

**BUY | TP : IDR850**
**ACES Stock Price Data**

Last Price	:	IDR700
52wk High	:	IDR795
52wk Low	:	IDR392
Share Out	:	17.2bn
Market Cap	:	IDR12.0tn

**ACES Stock Price Performance**

1-Day	:	+0.0%
1-Week	:	-4.1%
1-Month	:	-2.8%
3-Month	:	+50.9%
Year-to-Date	:	+41.1%

**Shareholders**

Kawan Lama Sejahtera(P)	:	60.0%
Public	:	39.8%
Treasury	:	0.2%

**PT Ace Hardware Indonesia Tbk (ACES IJ)**
**Consider Re-rating due to Upbeat Prospect**
**1H23 Results : Excellence, revenue in-line**

ACES posted a revenue of IDR1.9tn in 2Q23 (+13.5% QoQ/+15.0% YoY), translating into a 1H23's revenue of IDR3.6tn (vs to IDR3.3tn in 1H22), marking a +9.9% YoY increase, which is in line with our/cons, achieving 52.4%/49.7% of FY23E target. This was supported by YTD SSSG of +4.8%. In 1H23, the home improvement and toys kingdom segments saw double-digit growth, with +10.5% QoQ/+13.0% YoY, respectively, while lifestyle at +9.5% YoY. Furthermore, net profit in 2Q23 amounted to IDR144.1bn (-9.0% QoQ/+62.1% YoY), resulting in a 1H23's net profit of IDR302.4bn (+24.8% YoY), reflecting 45.2%/43.0% of our/cons estimations for FY23E target (vs 5Y avg. 43.3%), influenced by seasonality (usually climb up in 2H). OPEX was well-maintained, resulting in margin expansions with GPM/NPM rise to 48.4%/8.3% in 1H23 (vs 48.2%/7.3% in 1H22).

**Store Transformation and Doubled Digit SSSG +14.8% Outside Java in Jun-23**

We perceive ACES's expansion into tier 2 & 3 cities as having positive prospects. Notably, ex-Java marked an SSSG of +14.8%, while outside Jakarta experienced +10.6% in June 2023. In 1H23, ACES opened 7 stores (vs FY23E target of 13), with an allocated capex of approx. IDR200 - 300bn. Management revealed that the store openings in Batoh Aceh and Tarakan exceeded expectations.

Moreover, ACES has transformed its retail outlets by adopting an open-concept floor plan to deliver seamless shopping. This new concept provides a more spacious layout and eye-catching product displays, creating an exclusive feel through interactive displays. Additionally, from their official website, ACE Living World Alam Sutera showcases the outlet's transformation in the Jabodetabek area. The store features: 1) inspirational corner, an area that inspires customers' needs (similar to an IKEA corner, in our opinion); 2) personal shoppers, customer assistants for product consultations; 3) Scan and Shop, enabling transactions through barcode scanning; 4) click-and-collect, allowing offline product pickup or delivery. We view these initiatives positively, expecting them to enhance customer engagement and lead to impulsive buying.

**Campaign Strategy to Attract Customers**

In late 1Q23, ACES has aggressively launched "#BisaKejadian" (#CouldHappen) campaign to reinforce brand perception. Our observations showed positive engagement, with a total of >40mn views on YouTube under the title #BisaKejadian. Moreover, we discovered that ACE Hardware has a TikTok account for each outlet (we counted >130 accounts), featuring content about its products. The content showcases various utility products that can provide solutions for various situations. In our view, this campaign approach expands ACES' market segment beyond just baby boomers to millennials.

