

Erajaya Swasembada Tbk (ERAA)

Focus on Developing Business Vertical

Throughout 1H22, ERAA posted sales growth of 9.6% YoY while net profit contracted by 9.1% YoY. Almost all segments grew but only Operator Product segment contracted 21.2% YoY. 1H22 sales volume decreased by 18.2% YoY while ASP grew by 31.8% YoY.

Net Profit Contracts amid Growing Sales

- ERAA posted sales growth throughout 1H22 of 9.6% YoY to IDR23.4 trillion. Almost all segments grew, only the operator product segment fell by 21.2% YoY. As for 2Q22, ERAA posted sales of IDR11.9 trillion (+13.5% YoY; +3.8% QoQ).
- Gross profit in 1H22 grew 10.3% YoY to IDR2.4 trillion amid a growth in cost of goods sold by 9.5% YoY. Operating profit in 1H22 contracted 8.5% YoY to IDR821.6 billion amid an increase in selling and distribution expenses as well as general and administrative expenses by 9.9% YoY dan 37.8% YoY, respectively. In addition, net profit in 1H22 also contracted by 9.1% YoY to IDR507.5 billion.
- Throughout 2Q22, gross profit grew 14.7% YoY to IDR1.1 trillion, while operating profit and net profit contracted to IDR349.9 billion (-20.3% YoY) and IDR212.4 billion (-24.2% YoY), respectively. Meanwhile, in 2Q22 GPM was recorded slightly higher at 9.5% (vs 2Q21: 9.4%) while EBIT Margin and NPM were recorded lower by 2.9% dan 1.8%, respectively (vs 2Q21: EBIT Margin 4.2% dan NPM 2.7%).

ASP Increase amid Volume Decline

- Not only focusing on the digital segment, ERAA continues to develop its business in other segments, which is Beauty and Wellness segment. ERAA has opened four outlets, Apotek Wellings, in Jakarta. As for 2027, ERAA targets to be able to manage more than 200 Apotek Wellings outlets in Indonesia.
- Vertically, throughout 1H22 Digital segment is still the largest contributor to ERAA's sales, which is 92.7%. Meanwhile, Active Lifestyle, Food & Nourishment, and Beauty & Wellness segments accounted for 5.8%, 1.1%, and 0.3%, respectively.
- Throughout 1H22, sales volume decreased by 18.2% YoY to 4.7 million units (vs 1H21: 5.8 million units) while Averaging Selling Price (ASP) increased by 31.8% YoY to IDR3.9 million (vs 1H21: IDR2.9 million).
- Based on the segment, almost all segments recorded a lower GPM in 1H22. Only Computer and Other Electronic Devices segment recorded a higher GPM of 10.3% (vs 1H21: 9.8%). Meanwhile, Cellular Phones and Tablet, Operator Product, and Accessories and Others segments recorded lower GPMs of 8.9%, 2.7%, and 25.1%, respectively (vs 1H21: 9.3%, 3.4%, and 29.0%).
- In addition, ERAA is known to collaborate with Blackhawk Network Pte Ltd in terms of building a gift card business which is carried out through an indirect subsidiary, PT Prakarsa Prima Sentosa.

Recommend BUY with TP IDR620

- We recommend BUY for ERAA with TP IDR620/share (P/E 7.1x atau +1 STD) with potential upside of 49.8%. Meanwhile, the main risks of our recommendations are suboptimal consumer purchasing power, low enthusiasm for new product launches, changes in consumer spending habits, and depreciation of Rupiah currency.

