

3Q21 earnings review. The 3Q21 results came in weak, but as predicted, since ACES was adversely impacted by the strict lockdown that lasted more than a month (3 Jul - 9 Aug 21) before gradually loosening. During the lockdown period, ACES temporarily closed down over 70% of its stores. As a result, it booked a modest revenue of IDR 1.3 tn (-24.2% QoQ/-29.0% YoY) and a net profit of IDR 46 bn (-60.2% QoQ/-72.7% YoY). This brought its 9M21 revenue to IDR 4.7 tn (-14.3% YoY) and net profit to IDR 323 bn (-39.1% YoY), both of which were lower than our estimate at 52.9%/29.5% and consensus' at 65.1%/44.3%. Margin side, GPM declined by 40bps to 46.7% due to lower margin in home improvement and lifestyle products, and a steep drop in sales increased its opex to sales ratio to 39.5% (vs. 9M20: 36.7%) despite opex being down 7.4% YoY.

Full reopening malls will benefit retailers. Latest blended same-store sales growth (SSSG) reading was at -12.6% in Sep-21, and -15.7% in 9M21, with Jakarta having the highest drop at -18.1%, followed by Java and Ex-Java at -18% and -10%, respectively. In light of the recent government announcement to ease the public activity restrictions (PPKM) for Jakarta to lv.1, allowing malls and shopping centers to operate at full capacity, we expect its SSSG to gradually rebound in the upcoming months and may reach -12% by the end of 2021. ACES recently announced to close one of its stores in Waru, Surabaya on 1 Nov-21 due to rent expiration. That being said, ACES has managed to execute 8 new store openings and close 2 stores YTD.

Forecast update. By looking at ACES 9M21 numbers, we have not seen a significant improvement in current achievement despite easing lockdown and improving traffic compared to last year. We are of the view that it may take a little longer for ACES to return to pre-Covid level at this rate, given Sep-21 alone sales were only c.74% of Sep-19 sales. We set a more conservative outlook for FY21E/FY22F with lower SSSG prediction at -12%/+10% (vs. +11%/+5% previously). As a result, our initial FY21F/FY22F net revenue forecast was down by 24.1%/18.4%, resulting in 52.3%/31.4% drop in our EPS forecast.

We reiterate our NEUTRAL call on PT Ace Hardware Indonesia Tbk. (ACES) with a lower 52-week TP of IDR 1,400, implying 28.8x FY22F P/E which is equal to its 5-year mean. Potential upside risks to our call include (1) faster sales recovery, boosted by stronger property sales, and (2) higher-than-expected SSSG.

Highlights (IDR Bn)	2019	2020	2021E	2022F	2023F
Net Revenue	8,143	7,413	6,737	7,787	8,537
% growth	12.5%	-9.0%	-9.1%	15.6%	9.6%
Gross Profit	3,887	3,659	3,302	3,817	4,186
Net Profit	1,017	733	524	835	944
% growth	5.4%	-27.9%	-28.5%	59.4%	13.1%
Gross Margin (%)	45.5%	47.1%	46.7%	46.7%	46.8%
Net Margin (%)	11.9%	9.4%	7.4%	10.2%	10.5%
Return on Equity (%)	23.0%	14.9%	9.8%	14.5%	15.1%
Return on Assets (%)	14.6%	10.2%	7.1%	10.5%	11.4%
EPS (IDR)	59	43	31	49	55

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Sector	Retail
Bloomberg Ticker	ACES IJ
Market Cap. (IDR tn)	24.4
Share Out./Float (mn)	17,150/6,864
Current Price	1,425
FY22F Target Price	1,400
Upside	-1.8%

Share Price Performance

52W High (12/18/20)	1,850
52W Low (06/30/21)	1,235
52W Beta	0.9
YTD Change	16.3%

Relative Valuations

Trailing P/E	46.3x
Forward P/E	29.3x
P/BV	4.9x

ACES 3Q21 Earnings Summary

IDR Bn	3Q20	2Q21	3Q21	%QoQ	%YoY	9M20	9M21	%YoY	%DH	%Cons
Gross Revenue	1,912	1,808	1,357	-24.9%	-29.1%	5,736	4,933	-14.0%		
Net Revenue	1,829	1,714	1,299	-24.2%	-29.0%	5,480	4,694	-14.3%	52.9%	65.1%
Gross Profit	902	831	654	-21.3%	-27.5%	2,706	2,305	-14.8%		
Operating Profit	191	116	60	-48.2%	-68.5%	600	356	-40.7%		
Net Profit	168	115	46	-60.2%	-72.7%	530	323	-39.1%	29.5%	44.3%
Gross Profit Margin	47.1%	46.0%	48.2%			47.2%	46.7%			
Operating Profit Margin	10.0%	6.4%	4.4%			10.5%	7.2%			
Net Profit Margin	8.8%	6.4%	3.4%			9.2%	6.5%			

GPM by segment

Home improvement	47.2%	46.5%	48.4%			47.4%	46.9%
Lifestyle products	47.6%	47.1%	47.5%			47.8%	47.2%
Toys products	43.6%	40.3%	42.3%			39.3%	42.0%

