

Erajaya Swasembada Tbk (ERAA)

Financial Costs Weigh on 6M23 Net Profit

Throughout 6M23, ERAA posted sales growth of 23.5% YoY to IDR 28.9 trillion. Its 6M23 gross profit grew 27.5% YoY to IDR 3.1 trillion, which was reflected in its GPM, which was recorded higher at 10.7% (vs. 6M22: 10.3%). However, 6M23 net profit was recorded to decline by 9.6% YoY to IDR 458.7 billion due to interest expenses that increased by 148.2% YoY, resulting in higher finance costs of IDR 265.3 billion (+133.3% YoY).

Sales Increase Not Yet Able to Drive Net Profit

- Throughout 6M23, ERAA posted sales growth of 23.5% YoY to IDR 28.9 trillion (vs. 6M22: IDR 23.4 trillion). Almost all segments experienced growth, with Accessories and Others segment leading the growth (+27.8% YoY), while Computer and Other Electronic Devices segment record a decline in sales (-13.8% YoY). On a quarterly basis, 2Q23 sales were recorded at IDR 14.1 trillion (-4.7% QoQ; +18.3 YoY)
- 6M23 gross profit managed to grow by 27.5% YoY to IDR 3.1 trillion, while gross profit in 1Q23 recorded at IDR 1.5 trillion (-5.6% QoQ; +31.6% YoY). Furthermore, operating profit increased 15.8% YoY to IDR 951.7 billion in 1H23 amidst an increase in operating expenses by 33.5% YoY. As of 1Q23, ERAA booked an operating profit of IDR 482.4 billion (+2.8% QoQ; +37.9% YoY).
- ERAA's net profit in 6M23 fell 9.6% YoY to IDR 458.7 billion due to higher interest expenses of 148.2% YoY, which led to higher financial costs of IDR 265.3 billion (133.3% YoY). On a quarterly basis, 2Q23 net profit was recorded at IDR 223.2 billion (-5.2% QoQ; +5.1% YoY).
- Looking at its margin in 6M23, only GPM was able to record higher at 10.7% (vs. 6M22: 10.3%), while OPM was recorded down to 3.3% (vs. 6M22: 3.5%), followed by NPM which was recorded lower at 1.6% (vs. 6M22: 2.2%).

Issuing Bonds in Singapore

- Looking at each segment in 6M23, the Cellular Phone and Tablet segment's GPM was higher at 9.6% (vs 6M22: 8.9%), as its gross profit increased by 36.0% YoY to IDR2.2 trillion. The Operator Products segment also recorded an increase in its GPM at 3.3% (vs 6M22: 2.7%), as its gross profit was recorded at Rp48.1 billion.
- Amidst the 21.8% YoY gross profit decline in the Computer and Other Electronic Devices segment, this segment's GPM was recorded lower at 9.3% (vs 6M22: 10.3%) followed by the Accessories and Others segment, which recorded a decline in its GPM to 22.2% (vs 6M22: 25.1%).
- Through its subsidiary, Erajaya Digital Pte. Ltd. issued global bonds worth SGD 50 million, which were listed on Singapore Exchange Securities Trading Limited (SGX-ST) on August 24, 2023. The plan is that these funds will be used to support the Company's business outside Indonesia (Singapore and Malaysia). Meanwhile, the coupon offered is 4.5% with a semi-annual coupon frequency and the coupon date will end on August 24, 2026.
- Throughout 6M23, ERAA has opened 323 new stores, including 292 Erajaya Digital stores, 23 Erajaya Active Lifestyle stores, 5 outlets for Erajaya Food & Nourishment, and 3 outlets for Erajaya Beauty & Wellness. This year, ERAA targets to open 400 new stores in Indonesia, Malaysia, and Singapore.
- Up to 6M23, ERAA's capital expenditure funds that have been absorbed amounted to Rp472 billion. Meanwhile, as of 6M23, **My eraspaces** has a total membership of 8.3 million or grew 63% YoY with an average transaction value of 6.4 million.

