

# Erajaya Swasembada Tbk (ERAA)

## Continue on Growth Path

ERAA recorded positive performance sales growth during 3Q21, supported by all business segments. We remain optimistic with ERAA due to its strategy to strengthen F&B portfolio and aggressive expansion.

### Sales remain elevated in 3Q21

- ERAA booked 3Q21 net profit of IDR186bn (-1.2% YoY), despite strong sales of IDR9.8tn (+12.9% YoY). We believe the impressive growth in sales was attributable to the low base it had last year.
- Although the government has implemented stricter PPKM during 3Q, we think this measure have had a little impact on overall sales.
- All business segments recorded decent YoY growth, with cellular phone and accessories booking growth of 15.7% YoY and 26.7% YoY, respectively.
- Meanwhile, COGS outgrew sales at IDR8.9tn (+14.4% YoY), dragging ERAA with slightly lower gross profit of IDR834bn (-1.2 YoY).
- In addition, ERAA also experienced a hike in SG&A of IDR616bn (+5.1% YoY), which gauged all margins consequently lower with GPM, OPM, and NPM at 8.5%, 2.8%, and 1.9%, respectively (3Q20: 9.7%, 3.4%, and 2.2%).
- Cumulatively, ERAA achieved sales of IDR31.2tn (+34.6% YoY), representing 72%/74% of our and consensus' estimates.

### Strong growth visibility ahead

- We saw the company is already lining up a few initiatives strategy to boost its performance going forward, which included an exclusive partnership with a South Korea-based bakery.
- This partnership aims to strengthen its F&B portfolio and allow the company to diversify its revenue streams.
- Besides, ERAA has continued its aggressive expansion plan. It managed to open 94 stores in 3Q, the highest number of stores opening since the pandemic started. This should translate into higher top-line growth once macro conditions turn relatively stable.
- Based on segmental breakdown in 3Q, cellular phones posted sales amounted to IDR7.6bn despite slight shrinkage in volume and ASP.
- However, we are relatively optimistic the new flagship product will largely contribute to upcoming earnings growth.
- Based on our ground check to several ERAA's stores in Jakarta area during lower PPKM level, we have seen sequential store traffic improvement, which is a good sign.

### Valuation

- We maintain our BUY recommendation on ERAA with TP of IDR850/share given the upbeat outlooks for holiday spending and recovery in purchasing power.
- Key risk to our call: low enthusiasm on new product launch, shift in consumer's spending habits, and Rupiah currency depreciation.

### Erajaya Swasembada Tbk | Summary (IDR bn)

	2020	2021E	2022F	2023F
Sales	34,113	43,386	48,117	54,020
Growth	3.5%	27.2%	10.9%	12.3%
Net Profit	612	1,249	1,726	2,053
Growth	107.4%	104.1%	38.1%	19.0%
EPS (IDR)	38	78	108	128
P/E	11.5x	10.9x	7.9x	6.6x
P/BV	1.2x	2.0x	1.7x	1.4x
EV/EBITDA	5.8x	6.2x	4.2x	3.0x
ROE	11.5%	20.2%	23.6%	23.4%
DER	33.0%	24.0%	22.0%	16.0%
Dividend Yield	0.00%	1.63%	2.56%	3.05%

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

## BUY

Target Price (IDR)	850
Consensus Price (IDR)	875
TP to Consensus Price	-2.9%
vs. Last Price	36.0%

### Shares data

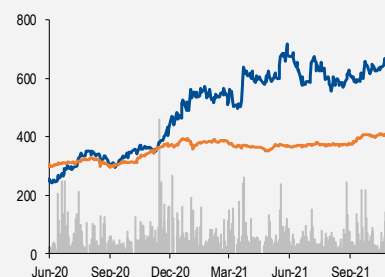
Last Price (IDR)	625
Price Date as of	Nov 29, 2021
52 wk Range (Hi/Lo)	720/351
Free Float (%)	45.20
Outstanding sh.(mn)	15.95
Market Cap (IDR bn)	9,968
Market Cap (USD mn)	696
Avg. Trd Vol - 3M (mn)	106.81
Avg. Trd Val - 3M (bn)	66,05
Foreign Ownership	10.2%

### Consumer Cyclical

#### Retail Trade

Bloomberg	ERAA IJ
Reuters	ERAA.JK

### Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	42.0%	-3.8%	8.7%	81.7%
Rel. Ret.	31.5%	-4.1%	0.0%	63.9%

