Erajaya Swasembada Tbk (ERAA IJ)

Growth Slips, but Expect Gradual Recovery in 2H

NH KORINDO SEKURITAS

Company Report | Sept 21, 2020

ERAA posted below-expected performance throughout the second quarter, which mainly due to store closures and a sharp decline in demand. Going forward, we are expecting a better performance in 2H20 with the upcoming high season of phone sales along with the planned launchings of several smartphone products.

2Q20 Results Declined, but 1H20 still In-line with Expectation

ERAA posted IDR6.6tn revenue in 2Q20, -19.9% YoY and -14.7% QoQ. This has translated to IDR14.4 tn revenue in 1H20, achieving 51% of our FY20 estimates. On bottom line, ERAA has booked IDR3bn net profit, -94.9% YoY and -96.9% QoQ. This figure has achieved 42% of our FY20 estimates. Both revenues and net profit were below our expectation as most of retail outlets temporarily closed since the beginning of 2Q. On margins side, gross margin was 8.4% in 2Q20, increased by 110 bps. The upside mainly attributed to management's efforts toward reducing COGS. On the other hand, EBIT margin and NPM contracted by 110 bps to 1.1% and 70bps to 0.2%, respectively.

Cellular Phone Sales Tumbled in 2Q20

In 2Q20, Cellular phones sales (c. 74% of total revenue) tumbled by 26% YoY to IDR4.7 tn, largely due to lower sales volume despite ASP still recorded impressive growth. According to IDC, worldwide smartphone shipment also suffered a sharp slump in 2Q, as many countries has entered lockdown mode during the quarter, which resulted in disruption to both the supply and demand. However, cellular phone sales are expected gradually to be back on track, as cellphones become one of the most essential parts the new normal era. In addition, we also project that midrange smartphone (i.e. Xiaomi) which used to be ERAA's main contributors will remain relatively strong as they offer high end products with competitive prices.

Looking Ahead to 2H20

Seeing the company has an extensive portfolio, we believe ERAA's performance will slowly improve in 2H20 on the back of discount and promotion offers such as Eraversary and upcoming launching smartphone. In addition, we see ERAA has successfully managed their inventory level, which is usually a major issue for other retailers. Hence, we recommend BUY for ERAA with TP2,000 reflecting 19.3x FY21E PE. Risk posed by our target price are low enthusiasm on new product launch and the loosening of IMEI regulation.

PT Erajaya Swasembada Tbk | Summary

	2019A	2020E	2021F	2022F
Sales	32.945	28.279	31.471	34.096
Growth (%)	-5,2%	-14,2%	11,3%	8,3%
EBIT	777	684	889	948
Net Profit	304	246	346	383
EPS (IDR)	265	95	77	109
P/E	0,6x	0,4x	0,4x	0,4x
P/BV	0,5x	0,4x	0,4x	0,4x
EV/EBITDA	13,1x	9,0x	5,9x	5,8x
ROE (%)	5,9%	4,5%	6,1%	6,6%
ROA (%)	3,3%	2,8%	3,7%	4,0%
Dividend Yield	3,1%	0,0%	3,0%	3,0%

Unit: IDR bn, %, x
Source: Company Data, Bloomberg, NHKSI Research
Please consider the rating criteria & important disclaimer

BUY

Target Price (IDR)	**2,000**
Consensus Price (IDR)	1,758
TP to Consensus Price	13.8%
vs. Last Price	23.5%

Shares data

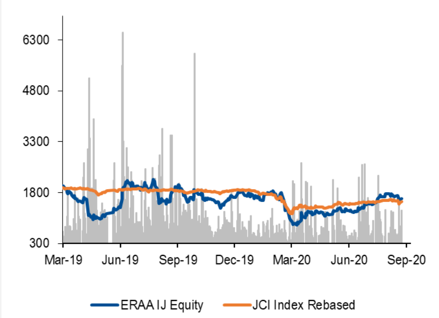
Last Price (IDR)	1,620
Price Date as of	Sept. 14, 2020
52 wk Range (Hi/Lo)	3,280 / 560
Free Float (%)	45.20
Outstanding sh.(mn)	3,191
Market Cap (IDR bn)	5,247
Market Cap (USD mn)	354
Avg. Trd Vol - 3M (mn)	22.95
Avg. Trd Val - 3M (bn)	34.28
Foreign Ownership	6.8%

