

Erajaya Swasembada Tbk (ERAA)

Pushing Company's Online and Offline Channel Performance



Company Report | Dec 21, 2022

In 3Q22, ERAA posted revenue of IDR11.5 trillion, with the Accessories segment leading the growth. 3Q22 gross profit grew by 37.2% YoY to IDR1.1 trillion, amid an increase in the cost of goods sold by 15.6% YoY. Vertically, throughout 9M22, the Digital segment is still the most significant contributor to ERAA's sales, with 92.4%.

Accessories Segment Leads the Growth

- In 3Q22, ERAA posted a revenue of IDR11.5 trillion (-3.2% QoQ; +17.4% YoY), causing 9M22's revenue to grow 12.1% YoY to IDR34.9 trillion (vs. 9M21: IDR31.2 trillion).
- By category, almost all segments equally grew in 3Q22, with the Accessories segment leading the growth at 152.9% YoY, followed by the Mobile Phone and Tablet segments and other Computer and Electronic Equipment segments at 107.2% YoY and 78.5% YoY, respectively. Additionally, the Voucher segment got contracted by 25.0% YoY.
- Geographically, 3Q22 sales growth was seen in the Central Region (Jabodetabek, Kalimantan, Singapore, and Malaysia), which grew by 30.5% YoY, and the Eastern Region (outside the Western and Central Regions) grew by 31.5% YoY. However, the Western Region (Sumatra and Java) experienced a sale decrease of 6.3% YoY.
- 3Q22 gross profit was able to grow by 37.2% YoY to IDR1.1 trillion, amid an increase in the cost of goods sold by 15.6% YoY. Cumulatively, 9M22 gross profit grew by 17.7% YoY to IDR3.6 trillion (vs. 9M21: IDR3.0 trillion). In 3Q22, selling and general and administrative expenses increased by 51.3% YoY and 14.2% YoY, respectively. Meanwhile, the operating profit in 3Q22 was able to grow 19.7% YoY to IDR 329.3 billion. As for the cumulative 9M22, operating profit was contracted by 1.9% YoY to IDR1.1 trillion.
- In terms of net profit, the growth was at 7.5% YoY to IDR172.8 billion, and in 9M22, the net profit was recorded at IDR680.3 billion, a decrease of 5.4% YoY. Meanwhile, in 3Q22, the Company recorded GPM and EBIT Margin higher at 9.9% and 2.8%, respectively (vs. 3Q21 GPM: 8.5% and EBIT Margin: 2.6%). Furthermore, the NPM was recorded lower at 1.5% (vs. 3Q21: 1.6%).

Online and Offline Channel Promotion Strategies

- To improve its performance, ERAA pushes its sales through promotional strategies. It is run through various channels, both online and offline, where ERAA offers a discount program, bundling, and new products. Additionally, ERAA opened 153 outlets in 3Q22.
- Vertically, throughout 9M22, the Digital segment is still the most significant contributor to ERAA's sales, namely 92.4%. Meanwhile, the Active Lifestyle, Food & Nourishment, and Beauty & Wellness segments contributed 6.1%, 1.2%, and 0.3%, respectively. By this far, Erajaya Digital has inaugurated 62 outlets distributed across 48 cities and regencies in Java, Sumatra, Sulawesi, and Kalimantan.
- Throughout 9M22, sales volume decreased by 16.3% YoY to 7.0 million units (vs. 9M21: 8.4 million units), while Average Selling Price (ASP) increased by 32.0% YoY to IDR3.9 million (vs. 9M21: IDR2.9 million).
- By segment, in 9M22, almost all segments recorded a lower GPM than the same period last year. The GPM for the Accessories segment was recorded as the highest, which was at 15.7% (vs. 9M21: 26.3%), followed by the Computer and other Electronic Equipment, Mobile Phone and Tablet segments, and Vouchers of 7.6%, 5.0%, and 2.4% respectively (vs. 9M21: 9.6%; 8.9%; and 3.0%).