**Improving Inventory Levels given Various Promotions**

Many investors acknowledge that ACES's inventory turnover seems to be a negative hurdle. To address this, ACES has aggressively created appealing promos, particularly the BOOM SALE from June 7 to August 1. This has effectively reduced inventory turnover to 259/261 days in 1Q23/2Q23 (compared to 270 days in 4Q22). Furthermore, the BOOM SALE acted as a buffer for revenue (which usually fell following post-festive season), as Jun-23's revenue rose +0.2% MoM/+8.8% YoY (vs Jun-22 -9.9% MoM/-3.2% YoY in June 2022). ACES took advantage of the Independence Day momentum by offering a 17% discount and coupons up to IDR450k with T&C. Given the recovery in purchasing power, shifting consumer priorities, and the growing importance of a healthy lifestyle, we believe this approach is appropriate. We expect ACES to bring more attractive promos throughout the year. We anticipate the inventory turnover to improve to 240 days in FY23E (vs 270 days in 4Q22).

**Recommendation: BUY ACES with a Target Price IDR850**

We reiterate our BUY recommendation for ACES with a higher TP of IDR850/share, which implies a PE/PBV of 21.8x/2.3x in FY23E. Despite the price appreciating by +41% YTD, we still see fit a re-rating for ACES due to the effective implementation of its business initiatives leading to performance recovery. We have also fine-tuned our figures for FY23E and FY24F. Downside risks include: 1) lower-than-expected SSSG; 2) higher-than-expected OPEX; 3) setbacks in outlet expansion efforts.


**Research Analyst**

Raka Junico W.  
raka.widyaman@mncgroup.com

Key Financial Highlight	FY20	FY21	FY22	FY23E	FY24F
Revenue (IDR bn)	7,412.8	6,543.4	6,762.8	7,084.6	7,498.8
EBITDA (IDR bn)	1,112.6	1,043.1	1,008.2	1,020.9	1,062.4
Net Income (IDR bn)	733.2	690.8	664.3	699.1	747.4
ROA (%)	10.2	9.6	9.2	9.4	9.7
ROE (%)	13.7	12.4	11.2	11.2	11.4
PE (x)	16.4	17.4	18.1	17.2	16.1
PBV (x)	2.2	2.2	2.0	1.9	1.8
DER (x)	0.2	0.1	0.1	0.1	0.1
Dividend Yield (%)	2.6	4.6	2.9	3.0	3.2

**Exhibit 01. ACES's 1H23 revenue was in-line with our/cons**

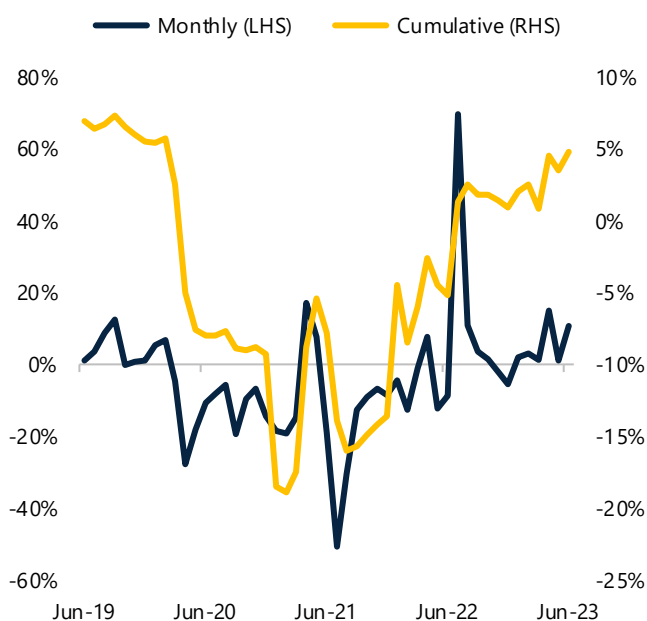
	IDR Bn	1Q23	2Q23	QoQ	1H22	1H23	YoY	FY23E Cons	FY23E MNCS	% Cons	% MNCS
<b>Revenues</b>		<b>1,702.3</b>	<b>1,932.7</b>	<b>13.5%</b>	<b>3,307.9</b>	<b>3,635.1</b>	<b>9.9%</b>	<b>7,308.8</b>	<b>6,942.2</b>	<b>49.7%</b>	<b>52.4%</b>
COGS		876.7	999.4	14.0%	1,713.1	1,876.1	9.5%	3,812.3	3,678.9		
<b>Operating Profit</b>		<b>203.8</b>	<b>183.5</b>	<b>-10.0%</b>	<b>324.8</b>	<b>387.3</b>	<b>19.2%</b>	<b>817.8</b>	<b>867.1</b>	<b>47.4%</b>	<b>44.7%</b>
Operating Profit Margin		12.0%	9.5%		9.8%	10.7%		11.2%	12.5%		
PBT		193.4	172.4	-10.9%	295.5	365.8	23.8%	880.5	815.0	41.5%	44.9%
<b>Net Profit</b>		<b>158.4</b>	<b>144.1</b>	<b>-9.0%</b>	<b>242.4</b>	<b>302.4</b>	<b>24.8%</b>	<b>702.6</b>	<b>668.8</b>	<b>43.0%</b>	<b>45.2%</b>
Net Margin		9.3%	7.5%		7.3%	8.3%		9.6%	9.6%		