BUY Recommendation with TP at IDR 600/share

- We provide a BUY recommendation for ERAA by maintaining a TP of IDR600/share with a P/E of 7.5x (3-year average), which has an upside potential of 29.9%. Meanwhile, 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	56,272	61,900	66,852
Growth	13.8%	13.7%	10.0%	8.0%
Net Profit	1,013	1,016	1,373	1,428
Growth	0.0%	0.3%	35.1%	4.0%
EPS (IDR)	63	64	86	89
P/E	6.2x	9.4x	7.0x	6.7x
P/BV	0.9x	1.2x	1.0x	0.9x
EV/EBITDA	4.7x	7.1x	4.7x	4.7x
ROE	14.8%	13.2%	15.2%	13.7%
ROA	7.1%	5.3%	6.2%	6.3%
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)	622
TP to Consensus Price	-3.5%
vs. Last Price	29.9%

Shares data

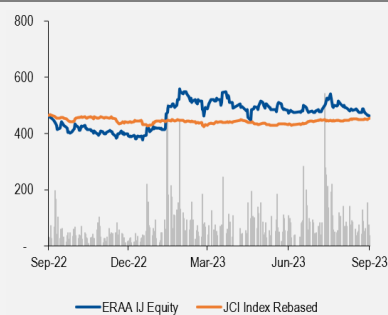
Last Price (IDR)	462
Price Date as of	Sep 20, 2023
52 wk Range (Hi/Lo)	580/376
Free Float (%)	44.15
Outstanding sh.(mn)	15.95
Market Cap (IDR bn)	7,369
Market Cap (USD mn)	479.5
Avg. Trd Vol - 3M (mn)	63.15
Avg. Trd Val - 3M (bn)	31.16
Foreign Ownership	10.4%

Consumer Cyclical

Retail Trade

Bloomberg	ERAA IJ
Reuters	ERAA.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-23.0%	-6.9%	-2.1%	-0.9%
Rel. Ret.	-28.2%	-9.0%	-7.4%	-98.3%

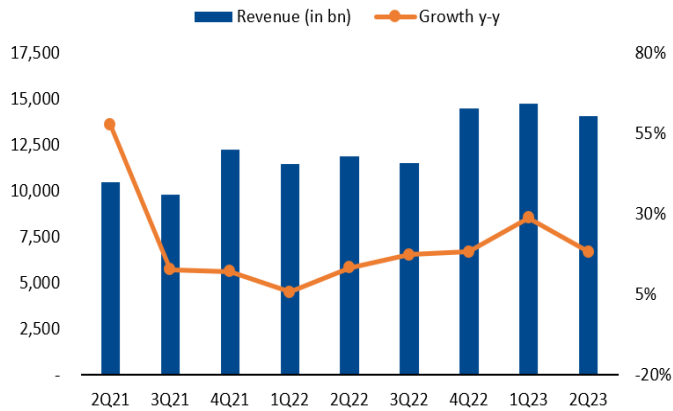
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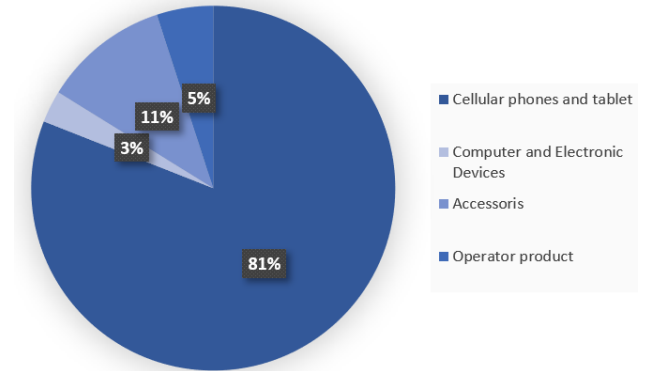
Performance Highlights

