

Erajaya Swasembada Tbk (ERAA)

Actively Developing Non-Smartphone Business

ERAA managed to record sales growth in 1Q23 of 28.9% YoY, led by the Accessories and others segment, which rose 42.1% YoY. The company also recorded a net profit decline of 20.2% YoY. By business vertical, Erajaya Digital still contributed the most at 92.1%. In addition, ERAA continues to actively develop businesses in F&B, fashion lifestyle, healthcare, and pharmaceuticals.

Sales Increase Not Able to Raise Net Profit

- ERAA managed to record sales growth in 1Q23 of 28.9% YoY to Rp14.8 trillion (vs 1Q22: Rp11.5 trillion). This growth was led by the Accessories and Others segment, which rose 42.1% YoY to IDR1.7 trillion, while the Cellular Phones and Tablets segment (which contributed the most to sales at 81.0%) rose 31.7%, followed by the Operator Products segment, which grew 5.8% YoY. However, the Computer and Other Electronic Equipment segment contracted 19.2% YoY to Rp420.2 billion.
- Geographically, most of the segment suffered a decline, except for sales in the Eastern Region (excluding the Western and Central regions), which grew to IDR8.7 trillion, while the Central Region (Jabodetabek, Kalimantan, Singapore, and Malaysia) and Western Region (Sumatra and Java) contracted by 37.8% YoY and 54.0% YoY respectively.
- Although the cost of goods sold increased in 1Q23 by 29.5% YoY, gross profit was able to grow 23.9% YoY to Rp1.6 trillion, yet on the other hand, GPM in 1Q23 was recorded lower at 10.7% (vs. 1Q22: 11.1%).
- Selling and distribution expenses increased by 57.2%, with general and administrative expenses increasing by 24.4% YoY, causing operating profit in 1Q23 to contract Rp469.3 billion (-0.5% YoY). This brought OPM to drop to 3.1% (vs. 1Q22: 4.1%) while Opex to Sales Ratio increased by 7.8% in 1Q23.
- On the bottom line, 1Q23 recorded a 20.2% YoY decline in net profit to Rp235.5 billion (vs. 1Q22: Rp295.1 billion), bringing NPM down to 1.6% (vs. 1Q22: 2.6%).

Intensely Expanding Business

- In 2023, ERAA targets to open 600 new stores. The focus will be on tier 2 and tier 3 cities that have not been covered by ERAA before. This is part of ERAA's effort to capture wider market demand. In addition, to developing a sustainable business, ERAA is also actively developing businesses in F&B, fashion lifestyle, healthcare, and pharmaceuticals.
- In terms of vertical business, Erajaya Digital still contributed the most at 92.1% with 1,659 stores as of 1Q23, followed by Active Lifestyle (6.1%), Food & Nourishment (1.5%), and Beauty & Wellness (0.3%).
- To enhance its omnichannel concept, aside from e-commerce (Shopee, Tokopedia, etc.), ERAA also develops its business through eraspaces. As of 1Q23, **My eraspaces** has a total membership of 7.2 million or grew 60% YoY with an average transaction value of 6.85 million.
- By segment, in 1Q23, only the GPM of the Operator Products segment recorded higher at 2.9% (vs 1Q22: 1.9%), while the GPM of the Cellular Phone segment fell to 9.8% (vs 1Q22: 10.0%), the GPM of the Computer and Other Electronic Equipment segment fell slightly to 10.1% (vs 1Q22: 10.7%) and the Accessories and others segment recorded a lower GPM of 20.6% (vs 1Q22: 25.8%).

BUY Recommendation with TP Rp600/share

- We recommend BUY for ERAA with a TP of Rp600/share or a P/E of 6.7x (3-year average) and an upside potential of 22.4%. We project revenue and net profit for 2023F to be Rp55.5 trillion and Rp1.2 trillion, respectively. However, the main risks of our recommendation are: declining consumer purchasing power, low enthusiasm for new product launches, changing consumer spending habits, and Rupiah depreciation.

Erajaya Swasembada Tbk | Summary (IDR bn)

	2022A	2023F	2024F	2025F
Sales	49,471	55,467	62,123	69,577
Growth	13.8%	12.1%	12.0%	12.0%
Net Profit	1,013	1,174	1,482	1,620
Growth	0.0%	15.9%	26.3%	9.3%
EPS (IDR)	63	73	93	101
P/E	6.2x	8.2x	6.5x	5.9x
P/BV	0.9x	1.3x	1.1x	1.0x
EV/EBITDA	4.7x	6.6x	4.6x	4.5x
ROE	14.8%	16.0%	18.5%	17.6%
ROA	7.1%	6.2%	7.2%	7.8%
Dividend Yield	5.80%	4.09%	4.42%	4.77%

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

BUY

Target Price (IDR)	600
Consensus Price (IDR)	642
TP to Consensus Price	-6.5%
vs. Last Price	22.4%