Sources : Bloomberg, Company, MNCS

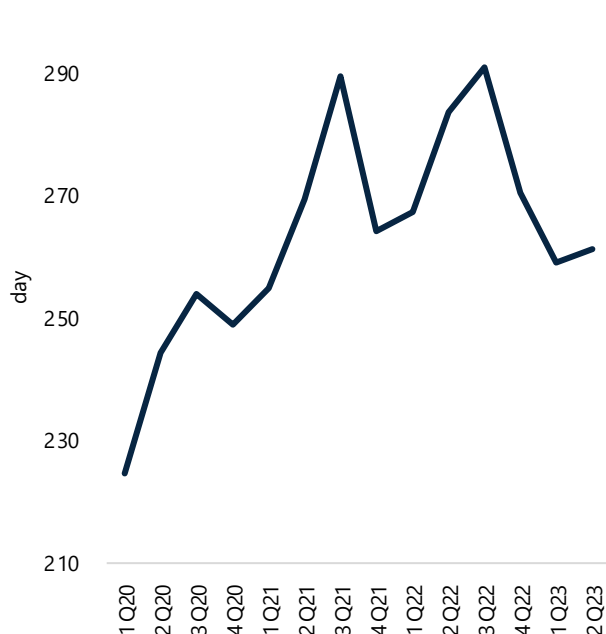
**Exhibit 02. We fine-tuning our figures for FY23E/FY24F**

	FY23E			FY24F		
	Revised	Old	Change	Revised	Old	Change
Revenue (IDR Bn)	7,084.6	6,942.2	2.1%	7,498.8	7,354.5	2.0%
Gross Profit (IDR Bn)	3,445.0	3,263.2	5.6%	3,659.8	3,443.7	6.3%
Operating Profit (IDR Bn)	904.8	867.1	4.3%	947.0	928.4	2.0%
Net Income (IDR Bn)	699.1	668.8	4.5%	747.4	727.0	2.8%
GPM (%)	48.6	47.0	162 bps	48.8	46.8	199 bps
OPM (%)	12.8	12.5	28 bps	12.6	12.6	1 bps
NPM (%)	9.9	9.6	24 bps	10.0	9.9	8 bps

