

Erajaya Swasembada Tbk (ERAA)

Maintaining Growth Momentum



Company Report | June 30, 2021

BUY

Target Price (IDR)	800
Consensus Price (IDR)	742
TP to Consensus Price	7.8%
vs. Last Price	18.5%

Shares data

Last Price (IDR)	675
Price Date as of	June 28, 2021
52 wk Range (Hi/Lo)	720/243
Free Float (%)	45.2
Outstanding sh.(mn)	15,950
Market Cap (IDR bn)	10,925
Market Cap (USD mn)	761.76
Avg. Trd Vol - 3M (mn)	130.75
Avg. Trd Val - 3M (bn)	76.97
Foreign Ownership	9.7%

Consumer Cyclical

Retail Trade

Bloomberg	ERAA IJ
Reuters	ERAA.JK

ERAA closed 1Q21 with an exceptional performance, maintaining the company's momentum from last year. The double-digit revenue growth and margins were driven by a jump in sales of cellular phone segment, which also benefited from remote work, online school and extended stay-at home scenario.

Stellar Performance with Margin Expansion

- ERAA booked 1Q21 revenue of IDR10.8tn (+39.0% YoY, -0.9% QoQ), supported by extremely strong sales in the cellular phones segment.
- Cellular phones segment (c. 80% of total revenue) was recorded at IDR8.7tn (47.8% YoY), backed by higher sales volume (+9% YoY) coupled with impressive ASP growth (+35% YoY).
- Based on 1Q21 sales breakdown, all segments grew, except operator products which recorded negative growth.
- On bottom line, ERAA has booked IDR278bn, achieving 38% of our FY21 earnings estimate. This was followed by YoY margin expansion across the board.
- Despite an exceptional 1Q performance, we are cautious on the 2H performance as the government is implementing stricter PPKM which may result in ERAA's store temporarily closing and lower retail footfall.

A Good Sign of IMEI Implementation

- We notice IMEI implementation worked well and positively impacted the sales of cellular phones and rising ASP.
- Thus, we see a potential ASP growth around 20% p.a., resulting in 13.1% CAGR in the next 2 years (FY20-22E), driven by the sales of premium products such as Apple.
- We expect gross margin to stay around 9% (9.5%/9.7% in FY21F/FY22F), driven by the impact of IMEI implementation.
- ERAA has budgeted IDR300bn of capex and aims to open 260-300 new stores until the end of 2021. As of 1Q21, the company has opened 36 new stores.

Valuation

- Our TP of IDR800/share is based on 17.0x FY21E P/E (approx. +1 SD of its 3 years mean), justified by our forecast for sustained ROE of c.15% in the next few years.
- Despite the headwinds that are likely to happen, we maintain our bullish view on ERAA on the back of an extensive portfolio and supportive digital performance.
- Key Risks: stricter PPKM Implementation, weakened buying power, and low enthusiasm on new product launch.

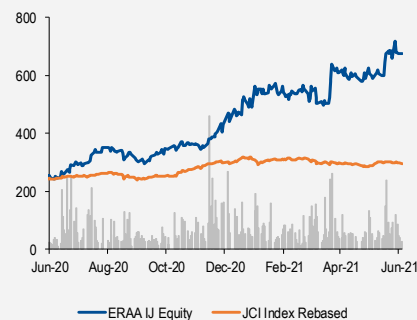
Erajaya Swasembada Tbk | Summary (IDR bn)

	2020	2021E	2022F	2023F
Sales	34,113	41,316	45,523	51,451
Growth	3.5%	21.1%	10.2%	13.0%
Net Profit	612	725	753	931
Growth	107.4%	18.4%	3.9%	23.6%
EPS (IDR)	38	45	47	58
P/E	11.5x	17.7x	17.0x	13.8x
P/BV	1.2x	1.9x	1.8x	1.6x
EV/EBITDA	5.8x	9.4x	7.1x	6.1x
ROE	11.5%	11.8%	11.0%	12.5%
DER	33.0%	36.4%	23.0%	26.0%
Dividend Yield	0.00%	6.74%	6.49%	8.02%