ERAA Revenue



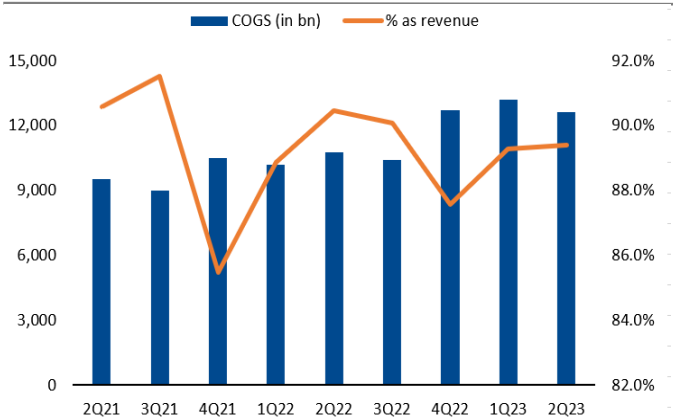
Source: Company, NHKSI Research

ERAA Revenue Breakdown



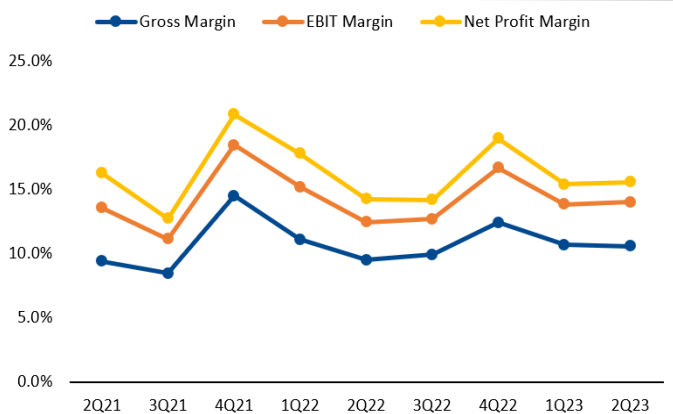
Source: Company, NHKSI Research

ERAA COGS



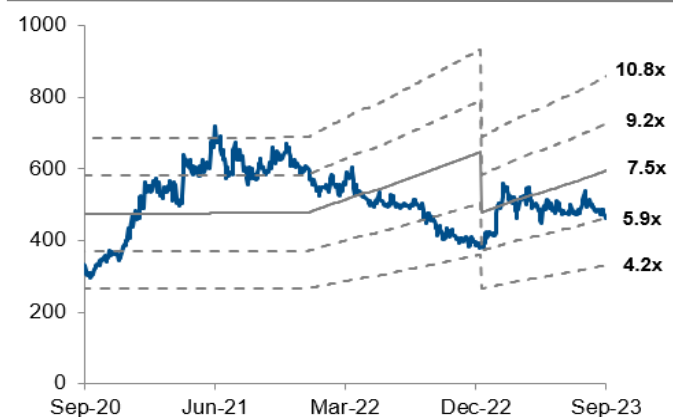
Source: Company, NHKSI Research

ERAA Margin Ratios



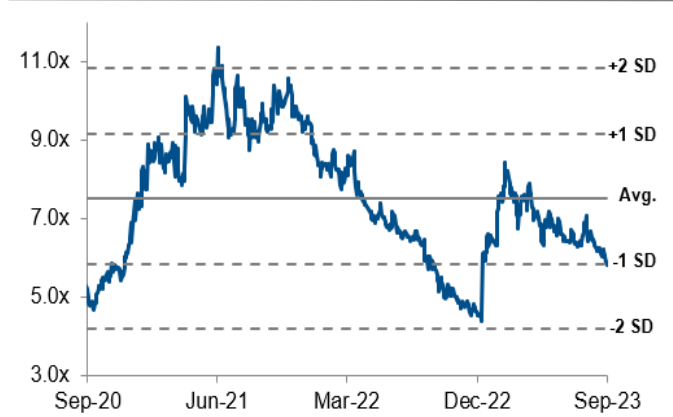
Source: Company, NHKSI Research

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	56,272	61,900	66,852
<i>Growth</i>	13.8%	13.7%	10.0%	8.0%
COGS	(44,110)	(50,233)	(55,091)	(59,498)
Gross Profit	5,362	6,040	6,809	7,354
<i>Gross Margin</i>	10.8%	10.7%	11.0%	11.0%
Operating Expenses	(3,771)	(4,426)	(4,849)	(5,310)
EBIT	1,793	1,774	2,185	2,279
<i>EBIT Margin</i>	3.6%	3.2%	3.5%	3.4%
Depreciation	191	289	347	441
EBITDA	1,984	2,063	2,532	2,721
Interest Expenses	(290)	(345)	(317)	(331)
EBT	1,497	1,436	1,878	1,954
Income Tax	(421)	(417)	(405)	(414)
Minority Interest	(64)	(3)	(100)	(111)
Net Profit	1,013	1,016	1,373	1,428
<i>Growth</i>	0.0%	0.3%	35.1%	4.0%
<i>Net Profit Margin</i>	2.0%	1.8%	2.2%	2.1%

BALANCE SHEET

(IDR bn)	2022/12A	2023/12F	2024/12F	2025/12F
Cash	1,044	946	1,783	1,390
Receivables	1,055	966	1,125	1,073
Inventories	6,065	8,620	8,629	8,637
Total Current Assets	11,217	13,625	14,650	14,222
Net Fixed Assets	1,573	1,377	2,553	2,756
Other Non Current Assets	4,268	6,525	5,340	5,767
Total Non Current Asset	5,841	7,902	7,893	8,523
Total Assets	17,058	21,528	22,544	22,745
Payables	2,401	3,181	5,248	3,658
ST Bank Loan	3,491	5,313	3,677	4,205
Total Current Liabilities	9,021	11,626	11,339	10,470
LT Debt	182	339	260	300
Total Liabilities	9,855	13,360	12,629	11,876
