

Erajaya Swasembada Tbk (ERAA)

Aggressive Expansion Plan

ERAA closed 2Q21 with a strong performance. It was supported by a combination of Lebaran season and robust performance across all segments. Going forward, the company will be more focused on expanding its digital presence and retail footprint.

Strong sales growth continues through 1H21

- ERAA recorded 2Q21 sales of IDR10.5tn (+57.8% YoY, -3.2% QoQ) and IDR21.3tn cumulatively in 1H21, achieving 51% of both our and consensus estimates.
- The company continued to maintain its growth momentum until 1H21 on the back of a stronger Lebaran season. In this regard, the company also ran a special promotion called "Erajaya Leasing Fair" for the first time which aimed to provide an easy payment method.
- All profitability measures recorded higher than last year (GPM 2Q21: 9.4%; OPM 2Q21: 4.0%; NPM 2Q21: 2.7%)
- COGS in 2Q has spiked up to IDR9.5tn, in line with the revenue and inventory growth. But, COGS expenses as percentage of sales had slightly came down to 90.6% (vs. 91.6% in 2Q20)
- All in all, the company reported 2Q21 net profit of IDR281bn and IDR559bn cumulatively in 1H21.
- ERAA finally decided to pay dividend again after being absent last year. The company distributed an annual dividend of IDR219bn or IDR13.8 per share, taken from the company's net profit in 2020.

Thrive in challenging times

- Based on 2Q segmental breakdown, cellular phone segment (c.80% of total sales) rose to IDR8.3tn (+74% YoY), mainly due to higher sales volume and ASP.
- Meanwhile, the other segments significantly grew, except operator product which declined.
- The company has been focusing on digital strategy since the restrictions on community activities began last year. Hence, we expect the PPKM level 4 enforcement to not put massive pressures on the upcoming sales as many ERAA's outlets are located in Java and Bali.
- ERAA continue to expand its retail footprint by opening 46 new stores during 2Q. As of 1H21, the company has managed to open 82 stores. This has reached around 30% of their initial expansion plan of 260-300 new retail outlets.
- This year, the company also has introduced a new concept: "Erafone Cloud Retail Partner". This concept was formed through partnership between ERAA and individual investors.
- Thus, we believe the company is trying to speed up expansion but still maintains its capex. Through this partnership, ERAA will be able to quickly tap new markets with less total risk. However, we think that it may take some time to be reflected into higher top line growth.

Valuation

- We raise our earnings forecast by 34%/45% in FY21F/22F considering growing demand in stay at home and work from home related products, margin expansion and extensive business portfolio.
- Therefore, we maintain our BUY recommendation with higher TP of IDR850, based on our target P/E of 14.0x.
- Key risks: stricter PPKM Implementation, weakened purchasing power, and low enthusiasm on new product launch.

Erajaya Swasembada Tbk | Summary (IDR bn)

	2020	2021E	2022F	2023F
Sales	34,113	42,103	45,523	47,560
Growth	3.5%	23.4%	8.1%	4.5%
Net Profit	612	973	1,094	1,189
Growth	107.4%	59.1%	12.4%	8.7%
EPS (IDR)	38	61	68	74
P/E	11.5x	14.0x	12.4x	11.4x
P/BV	1.2x	2.1x	1.9x	1.7x
EV/EBITDA	5.8x	8.4x	6.3x	5.8x
ROE	11.5%	16.1%	16.1%	15.5%
DER	33.0%	38.3%	32.0%	28.0%
Dividend Yield	0.00%	1.63%	1.62%	1.77%

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

BUY

Target Price (IDR)	850
Consensus Price (IDR)	800
TP to Consensus Price	6.3%
vs. Last Price	46.6%

Shares data

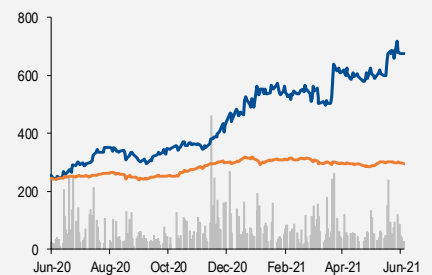
Last Price (IDR)	580
Price Date as of	Aug 25, 2021
52 wk Range (Hi/Lo)	720/296
Free Float (%)	45.20
Outstanding sh.(mn)	15.95
Market Cap (IDR bn)	9,251
Market Cap (USD mn)	642
Avg. Trd Vol - 3M (mn)	104.31
Avg. Trd Val - 3M (bn)	66,26
Foreign Ownership	10.2%

Consumer Cyclical

Retail Trade

Bloomberg	ERAA IJ
Reuters	ERAA.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	19.8%	-0.9%	-4.1%	65.2%
Rel. Ret.	20.6%	-0.1%	-8.3%	51.8%

