

## ACE Hardware

BUY (Unchanged)

26 September 2017

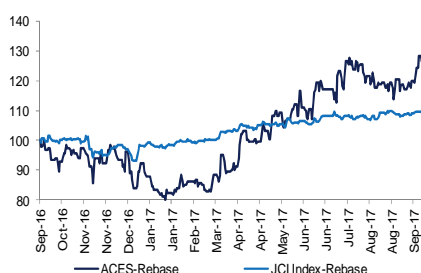
## Company Update

## Stock Data

Target price (Rp)	Rp1,450
Prior TP (Rp)	Rp1,260
Shareprice (Rp)	Rp1,145
Upside/downside (%)	+26.6
Sharesoutstanding (m)	17,150
Marketcap. (US\$ m)	1,474
Free float (%)	40.0
Avg. 6m dailyT/O (US\$ m)	1.0

## Price Performance

	3M	6M	12M
Absolute (%)	8.0	38.8	30.9
Relative to JCI (%)	6.9	32.9	21.0
52w high/low (Rp)	1,145 - 725		



## Major Shareholders

Kawan Lama Sejahtera PT	60.0%
FMR LLC	3.3%
Aberdeen	2.4%

## Estimate Change; Vs. Consensus

	2017F	2018F
Latest EPS (Rp)	44.5	49.7
Vs. Prior EPS (%)	3.5	8.0
Vs. Consensus (%)	1.3	(0.2)

Source: Bloomberg

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## Stable Rupiah, Effective Promo

- "Boom Sales" period should hold up 3Q17 SSSG trend.
- On track to achieve 13 new stores openings target for 2017.
- Positive impact from stable/stronger currency.
- Maintain Buy with higher TP of Rp1,450 (from Rp1,260).

**Promotional strategy supports robust SSSG.** ACE Hardware (ACES) has introduced a promotion strategy "Boom Sales" from September to October 2017, which should help maintaining positive 3Q17 SSSG. From our analysis based on 16 catalog items, the promotion provides an average 16% discount compared to regular price. In fact, on a year-to-date (YTD) basis, ACES has just reported a strong SSSG (9.7%) up to 8M17, showing an improvement compared to 7M17 SSSG (9.4%). All regions show a persistent positive SSSG at 8M17 with Outer Java recovery outrun both Greater Jakarta and Java. In addition, the monthly sales was reported at Rp446bn in August (-8% mom, +16% yoy), slightly below average 7M sales at Rp459bn. Thus, we are positive with ACES's promotion strategy "Boom Sales" to effectively induce consumers' purchasing appetite in 3Q before entering year-end festive season.

**New stores expansion on-track.** ACES retains its new stores opening target at 15 stores for FY17, higher than the average realisation of 11-13 new stores, and has just open its 10th stores in Balikpapan with 4,367sqm on September. We view that ACES still favors opening its new stores in Java region, compared to Outer Java as 45% of total new store area is allocated in Greater Jakarta, 40% in Java (exc. Greater Jakarta), and the rest is Outer Java. Given this, coupled with aforementioned promotion initiative, we expect the FY17/18F net sales to grow 11%/10% yoy to Rp5.5tn/Rp6.1tn respectively.

**Stable and/or stronger exchange rate is critical.** We view the current appreciated Rupiah should be a tailwind to ACES, given the middle-upper segment's purchasing power is relatively sensitive to USD/IDR exchange rate. Better exchange rate should help sustain the recovery in consumer's purchasing power and support higher SSSG going forward. In fact, the negative trend in USD index should also give an ample room for the share price to enjoy rich valuation (above 5-year mean PER of 25x).

**Reiterate Buy on higher TP of Rp1,450.** We reiterate Buy with higher PER-based TP of Rp1,450 as we rollover our valuation to 2018 and incorporate higher new stores opening of 13 stores (vs. our previous assumption of 10 stores). We keep our FY17/18F SSSG assumption unchanged at 6%/5% respectively. Our TP implies FY18F PE of 29x (+1std from 5yr mean). Downside risks to our call include: strengthening USD against IDR, slower new stores expansion.