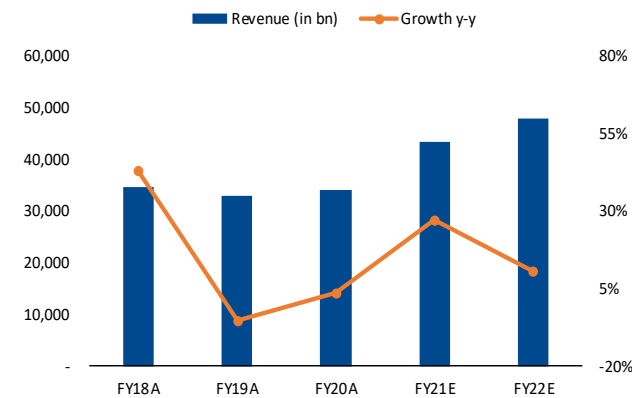
### Putu Chantika Putri D.

(021) 5088 9129

putu.chantika@nhsec.co.id

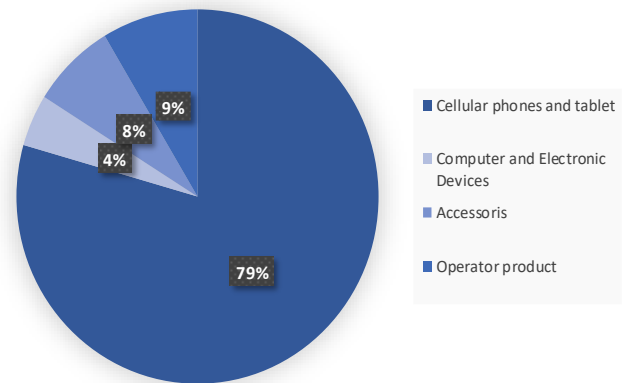
# Performance Highlights

## ERAA's FY18A—FY22E Revenue



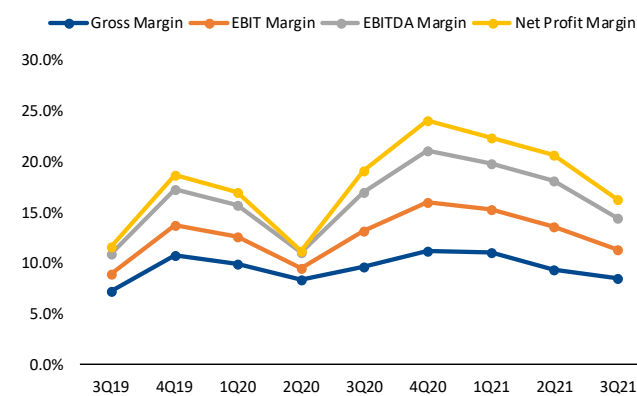
Source: Company, NHKSI Research

## ERAA's Revenue Breakdown



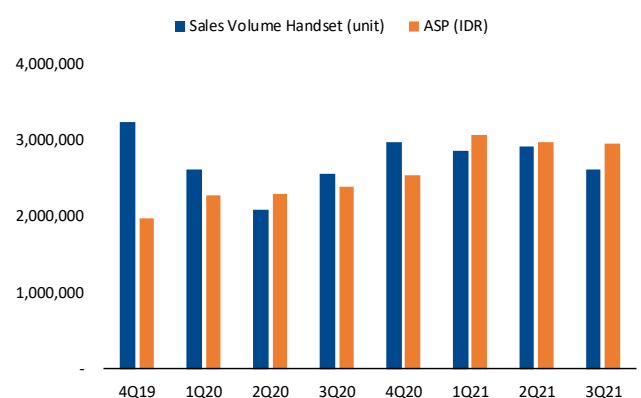
Source: Company, NHKSI Research

## ERAA's Margin Ratios



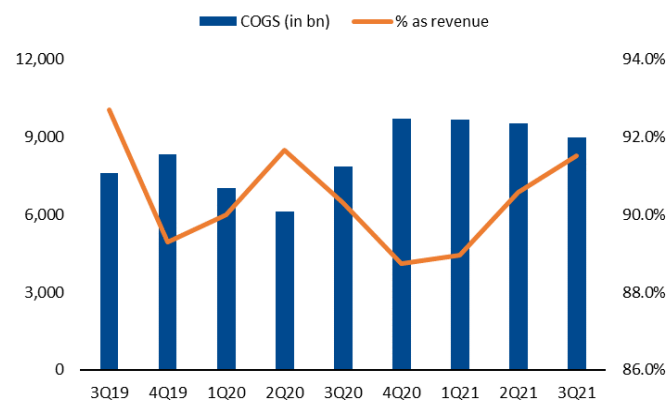
Source: Company, NHKSI Research

## ERAA's ASP and Volume Handset



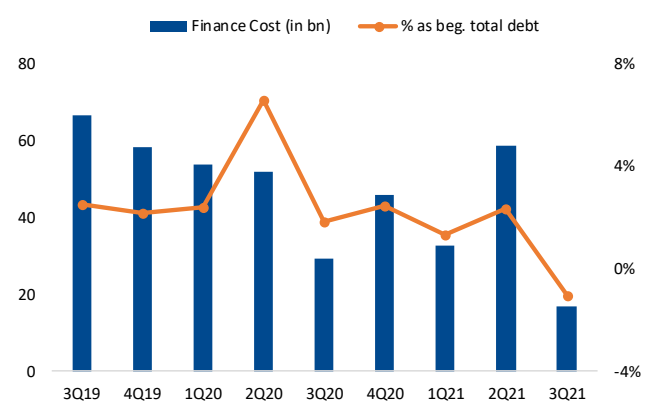
Source: Company, NHKSI Research