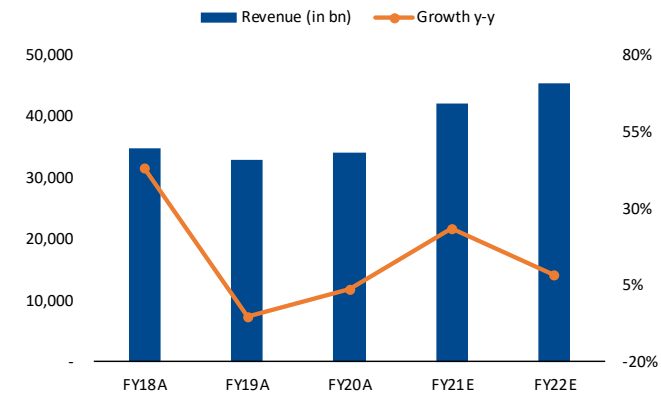
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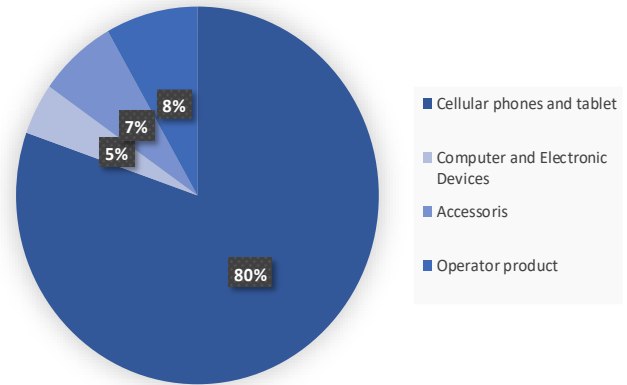
Performance Highlights