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	39.5%	14.4%	21.4%	177.8%
Rel. Ret.	42.2%	12.9%	25.1%	156.6%

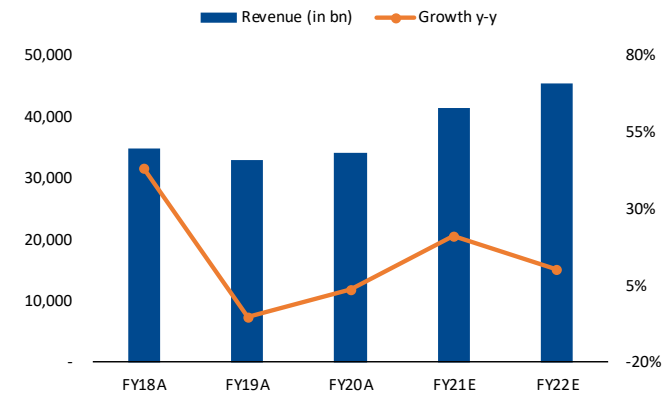
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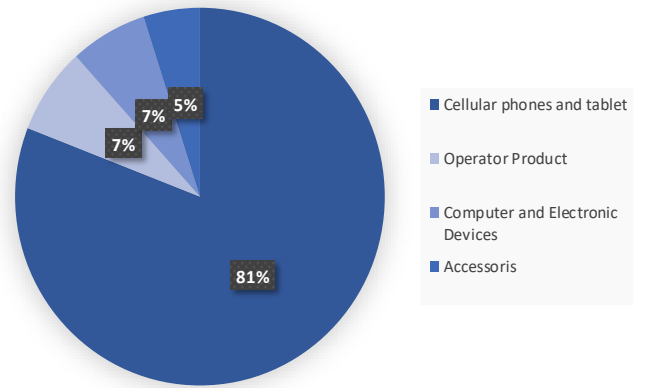
Performance Highlights