## 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.

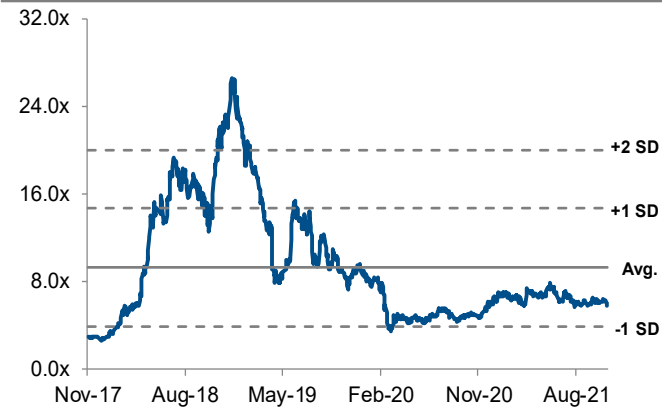
### Retail Companies Peers Analysis

	Market Cap	Total Asset	Sales Growth LTM	Gross Margin LTM	Operating Margin LTM	Net Profit Growth LTM	ROE LTM	P/E LTM	Dividend Yield
<b>Indonesia</b>									
ERAJAYA SWASEMBADA	696	805	3.5%	10.0%	3.2%	144.0%	18.9%	9.7x	2.2%
<b>Hong Kong</b>									
CHINA MOBILE	122,990	264,720	3.0%	90.5%	14.7%	4.6%	9.7%	7.1x	7.2%
<b>Japan</b>									
YAMADA DENKI	3,438	11,324	8.7%	29.7%	5.3%	99.7%	9.7%	5.5x	4.4%
NOJIMA CORP	1,002	3,076	-0.1%	30.3%	6.5%	-45.9%	19.6%	4.5x	2.1%