Trade, Services, and Investment

Retail Trade

Bloomberg	**ERAA IJ**
Reuters	**ERAA.JK**

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-11.5%	-3.6%	29.1%	-14.7%
Rel. Ret.	6.4%	-1.9%	21.9%	4.5%

Putu Chantika Putri D.
(021) 5088 9129
putu.chantika@nhsec.co.id

Summary of Financials

INCOME STATEMENT

(IDR bn)	2019/12A	2020/12F	2021/12F	2022/12F
Sales	**32.945**	**28.279**	**31.471**	**34.096**
Growth	*-5,2%*	*-14,2%*	*11,3%*	*8,3%*
COGS	(30.096)	(25.640)	(28.575)	(30.959)
Gross Profit	**2.849**	**2.639**	**2.895**	**3.137**
Gross Margin	*8,6%*	*9,3%*	*9,2%*	*9,2%*
Operating Expenses	(2.336)	(2.090)	(2.208)	(2.380)
EBIT	**777**	**684**	**889**	**948**
EBIT Margin	*2,4%*	*2,4%*	*2,8%*	*2,8%*
Depreciation	123	142	153	181
EBITDA	**901**	**826**	**1.042**	**1.129**
Interest Expenses	(313)	(211)	(176)	(158)
EBT	**482**	**473**	**713**	**790**
Income Tax	(147)	(199)	(330)	(365)
Minority Interest	(31)	(28)	(37)	(42)
Net Profit	**304**	**246**	**346**	**383**
Growth	*-64,1%*	*-19,0%*	*40,7%*	*10,5%*
Net Profit Margin	*0,9%*	*0,9%*	*1,1%*	*1,1%*

PROFITABILITY & STABILITY

	2019/12A	2020/12F	2021/12F	2022/12F
ROE	5,9%	4,5%	6,1%	6,6%
ROA	3,3%	2,8%	3,7%	4,0%
ROIC	4,3%	4,1%	4,7%	4,8%
Cash Dividend (IDR bn)	160	-	107	107
Dividend Yield	3,06%	0,00%	3,05%	3,04%
Payout Ratio	52%	0%	44%	31%
DER	27,7%	14,2%	11,0%	9,7%
Net Gearing	64%	27%	21%	19%
LT Debt to Equity	0,0%	0,0%	0,0%	0,0%
Capitalization Ratio	21,7%	12,5%	9,9%	8,8%
Debt Ratio	27,7%	14,2%	11,0%	9,7%
Financial Leverage	178,1%	162,6%	164,7%	165,6%
Current Ratio	150,5%	178,1%	166,0%	157,0%
Par Value (IDR)	100	100	100	100
Total Shares (mn)	2.900	2.900	2.900	2.900
Share Price (IDR)	1.795	1.215	1.215	1.215
Market Cap (IDR tn)	5,2	3,5	3,5	3,5

BALANCE SHEET

(IDR bn)	2019/12A	2020/12F	2021/12F	2022/12F
Cash	571	382	1.088	1.860
Receivables	1.042	864	775	701
Inventories	3.693	3.091	2.734	2.220
Total Current Assets	**6.945**	**5.493**	**5.581**	**5.683**
Net Fixed Assets	615	931	1.045	1.165
Other Non Current Asset	2.189	2.144	2.455	2.796
Total Assets	**9.748**	**8.568**	**9.080**	**9.644**
Payables	1.435	1.305	1.826	2.041
ST Bank Loan	2.703	1.220	998	932
LT Debt	-	-	-	-
Total Liabilities	**4.769**	**3.262**	**3.533**	**3.820**
Capital Stock + APIC	2.189	2.189	2.189	2.189
Retained Earnings	2.620	2.875	3.116	3.392
Shareholders' Equity	**9.748**	**8.567**	**9.080**	**9.644**