ERAA's FY17A—FY22E Revenue



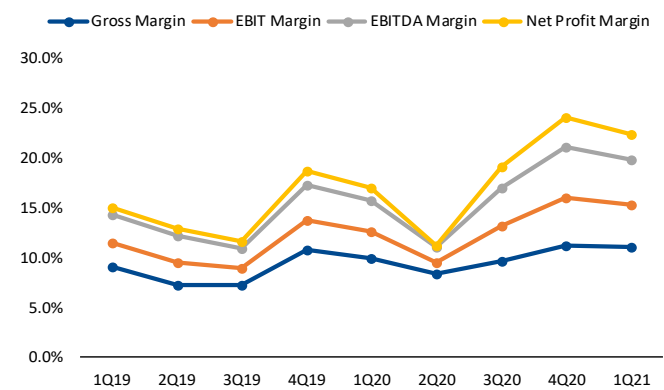
Source: Company, NHKSI Research

ERAA's Revenue Breakdown



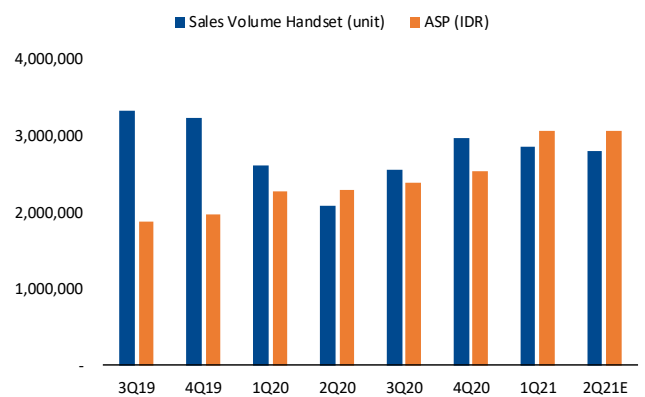
Source: Company, NHKSI Research

ERAA's Margin Ratios



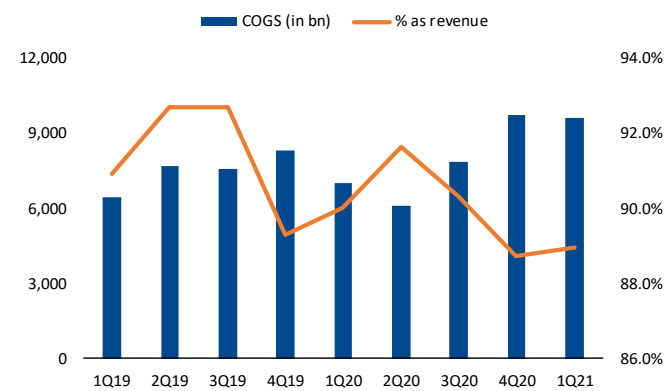
Source: Company, NHKSI Research

ERAA's ASP and Volume Handset



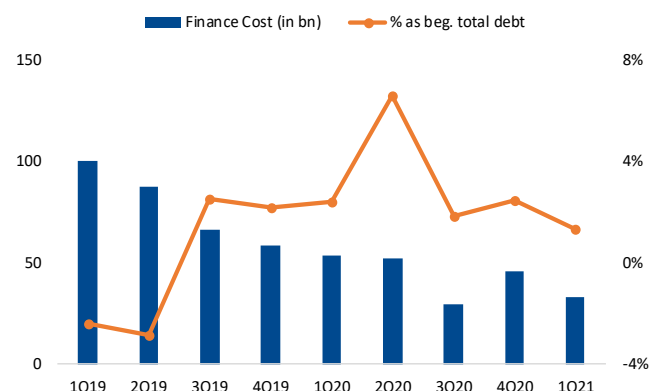
Source: Company, NHKSI Research

ERAA's COGS



Source: Company, NHKSI Research

ERAA's Finance Cost (in Bn)



Source: Bloomberg, NHKSI Research

Company Overview



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.

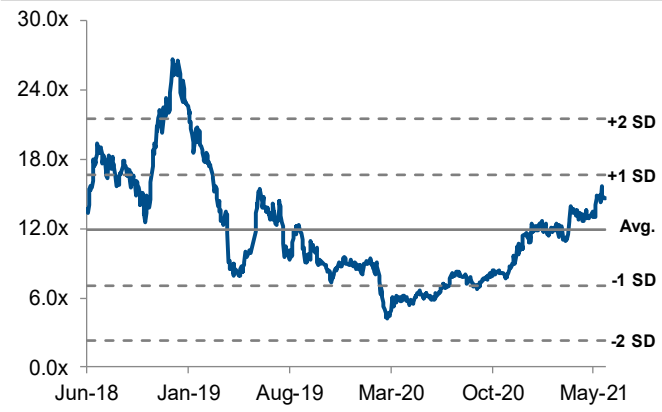
Retail Companies Peers Analysis

	Market Cap	Total Asset	Sales Growth LTM	Gross Margin LTM	Operating Margin LTM	Net Profit Growth LTM	ROE LTM	P/E LTM	Dividend Yield
Indonesia									
ERAJAYA SWASEMBADA	752	805	3.5%	10.0%	3.2%	124.7%	14.9%	14.0x	2.0%
Hong Kong									
CHINA MOBILE	128,142	264,720	3.0%	90.5%	14.7%	1.1%	9.6%	7.7x	6.8%
Japan									
YAMADA DENKI	4,498	11,324	8.7%	29.7%	5.3%	110.5%	8.0%	8.2x	3.5%
NOJIMA CORP	1,277	3,076	-0.1%	30.3%	6.5%	232.0%	45.0%	2.6x	1.7%

