

04 APRIL 2019

COMPANY UPDATE

BUY

STOCK INFORMATION

Bloomberg Code	ACES JI
Sector	Retail
Current Price	Rp1,760
Target Price	Rp2,000
Prev. Target Price	Rp1,750
Upside/ Downside	13.6%
Share Out (billion shares)	17.1
Market Cap (Rp billion)	30,052
52 – w range (low-high)	Rp1,125-1,865
52 – w average daily	Rp1,464

PRICE CHART



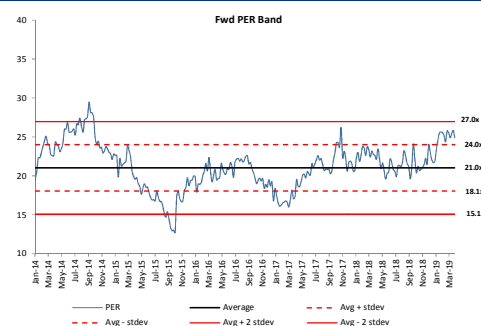
Source: Bloomberg

SHAREHOLDER'S INFORMATION

PT Kawan Lama Sejahtera	59.9%
Public	40.0%

Source: Company data

PRICE CHART



Source: Bloomberg

PT ACE HARDWARE INDONESIA TBK

TOO ALLURING TO IGNORE

ACES's 2018 performance was in line with our expectation, delivered a strong sales/NI growth of 21.9%/24.0% YoY, backed by solid 13.5% SSSG. This year, we do not see any sign of slowing down, as the company expects as many as 20-25 new store openings or equal to 35k sqm addition in sales area, while guided a conservative 6-7% SSSG. We believe the mid-up consumption will remain strong this year, particularly after the election where the economy will normalize in general. To reflect company's bold moves in expansion, we believe the stock deserves an upgrade in TP to Rp2,000/ share (from prev Rp1,750/ share). Maintain BUY.

2018: An Exceptional Year

During 2018, the company continued to book a solid 13.5% SSSG, a 5yr-high, thanks to appealing assortments, successful promotional program and strong mid-up segment consumption (proven by the high double digit sales growth in higher-ASP products: lifestyle and consignment by 25.3% and 75.8% YoY, respectively). Geographical-wise, the commodity-based area, particularly outside Java area (28% to total sales) delivered the strongest SSSG of 16.5% in FY18, followed by Java (45.7% to total sales) by 13.3% and Jakarta (26.3% to total sales) 10.4%. In terms of profitability, GPM was maintained at 47.6% from 47.7% in FY17, while operating margin slightly increased by 20bps, thanks to better store productivity (our rough calculation on annual sales/sqm increased by 4.6% YoY from Rp14.5 million in 2017 to Rp15.2 million) coupled with opex efficiencies in some posts i.e renovation cost (-21.8% YoY, due to 5-yearly renovation last year). In line with that, net profit margin improved by 20bps as well to 13.3%, mainly derived by membership fee of Rp52.37 billion (+13.1% YoY) and forex gain Rp15.68 bn (+134.86% YoY).

Shows No Sign of Slowing Down

As of FY18, the company owns a total of 176 Ace Hardware stores (+32 stores YoY from 144 stores in 2017), including 7 Ace Xpress (mini format of Ace Hardware, less than 1,000sqm sales area), exceeding the initial target of 5 Xpress store for FY18F. This year, the company shows no signs of slowing down, as the management targeted a 20-25 new store openings or equal to 35k sqm addition (from current total sales area of 453k sqm). Therefore, the company allocates a total capex of Rp240 billion. Aside of the aggressive expansion this year, in order to boost sales, the company has been adding new SKUs, developing new services, as well as continuous system improvement in ruparupa.com. While the company guided a conservative 6-7% SSSG and topline growth of 15% YoY, we believe the mid-up consumption will remain strong this year, particularly after the election where the economy will normalize in general. As of 2M19, the company booked an SSSG of 9.6% (lower than 11.7% in 2M18, but still higher than 3-yr average of 6.5%).