Source : MNCS

**Exhibit 03. ACES's SSSG continued to rise**


Sources : Company, MNCS

**Exhibit 04. Inventory turnover showed improvement**


Sources : Bloomberg, Company, MNCS

**Exhibit 05. Financial Projections**

Income Statement						Balance Sheet					
in Billion IDR	FY20	FY21	FY22	FY23E	FY24F	in Billion IDR	FY20	FY21	FY22	FY23E	FY24F
<b>Revenue</b>	<b>7,412.8</b>	<b>6,543.4</b>	<b>6,762.8</b>	<b>7,084.6</b>	<b>7,498.8</b>	Cash & Equivalents	2,219.8	2,543.8	2,133.4	2,423.5	2,413.1
COGS	(3,753.6)	(3,330.7)	(3,494.9)	(3,639.6)	(3,838.9)	Trade Receivables	143.5	66.8	85.9	129.3	178.5
<b>Gross Profit</b>	<b>3,659.2</b>	<b>3,212.6</b>	<b>3,268.0</b>	<b>3,445.0</b>	<b>3,659.8</b>	Inventory	2,453.2	2,367.9	2,810.8	2,426.4	2,538.0
Operating Expense	(2,806.1)	(2,439.0)	(2,521.2)	(2,679.4)	(2,861.4)	Others Current Assets	218.2	213.5	332.9	348.7	369.1
Other Operating Income (Expense)	136.4	137.8	129.4	139.2	148.6	<b>Total Current Assets</b>	<b>5,034.7</b>	<b>5,192.1</b>	<b>5,362.9</b>	<b>5,327.9</b>	<b>5,498.7</b>
<b>Operating Profit</b>	<b>989.5</b>	<b>911.4</b>	<b>876.1</b>	<b>904.8</b>	<b>947.0</b>	Fixed Assets-net	511.6	459.9	425.8	577.5	626.7
Finance Income (Expense)	(63.5)	(63.6)	(50.6)	(49.4)	(32.2)	Other Non-Current Assets	1,670.3	1,519.1	1,460.6	1,530.0	1,619.5
Other Income (Expense)	(2.7)	(2.9)	(4.7)	(3.5)	(4.1)	<b>Total Non-Current Assets</b>	<b>2,182.0</b>	<b>1,979.0</b>	<b>1,886.3</b>	<b>2,107.6</b>	<b>2,246.2</b>
<b>Profit Before Tax</b>	<b>923.3</b>	<b>844.9</b>	<b>820.8</b>	<b>851.8</b>	<b>910.7</b>	<b>TOTAL ASSETS</b>	<b>7,216.7</b>	<b>7,171.1</b>	<b>7,249.3</b>	<b>7,435.5</b>	<b>7,745.0</b>
Income Tax (Expenses)	(192.0)	(140.1)	(147.2)	(152.7)	(163.3)	Trade Payables	164.2	126.7	144.4	111.2	106.6
Minority Interest	1.9	(14.0)	(9.3)	-	-	Short-term Debt	256.2	262.9	258.5	193.5	170.5
<b>Net Income</b>	<b>733.2</b>	<b>690.8</b>	<b>664.3</b>	<b>699.1</b>	<b>747.4</b>	Other Current Liabilities	424.5	332.9	267.0	279.7	296.0
EPS (IDR)	42.8	40.3	38.7	40.8	43.6	<b>Total Current Liabilities</b>	<b>844.9</b>	<b>722.5</b>	<b>669.8</b>	<b>584.4</b>	<b>573.2</b>
						Long-term Debt	577.0	571.4	449.8	420.6	370.6
						Other Long-term Liabilities	451.2	298.2	195.7	205.0	217.0
						<b>Total LT-Liabilities</b>	<b>1,028.2</b>	<b>869.6</b>	<b>645.5</b>	<b>625.7</b>	<b>587.6</b>
						<b>Total Equity</b>	<b>5,343.6</b>	<b>5,579.0</b>	<b>5,934.0</b>	<b>6,225.4</b>	<b>6,584.2</b>
						<b>TOTAL LIABILITY AND EQUITY</b>	<b>7,216.7</b>	<b>7,171.1</b>	<b>7,249.3</b>	<b>7,435.5</b>	<b>7,745.0</b>
Cash Flow						Ratios					
in Billion IDR	FY20	FY21	FY22	FY23E	FY24F	FY20	FY21	FY22	FY23E	FY24F	