Source: Bloomberg, NHKSI research

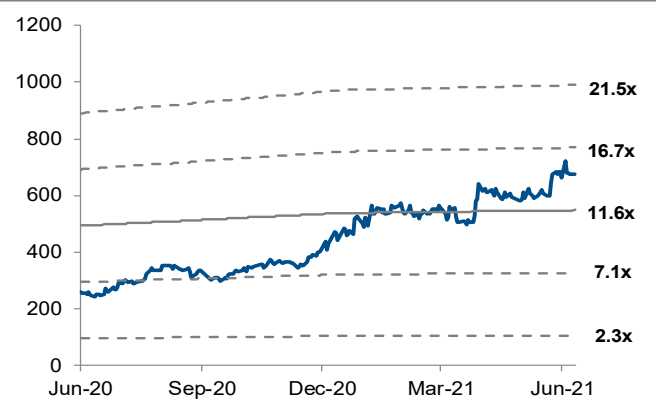
Valuation Highlight in Charts

Forward P/E band | Last 3 years



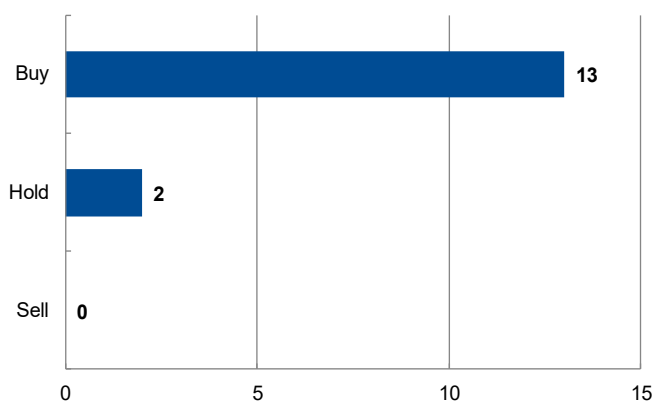
Source: NHKSI research

Dynamic Forward P/E band | Last 3 years



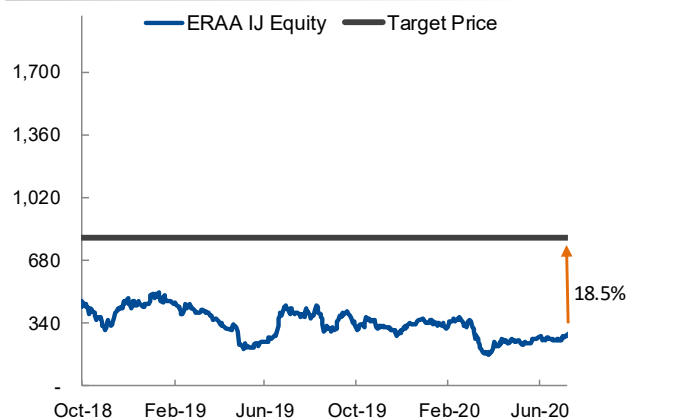
Source: NHKSI research

Recommendations by Analysts



Source: Bloomberg, NHKSI research

Closing and Target Price Update



Source: Bloomberg, NHKSI research

Rating and Target Price Update

Target Price Revision

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
2021.06.30	Buy	IDR800 (12M)	IDR675	IDR742	+18.5%	+7.8%
2020.02.17	Buy	IDR2,000 (12M)	IDR1,620	IDR1,982	+23.4%	+0.9%
2020.07.01	Buy	IDR1,400 (12M)	IDR1,215	IDR1,200	+15.2%	+16.6%

Source: NHKSI research, Bloomberg

Summary of Financials

INCOME STATEMENT

(IDR bn)	2020/12A	2021/12F	2022/12F	2023/12F
Sales	34,113	41,316	45,523	51,451
<i>Growth</i>	3.5%	21.1%	10.2%	13.0%
COGS	(30,703)	(37,308)	(41,198)	(46,512)
Gross Profit	3,410	4,008	4,325	4,939
<i>Gross Margin</i>	10.0%	9.7%	9.5%	9.6%
Operating Expenses	(2,552)	(2,848)	(3,092)	(3,521)
EBIT	1,103	1,474	1,569	1,805
<i>EBIT Margin</i>	3.2%	3.6%	3.4%	3.5%
Depreciation	133	(8)	149	165
EBITDA	1,236	1,466	1,718	1,969
Interest Expenses	(191)	(209)	(255)	(179)
EBT	917	1,265	1,315	1,626
Income Tax	(246)	(468)	(488)	(603)
Minority Interest	(59)	(73)	(74)	(92)
Net Profit	612	725	753	931
<i>Growth</i>	107.4%	18.4%	3.9%	23.6%
<i>Net Profit Margin</i>	1.8%	1.8%	1.7%	1.8%