Maintain BUY with Upgraded TP to Rp2,000 per share

To reflect company's bold moves in expansion, we believe the stock deserves an upgrade in TP to Rp2,000/ share (from prev Rp1,750/ share). Our TP implies forecasted 29.0x PER and 23.5x EV/EBITDA 2019F, while at yesterday's closing price, ACES was trading at 25.6x PER and 20.8x EV/EBITDA 2019F, offering 13.6% upside potential. Maintain BUY.

Financial Summary

(Rp billion)	2017A	2018F	2019F	2020F	2021F
Revenue	5,938.6	7,239.8	9,030.5	10,539.0	11,687.7
EBITDA	940.7	1,164.1	1,419.2	1,709.0	1,847.2
Net profit	777.7	964.6	1,175.0	1,404.7	1,523.8
EPS (Rp)	45.6	56.5	68.8	82.3	89.2
PER (x)	38.6	31.2	25.6	21.4	19.7
BVPS (Rp)	205.9	248.1	294.5	349.6	406.3
PBV (x)	8.5	7.1	6.0	5.0	4.3
EV/EBITDA (x)	30.9	25.2	20.8	17.1	15.2
Dividend yield (%)	0.9%	1.3%	1.3%	1.5%	1.8%
RoE (%)	23.7	24.9	25.4	25.5	23.6

Source: Company data and Lotus Andalan Research

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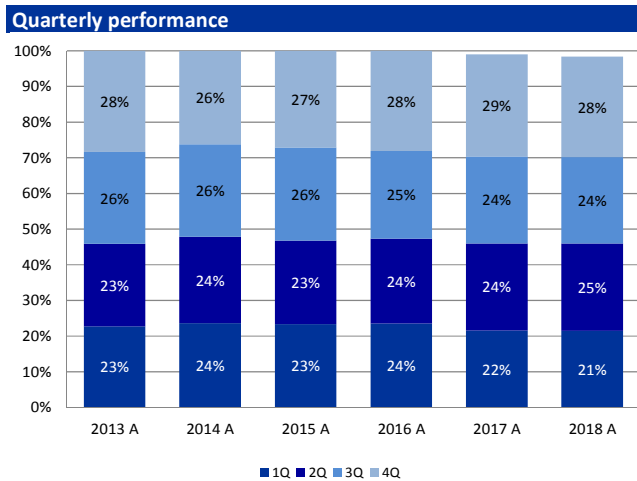
INTERIM FINANCIAL RESULT									
	FY17	FY18	YoY	FY18E	Coverage	3Q17	4Q18	QoQ	Comment
<b>P/L (In Rp billion)</b>									
Revenue	5,938.6	7,239.8	21.9%	7,250.0	99.9%	1,778.6	2,076.4	16.7%	In line, SSSG as of FY18 13.5% vs 11.7% in FY17, driven by better assortments, strong mid-up consumption, improvement in commodity prices
Cost of revenue	3,103.9	3,796.6	22.3%	3,777.4	100.5%	921.2	1,111.1	20.6%	
Gross profit	2,834.7	3,443.2	21.5%	3,472.5	99.2%	857.4	965.3	12.6%	
Operating expense	1,965.4	2,370.7	20.6%	2,385.5	99.4%	567.1	657.6	16.0%	
Operating profit	869.3	1,072.4	23.4%	1,087.1	98.7%	290.3	307.7	6.0%	
Net profit	777.7	964.6	24.0%	959.2	100.6%	271.4	267.2	-1.5%	
<b>Profitability</b>									
Gross margin	47.7%	47.6%		47.9%		48.2%	46.5%		Stable GPM due to sales mix
EBIT margin	14.6%	14.8%		15.0%		16.3%	14.8%		Vast improvement in SSSG allow better operational leverage
Net margin	13.1%	13.3%		13.2%		15.3%	12.9%		

