2H the company will experience higher sales from Boom Sale in Oct, impact of new store openings (15 stores YTD, totaling 159 stores to date), along with the usual sales upside in 2H (3-year average 2H sales contribute ~53% to annual sales). The recent updated July data showed SSSG 7M18 was still strong at 13.5%, with the outside Java area delivered the strongest SSSG among other area of 17.4%, thanks to notable improvement in commodity prices, particularly coal, which boosted the consumption.

Pilot Project: Ace Xpress

In May18, the company launched its newest project, a smaller format of Ace Hardware (around 500-600sqm/ store) called Ace Xpress, which focused on handy household needs and home living products, by carrying out the “buy and take” concept. Thus, Ace Xpress will be placed in the housing and apartment areas. By the end of 1H18, the company has opened 3 Ace Xpress stores and aiming another 2 in 2H18.

Maintain BUY with Higher Fair Value Rp1,750 per share

To reflect better than expected outcome, we made another upward adjustment to our projection and using 2019F as our base year, we come up a new fair value of Rp 1,750 (from previous Rp 1,500/ share). With 37.3% upside potential, we maintain our BUY recommendation on the stock. Our new TP imply forecasted 24.1x PER and 19.2x EV/EBITDA 2019F, while at yesterday's closing price, ACES was trading at 17.5x PER and 13.6x EV/EBITDA 2019F.

Financial Summary

(Rp billion)	2016A	2017A	2018F	2019F	2020F
Revenue	4,935.9	5,938.6	7,250.0	8,592.5	10,450.5
EBITDA	795.2	940.7	1,198.7	1,513.7	1,893.9
Net profit	710.6	777.7	959.2	1,238.8	1,536.4
EPS (Rp)	41.7	45.6	56.3	72.7	90.1
PER (x)	30.6	27.9	22.7	17.5	14.1
BVPS (Rp)	178.9	205.9	244.2	294.6	356.0
PBV (x)	7.1	6.2	5.2	4.3	3.6
EV/EBITDA (x)	26.5	22.1	17.4	13.6	10.7
Dividend yield (%)	1.2%	1.3%	1.4%	1.7%	2.3%
RoE (%)	25.0	23.7	25.0	27.0	27.7

Source: Company data and Lotus Andalan Research

INTERIM FINANCIAL RESULT

	1Q17	1Q18	YoY	FY18E	Coverage	4Q17	1Q18	QoQ	Comment
P/L (In Rp billion)									
Revenue	2,759.9	3,384.7	22.6%	6,801.6	49.8%	1,573.8	1,810.9	15.1%	Better than expected, SSSG as of 1H18 13.4% vs 10.5% in 1H17, driven by strong mid-up consumption, supported by improvement in commodity prices
Cost of revenue	1,437.6	1,764.3	22.7%	3,543.7	49.8%	821.8	942.4	14.7%	
Gross profit	1,322.2	1,620.5	22.6%	3,258.0	49.7%	752.0	868.5	15.5%	
Operating expense	948.4	1,146.1	20.8%	2,239.8	51.2%	518.6	627.5	21.0%	
Operating profit	373.8	474.4	26.9%	1,018.2	46.6%	233.4	241.0	3.2%	
Net profit	328.2	426.0	29.8%	898.6	47.4%	208.9	217.1	3.9%	Forex gain Rp8.6 billion; paid tax penalty of Rp11.6 bn last year
Profitability									
Gross margin	47.9%	47.9%		47.9%		47.8%	48.0%		Stable GPM due to sales mix
EBIT margin	13.5%	14.0%		15.0%		14.8%	13.3%		Vast improvement in SSSG allow better operational leverage
Net margin	11.9%	12.6%		13.2%		13.3%	12.0%		