Net Income	733.2	690.8	664.3	699.1	747.4	Revenue Growth (%)	(9.0)	(11.7)	3.4	4.8	5.8
D&A	123.1	131.6	132.1	116.1	115.4	Operating Profit Growth (%)	(27.5)	(7.9)	(3.9)	3.3	4.7
Changes in WC	131.6	124.5	(444.3)	307.8	(165.4)	Net Profit Growth (%)	(27.9)	(5.8)	(3.8)	5.2	6.9
Others	410.0	(17.8)	(181.4)	(3.1)	(4.0)	Current Ratio (%)	595.9	718.6	800.7	911.7	959.3
<b>Operating CF</b>	<b>1,397.9</b>	<b>929.1</b>	<b>170.8</b>	<b>1,119.9</b>	<b>693.4</b>	Quick Ratio (%)	305.5	390.9	381.1	496.5	516.6
Capex	(163.0)	(81.9)	(104.8)	(267.9)	(164.6)	Receivable Days (x)	7.0	3.7	4.6	6.6	8.6
Others	135.0	163.7	92.9	(69.5)	(89.4)	Inventory Days (x)	235.3	255.9	289.5	240.0	238.0
<b>Investing CF</b>	<b>(28.0)</b>	<b>81.7</b>	<b>(11.9)</b>	<b>(337.4)</b>	<b>(254.1)</b>	Payable Days (x)	15.8	13.7	14.9	11.0	10.0
Dividend Paid	39.0	1.1	(126.1)	(94.1)	(73.0)	DER (x)	0.2	0.1	0.1	0.1	0.1
Net Change in Debt	38.5	15.5	11.7	(44.1)	-	DAR (x)	0.1	0.1	0.1	0.1	0.1
Equity Fund Raised	(309.3)	(550.4)	(352.5)	(363.5)	(388.7)	Interest Coverage (x)	7.9	8.1	9.0	10.4	12.7
Others	(173.4)	(153.0)	(102.5)	9.3	12.0	Gross Profit Margin (%)	49.4	49.1	48.3	48.6	48.8
<b>Financing CF</b>	<b>(405.1)</b>	<b>(686.8)</b>	<b>(569.4)</b>	<b>(492.4)</b>	<b>(449.7)</b>	Operating Profit Margin (%)	13.3	13.9	13.0	12.8	12.6
Cash at Beginning	<b>1,255.0</b>	<b>2,219.8</b>	<b>2,543.8</b>	<b>2,133.4</b>	<b>2,423.5</b>	EBITDA Margin (%)	15.0	15.9	14.9	14.4	14.2
<b>Cash at Ending</b>	<b>2,219.8</b>	<b>2,543.8</b>	<b>2,133.4</b>	<b>2,423.5</b>	<b>2,413.1</b>	NetIncome Margin (%)	9.9	10.6	9.8	9.9	10.0
						BVPS (IDR)	311.6	325.3	346.0	363.0	383.9

Sources : Company, MNCS

### MNC Research Industry Ratings Guidance

- **OVERWEIGHT** : Stock's total return is estimated to be above the average total return of our industry coverage universe over next 6-12 months
- **NEUTRAL** : Stock's total return is estimated to be in line with the average total return of our industry coverage universe over next 6-12 months
- **UNDERWEIGHT** : Stock's total return is estimated to be below the average total return of our industry coverage universe over next 6-12 months

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- **BUY** : Share price may exceed 10% over the next 12 months
- **HOLD** : Share price may fall within the range of +/- 10% of the next 12 months
  - **SELL** : Share price may fall by more than 10% over the next 12 months
  - **Not Rated** : Stock is not within regular research coverage

### PT MNC SEKURITAS

MNC Financial Center Lt. 14 – 16  
Jl. Kebon Sirih No. 21 - 27, Jakarta Pusat 10340  
Telp : (021) 2980 3111  
Fax : (021) 3983 6899  
Call Center : 1500 899

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