VALUATION INDEX

	2019/12A	2020/12F	2021/12F	2022/12F
Price/Earnings	0,6x	0,4x	0,4x	0,4x
Price/Book Value	0,5x	0,4x	0,4x	0,4x
Price/Sales	0,2x	0,1x	0,1x	0,1x
PE/EPS Growth	0,0x	0,0x	0,0x	0,0x
EV/EBITDA	13,1x	9,0x	5,9x	5,8x
EV/EBIT	15,2x	10,8x	6,9x	6,9x
EV (IDR bn)	11.775	7.407	6.148	6.510
Sales CAGR (3-Yr)	-	-	-1,5%	6,4%
EPS CAGR (3-Yr)	-	-	-25,7%	8,0%
Basic EPS (IDR)	3.000	3.000	3.000	3.000
Diluted EPS (IDR)	3.000	3.000	3.000	3.000
BVPS (IDR)	3.361	2.954	3.131	3.325
Sales PS (IDR)	11.360	9.751	10.852	11.757
DPS (IDR)	55	-	37	37

CASH FLOW STATEMENT

(IDR bn)	2019/12A	2020/12F	2021/12F	2022/12F
Operating Cash Flow	2.431	2.266	1.617	1.559
Investing Cash Flow	(377)	(921)	(579)	(615)
Financing Cash Flow	(1.861)	(695)	(332)	(173)
Net Changes in Cash	192	650	706	772

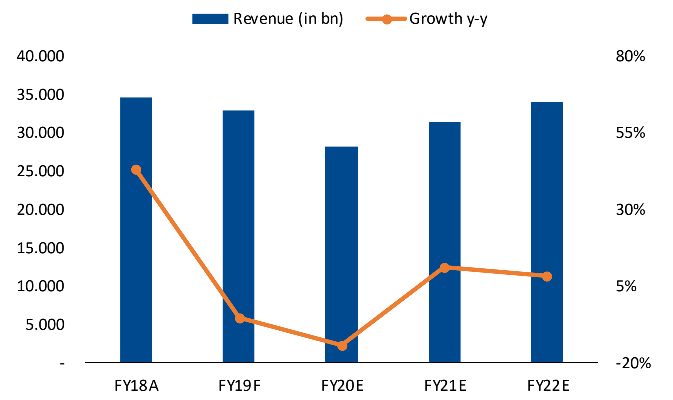
TOP OWNERSHIP

By Geography	%	Shareholders	%
Indonesia	91,2	PT Eralink International	54,5
United States	4,8	Dimensional Fund	1,5
Norway	1,8	Norges Bank	1,1
United Kingdom	0,8	TIAA Cref	0,8

