

**Well-expected decent 4Q18 performance.** Overall, ACES managed to deliver satisfying FY18 results in which top-line grew by 22% and bottom-line was up by 24%. FY18 SSSG was set at another record high of 13.5% (vs 11.7% in FY17). In addition, productivity continued to improve as shown by +6% YoY increase in sales per sqm which stood at IDR 15.9mn per sqm level. 4Q18 alone, revenue rose by 21% YoY while net profit increased by 10% YoY. However, gross margin was recorded slightly below estimates due to higher consignment product contribution (6% to gross sales vs 5%/4% in 3Q18/3Q17) and shrinking gross margin for its direct purchase segment (-190bps QoQ/ -60bps YoY) in 4Q18. Going into FY19F, we expect to see an increase in GPM as the company's main plan is to boost direct purchase through promoting its private brand products (i.e., Krisbow, ACE Paints).

**Normalizing sales growth.** With regards to the strong SSSG performance that ACES had recorded for two consecutive years, we think that the company might find some challenges to maintain its double-digit SSSG figures given the high-base. ACES guides FY19F SSSG at 7% coupled with 25 new store openings which translates into +15% FY19F revenue growth. 3M19 SSSG was recorded at 8.2% and the monthly readings indicate softening SSSG trend.

**Benefitted from its dominance.** We continue to believe that currently there is limited substitution to ACES other than IKEA and mom and pop stores to shop for mid-to-high end home products. We believe this provides ACES the pricing power and ability to implement its cost-plus policy which ensures relatively stable margins. The company also benefited from higher import tax and tighter regulations which reduce the cost competitiveness of smaller-scale players.

Despite of the moderating growth, we think that ACES remains an attractive pick among retailers given its relatively resilient target market, peerless sector, and less prone to e-commerce threat. However, as the share price has surged significantly and currently trading quite premium at +1.5SD above its 3yr mean, **we tone down our recommendation on ACES to ADD with target price of IDR 1,860 which implies 29.0x FY19F P/E.** Key risks to our call: lower than expected SSSG, poor store openings, and stronger than expected e-commerce sales.

Highlights (IDR bn)	2017	2018	2019F	2020F	2021F
Net Revenue	5,939	7,240	8,303	9,161	9,864
% growth	20.3%	21.9%	14.7%	10.3%	7.7%
Gross Profit	2,835	3,443	3,976	4,363	4,672
Net Profit	778	965	1,104	1,215	1,286
% growth	9.6%	25.1%	14.2%	10.0%	5.7%
Gross Margin (%)	47.7%	47.6%	47.9%	47.6%	47.4%
Net Margin (%)	13.1%	13.5%	13.4%	13.4%	13.2%
Return on Equity (%)	23.8%	25.2%	24.7%	23.8%	22.1%
Return on Assets (%)	19.1%	19.8%	19.7%	19.3%	18.0%
EPS	45	56	64	71	75

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Sector	Retail
Bloomberg Ticker	ACES IJ
Market Cap. (IDR tn)	29.6
Share Out./Float (mn)	17.2/6.9
Current Price	1,745
FY19F Target Price	1,860
Upside	6.6%

**Share Price Performance**

52W High (02/26/19)	1,895
52W Low (05/15/18)	1,125
52W Beta	1.03
YTD Change	15.8

**Relative Valuations**

Trailing P/E	30.5
Forward P/E	26.3
P/BV	7.0

<b>Income Statement (IDR Bn)</b>	<b>2017</b>	<b>2018</b>	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>
<b>Net Revenue</b>	<b>5,939</b>	<b>7,240</b>	<b>8,303</b>	<b>9,161</b>	<b>9,864</b>
% growth	20.3%	21.9%	14.7%	10.3%	7.7%
Cost of Revenue	(3,104)	(3,797)	(4,327)	(4,797)	(5,192)
<b>Gross Profit</b>	<b>2,835</b>	<b>3,443</b>	<b>3,976</b>	<b>4,363</b>	<b>4,672</b>
% growth	20.5%	21.5%	15.5%	9.7%	7.1%
Operating Expenses	(1,965)	(2,371)	(2,753)	(3,019)	(3,254)
Opex to Sales (%)	33.1%	32.7%	33.2%	33.0%	33.0%
<b>EBITDA</b>	<b>1,020</b>	<b>1,275</b>	<b>1,482</b>	<b>1,611</b>	<b>1,709</b>
% growth	10.7%	25.0%	16.2%	8.7%	6.1%
<b>EBT</b>	<b>960</b>	<b>1,207</b>	<b>1,377</b>	<b>1,515</b>	<b>1,602</b>
% growth	10.4%	25.7%	14.1%	10.0%	5.7%
Tax	(179)	(231)	(262)	(288)	(304)
<b>Net Profit for the Year</b>	<b>781</b>	<b>976</b>	<b>1,115</b>	<b>1,227</b>	<b>1,297</b>
% growth	9.6%	25.1%	14.2%	10.0%	5.7%

