

In-line 1H19 performance. ACE Hardware (ACES) delivered a within expectation 1H19 performance. Sales figures remained favorable, in which 1H19 revenue came in at IDR 3.96 tn (+17% YoY). This has been indicated by its monthly SSSG figures (6M19: 6.9% YoY) and enhanced by new store openings (6M19: 10 new stores). Bottom-line was posted at IDR 474 bn, growing by +11% YoY. On the other hand, gross margin in 2Q19 was slightly lower as it declined from 47.4% in 1Q19 to 46.9% in 2Q19. This was caused by lower DP margin given the occurrence of more price discounts as an effort to encourage more sales. Operating expense was recorded at 34.1% of sales in 2Q19, higher on QoQ basis due to seasonality, leading 1H19 net margin to 12% (vs 12.6% in 3M19). Overall, 6M19 achievement meets our estimate in which top-line and bottom-line reached 48% and 43% of our FY19 estimate respectively. Home improvement remains the top contributor for ACES' total sales, with 52.9% contribution, followed by lifestyle and toys which each accounted to 41.6% and 5.5% contribution.

Normalizing sales growth. On the back of stellar SSSG performance for the past two years, we think that going ahead, the company might find it challenging to maintain high SSSG figures. We also note a growing competition, though still limited in scale, from other players such as Mr DIY, IKEA, and some online players. ACES has also been expanding aggressively with 20-25 additional stores in the company's FY19 pipeline. The company also expects to see current expansion plan maintained in 2020. As a consequence, we think that the intense footprints expansion would result in more aggressive promotional activities and increase the needs for offering price discounts which potentially lead to lower margins. Therefore, we lower our 2020 SSSG assumption from previously 7% to 5% and slightly tweak our model to anticipate pressure in gross margin expectations, leading to 3.6%/5.0% lower EPS from our previous calculation for FY19E/FY20F.

Despite its extensive store penetration, we think that valuation has become demanding as we take into account of a more moderating growth outlook. **Hence, we tone down our recommendation on ACES to NEUTRAL with 52-week target price of IDR 1,850 which implies 28.6x FY20F P/E.** Risks to our call include stronger than expected SSSG, significant Rupiah appreciation, more aggressive store expansion, and margin improvement.

| Highlights (IDR bn) | 2017 | 2018 | 2019F | 2020F | 2021F |
|----------------------|-------|-------|-------|-------|-------|
| Net Revenue | 5,939 | 7,240 | 8,333 | 9,088 | 9,764 |
| % growth | 20.3% | 21.9% | 15.1% | 9.1% | 7.4% |
| Gross Profit | 2,835 | 3,443 | 3,927 | 4,269 | 4,588 |
| Net Profit | 778 | 965 | 1,057 | 1,157 | 1,241 |
| % growth | 9.6% | 25.1% | 9.4% | 9.4% | 7.2% |
| Gross Margin (%) | 47.7% | 47.6% | 47.1% | 47.0% | 47.0% |
| Net Margin (%) | 13.1% | 13.5% | 12.8% | 12.9% | 12.8% |
| Return on Equity (%) | 23.7% | 24.9% | 23.2% | 22.1% | 20.6% |
| Return on Assets (%) | 19.1% | 19.8% | 18.7% | 18.2% | 17.2% |
| EPS | 45 | 56 | 62 | 67 | 72 |

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| | |
|-----------------------|--------------|
| Sector | Retail |
| Bloomberg Ticker | ACES IJ |
| Market Cap. (IDR tn) | 31.5 |
| Share Out./Float (mn) | 17,150/6,865 |
| Current Price | 1,835 |
| 52-week Target Price | 1,850 |
| Upside | 1.1% |

Share Price Performance

| | |
|---------------------|-------|
| 52W High (03/19/19) | 1,920 |
| 52W Low (05/09/18) | 1,200 |
| 52W Beta | 0.78 |
| YTD Change | 23.2% |