BUY recommendation with a TP of IDR500/share

- We suggest a BUY recommendation for ERAA with a TP of IDR500/share or P/E 6.1x with a potential upside of 28.2%. As for the main risks of our recommendation are: suboptimal consumer purchasing power, low enthusiasm for new product launches, changes in consumer spending habits, and Rupiah currency depreciation.

Erajaya Swasembada Tbk | Summary (IDR bn)

	2021A	2022F	2023F	2024F
Sales	43,467	48,672	53,326	57,259
Growth	27.4%	12.0%	9.6%	7.4%
Net Profit	1,012	1,038	1,312	1,666
Growth	65.4%	2.6%	26.3%	27.0%
EPS (IDR)	63	65	82	104
P/E	9.5x	7.7x	6.1x	4.8x
P/BV	1.5x	1.3x	1.1x	1.0x
EV/EBITDA	6.1x	4.0x	1.7x	0.8x
ROE	16.7%	16.5%	20.1%	22.1%
DER	23.2%	37.4%	30.6%	30.0%
Dividend Yield	2.29%	4.54%	5.23%	5.87%

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

BUY

Target Price (IDR)	500
Consensus Price (IDR)	572
TP to Consensus Price	-12.6%
vs. Last Price	+28.2%

Shares data

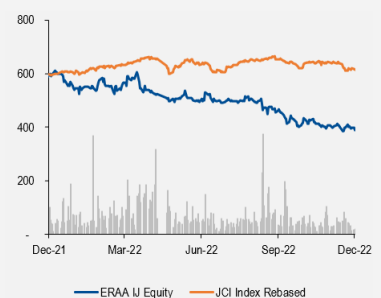
Last Price (IDR)	390
Price Date as of	Dec 20, 2022
52 wk Range (Hi/Lo)	620/376
Free Float (%)	44.17
Outstanding sh.(mn)	15.95
Market Cap (IDR bn)	6,220
Market Cap (USD mn)	399
Avg. Trd Vol - 3M (mn)	28.23
Avg. Trd Val - 3M (bn)	11.76
Foreign Ownership	13.1%

Consumer Cyclical

Retail Trade

Bloomberg	ERAA IJ
Reuters	ERAA.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-35.0%	-3.9%	-16.3%	-34.5%
Rel. Ret.	-36.6%	0.2%	-10.4%	-137.8%

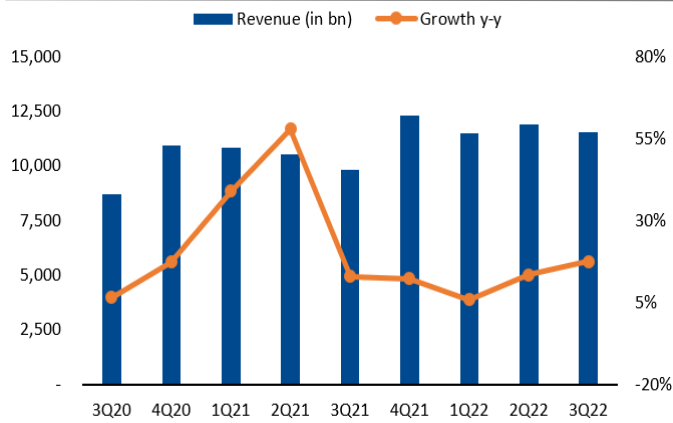
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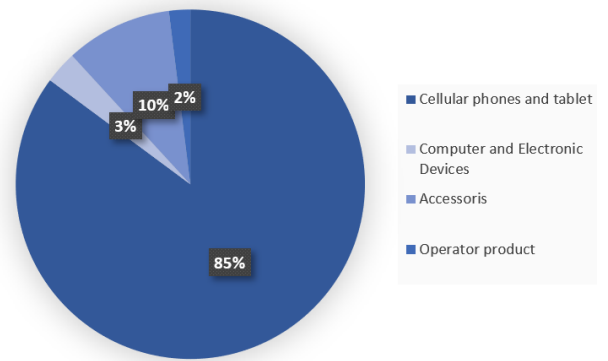
Performance Highlights