Source: Company data and Lotus Andalan Research

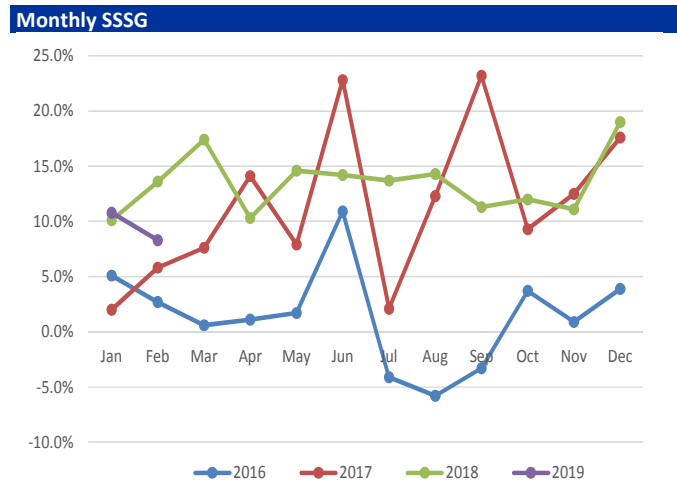
Forecast Changes									
	Previous			New			% change		
	2019F	2020F	2021F	2019F	2020F	2021F	2019F	2020F	2021F
Revenue	7,546	10,450	11,688	9,031	10,539	11,688	19.7%	0.8%	0.0%
Gross Profit	3,655	5,067	5,575	4,314	5,034	5,575	18.0%	-0.6%	0.0%
Operating Profit	1,182	1,747	1,701	1,312	1,577	1,701	10.9%	-9.7%	0.0%
Net Income	1,056	1,536	1,530	1,186	1,409	1,530	12.4%	-8.3%	0.0%
SSSG	5.0%	7.0%	7.0%	7.0%	7.0%	7.0%	2.0%	0.0%	0.0%
Sales growth	10.9%	21.6%	10.9%	24.9%	16.6%	10.9%	14.0%	-5.0%	0.0%

Financial Ratios									
Gross margin	48.4%	48.5%	47.7%	47.8%	47.8%	47.7%	-0.7%	-0.7%	0.0%
Operating margin	15.7%	16.7%	14.5%	14.5%	15.0%	14.5%	-1.1%	-1.8%	0.0%
Net margin	14.0%	14.7%	13.1%	13.1%	13.4%	13.1%	-0.9%	-1.3%	0.0%