Source: Company Data, Sinarmas Investment Research

Earnings Changes

(IDR Bn)	Old		New		Changes	
	FY21	FY22	FY21	FY22	FY21	FY22
Gross Revenue	9,299	10,008	7,065	8,165	-24.0%	-18.4%
Net Revenue	8,872	9,548	6,737	7,787	-24.1%	-18.4%
Gross Profit	4,215	4,524	3,301	3,817	-21.7%	-15.6%
Operating Profit	1,453	1,578	574	917	-60.5%	-41.9%
Net Profit	1,093	1,212	524	835	-52.1%	-31.1%
EPS (IDR)	64	71	31	49	-52.3%	-31.5%
Gross Margin	45.3%	45.2%	46.7%	46.8%		
Operating Margin	15.6%	15.8%	8.1%	11.2%		
Net Margin	11.8%	12.1%	7.4%	10.2%		

Source: Sinarmas Investment Research

Income Statement (IDR Bn)	2019	2020	2021E	2022F	2023F
Net Revenue	8,143	7,413	6,737	7,787	8,537
% growth	12.5%	-9.0%	-9.1%	15.6%	9.6%
Cost of Good Sold	(4,256)	(3,754)	(3,436)	(3,970)	(4,352)
Gross Profit	3,887	3,659	3,301	3,817	4,185
% growth	12.9%	-5.9%	-9.8%	15.6%	9.6%
Operating Expenses	(2,668)	(2,806)	(2,727)	(2,900)	(3,156)
Opex to Sales (%)	31.3%	36.1%	38.6%	35.5%	35.3%
EBIT	1,219	853	574	917	1,029
% growth	13.7%	-30.0%	-32.7%	59.8%	12.2%
EBITDA	1,467	1,142	841	1,214	1,354
% growth	-17.1%	-22.2%	-26.4%	44.4%	11.5%
Net Financing Income (Expenses)	44	70	95	124	147
EBT	1,263	923	669	1,041	1,176
Tax Expenses	(240)	(192)	(146)	(208)	(234)
Minority Interest	(6)	2	1	2	2
Net Income	1,017	733	524	835	944
% growth	4.8%	-27.9%	-28.5%	59.4%	13.1%
EPS (IDR)	59	43	31	49	55
Balance Sheet (IDR Bn)	2019	2020	2021E	2022F	2023F
Cash & Equivalents	1,256	2,219	2,542	2,709	3,066
Trade Receivables	89	143	66	79	97
Inventories	2,653	2,453	2,124	2,516	2,798
Other Current Assets	373	218	341	369	386
Total Current Assets	4,371	5,033	5,073	5,673	6,347
Fixed Assets	1,855	1,840	1,687	1,617	1,576
Other Non Current Assets	417	372	348	373	391
Total Assets	6,643	7,245	7,108	7,663	8,314
Short Term Debt	222	256	210	186	168
Trade Payables	178	164	160	181	199
Other Current Liabilities	384	425	293	351	394
Total Current Liabilities	784	845	663	718	761
Long Term Debt	572	577	473	419	379
Other Non Current Liabilities	611	600	453	536	610
Total Liabilities	1,967	2,022	1,589	1,673	1,750
Share & APIC	576	612	612	612	612
Retained Earnings	3,622	4,147	4,443	4,914	5,488
Minority Interest	15	15	15	15	15
Others	463	449	449	449	449
Total Equity	4,676	5,223	5,519	5,990	6,564
Total Liabilities & Equity	6,643	7,245	7,108	7,663	8,314

Source: Company Data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2019	2020	2021E	2022F	2023F
Net Income	1,017	733	524	835	944
Dep. & Amortization	248	289	267	297	325
Chg. In NWC	43	326	149	(354)	(255)
CF from Operating	1,308	1,348	940	778	1,014
Capital Expenditure	(475)	(274)	(114)	(227)	(285)
Chg. in LT Assets	(94)	45	24	(24)	(18)
Chg. in LT Liabs	156	(8)	(148)	81	72
CF from Investing	(413)	(237)	(238)	(170)	(231)
Chg. in Share & APIC	-	36	-	-	-
Chg. in Debt	85	39	(151)	(78)	(57)
Dividends Paid	(484)	(309)	(228)	(363)	(369)
Others	(40)	86	-	-	-
CF from Financing	(439)	(148)	(379)	(441)	(426)
Chg. in Cash	456	963	323	167	357
Beginning Cash	800	1,256	2,219	2,542	2,709
Ending Cash	1,256	2,219	2,542	2,709	3,066

Financial Ratio & Key Assumption	2019	2020	2021E	2022F	2023F
Profitability					
Return on Equity	23.0%	14.9%	9.8%	14.5%	15.1%
Return on Assets	14.6%	10.2%	7.1%	10.5%	11.4%
Gross Margin	45.5%	47.1%	46.7%	46.7%	46.8%
Operating Margin	14.3%	11.0%	8.1%	11.2%	11.5%
EBITDA Margin	17.2%	14.7%	11.9%	14.9%	15.1%
Net Margin	11.9%	9.4%	7.4%	10.2%	10.5%
Liquidity					
Current Ratio (x)	5.6	6.0	7.7	7.9	8.3
Quick Ratio (x)	1.7	2.8	3.9	3.9	4.2
Solvency					
Debt to Equity (x)	0.2	0.2	0.1	0.1	0.1
Debt to Assets (x)	0.1	0.1	0.1	0.1	0.1
Interest Cov. (x)	9.4	6.8	5.2	8.4	9.5
Valuation					
Price to Earnings (x)	23.6	32.7	45.8	28.8	25.4
Price to Book (x)	25.7	4.6	4.4	4.0	3.7
Key Assumptions					
Combined SSSG	5.5%	-9.3%	-12.0%	10.0%	5.0%
Number of Stores	197	208	216	231	246

Source: Company Data, Sinarmas Investment Research

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