ERAA's FY18A—FY22E Revenue



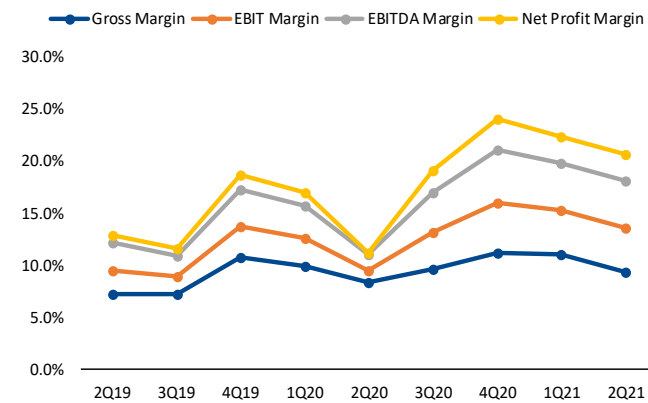
Source: Company, NHKSI Research

ERAA's Revenue Breakdown



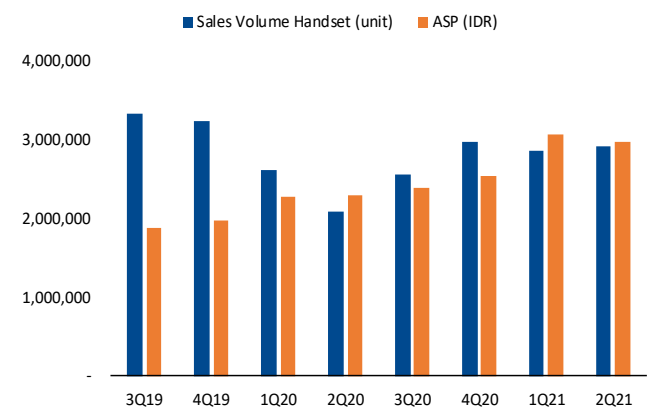
Source: Company, NHKSI Research

ERAA's Margin Ratios



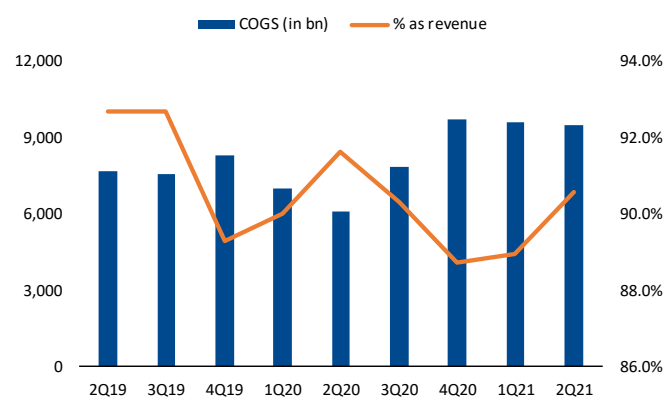
Source: Company, NHKSI Research

ERAA's ASP and Volume Handset



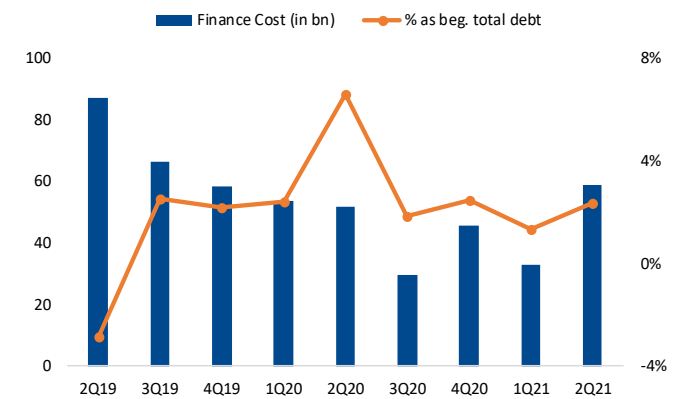
Source: Company, NHKSI Research

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	641	805	3.5%	10.0%	3.2%	253.2%	19.9%	8.8x	2.4%
Hong Kong									
CHINA MOBILE	126,384	264,720	3.0%	90.5%	14.7%	4.6%	9.7%	7.4x	7.1%
Japan									
YAMADA DENKI	4,166	11,324	8.7%	29.7%	5.3%	48.9%	8.6%	7.3x	3.8%
NOJIMA CORP	1,237	3,076	-0.1%	30.3%	6.5%	213.6%	52.1%	2.4x	1.7%