Source: Lotus Andalan Research



Source: Company data, Lotus Andalan Research



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>											
Cash & cash equivalents	902	799	693	939	1,984	<b>Revenue</b>	<b>5,939</b>	<b>7,240</b>	<b>9,031</b>	<b>10,539</b>	<b>11,688</b>
Accounts receivable	90	37	91	112	102	COGS	(3,104)	(3,797)	(4,716)	(5,505)	(6,113)
Inventories - net	1,849	2,520	3,140	3,665	3,433	<b>Gross profit</b>	<b>2,835</b>	<b>3,443</b>	<b>4,314</b>	<b>5,034</b>	<b>5,575</b>
Other current assets	517	741	875	1,006	1,148	Operating expenses	(1,965)	(2,371)	(3,003)	(3,458)	(3,874)
<b>Total current assets</b>	<b>3,358</b>	<b>4,096</b>	<b>4,798</b>	<b>5,722</b>	<b>6,667</b>	<b>Operating profit</b>	<b>869</b>	<b>1,072</b>	<b>1,312</b>	<b>1,577</b>	<b>1,701</b>
Fixed assets	705	801	842	888	905	<b>EBITDA</b>	<b>941</b>	<b>1,164</b>	<b>1,433</b>	<b>1,714</b>	<b>1,855</b>
Other noncurrent assets	365	424	589	680	735	Interest income	(5)	(17)	(17)	(28)	(32)
<b>Total Noncurrent assets</b>	<b>1,071</b>	<b>1,225</b>	<b>1,431</b>	<b>1,567</b>	<b>1,640</b>	Interest expense	(0)	(1)	(2)	(2)	(2)
<b>TOTAL ASSETS</b>	<b>4,429</b>	<b>5,321</b>	<b>6,229</b>	<b>7,289</b>	<b>8,307</b>	Other income (expenses)	96	148	168	194	224
<b>LIABILITIES &amp; EQUITY</b>						<b>Total other income/(expenses)</b>	<b>91</b>	<b>130</b>	<b>149</b>	<b>164</b>	<b>190</b>
Short term bank loan	-	115	92	69	46	<b>Income before tax</b>	<b>960</b>	<b>1,203</b>	<b>1,461</b>	<b>1,740</b>	<b>1,891</b>
Accounts payable	169	198	233	286	313	Tax expense	(179)	(226)	(271)	(325)	(353)
Current maturities - bank loan	-	-	-	-	-	<b>Net profit before minority interest</b>	<b>778</b>	<b>965</b>	<b>1,186</b>	<b>1,409</b>	<b>1,530</b>
Other payables	309	318	463	522	567	<b>Minority interest</b>	<b>(3)</b>	<b>(12)</b>	<b>(3)</b>	<b>(6)</b>	<b>(7)</b>
<b>Total Current Liabilities</b>	<b>478</b>	<b>631</b>	<b>788</b>	<b>877</b>	<b>925</b>	<b>Net profit</b>	<b>778</b>	<b>965</b>	<b>1,186</b>	<b>1,409</b>	<b>1,530</b>
Bank loan	0	0	0	0	0	EPS (Rp)	46	56	69	83	90
Other LTD	21	22	22	22	22						
Post-Employment Benefit	420	433	380	411	408	<b>KEY FINANCIAL RATIOS</b>	<b>2017A</b>	<b>2018A</b>	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>
<b>Total Non-Current Liabilities</b>	<b>440</b>	<b>455</b>	<b>402</b>	<b>433</b>	<b>430</b>	<b>Growth (%)</b>					
Capital Stock	172	172	172	172	172	Sales	20.3	21.9	24.7	16.7	10.9
Additional PIC	369	404	404	404	404	Gross profit	20.5	21.5	25.3	16.7	10.7
Treasury stock	(54)	(19)	(19)	(19)	(19)	Operating Profit	19.1	23.4	22.3	20.2	7.9
Diff in transaction with non-controlling interest	0	0	0	0	0	EBITDA	18.3	23.7	23.1	19.6	8.2
RE	3,026	3,669	4,473	5,413	6,386	Net Profit	9.4	24.0	23.0	18.8	8.6
<b>Non-controlling Interest</b>	<b>(2)</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>Profitability (%)</b>					
<b>Total Equity</b>	<b>3,513</b>	<b>4,225</b>	<b>5,030</b>	<b>5,970</b>	<b>6,942</b>	Gross margin	47.7	47.6	47.8	47.8	47.7
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>4,429</b>	<b>5,321</b>	<b>6,229</b>	<b>7,289</b>	<b>8,307</b>	Operating margin	14.6	14.8	14.5	15.0	14.5
						EBITDA margin	15.8	16.1	15.9	16.3	15.9
<b>CASH FLOW STATEMENT</b>	<b>2017A</b>	<b>2018A</b>	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>	Net Profit margin	13.1	13.3	13.1	13.4	13.1
Net profit	778	965	1,186	1,409	1,530	ROA	19.1	19.8	20.5	20.8	19.6
Depreciation & Amortization	71	92	121	138	155	ROE	23.7	24.9	25.6	25.6	23.7
Change in WC	(260)	(588)	(639)	(493)	268	<b>Solvency (x)</b>					
Others	17	(216)	11	(72)	(98)	Current ratio	7.0	6.5	6.1	6.5	7.2
<b>Net Operating Cash Flow</b>	<b>606</b>	<b>252</b>	<b>679</b>	<b>982</b>	<b>1,855</b>	Quick ratio	3.2	2.5	2.1	2.3	3.5
Change in fixed assets - net	(188)	(188)	(162)	(183)	(172)	DER	-	0.0	0.0	0.0	0.0
Others	(45)	(58)	(166)	(91)	(56)	EBITDA coverage	409.3	8,475.1	1,628.1	711.5	889.3
<b>Net Investing Cash Flow</b>	<b>(233)</b>	<b>(246)</b>	<b>(327)</b>	<b>(274)</b>	<b>(227)</b>	Net debt to equity	Net cash	Net cash	Net cash	Net cash	Net cash
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)	(469)	(557)						
Adjustment	(24)	69	-	-	-						
<b>Net Financing Cash Flow</b>	<b>(175)</b>	<b>(110)</b>	<b>(458)</b>	<b>(461)</b>	<b>(583)</b>						
<b>Change in cash</b>	<b>198</b>	<b>(104)</b>	<b>(106)</b>	<b>246</b>	<b>1,045</b>						
Cash at the beginning period	704	902	799	693	939						
Cash at the ending period	902	799	693	939	1,984						

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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