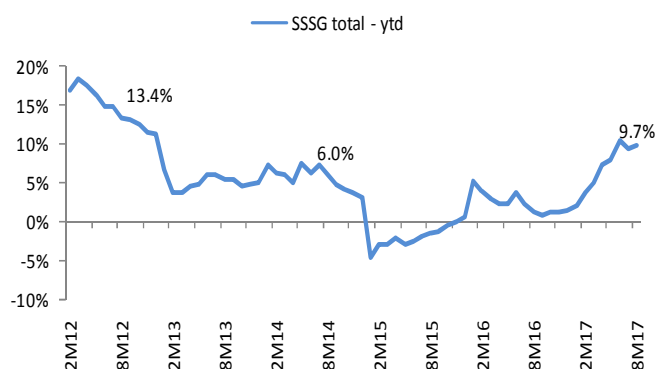
Year To 31 Dec	2015A	2016A	2017F	2018F	2019F
Revenue (RpBn)	4,743	4,936	5,579	6,157	6,588
EBITDA (RpBn)	764	795	912	1,012	1,037
EBITDA Growth (%)	3.2	4.0	14.7	10.9	2.5
Net Profit (RpBn)	588	711	762	853	877
EPS (Rp)	34	41	44	50	51
EPS Growth (%)	4.3	20.8	7.3	11.9	2.8
Net Gearing (%)	(22.8)	(22.9)	(21.3)	(26.9)	(32.8)
PER (x)	33.4	27.6	25.8	23.0	22.4
PBV (x)	7.5	6.4	5.6	4.9	4.4
Dividend Yield (%)	1.4	1.3	1.7	1.8	2.0
ROE (x)	23.7	25.0	23.3	22.8	20.7

Source : ACES, IndoPremier

Share Price Closing as of : 25-September-2017

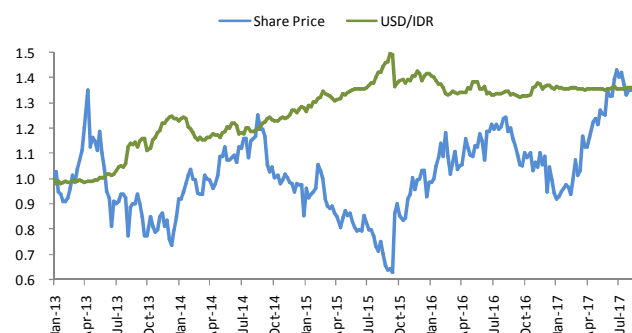
## ACES Company Update

**Fig. 1: SSSG YTD in August 2017: 9.7% vs Sept 2017: 9.4%**



Source: Indo Premier, ACES

**Fig. 2: USD/IDR vs. Share price movement index (Base: 2013)**



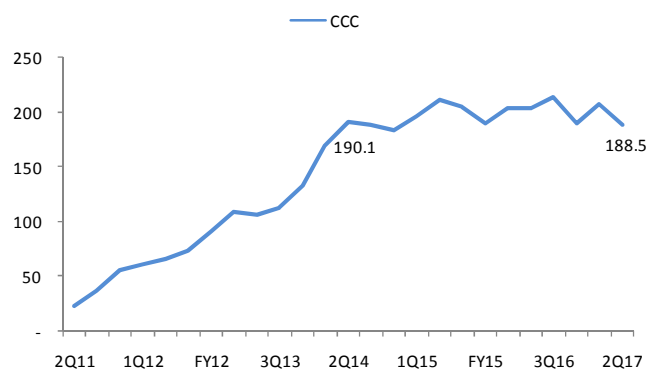
Source: Indo Premier, Bloomberg

**Fig. 3: Expansion is heavily focus on G. Jkt and Java.**

	2017		2016	
	New Sqm	% to total	New Sqm	% to total
Greater Jakarta	10,359	42%	10,778	49%
Java (ex. G. Jkt)	9,660	40%	7,224	33%
Outer Java	4,367	18%	4,104	19%
<b>Total</b>	<b>24,386</b>		<b>22,106</b>	

Source: Indo Premier, ACES

**Fig. 4: Relatively stable cash conversion cycle since 2Q14.**



Source: Indo Premier, ACES

**Fig. 5: Earnings Revision**

(Rp Bn)	FY17F			FY18F		
	old	new	(%)	old	new	(%)
SSSG	6.0%	6.0%		5.0%	5.0%	
New Area Expansion (sqm)	25,000	32,500	30.0%	27,500	27,500	0.0%
Revenues	5,499	5,579	1.4%	5,935	6,157	3.7%
Gross profit	2,620	2,658	1.5%	2,828	2,933	3.7%
Operating profit	779	800	2.7%	806	882	9.4%
Net profit	744	762	2.5%	786	853	8.5%
<b>Margins (%)</b>						
GPM	47.6%	47.6%		47.6%	47.6%	
OPM	14.2%	14.3%		13.6%	14.3%	
NPM	13.5%	13.7%		13.2%	13.9%	