Shares data

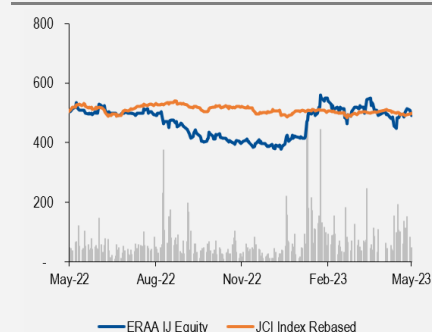
Last Price (IDR)	490
Price Date as of	May 24, 2023
52 wk Range (Hi/Lo)	580/376
Free Float (%)	44.15
Outstanding sh.(mn)	15.95
Market Cap (IDR bn)	7,816
Market Cap (USD mn)	524
Avg. Trd Vol - 3M (mn)	50.14
Avg. Trd Val - 3M (bn)	25.29
Foreign Ownership	11.8%

Consumer Cyclical

Retail Trade

Bloomberg	ERAA IJ
Reuters	ERAA.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-18.3%	-3.0%	-9.3%	-3.9%
Rel. Ret.	-19.5%	-0.6%	-7.6%	-101.5%

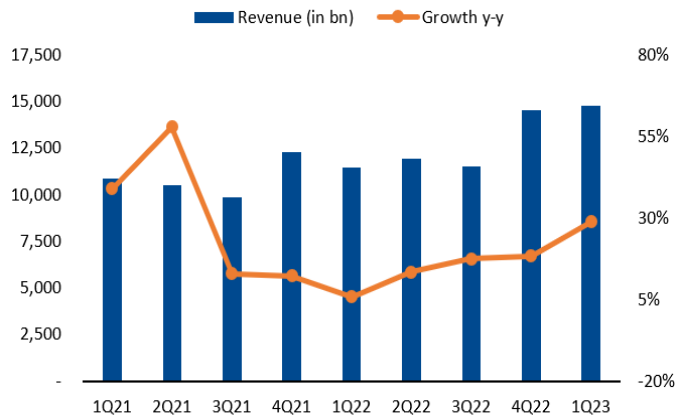
Cindy Alicia Ramadhania

(021) 5088 9129

cindy.alicia@nhsec.co.id

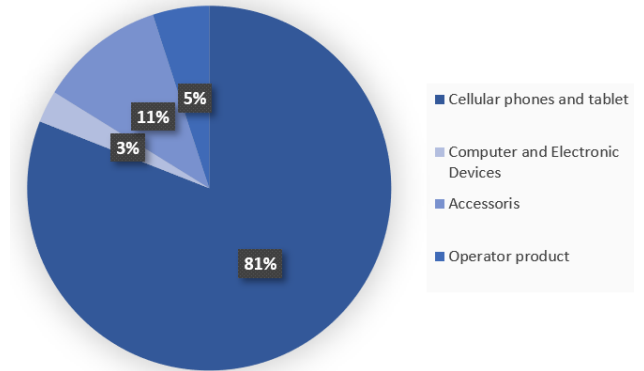
Performance Highlights

ERAA Revenue



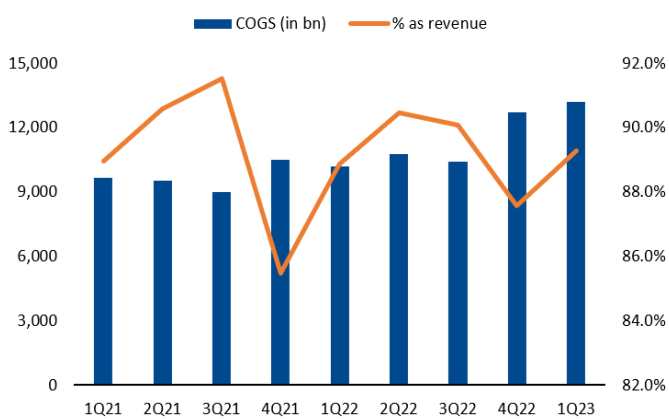
Source: Company, NHKSI Research

ERAA Revenue Breakdown



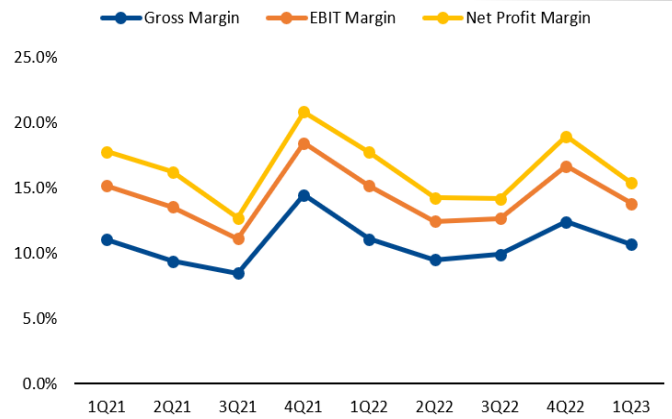
Source: Company, NHKSI Research

ERAA COGS



Source: Company, NHKSI Research

ERAA Margin Ratios



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)	2022/12A	2023/12F	2024/12F	2025/12F
Sales	49,471	55,467	62,123	69,577
<i>Growth</i>	13.8%	12.1%	12.0%	12.0%
COGS	(44,110)	(49,260)	(55,171)	(61,792)
Gross Profit	5,362	6,207	6,951	7,785
<i>Gross Margin</i>	10.8%	11.2%	11.2%	11.2%
Operating Expenses	(3,771)	(4,363)	(4,867)	(5,538)
EBIT	1,793	1,948	2,290	2,463
<i>EBIT Margin</i>	3.6%	3.5%	3.7%	3.5%
Depreciation	191	253	347	441
EBITDA	1,984	2,201	2,637	2,905
Interest Expenses	(290)	(261)	(275)	(268)
EBT	1,497	1,701	2,028	2,204
Income Tax	(421)	(515)	(438)	(458)
Minority Interest	(64)	(13)	(108)	(126)
Net Profit	1,013	1,174	1,482	1,620
<i>Growth</i>	0.0%	15.9%	26.3%	9.3%
<i>Net Profit Margin</i>	2.0%	2.1%	2.4%	2.3%

PROFITABILITY & STABILITY

	2022/12A	2023/12F	2024/12F	2025/12F
ROE	14.8%	16.0%	18.5%	17.6%
ROA	7.1%	6.2%	7.2%	7.8%
Inventory Turnover	8.8x	24.3x	22.8x	21.5x
Receivable Turnover	59.2x	59.2x	59.2x	60.8x
Payable Turnover	22.5x	10.4x	10.1x	9.9x
Dividend Yield	5.80%	4.09%	4.42%	4.77%
Payout Ratio	36%	39%	36%	31%
DER	51.0%	77.3%	39.7%	41.2%
Net Gearing	0.6x	1.2x	0.4x	0.4x