ERAA Revenue



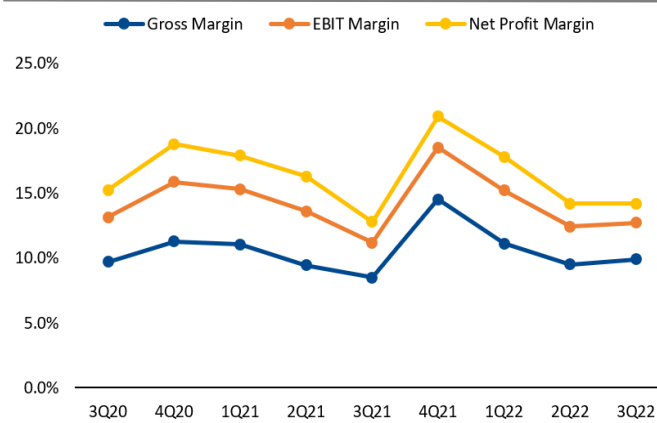
Source: Company, NHKSI Research

ERAA Revenue Breakdown



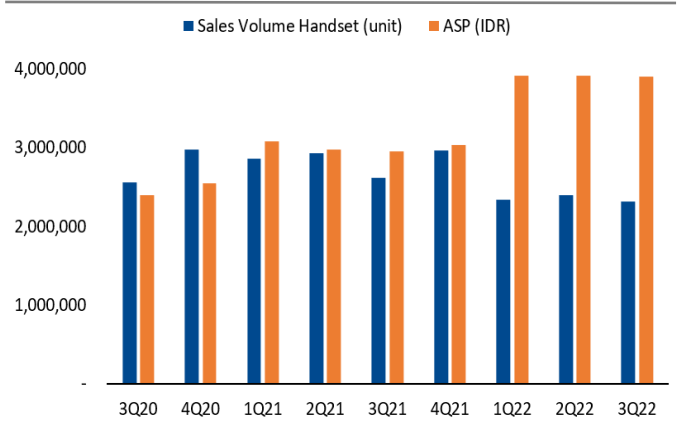
Source: Company, NHKSI Research

ERAA Margin Ratios



Source: Company, NHKSI Research

ERAA ASP and Volume Handset



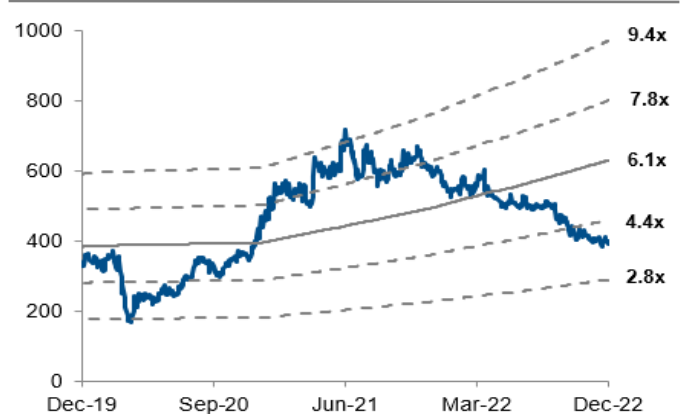
Source: Company, NHKSI Research

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	48,672	53,326	57,259
Growth	27.4%	12.0%	9.6%	7.4%
COGS	(38,661)	(43,808)	(47,997)	(51,536)
Gross Profit	4,806	4,865	5,330	5,723
Gross Margin	11.1%	10.0%	10.0%	10.0%
Operating Expenses	(3,320)	(3,621)	(3,708)	(3,686)
EBIT	1,659	1,445	1,894	2,290
EBIT Margin	3.8%	3.0%	3.6%	4.0%
Depreciation	127	179	262	312
EBITDA	1,786	1,624	2,156	2,601
Interest Expenses	(195)	(186)	(191)	(188)
EBT	1,495	1,263	1,718	2,115
Income Tax	(377)	(193)	(272)	(281)
Minority Interest	(106)	(32)	(134)	(169)
Net Profit	1,012	1,038	1,312	1,666
Growth	65.4%	2.6%	26.3%	27.0%
Net Profit Margin	2.3%	2.1%	2.5%	2.9%