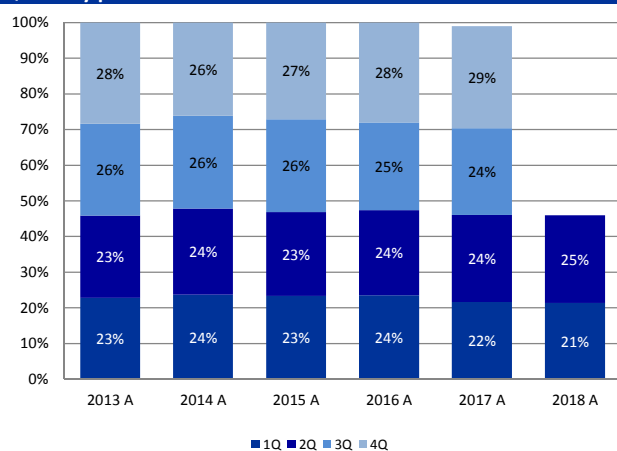
Source: Company data and Lotus Andalan Research

Forecast Changes

	Previous			New			% change		
	2018F	2019F	2020F	2018F	2019F	2020F	2018F	2019F	2020F
Revenue	6,802	7,546	10,450	7,250	8,593	10,450	6.6%	13.9%	0.0%
Gross Profit	3,258	3,655	5,067	3,473	4,158	5,067	6.6%	13.8%	0.0%
Operating Profit	1,018	1,182	1,747	1,087	1,392	1,747	6.8%	17.7%	0.0%
Net Income	899	1,056	1,536	959	1,239	1,536	6.7%	17.3%	0.0%
SSSG	5.0%	5.0%	7.0%	10.0%	8.0%	7.0%	5.0%	3.0%	0.0%
Sales growth	14.6%	10.9%	21.6%	22.2%	18.5%	21.6%	7.6%	7.7%	0.0%
Financial Ratios									
Gross margin	47.9%	48.4%	48.5%	47.9%	48.4%	48.5%	0.0%	0.0%	0.0%
Operating margin	15.0%	15.7%	16.7%	15.0%	16.2%	16.7%	0.0%	0.5%	0.0%
Net margin	13.2%	14.0%	14.7%	13.2%	14.4%	14.7%	0.0%	0.4%	0.0%