Erajaya Swasembada Tbk | Summary (IDR bn)

	2021A	2022F	2023F	2024F
Sales	43,467	49,025	55,637	63,618
Growth	27.4%	12.8%	13.5%	14.3%
Net Profit	1,012	1,187	1,407	1,888
Growth	65.4%	17.3%	18.5%	34.2%
EPS (IDR)	63	74	88	118
P/E	9.5x	8.4x	7.1x	5.3x
P/BV	1.5x	1.4x	1.3x	1.1x
EV/EBITDA	6.1x	3.9x	1.5x	0.9x
ROE	16.7%	17.4%	19.2%	23.1%
DER	23.2%	32.4%	28.9%	27.8%
Dividend Yield	2.29%	3.66%	4.22%	4.74%

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

BUY

Target Price (IDR)	620
Consensus Price (IDR)	712
TP to Consensus Price	-12.9%
vs. Last Price	+49.8%

Shares data

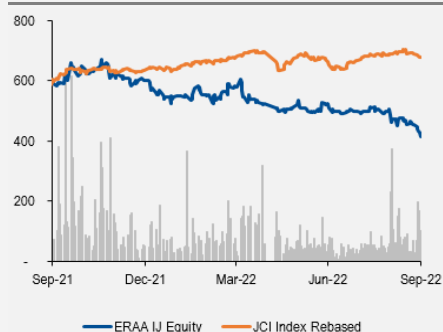
Last Price (IDR)	414
Price Date as of	Sep 30, 2022
52 wk Range (Hi/Lo)	685/410
Free Float (%)	45.20
Outstanding sh.(mn)	15.95
Market Cap (IDR bn)	6,603
Market Cap (USD mn)	433
Avg. Trd Vol - 3M (mn)	39.73
Avg. Trd Val - 3M (bn)	18.98
Foreign Ownership	9.6%

Consumer Cyclical

Retail Trade

Bloomberg	ERAA IJ
Reuters	ERAA.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-31.0%	-15.2%	-21.1%	-31.6%
Rel. Ret.	-36.6%	-13.2%	-23.0%	-43.6%

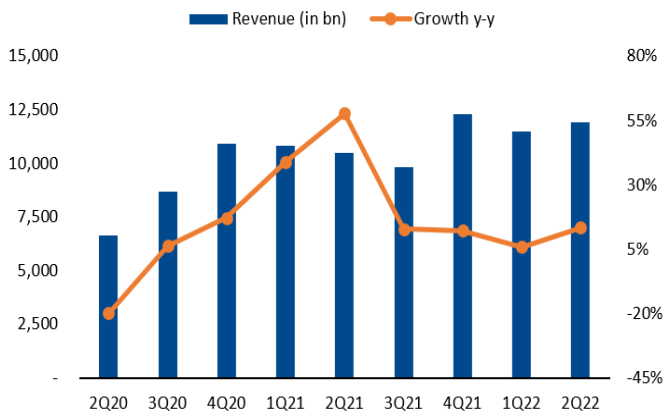
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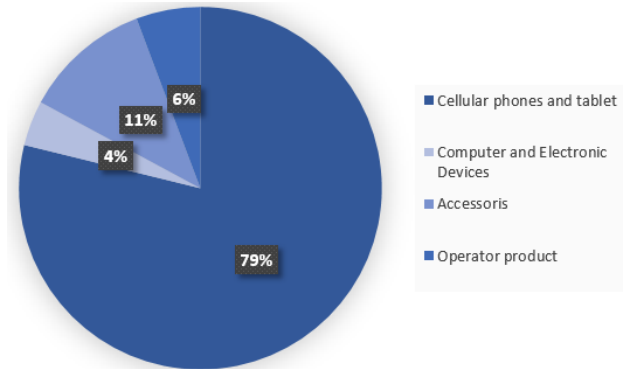
Performance Highlights