Equity Ratio	42.2%	35.8%	41.9%	46.1%
Financial Leverage	2.08x	2.57x	2.56x	2.27x
Current Ratio	1.24x	1.11x	1.19x	1.24x
Quick Ratio	0.57x	0.46x	0.43x	0.44x
Par Value (IDR)	100	100	100	100
Total Shares (mn)	15,950	15,950	15,950	15,950
Share Price (IDR)	392	600	600	600
Market Cap (IDR tn)	6.3	9.6	9.6	9.6

BALANCE SHEET

(IDR bn)	2022/12A	2023/12F	2024/12F	2025/12F
Cash	1,044	1,278	1,177	820
Receivables	1,055	1,057	1,041	1,246
Inventories	6,065	8,049	8,057	8,065
Total Current Assets	11,217	13,718	12,674	12,428
Net Fixed Assets	1,573	1,887	2,553	2,756
Other Non Current Assets	4,268	5,686	5,359	6,003
Total Non Current Asset	5,841	7,009	7,913	8,758
Total Assets	17,058	20,727	20,586	21,187
Payables	2,401	3,073	5,070	3,533
ST Bank Loan	3,491	5,471	3,202	3,777
Total Current Liabilities	9,021	12,413	10,694	10,024
LT Debt	182	266	224	245
Total Liabilities	9,855	13,301	11,954	11,424
Capital Stock + APIC	2,193	2,193	2,193	2,193
Retained Earnings	4,655	3,187	6,357	7,486
Shareholders' Equity	7,203	7,426	8,633	9,763

VALUATION INDEX

	2022/12A	2023/12F	2024/12F	2025/12F
Price/Earnings	6.2x	8.2x	6.5x	5.9x
Price/Book Value	0.9x	1.3x	1.1x	1.0x
PE/EPS Growth	126.1x	0.5x	0.2x	0.6x
EV/EBITDA	4.7x	6.6x	4.6x	4.5x
EV/EBIT	5.2x	7.4x	5.3x	5.3x
EV (IDR bn)	9,342	14,497	12,028	12,982
Sales CAGR (3-Yr)	13.2%	8.5%	7.9%	7.8%
Net Income CAGR (3-Yr)	50.8%	24.2%	13.5%	16.9%
Basic EPS (IDR)	63	73	93	101
BVPS (IDR)	452	466	541	612
DPS (IDR)	23	25	26	29

CASH FLOW STATEMENT

(IDR bn)	2022/12A	2023/12F	2024/12F	2025/12F
Operating Cash Flow	435	(448)	3,623	704
Investing Cash Flow	(1,187)	(1,155)	(320)	(1,180)
Financing Cash Flow	1,149	2,213	(2,726)	136
Net Changes in Cash	397	609	577	(340)

TOP OWNERSHIP

Shareholders	%
PT Eralink International	54.5
Norges Bank	1.8
Dimensional Fund Advisors LP	1.3
PT ERAJAYA SWASEMBADA	1.0
By Geography	%
Indonesia	88.2
United States	3.4
Norway	2.7
Unknwon	2.0

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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