Capital Stock + APIC	2,193	2,193	2,193	2,193
Retained Earnings	4,655	5,677	7,671	8,625
Shareholders' Equity	7,203	8,168	9,914	10,869

CASH FLOW STATEMENT

(IDR bn)	2022/12A	2023/12F	2024/12F	2025/12F
Operating Cash Flow	435	(4,687)	2,881	508
Investing Cash Flow	(1,187)	(1,176)	79	(1,004)
Financing Cash Flow	1,149	4,020	(2,123)	104
Net Changes in Cash	397	(1,842)	837	(393)

Source: NHKSI research, Bloomberg

PROFITABILITY & STABILITY

	2022/12A	2023/12F	2024/12F	2025/12F
ROE	14.8%	13.2%	15.2%	13.7%
ROA	7.1%	5.3%	6.2%	6.3%
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%	42%	33%
DER	51.0%	69.2%	39.7%	41.4%
Net Gearing	0.6x	0.8x	0.4x	0.4x
Equity Ratio	42.2%	37.9%	44.0%	47.8%
Financial Leverage	2.08x	2.51x	2.44x	2.18x
Current Ratio	1.24x	1.17x	1.29x	1.36x
Quick Ratio	0.57x	0.43x	0.53x	0.53x
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

VALUATION INDEX

	2022/12A	2023/12F	2024/12F	2025/12F
Price/Earnings	6.2x	9.4x	7.0x	6.7x
Price/Book Value	0.9x	1.2x	1.0x	0.9x
PE/EPS Growth	126.1x	27.7x	0.2x	1.7x
EV/EBITDA	4.7x	7.1x	4.7x	4.7x
EV/EBIT	5.2x	8.3x	5.5x	5.7x
EV (IDR bn)	9,342	14,732	11,933	12,894
Sales CAGR (3-Yr)	13.2%	9.0%	7.8%	5.9%
Net Income CAGR (3-Yr)	50.8%	18.4%	10.7%	12.1%
Basic EPS (IDR)	63	64	86	89
BVPS (IDR)	452	512	622	681
DPS (IDR)	23	25	26	29

TOP OWNERSHIP

Shareholders	%
PT Eralink International	54.5
Norges Bank	1.8
Dimensional Fund Advisors LP	1.4
PT SUCORINVEST ASSET MANAGEMENT	1.3
By Geography	%
Indonesia	89.6
Norway	2.7
United States	2.2
Unknwon	2.0

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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