Relative Valuations

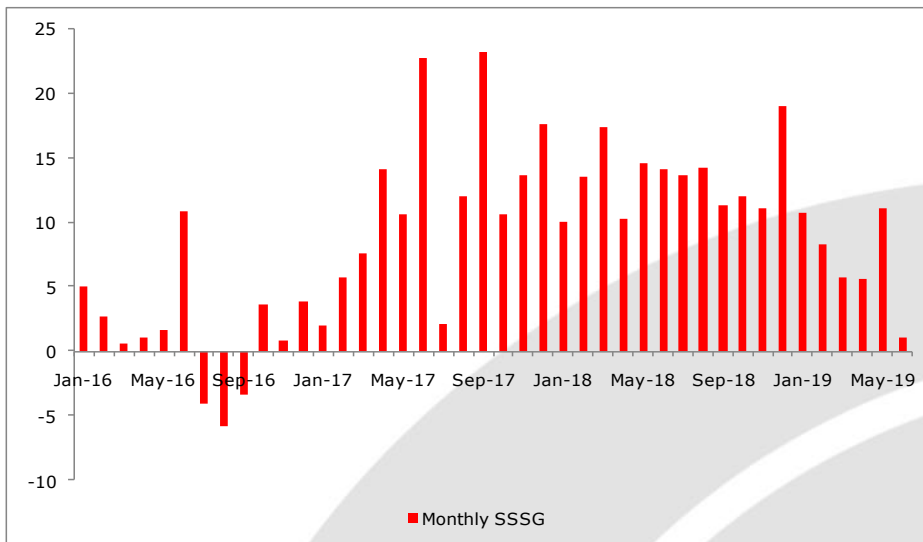
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|--------------|------|
| Trailing P/E | 31.0 |
| Forward P/E | 27.1 |
| P/BV | 7.5 |

ACES 2Q19 Earnings Summary

| IDR bn | 2Q18 | 1Q19 | 2Q19 | %QoQ | %YoY | 6M18 | 6M19 | %YoY | % DH | % Cons |
|------------------|-------|-------|---------|-------|-------|---------|---------|-------|------|--------|
| Net Revenues | 1,811 | 1,882 | 2,080 | 10.5% | 14.9% | 3,385 | 3,962 | 17.0% | 48% | 46% |
| COGS | (942) | (991) | (1,104) | 11.4% | 17.1% | (1,764) | (2,094) | 18.7% | | |
| Gross Profit | 869 | 891 | 976 | 9.5% | 12.4% | 1,620 | 1,867 | 15.2% | | |
| Operating Profit | 276 | 301 | 305 | 1.2% | 10.3% | 540 | 605 | 12.1% | | |
| Net Income | 216 | 237 | 237 | 0.2% | 9.9% | 426 | 474 | 11.3% | 45% | 42% |
| Gross Margin | 48.0% | 47.4% | 46.9% | | | 47.9% | 47.1% | | | |
| Operating Margin | 15.3% | 16.0% | 14.6% | | | 16.0% | 15.3% | | | |
| Opex to Sales | 34.7% | 32.7% | 34.1% | | | 33.9% | 33.5% | | | |
| Net Margin | 11.9% | 12.6% | 11.4% | | | 12.6% | 12.0% | | | |