Source: IndoPremier

## ACES Company Update

Year To 31 Dec (RpBn)	2015A	2016A	2017F	2018F	2019F
<b>Income Statement</b>					
Net Revenue	4,743	4,936	5,579	6,157	6,588
Cost of Sales	(2,489)	(2,584)	(2,921)	(3,223)	(3,449)
Gross Profit	2,254	2,352	2,658	2,933	3,139
SG&A Expenses	(1,565)	(1,622)	(1,858)	(2,051)	(2,243)
Operating Profit	688	730	800	882	896
Net Interest	(32)	(15)	(8)	(8)	(8)
Forex Gain (Loss)	0	0	0	0	0
Others-Net	81	148	167	184	197
Pre-Tax Income	737	863	959	1,058	1,085
Income Tax	(152)	(157)	(201)	(211)	(214)
Minorities	3	4	5	5	6
Net Income	588	711	762	853	877
<b>Balance Sheet</b>					
Cash & Equivalent	622	704	747	1,076	1,474
Receivable	16	28	24	27	29
Inventory	1,522	1,590	1,825	1,954	2,029
Other Current Assets	307	500	538	576	592
Total Current Assets	2,467	2,822	3,135	3,633	4,123
Fixed Assets - Net	457	589	754	833	870
Goodwill	0	0	0	0	0
Non Current Assets	268	227	245	246	251
Total Assets	3,268	3,731	4,242	4,835	5,385
ST Loans	22	5	5	5	5
Payable	127	108	139	161	177
Other Payables	262	276	299	329	349
Current Portion of LT Loans	1	0	0	0	0
Total Current Liab.	412	389	443	495	532
Long Term Loans	0	0	0	0	0
Other LT Liab.	226	294	315	353	383
Total Liabilities	639	682	759	848	915
Equity	486	486	486	486	486
Retained Earnings	2,142	2,568	2,999	3,504	3,988
Minority Interest	1	(5)	(2)	(3)	(3)
Total SHE + Minority Int.	2,629	3,049	3,483	3,987	4,471
Total Liabilities & Equity	3,268	3,731	4,242	4,835	5,385

Source : ACES, IndoPremier

## ACES Company Update

Year to 31 Dec	2015A	2016A	2017F	2018F	2019F
<b>Cash Flow</b>					
Net Income (Excl.Extraordinary&Min.Int)	585	706	758	847	871
Depr. & Amortization	(2)	(11)	47	17	12
Changes in Working Capital	(31)	(295)	(219)	(128)	(64)
Others	109	24	39	37	35
Cash Flow From Operating	661	424	625	774	854
Capital Expenditure	(6)	(79)	(231)	(96)	(54)
Others	0	0	0	0	0
Cash Flow From Investing	(6)	(79)	(231)	(96)	(54)
Loans	(4)	(18)	0	0	0
Equity	0	0	0	0	0
Dividends	(273)	(263)	(331)	(348)	(393)
Others	(50)	(19)	(8)	(8)	(7)
Cash Flow From Financing	(326)	(299)	(339)	(356)	(400)
Changes in Cash	329	46	55	322	400
<b>Financial Ratios</b>					
Gross Margin (%)	47.5	47.6	47.6	47.6	47.6
Operating Margin (%)	14.5	14.8	14.3	14.3	13.6
Pre-Tax Margin (%)	15.5	17.5	17.2	17.2	16.5
Net Margin (%)	12.4	14.4	13.7	13.9	13.3
ROA (%)	18.9	20.3	19.1	18.8	17.2
ROE (%)	23.7	25.0	23.3	22.8	20.7
ROIC (%)	23.5	24.9	23.3	22.8	20.7
Acct. Receivables TO (days)	1.4	1.6	1.7	1.5	1.5
Acct. Receivables - Other TO (days)	0.0	0.0	0.0	0.0	0.0
Inventory TO (days)	1.8	1.7	1.7	1.7	1.7
Payable TO (days)	17.2	16.6	15.4	17.0	17.9
Acct. Payables - Other TO (days)	0.0	0.0	0.0	0.0	0.0
Debt to Equity (%)	0.9	0.2	0.2	0.1	0.1
Interest Coverage Ratio (x)	0.0	0.0	0.0	0.0	0.0
Net Gearing (%)	(22.8)	(22.9)	(21.3)	(26.9)	(32.8)

Source : ACES, IndoPremier

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**INVESTMENT RATINGS**

BUY : Expected total return of 10% or more within a 12-month period  
HOLD : Expected total return between -10% and 10% within a 12-month period  
SELL : Expected total return of -10% or worse within a 12-month period

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