BALANCE SHEET

(IDR bn)	2021/12A	2022/12F	2023/12F	2024/12F
Cash	521	4,144	6,598	8,489
Receivables	616	1,043	775	166
Inventories	3,932	2,085	1,859	1,812
Total Current Assets	6,624	9,188	11,320	12,635
Net Fixed Assets	852	805	1,739	2,002
Other Non Current Assets	3,896	3,758	4,117	4,421
Total Non Current Asset	4,748	4,563	5,856	6,423
Total Assets	11,372	13,752	17,176	19,058
Payables	1,514	3,659	5,546	5,750
ST Bank Loan	1,288	2,089	1,924	2,242
Total Current Liabilities	4,279	7,022	9,549	10,225
LT Debt	214	195	205	200
Total Liabilities	4,910	7,644	10,221	10,926
Capital Stock + APIC	2,193	2,193	2,193	2,193
Retained Earnings	4,004	3,632	4,635	5,811
Shareholders' Equity	6,462	6,107	6,955	8,132

CASH FLOW STATEMENT

(IDR bn)	2021/12A	2022/12F	2023/12F	2024/12F
Operating Cash Flow	22	2,802	4,589	2,910
Investing Cash Flow	(516)	(1,552)	(807)	(863)
Financing Cash Flow	455	1,204	(572)	(156)
Net Changes in Cash	(39)	2,454	3,209	1,891

PROFITABILITY & STABILITY

	2021/12A	2022/12F	2023/12F	2024/12F
ROE	16.7%	16.5%	20.1%	22.1%
ROA	9.0%	8.3%	8.5%	9.2%
Inventory Turnover	10.8x	14.6x	24.3x	28.1x
Receivable Turnover	53.4x	58.6x	58.6x	121.7x
Payable Turnover	21.5x	16.9x	10.4x	9.1x
Dividend Yield	2.29%	4.54%	5.23%	5.87%
Payout Ratio	35%	36%	40%	36%
DER	23.2%	37.4%	30.6%	30.0%
Net Gearing	0.3x	0.4x	0.3x	0.3x
Equity Ratio	56.8%	44.4%	40.5%	42.7%
Financial Leverage	1.86x	2.00x	2.37x	2.40x
Current Ratio	1.55x	1.31x	1.19x	1.24x
Quick Ratio	0.63x	1.01x	0.99x	1.06x
Par Value (IDR)	100	100	100	100
Total Shares (mn)	15,950	15,950	15,950	15,950
Share Price (IDR)	600	500	500	500
Market Cap (IDR tn)	9.6	8.0	8.0	8.0

VALUATION INDEX

	2021/12A	2022/12F	2023/12F	2024/12F
Price/Earnings	9.5x	7.7x	6.1x	4.8x
Price/Book Value	1.5x	1.3x	1.1x	1.0x
PE/EPS Growth	0.1x	3.0x	0.2x	0.2x
EV/EBITDA	6.1x	4.0x	1.7x	0.8x
EV/EBIT	6.6x	4.5x	2.0x	0.9x
EV (IDR bn)	10,874	6,479	3,714	2,137
Sales CAGR (3-Yr)	9.7%	12.6%	7.1%	5.6%
Net Income CAGR (3-Yr)	6.0%	52.1%	28.9%	18.1%
Basic EPS (IDR)	63	65	82	104
BVPS (IDR)	405	383	436	510
DPS (IDR)	14	23	26	29

TOP OWNERSHIP

Shareholders	%
PT Eralink International	54.5
Dimensional Fund	1.3
Ashmore Asset Management	1.2
PT ERAJAYA SWASEMBADA	1.0
By Geography	%
Indonesia	86.9
United States	3.5
Unknown	2.0
Luxembourg	1.6

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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