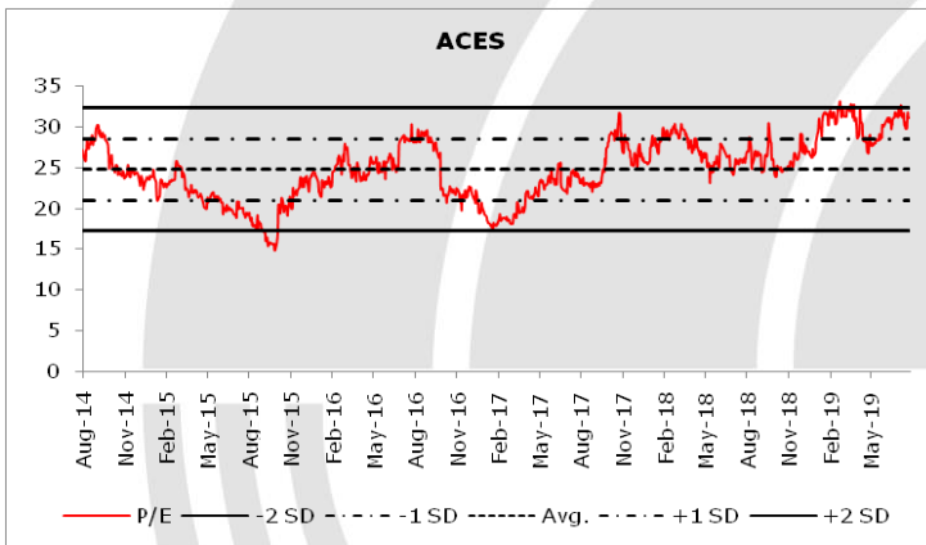
Source: Company Data, Sinarmas Investment Research

Monthly Same Store Sales Growth



Source: Company Data, Sinarmas Investment Research

P/E Band



Source: Bloomberg, Sinarmas Investment Research

| Income Statement (IDR Bn) | 2017 | 2018 | 2019E | 2020F | 2021F |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|
| Net Revenue | 5,939 | 7,240 | 8,333 | 9,088 | 9,764 |
| Cost of Revenue | (3,104) | (3,797) | (4,406) | (4,819) | (5,176) |
| Gross Profit | 2,835 | 3,443 | 3,927 | 4,269 | 4,588 |
| % growth | 20.5% | 21.5% | 14.1% | 8.7% | 7.5% |
| Operating Expenses | (1,965) | (2,371) | (2,763) | (2,995) | (3,223) |
| Opex to Sales (%) | 33.1% | 32.7% | 33.2% | 33.0% | 33.0% |
| Operating Profit | 968 | 1,229 | 1,344 | 1,470 | 1,576 |
| % growth | 9.6% | 26.9% | 9.4% | 9.4% | 7.2% |
| EBT | 960 | 1,207 | 1,319 | 1,443 | 1,546 |
| % growth | 10.4% | 25.7% | 9.3% | 9.4% | 7.2% |
| Tax | (179) | (231) | (251) | (274) | (294) |
| Net Profit for the Year | 781 | 976 | 1,069 | 1,169 | 1,253 |
| % growth | 9.6% | 25.1% | 9.4% | 9.4% | 7.2% |

| Balance Sheet (IDR Bn) | 2017 | 2018 | 2019E | 2020F | 2021F |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Cash and Cash Equivalent | 902 | 799 | 849 | 1,145 | 1,460 |
| Trade Receivables | 90 | 37 | 42 | 44 | 47 |
| Inventories | 1,849 | 2,520 | 2,872 | 3,241 | 3,639 |
| Other Current Assets | 517 | 741 | 854 | 887 | 953 |
| Total Current Assets | 3,358 | 4,096 | 4,616 | 5,316 | 6,099 |
| Fixed Assets | 705 | 801 | 859 | 940 | 1,018 |
| Other Non Current Assets | 365 | 424 | 488 | 506 | 544 |
| Total Assets | 4,429 | 5,321 | 5,963 | 6,763 | 7,661 |
| Trade Payables | 169 | 198 | 228 | 237 | 254 |
| Bank Loans | - | - | - | - | - |
| Other Current Liabilities | 309 | 433 | 355 | 368 | 396 |
| Total Current Liabilities | 478 | 631 | 583 | 605 | 650 |
| Other Non Current Liabilities | 440 | 455 | 523 | 544 | 584 |
| Total Liabilities | 918 | 1,086 | 1,106 | 1,149 | 1,234 |
| Share & APIC | 541 | 576 | 541 | 541 | 541 |
| Treasury Shares | (54) | (19) | (54) | (54) | (54) |
| Retained Earnings | 3,026 | 3,669 | 4,360 | 5,117 | 5,929 |
| Non Controlling Interest | (2) | 10 | 10 | 11 | 11 |
| Total Equity | 3,510 | 4,235 | 4,857 | 5,614 | 6,427 |
| Total Equity & Liabilities | 4,429 | 5,321 | 5,963 | 6,763 | 7,661 |