Source: Bloomberg, NHKSI research

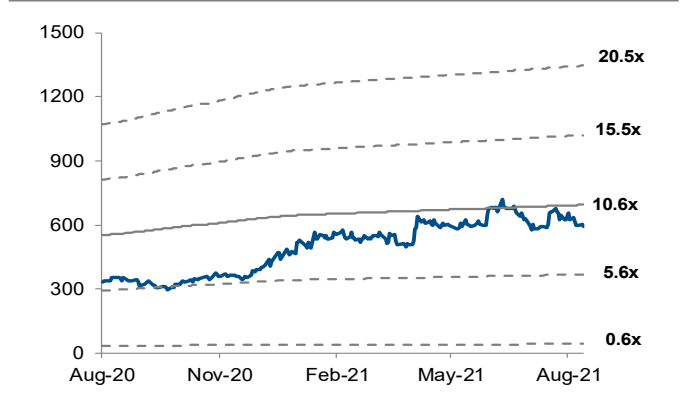
Valuation Highlight in Charts

Forward P/E band | Last 3 years



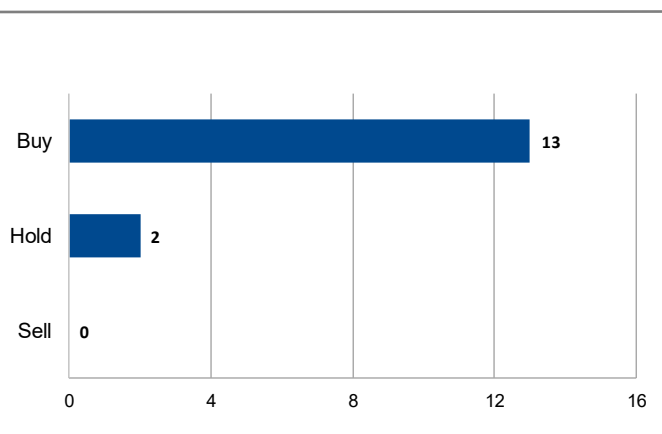
Source: NHKSI research

Dynamic Forward P/E band | Last 3 years



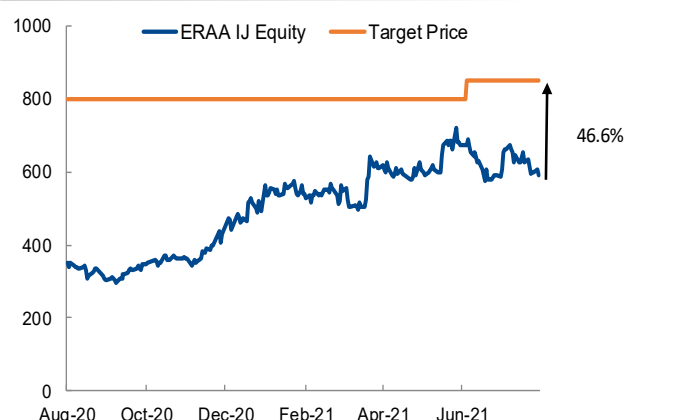
Source: NHKSI research

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
2021.08.26	Buy	IDR850 (12M)	IDR580	IDR800	+46.6%	+6.3%
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	42,103	45,523	47,560
<i>Growth</i>	3.5%	23.4%	8.1%	4.5%
COGS	(30,703)	(37,891)	(40,971)	(42,804)
Gross Profit	3,410	4,212	4,552	4,756
<i>Gross Margin</i>	10.0%	10.0%	10.0%	10.0%
Operating Expenses	(2,552)	(2,743)	(2,821)	(2,875)
EBIT	1,103	1,654	1,996	2,124
<i>EBIT Margin</i>	3.2%	3.9%	4.4%	4.5%
Depreciation	133	13	155	174
EBITDA	1,236	1,667	2,151	2,298
Interest Expenses	(191)	(190)	(220)	(193)
EBT	917	1,479	1,776	1,931
Income Tax	(246)	(395)	(574)	(624)
Minority Interest	(59)	(110)	(108)	(118)
Net Profit	612	973	1,094	1,189
<i>Growth</i>	107.4%	59.1%	12.4%	8.7%
<i>Net Profit Margin</i>	1.8%	2.3%	2.4%	2.5%

PROFITABILITY & STABILITY

	2020/12A	2021/12F	2022/12F	2023/12F
ROE	11.5%	16.1%	16.1%	15.5%
ROA	5.8%	8.0%	7.8%	7.9%
Inventory Turnover	8.8x	9.2x	8.7x	9.6x
Receivable Turnover	33.2x	73.0x	60.8x	30.4x
Payable Turnover	17.4x	17.4x	16.0x	15.3x
Dividend Yield	0.00%	1.63%	1.62%	1.77%
Payout Ratio	0%	35%	23%	22%
DER	33.0%	38.3%	32.0%	28.0%
Net Gearing	0.4x	0.4x	0.4x	0.3x
Equity Ratio	50.7%	48.3%	49.3%	51.9%
Financial Leverage	1.96x	2.02x	2.05x	1.97x
Current Ratio	1.47x	1.46x	1.51x	1.61x
Quick Ratio	0.83x	0.68x	0.87x	0.97x
Par Value (IDR)	100	100	100	100
Total Shares (mn)	15,898	15,846	15,846	15,846
Share Price (IDR)	440	850	850	850
Market Cap (IDR tn)	7.0	13.5	13.5	13.5

BALANCE SHEET

(IDR bn)	2020/12A	2021/12F	2022/12F	2023/12F
Cash	2,002	2,298	2,438	2,660
Receivables	1,012	142	1,355	1,773
Inventories	3,259	4,983	4,446	4,467
Total Current Assets	7,547	9,334	10,455	11,259
Net Fixed Assets	716	750	758	761
Other Non Current Asset	2,948	3,174	3,431	3,585
Total Non Current Asset	3,664	3,923	4,189	4,346
Total Assets	11,211	13,258	14,644	15,605
Payables	2,088	2,272	2,847	2,735
ST Bank Loan	1,879	2,452	2,311	2,268
Total Current Liabilities	5,143	6,411	6,933	7,001
LT Debt	-	-	-	-
Total Liabilities	5,523	6,851	7,423	7,505
Capital Stock + APIC	2,189	2,189	2,189	2,189
Retained Earnings	3,211	3,960	4,829	5,746
Shareholders' Equity	5,688	6,407	7,221	8,100

CASH FLOW STATEMENT

(IDR bn)	2020/12A	2021/12F	2022/12F	2023/12F
Operating Cash Flow	2,853	223	932	891
Investing Cash Flow	(375)	(389)	(433)	(388)
Financing Cash Flow	(1,302)	914	(359)	(281)
Net Changes in Cash	1,176	749	141	221

Source: NHKSI research, Bloomberg

VALUATION INDEX

	2020/12A	2021/12F	2022/12F	2023/12F
Price/Earnings	11.5x	14.0x	12.4x	11.4x
Price/Book Value	1.2x	2.1x	1.9x	1.7x
PE/EPS Growth	0.1x	0.2x	1.0x	1.3x
EV/EBITDA	5.8x	8.4x	6.3x	5.8x
EV/EBIT	6.5x	8.4x	6.8x	6.3x
EV (IDR bn)	7,151	13,924	13,588	13,286
Sales CAGR (3-Yr)	-	8.5%	10.1%	4.1%
Net Income CAGR (3-Yr)	-	4.6%	54.8%	24.8%
Basic EPS (IDR)	38	61	68	74
BVPS (IDR)	358	404	456	511
DPS (IDR)	-	14	14	15

TOP OWNERSHIP

Shareholders	%
PT Eralink International	54.5
Dimensional Fund	1.1
Samsung Life Insurance	1.1
Norges Bank	1.1
By Geography	%
Indonesia	89.8
United States	4.4
Norway	1.8
Canada	1.3

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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