Source: Bloomberg, NHKSI research

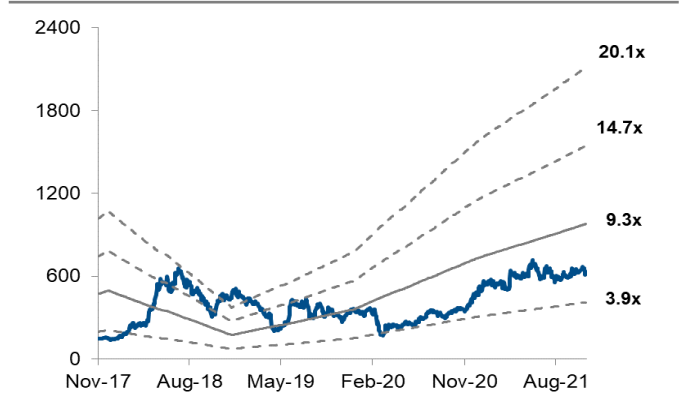
## Valuation Highlight in Charts

Forward P/E band | Last 3 years



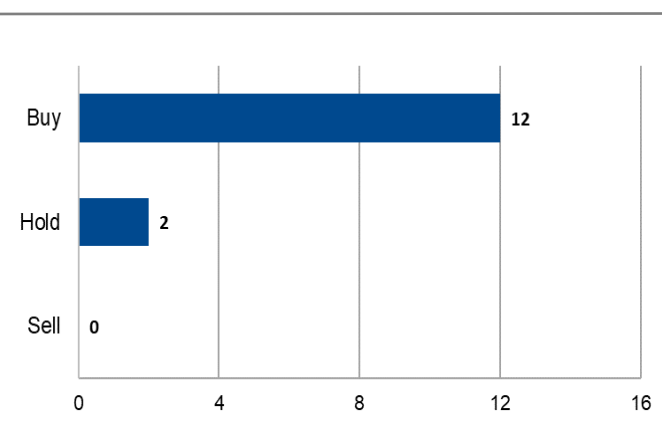
Source: NHKSI research

Dynamic Forward P/E band | Last 3 years



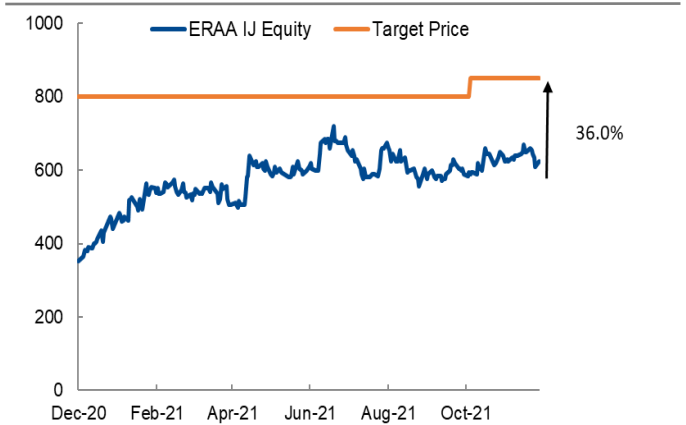
Source: NHKSI research

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
<b>Sales</b>	<b>34,113</b>	<b>43,386</b>	<b>48,117</b>	<b>54,020</b>
<i>Growth</i>	3.5%	27.2%	10.9%	12.3%
COGS	(30,703)	(39,144)	(43,306)	(48,618)
<b>Gross Profit</b>	<b>3,410</b>	<b>4,243</b>	<b>4,812</b>	<b>5,402</b>
<i>Gross Margin</i>	10.0%	9.8%	10.0%	10.0%
Operating Expenses	(2,552)	(2,534)	(2,484)	(2,585)
<b>EBIT</b>	<b>1,103</b>	<b>1,887</b>	<b>2,600</b>	<b>3,080</b>
<i>EBIT Margin</i>	3.2%	4.4%	5.4%	5.7%
Depreciation	133	249	267	305
<b>EBITDA</b>	<b>1,236</b>	<b>2,136</b>	<b>2,867</b>	<b>3,385</b>
Interest Expenses	(191)	(146)	(155)	(164)
<b>EBT</b>	<b>917</b>	<b>1,755</b>	<b>2,445</b>	<b>2,916</b>
Income Tax	(246)	(399)	(550)	(659)
Minority Interest	(59)	(107)	(170)	(204)
<b>Net Profit</b>	<b>612</b>	<b>1,249</b>	<b>1,726</b>	<b>2,053</b>
<i>Growth</i>	107.4%	104.1%	38.1%	19.0%
<i>Net Profit Margin</i>	1.8%	2.9%	3.6%	3.8%

### PROFITABILITY & STABILITY

	2020/12A	2021/12F	2022/12F	2023/12F
ROE	11.5%	20.2%	23.6%	23.4%
ROA	5.8%	10.3%	12.3%	12.7%
Inventory Turnover	8.8x	11.0x	10.7x	11.4x
Receivable Turnover	33.2x	45.6x	52.1x	60.8x
Payable Turnover	17.4x	17.4x	16.0x	15.3x
Dividend Yield	0.00%	1.62%	2.55%	3.03%
Payout Ratio	0%	35%	28%	24%
DER	33.0%	24.0%	22.0%	16.0%
Net Gearing	0.4x	0.3x	0.2x	0.2x
Equity Ratio	50.7%	51.6%	52.6%	55.7%
Financial Leverage	1.96x	1.95x	1.92x	1.84x
Current Ratio	1.47x	1.45x	1.55x	1.70x
Quick Ratio	0.83x	0.78x	0.91x	1.08x
Par Value (IDR)	100	100	100	100
Total Shares (mn)	15,950	15,950	15,950	15,950
Share Price (IDR)	440	850	850	850
Market Cap (IDR tn)	7.0	13.6	13.6	13.6