ERAA Revenue



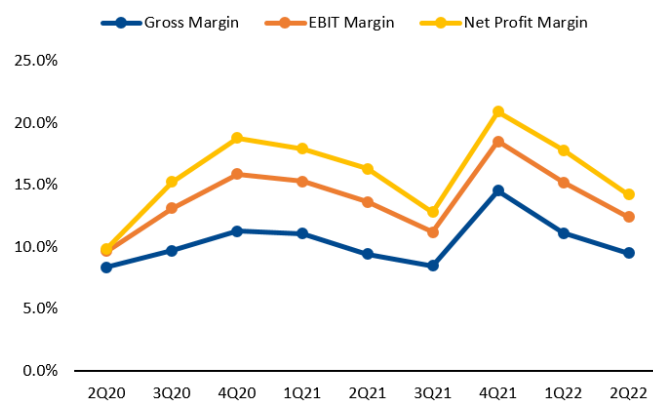
Source: Company, NHKSI Research

ERAA Revenue Breakdown



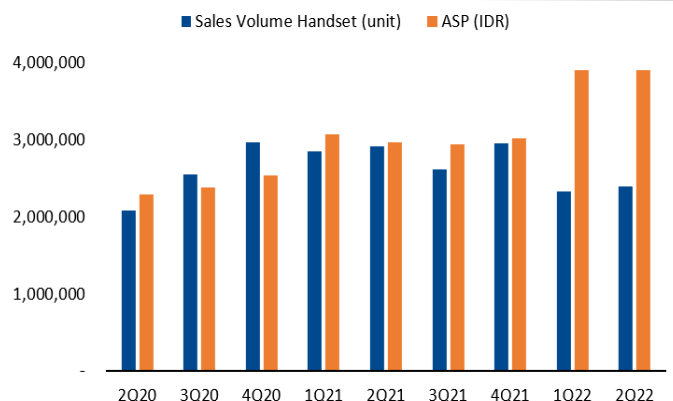
Source: Company, NHKSI Research

ERAA Margin Ratios



Source: Company, NHKSI Research

ERAA ASP and Volume Handset



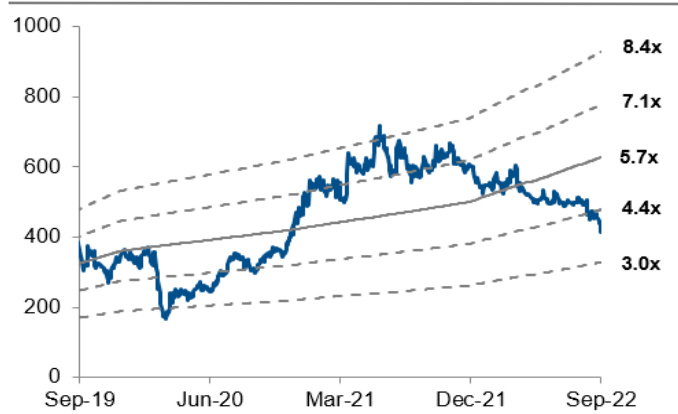
Source: Company, NHKSI Research

Forward P/E band | Last 3 years



Source: Company, NHKSI Research

Dynamic Forward P/E band | Last 3 years



Source: Bloomberg, NHKSI Research

Summary of Financials

INCOME STATEMENT

(IDR bn)	2021/12A	2022/12F	2023/12F	2024/12F
Sales	43,467	49,025	55,637	63,618
<i>Growth</i>	27.4%	12.8%	13.5%	14.3%
COGS	(38,661)	(44,171)	(50,129)	(57,320)
Gross Profit	4,806	4,853	5,508	6,298
<i>Gross Margin</i>	11.1%	9.9%	9.9%	9.9%
Operating Expenses	(3,320)	(3,345)	(3,721)	(3,997)
EBIT	1,659	1,796	2,103	2,631
<i>EBIT Margin</i>	3.8%	3.7%	3.8%	4.1%
Depreciation	127	164	228	261
EBITDA	1,786	1,960	2,331	2,892
Interest Expenses	(195)	(182)	(189)	(185)
EBT	1,495	1,623	1,932	2,463
Income Tax	(377)	(385)	(381)	(383)
Minority Interest	(106)	(50)	(144)	(191)
Net Profit	1,012	1,187	1,407	1,888
<i>Growth</i>	65.4%	17.3%	18.5%	34.2%
<i>Net Profit Margin</i>	2.3%	2.4%	2.5%	3.0%