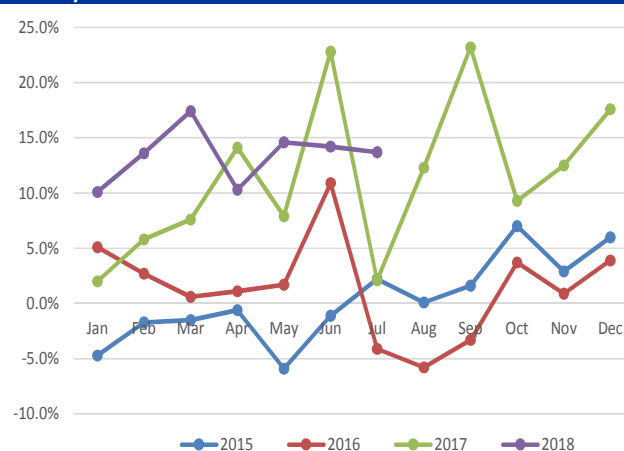
Source: Lotus Andalan Research

Quarterly performance



Source: Company data, Lotus Andalan Research

Monthly SSSG



Source: Company data, Lotus Andalan Research

3 First Stores Ace Xpress, Launched in Tangerang in May18



Source: Company data

FINANCIAL HIGHLIGHTS OF PT ACE HARDWARE INDONESIA, TBK

In Rp Billion													
BALANCE SHEET		2016A	2017A	2018F	2019F	2020F	INCOME STATEMENT		2016A	2017A	2018F	2019F	2020F
ASSETS													
Cash & cash equivalents		704	902	858	1,106	1,424	Revenue		4,936	5,939	7,250	8,593	10,450
Accounts receivable		28	90	73	99	133	COGS		(2,584)	(3,104)	(3,777)	(4,434)	(5,384)
Inventories - net		1,590	1,849	2,256	2,648	3,216	Gross profit		2,352	2,835	3,473	4,158	5,067
Other current assets		500	517	612	781	914	Operating expenses		(1,622)	(1,965)	(2,385)	(2,766)	(3,320)
Total current assets		2,822	3,358	3,799	4,635	5,685	Operating profit		730	869	1,087	1,392	1,747
Fixed assets		589	705	782	853	898	EBITDA		795	941	1,199	1,514	1,894
Other noncurrent assets		320	365	495	577	698	Interest income		(13)	(5)	(23)	(19)	(28)
Total Noncurrent assets		909	1,071	1,277	1,430	1,596	Interest expense		(2)	(0)	-	-	-
TOTAL ASSETS		3,731	4,429	5,076	6,065	7,282	Other income (expenses)		148	96	120	149	174
LIABILITIES & EQUITY													
Short term bank loan		5	-	-	-	-	Total other income/(expenses)		133	91	97	130	146
Accounts payable		108	169	185	214	272	Income before tax		863	960	1,184	1,522	1,893
Current maturities - bank loan		-	-	-	-	-	Tax expense		(157)	(179)	(227)	(284)	(357)
Other payables		276	309	399	470	565	Net profit before minority interest		711	778	959	1,239	1,536
Total Current Liabilities		389	478	584	684	838	Minority interest		4	(3)	2	1	(0)
Bank loan		0	0	0	0	0	Net profit		711	778	959	1,239	1,536
Other LTD		7	21	21	21	21	EPS (Rp)		42	46	56	73	90
Post-Employment Benefit		287	420	309	339	356	KEY FINANCIAL RATIOS						
Total Non-Current Liabilities		294	440	330	359	377	Growth (%)						
Capital Stock		172	172	172	172	172	Sales		4.1	20.3	22.1	18.5	21.6
Additional PIC		368	369	369	369	369	Gross profit		4.4	20.5	22.5	19.7	21.8
Treasury stock		(54)	(54)	(54)	(54)	(54)	Operating Profit		7.8	19.1	25.1	28.0	25.5
Diff in transaction with non-controlling interest RE		2,568	3,026	3,678	4,537	5,583	EBITDA		4.7	18.3	27.4	26.3	25.1
Non-controlling Interest		(5)	(2)	(2)	(2)	(2)	Net Profit		20.8	9.4	23.3	29.1	24.0
Total Equity		3,054	3,513	4,164	5,024	6,070	Profitability (%)						
TOTAL LIABILITIES & EQUITY		3,731	4,429	5,076	6,065	7,282	Gross margin		47.6	47.7	47.9	48.4	48.5
CASH FLOW STATEMENT													
Net profit		711	778	959	1,239	1,536	Operating margin		14.8	14.6	15.0	16.2	16.7
Depreciation & Amortization		65	71	112	122	147	EBITDA margin		16.1	15.8	16.5	17.6	18.1
Change in WC		(100)	(260)	(373)	(390)	(542)	Net Profit margin		14.4	13.1	13.2	14.4	14.7
Others		(179)	17	(6)	(98)	(37)	ROA		20.3	19.1	20.2	22.2	23.0
Net Operating Cash Flow		497	606	692	873	1,104	ROE		25.0	23.7	25.0	27.0	27.7
Change in fixed assets - net		(197)	(188)	(189)	(192)	(193)	Solvency (x)						
Others		23	(45)	(129)	(83)	(121)	Current ratio		7.3	7.0	6.5	6.8	6.8
Net Investing Cash Flow		(174)	(233)	(318)	(275)	(314)	Quick ratio		3.2	3.2	2.6	2.9	2.9
Change in borrowings - net		(18)	(5)	-	-	-	DER		0.0	-	-	-	-
Change in equity		(6)	4	-	-	-	EBITDA coverage		248.2	409.3	8,475.1	#DIV/0!	#DIV/0!
Change in other liabilities		66	132	(110)	29	17	Net debt to equity		Net cash	Net cash	Net cash	Net cash	Net cash
Dividend payment		(263)	(281)	(308)	(379)	(490)							
Adjustment		(21)	(24)	-	-	-							
Net Financing Cash Flow		(241)	(175)	(418)	(350)	(473)							
Change in cash		82	198	(44)	248	318							
Cash at the beginning period		622	704	902	858	1,106							
Cash at the ending period		704	902	858	1,106	1,424							

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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