PROFITABILITY & STABILITY

	2020/12A	2021/12F	2022/12F	2023/12F
ROE	11.5%	11.8%	11.0%	12.5%
ROA	5.8%	5.9%	5.6%	6.3%
Inventory Turnover	8.8x	8.8x	8.7x	9.6x
Receivable Turnover	33.2x	44.5x	52.1x	55.3x
Payable Turnover	17.4x	16.1x	16.0x	15.3x
Dividend Yield	0.00%	1.23%	1.18%	1.46%
Payout Ratio	0%	25%	14%	25%
DER	33.0%	36.4%	23.0%	26.0%
Net Gearing	0.4x	0.4x	0.3x	0.3x
Equity Ratio	50.7%	49.2%	52.3%	48.8%
Financial Leverage	1.96x	2.00x	1.97x	1.98x
Current Ratio	1.47x	1.41x	1.47x	1.40x
Quick Ratio	0.83x	0.59x	0.77x	0.69x
Par Value (IDR)	100	100	100	100
Total Shares (mn)	15,898	15,898	15,898	15,898
Share Price (IDR)	440	800	800	800
Market Cap (IDR tn)	7.0	12.7	12.7	12.7

BALANCE SHEET

(IDR bn)	2020/12A	2021/12F	2022/12F	2023/12F
Cash	2,002	1,570	2,346	2,961
Receivables	1,012	845	901	959
Inventories	3,259	5,233	4,248	5,436
Total Current Assets	7,547	8,987	8,866	10,742
Net Fixed Assets	716	664	668	605
Other Non Current Asset	2,948	3,721	4,100	4,633
Total Non Current Asset	3,664	4,385	4,768	5,238
Total Assets	11,211	13,372	13,634	15,980
Payables	2,088	2,541	2,606	3,460
ST Bank Loan	1,879	2,392	1,641	2,029
Total Current Liabilities	5,143	6,384	6,022	7,650
LT Debt	-	-	-	-
Total Liabilities	5,523	6,794	6,501	8,175
Capital Stock + APIC	2,189	2,189	2,189	2,189
Retained Earnings	3,211	4,145	4,740	5,451
Shareholders' Equity	5,688	6,578	7,133	7,805

CASH FLOW STATEMENT

(IDR bn)	2020/12A	2021/12F	2022/12F	2023/12F
Operating Cash Flow	2,853	(218)	2,188	1,073
Investing Cash Flow	(375)	(664)	(511)	(661)
Financing Cash Flow	(1,302)	1,393	(901)	202
Net Changes in Cash	1,176	511	776	615

Source: NHKSI research, Bloomberg

VALUATION INDEX

	2020/12A	2021/12F	2022/12F	2023/12F
Price/Earnings	11.5x	17.7x	17.0x	13.8x
Price/Book Value	1.2x	1.9x	1.8x	1.6x
PE/EPS Growth	0.1x	1.0x	4.4x	0.6x
EV/EBITDA	5.8x	9.4x	7.1x	6.1x
EV/EBIT	6.5x	9.4x	7.8x	6.6x
EV (IDR bn)	7,151	13,827	12,259	11,995
Sales CAGR (3-Yr)	-	7.8%	10.1%	7.6%
Net Income CAGR (3-Yr)	-	-5.2%	36.6%	15.0%
Basic EPS (IDR)	38	45	47	58
BVPS (IDR)	358	414	449	491
DPS (IDR)	-	10	9	12

TOP OWNERSHIP

Shareholders	%
PT Eralink International	54.5
Dimensional Fund	1.1
Norges Bank	1.1
TIAA Cref	0.8
By Geography	%
Indonesia	90.2
United States	4.3
Norway	1.8
Luxembourg	0.8

NH Korindo Sekuritas Indonesia (NHKSI) Stock Ratings

1. Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
2. Rating system based on a stock's potential upside from the date of publication
 - Buy : Greater than +15%
 - Overweight : +5% to 15%
 - Hold : -5% to +5%
 - Underweight : -5% to -15%
 - Sell : Less than -15%

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