<b>Balance Sheet (IDR Bn)</b>	<b>2017</b>	<b>2018</b>	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>
Cash and Cash Equivalent	902	799	819	1,066	1,373
Trade Receivables	90	37	42	46	50
Inventories	1,849	2,520	2,933	3,366	3,805
Other Current Assets	517	741	850	938	1,010
<b>Total Current Assets</b>	<b>3,358</b>	<b>4,096</b>	<b>4,644</b>	<b>5,416</b>	<b>6,239</b>
Fixed Assets	705	801	859	948	1,019
Other Non Current Assets	365	424	486	536	577
<b>Total Assets</b>	<b>4,429</b>	<b>5,321</b>	<b>5,990</b>	<b>6,900</b>	<b>7,835</b>
Trade Payables	169	198	227	250	270
Bank Loans	-	-	-	-	-
Other Current Liabilities	309	433	353	390	420
<b>Total Current Liabilities</b>	<b>478</b>	<b>631</b>	<b>580</b>	<b>640</b>	<b>690</b>
Other Non Current Liabilities	440	455	521	575	619
<b>Total Liabilities</b>	<b>918</b>	<b>1,086</b>	<b>1,102</b>	<b>1,216</b>	<b>1,309</b>
Share & APIC	541	576	541	541	541
Treasury Shares	(54)	(19)	(54)	(54)	(54)
Retained Earnings	3,026	3,669	4,391	5,186	6,027
Non Controlling Interest	(2)	10	10	11	12
<b>Total Equity</b>	<b>3,510</b>	<b>4,235</b>	<b>4,888</b>	<b>5,684</b>	<b>6,526</b>
<b>Total Equity &amp; Liabilities</b>	<b>4,429</b>	<b>5,321</b>	<b>5,990</b>	<b>6,900</b>	<b>7,835</b>

Cash Flow (IDR Bn)	2017	2018	2019F	2020F	2021F
<b>Net Income</b>	<b>778</b>	<b>965</b>	<b>1,104</b>	<b>1,215</b>	<b>1,286</b>
Depreciation	62	51	105	96	107
Chg. in NWC	243	804	463	465	466
Chg. in Other CT Assets	32	-12	17	13	11
Chg. in Other CT Liabilities	0	0	0	0	0
<b>CF from Operating</b>	<b>568</b>	<b>235</b>	<b>741</b>	<b>845</b>	<b>927</b>
Capital Expenditure	178	147	163	185	178
Chg. in LT Assets	13	70	46	37	30
Chg in LT Liabilities	146	14	67	54	44
<b>CF from Investing</b>	<b>(45)</b>	<b>(203)</b>	<b>(142)</b>	<b>(168)</b>	<b>(164)</b>
Chg. in Share & APIC	1	35	(35)	0	0
Chg. in Debt	(5)	115	(115)	0	0
Dividends Paid	323	334	393	432	456
Others	2.5	12	0	1	1
<b>CF from Financing</b>	<b>(324)</b>	<b>(136)</b>	<b>(578)</b>	<b>(431)</b>	<b>(455)</b>
Change in Cash	198	-104	21	246	307
Beginning Cash	704	902	799	819	1,066
<b>Ending Cash</b>	<b>902</b>	<b>799</b>	<b>819</b>	<b>1,066</b>	<b>1,373</b>

Financial Ratio	2017	2018	2019F	2020F	2021F
<b>Profitability</b>					
ROE	23.7%	24.9%	24.2%	23.0%	21.1%
ROA	19.1%	19.8%	19.5%	18.9%	17.5%
Operating Margin	16.3%	17.0%	16.9%	16.8%	16.5%
EBITDA Margin	17.2%	17.6%	17.8%	17.6%	17.3%
<b>Liquidity &amp; Solvency</b>					
Current Ratio	7.0	6.5	8.0	8.5	9.0
Debt to Equity					
Debt to Assets					
<b>Valuation</b>					
Price to Earning (PE)	41.1	33.1	29.0	26.3	24.9
Price to Book (PBV)	9.1	7.5	6.5	5.6	4.9

Key Assumptions	2017	2018F	2019F	2020F	2020F
Combined SSSG	11.7%	13.5%	7.0%	7.0%	5.0%
Number of Stores	144	176	201	213	223
Receivable Days	4	3	2	2	2
Payable Days	8	9	9	10	10
Inventory Days	220	202	210	210	240
Cash Conversion Cycle	215	196	202	202	232

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