Source: Company Data, Sinarmas Investment Research

| Cash Flow (IDR Bn) | 2017 | 2018 | 2019F | 2020F | 2021F |
|------------------------------|--------------|--------------|--------------|--------------|--------------|
| Net Income | 778 | 965 | 1,057 | 1,157 | 1,241 |
| Depreciation | 62 | 51 | 105 | 96 | 108 |
| Chg. in NWC | 243 | 804 | 403 | 382 | 422 |
| Chg. in Other CT Assets | 32 | -12 | 17 | 5 | 10 |
| Chg. in Other CT Liabilities | 0 | 0 | 0 | 0 | 0 |
| CF from Operating | 568 | 235 | 753 | 878 | 928 |
| Capital Expenditure | 178 | 147 | 163 | 177 | 186 |
| Chg. in LT Assets | 13 | 70 | 47 | 14 | 28 |
| Chg in LT Liabilities | 146 | 14 | 69 | 20 | 40 |
| CF from Investing | (45) | (203) | (141) | (171) | (173) |
| Chg. in Share & APIC | 1 | 35 | (35) | 0 | 0 |
| Chg. in Debt | (5) | 115 | (115) | 0 | 0 |
| Dividends Paid | 323 | 334 | 377 | 412 | 441 |
| Others | 2.5 | 12 | 0 | 0 | 1 |
| CF from Financing | (324) | (136) | (562) | (411) | (440) |
| Change in Cash | 198 | -104 | 50 | 296 | 315 |
| Beginning Cash | 704 | 902 | 799 | 849 | 1,145 |
| Ending Cash | 902 | 799 | 849 | 1,145 | 1,460 |

| Financial Ratio | 2017 | 2018 | 2019F | 2020F | 2021F |
|---------------------------------|-------|-------|-------|-------|-------|
| Profitability | | | | | |
| ROE | 23.7% | 24.9% | 23.2% | 22.1% | 20.6% |
| ROA | 19.1% | 19.8% | 18.7% | 18.2% | 17.2% |
| Operating Margin | 16.3% | 17.0% | 16.1% | 16.2% | 16.1% |
| EBITDA Margin | 17.2% | 17.6% | 17.1% | 16.9% | 16.9% |
| Liquidity & Solvency | | | | | |
| Current Ratio | 7.0 | 6.5 | 7.9 | 8.8 | 9.4 |
| Debt to Equity | - | - | - | - | - |
| Debt to Assets | - | - | - | - | - |
| Valuation | | | | | |
| Price to Earning (PE) | 40.7 | 32.8 | 30.0 | 27.4 | 25.5 |
| Price to Book (PBV) | 9.0 | 7.5 | 6.5 | 5.6 | 4.9 |

| Key Assumptions | 2017 | 2018F | 2019F | 2020F | 2020F |
|-----------------------|-------|-------|-------|-------|-------|
| Combined SSSG | 11.7% | 13.5% | 7.0% | 5.0% | 5.0% |
| Number of Stores | 144 | 176 | 201 | 216 | 226 |
| Receivable Days | 4 | 3 | 2 | 2 | 2 |
| Payable Days | 8 | 9 | 9 | 9 | 9 |
| Inventory Days | 220 | 202 | 210 | 210 | 232 |
| Cash Conversion Cycle | 215 | 196 | 202 | 202 | 224 |

Source: Company Data, Sinarmas Investment Research

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