PROFITABILITY & STABILITY

	2021/12A	2022/12F	2023/12F	2024/12F
ROE	16.7%	17.4%	19.2%	23.1%
ROA	9.0%	9.2%	8.5%	9.6%
Inventory Turnover	10.8x	15.1x	24.3x	28.1x
Receivable Turnover	53.4x	65.9x	91.3x	121.7x
Payable Turnover	21.5x	18.1x	10.4x	9.1x
Dividend Yield	2.29%	3.66%	4.22%	4.74%
Payout Ratio	35%	36%	35%	33%
DER	23.2%	32.4%	28.9%	27.8%
Net Gearing	0.3x	0.4x	0.3x	0.3x
Equity Ratio	56.8%	49.4%	40.4%	42.9%
Financial Leverage	1.86x	1.90x	2.25x	2.40x
Current Ratio	1.55x	1.44x	1.27x	1.33x
Quick Ratio	0.63x	1.15x	1.06x	1.16x
Par Value (IDR)	100	100	100	100
Total Shares (mn)	15,950	15,950	15,950	15,950
Share Price (IDR)	600	620	620	620
Market Cap (IDR tn)	9.6	9.9	9.9	9.9

BALANCE SHEET

(IDR bn)	2021/12A	2022/12F	2023/12F	2024/12F
Cash	521	5,031	8,669	10,078
Receivables	616	872	348	698
Inventories	3,932	1,908	2,212	1,871
Total Current Assets	6,624	9,655	13,210	14,694
Net Fixed Assets	852	1,216	1,208	1,291
Other Non Current Asset	3,896	3,618	4,105	4,694
Total Non Current Asset	4,748	4,834	5,313	5,986
Total Assets	11,372	14,489	18,524	20,680
Payables	1,514	3,379	6,235	6,328
ST Bank Loan	1,288	2,115	1,958	2,263
Total Current Liabilities	4,279	6,720	10,363	11,073
LT Debt	214	202	208	205
Total Liabilities	4,910	7,332	11,036	11,810
Capital Stock + APIC	2,193	2,193	2,193	2,193
Retained Earnings	4,004	4,489	5,145	6,526
Shareholders' Equity	6,462	7,157	7,487	8,870

VALUATION INDEX

	2021/12A	2022/12F	2023/12F	2024/12F
Price/Earnings	9.5x	8.4x	7.1x	5.3x
Price/Book Value	1.5x	1.4x	1.3x	1.1x
PE/EPS Growth	0.1x	0.5x	0.4x	0.2x
EV/EBITDA	6.1x	3.9x	1.5x	0.9x
EV/EBIT	6.6x	4.3x	1.7x	0.9x
EV (IDR bn)	10,874	7,708	3,594	2,488
Sales CAGR (3-Yr)	9.7%	12.8%	8.6%	9.1%
Net Income CAGR (3-Yr)	6.0%	59.1%	32.0%	23.1%
Basic EPS (IDR)	63	74	88	118
BVPS (IDR)	405	449	469	556
DPS (IDR)	14	23	26	29

TOP OWNERSHIP

Shareholders	%
PT Eralink International	54.5
Dimensional Fund	1.2
Norges Bank	0.8
Blackrock Inc	0.5
By Geography	%
Indonesia	90.4
United States	3.6
Luxembourg	2.2
Norway	1.3

CASH FLOW STATEMENT

(IDR bn)	2021/12A	2022/12F	2023/12F	2024/12F
Operating Cash Flow	22	3,724	5,516	2,480
Investing Cash Flow	(516)	(830)	(779)	(904)
Financing Cash Flow	455	744	(566)	(167)
Net Changes in Cash	(39)	3,638	4,171	1,409

Source: NHKSI research, Bloomberg

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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