### BALANCE SHEET

(IDR bn)	2020/12A	2021/12F	2022/12F	2023/12F
Cash	2,002	2,085	3,431	4,973
Receivables	1,012	890	955	821
Inventories	3,259	3,861	4,207	4,318
<b>Total Current Assets</b>	<b>7,547</b>	<b>8,374</b>	<b>10,257</b>	<b>11,835</b>
Net Fixed Assets	716	679	565	456
Other Non Current Asset	2,948	3,896	4,321	4,851
Total Non Current Asset	3,664	4,574	4,886	5,306
<b>Total Assets</b>	<b>11,211</b>	<b>12,949</b>	<b>15,143</b>	<b>17,141</b>
Payables	2,088	2,416	2,994	3,346
ST Bank Loan	1,879	1,604	1,754	1,527
<b>Total Current Liabilities</b>	<b>5,143</b>	<b>5,765</b>	<b>6,625</b>	<b>6,980</b>
LT Debt	-	-	-	-
<b>Total Liabilities</b>	<b>5,523</b>	<b>6,267</b>	<b>7,171</b>	<b>7,598</b>
Capital Stock + APIC	2,189	2,189	2,189	2,189
Retained Earnings	3,211	4,210	5,584	7,193
<b>Shareholders' Equity</b>	<b>5,688</b>	<b>6,682</b>	<b>7,972</b>	<b>9,543</b>

### CASH FLOW STATEMENT

(IDR bn)	2020/12A	2021/12F	2022/12F	2023/12F
Operating Cash Flow	2,853	1,684	2,165	2,904
Investing Cash Flow	(375)	(1,109)	(627)	(723)
Financing Cash Flow	(1,302)	1,787	(193)	(639)
<b>Net Changes in Cash</b>	<b>1,176</b>	<b>2,363</b>	<b>1,345</b>	<b>1,542</b>

Source: NHKSI research, Bloomberg

### VALUATION INDEX

	2020/12A	2021/12F	2022/12F	2023/12F
Price/Earnings	11.5x	10.9x	7.9x	6.6x
Price/Book Value	1.2x	2.0x	1.7x	1.4x
PE/EPS Growth	0.1x	0.1x	0.2x	0.3x
EV/EBITDA	5.8x	6.3x	4.2x	3.0x
EV/EBIT	6.5x	7.1x	4.7x	3.4x
EV (IDR bn)	7,174	13,406	12,127	10,320
Sales CAGR (3-Yr)	-	9.6%	12.1%	7.6%
Net Income CAGR (3-Yr)	-	13.7%	80.2%	49.7%
Basic EPS (IDR)	38	78	108	128
BVPS (IDR)	357	419	500	598
DPS (IDR)	-	14	22	26

### TOP OWNERSHIP

Shareholders	%
PT Eralink International	54.5
Samsung Life Insurance	1.7
Dimensional Fund	1.2
Norges Bank	1.1
By Geography	%
Indonesia	87.8
United States	4.2
South Korea	1.8
Norway	1.8

## 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%

### DISCLAIMER

This document is strictly confidential and is being supplied to you solely for your information. The recipients of this report must make their own independent decisions regarding any securities or financial instruments mentioned herein. This document may not be quoted, reproduced, exhibited, redistributed, transmitted, edited, translated, or published, in whole or in part, for any purpose without notice. Any failure to comply with this restriction may constitute a violation of civil or criminal laws.

This report and any electronic access hereto are restricted and intended only for the clients and related entities of PT NH Korindo Sekuritas Indonesia. This report is only for information and recipient use. It is not reproduced, copied, or made available for others. Under no circumstances is it considered as a selling offer or solicitation of securities buying. Any recommendation contained herein may not be suitable for all investors. Although the information hereof is obtained from reliable sources, its accuracy and completeness cannot be guaranteed. PT NH Korindo Sekuritas Indonesia, its affiliated companies, employees, and agents are held harmless from any responsibility and liability for claims, proceedings, action, losses, expenses, damages, or costs filed against or suffered by any person as a result of acting pursuant to the contents hereof. Neither is PT NH Korindo Sekuritas Indonesia, its affiliated companies, employees, nor agents are liable for errors, omissions, misstatements, negligence, inaccuracy contained herein. All rights reserved by PT NH Korindo Sekuritas Indonesia.