Source: Company Data, NHKSI Research

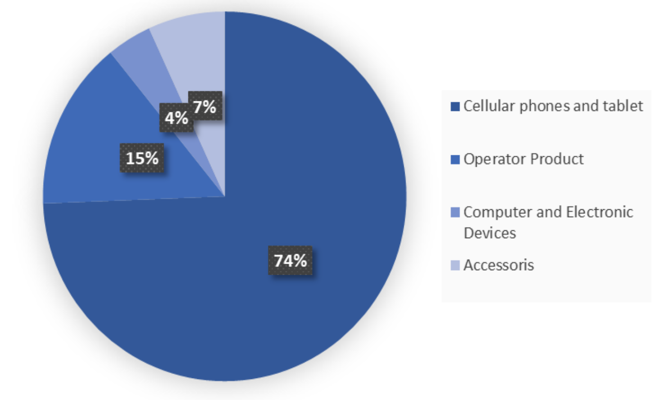
Key Charts

ERAA's FY17A—FY22E Revenues



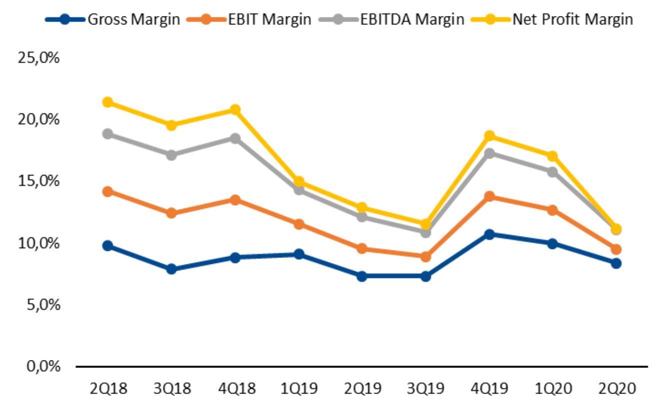
Source: Company Data, NHKSI Research

ERAA's Revenue Breakdown



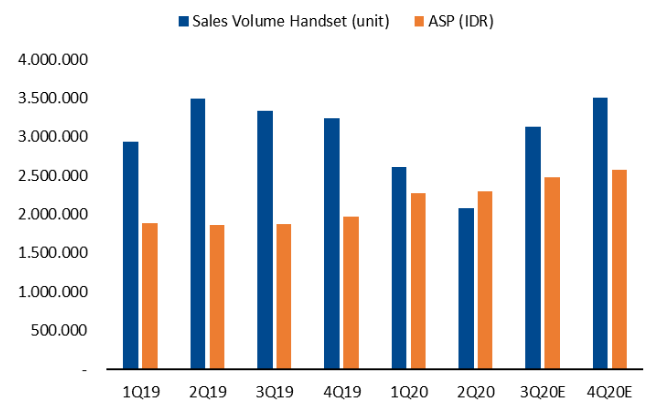
Source: Company Data, NHKSI Research

ERAA's Margin Ratios



Source: Company Data, NHKSI Research

ERAA's ASP and Volume Handset



Source: Company Data, NHKSI Research

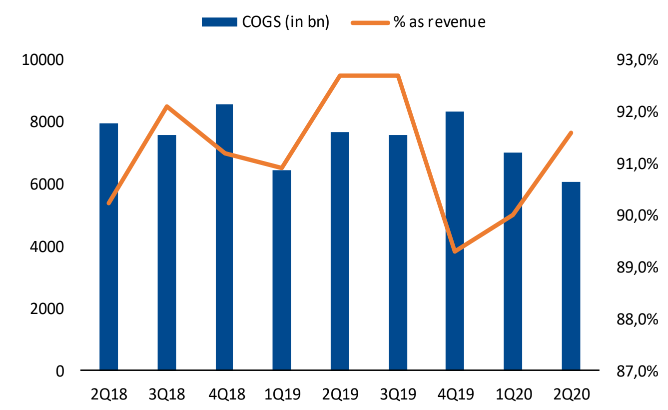
Top 5 Smartphone Companies

Top 5 Smartphone Companies, Worldwide Shipments, Market Share, and Year-Over-Year Growth, Q2 2020 (shipments in millions of units)

Company	2Q20 Shipment Volumes	2Q20 Market Share	2Q19 Shipment Volumes	2Q19 Market Share	Year-Over-Year Change
Huawei	55.8	20.0%	58.7	17.7%	-5.1%
Samsung	54.2	19.5%	76.2	23.0%	-28.9%
Apple	37.6	13.5%	33.8	10.2%	11.2%
Xiaomi	28.5	10.2%	32.3	9.7%	-11.8%
OPPO	24.0	8.6%	29.5	8.9%	-18.8%
Others	78.4	28.2%	101.0	30.5%	-22.3%
Total	**278.4**	**100.0%**	**331.5**	**100.0%**	**-16.0%**

Source: IDC Quarterly, NHKSI Research

ERAA's COGS



Source: Company Data, NHKSI Research

Company Background

Established in 1996, PT Erajaya Swasembada Tbk (ERAA) is a leading retailer and distributor of mobile phones, IoT products, gadget and accessories. It also provides such value added services as TecProtec, a mobile protection,and mobile financing services in collaboration with financing companies. To date, ERAA dominates ~35% Indonesia's market share with more than 1,100 stores, 83 distribution centres, and ~60,000 third-party resellers. ERAA as the leading retailer holds many educative and promotional events such as iBoxing Week, Gadget Invasion Week, Indocomtech, Pekan Raya Jakarta. In 2019, Samsung tied collaboration with Erajaya Group to hold the first Galaxy Land.

Peers Comparison

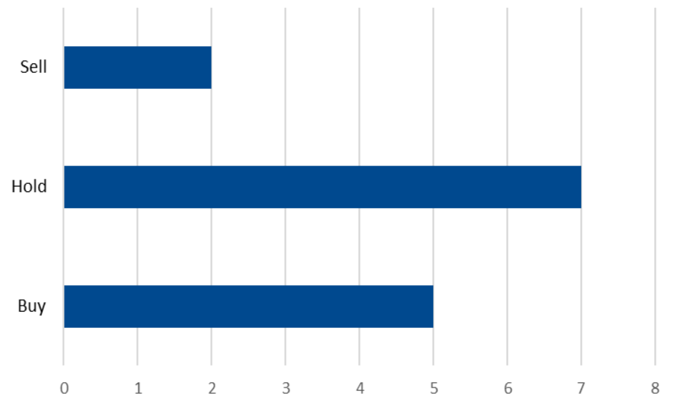
Global Companies

	Market Cap	Total Asset	Sales Growth	Gross Margin LTM	Operating Margin LTM	Net Profit Growth	ROE LTM	P/E LTM	Dividend Yield
Indonesia									
ERAJAYA SWASEMBADA	354	704	-5,2%	8,6%	2,3%	-42,9%	6,3%	17,6x	N/A
TIPHONE MOBILE INDONESIA	N/A	578	5,1%	5,4%	3,4%	-31,3%	10%	N/A	N/A
Hong Kong									
CHINA MOBILE	141.479	233.972	1,2%	N/A	15,2%	-1,7%	9,6%	9,0x	6,1%
Japan									
YAMADA DENKI	4.818	10.795	0,7%	28,6%	2,4%	124,5%	5,8%	12,7x	1,9%
NOJIMA CORP	1.348	2.656	2,1%	27,5%	4,3%	17,1%	19,3%	8,0x	1,4%

Source: Bloomberg, NHKSI Research

Valuation and Highlight

Analyst Coverage Rating



Source: Bloomberg

Rating and target price update

Date	Rating	Target price	Consensus
2020.02.17	Buy	IDR2,000 (12M)	IDR1,982
2020.07.01	Buy	IDR1,400 (12M)	IDR1,200

Source: NHKSI research, Bloomberg

2Q20 review (IDR bn)

	2Q19	3Q19	4Q19	1Q20	2Q20					3Q20E
					Actual	Estimate	y-y	q-q	Surprise	
Sales	8,305	8,184	9,332	7,807	6,566	5,797	*-19.9%*	*-14.7%*	13.2%	6,159
Gross Profit	606	597	999	778	556	429	*-8.2%*	*-28.5%*	29.6%	554
Gross Margin	*7.3%*	*7.3%*	*10.7%*	*10.0%*	*8.4%*	*7.4%*	1.1%	-1.6%	1.0%	*9.0%*
EBIT	186	132	284	211	76	133	*35.8%*	*-64.0%*	-42.8%	180
EBIT Margin	*2.2%*	*1.6%*	*3.0%*	*2.7%*	*1.1%*	*2.3%*	-1.1%	-1.6%	-1.2%	*2.9%*
Net Profit	**62**	**56**	**129**	**102**	**3**	**48**	***-94.9%***	***-96.9%***	-93.7%	**61**
Net Margin	*0.7%*	*0.7%*	*1.4%*	*1.3%*	*0.0%*	*0.8%*	-0.7%	-1.3%	-0.8%	*1.0%*

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1. Period: End of year target price
2. Rating system based on a stock's absolute return from the date of publication
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   - Hold : -15% to +15%
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