

Erajaya Swasembada Tbk (ERAA IJ)

1Q20 : Digital Partially Offset Brick & Mortar Sales

ERAA still recorded positive performance in 1Q20. In facing a challenging environment, ERAA has implemented a number of strategies such as increase sales through digital platform, maintain quality of working capital and leverage.

Strong Profit Growth in 1Q20

Erajaya Swasembada (ERAA) 1Q20 net profit came in at IDR102bn (+116.6 YoY), forming 28.8% of our estimation FY20F. Revenue rose by 9.6% or equivalent to IDR7.8tn, with average selling prices (ASP) rising by about 20.9% to IDR2.2mn. We believe this higher-than-expected performance is fuelled by strong demand for new three iPhone models. Meanwhile, COGS still grew by higher pace of 8.5% YoY, but gross profit still managed to grow by 20.3% YoY. In addition, Operating profit was recorded at IDR211 bn (+21.1% YoY) which led to OPM increasing by 30bps to 2.3%. This margin improvement is supported by lower A&P and rental service charge during the quarter. On the margin side, GPM and NPM expanded by 90bps to 10.0% and 60 bps to 1.3%, respectively. Since April, the government has implemented a social distancing policy with several shopping malls temporarily closed, which is our main assumption to slash top-line growth in 2Q around ~30% YoY (vs. -5.8 YoY in 2Q19) after we note that ERAA posted decline in sales volume by 10.9% in 1Q20. However, we still maintain our FY20 earnings to deliver positive growth, on the back of digital solution that adopted by management and slowly reopening business activities by mid-June. In our view, this strategy could partially offset decreased sales from physical stores.

Maintain Working Capital Efficiency

As management has succeeded in speeding up inventory clearance and being selective in choosing product. We note a better inventory level which was down by 38% YoY to IDR3.7 tn. This further translated into shorter inventory days to 48 days from 89 days. On leverage side, ERAA's net debt stood at IDR2.3tn, down 37.8% YoY from IDR3.7tn, resulting in lower DER of 0.5x (vs 1Q19's of 0.8x). We expect ERAA can maintain the efficiencies of working capital and leverage throughout this year. Moreover, the management has decided not to distribute dividend this year in order to manage their cashflow.

Downgrade to Hold with TP of IDR1.300

We believe that the current unfavorable macroeconomic condition that might lead to a decrease in discretionary income will put pressure on cell phone sales at least for 1H20. Therefore, due to limited upside potential, we downgrade our call to Hold on ERAA with TP of IDR1.300, which we arrived by applying a forward PE of 14.6x. Risks posed by our target price are lower-than-estimate sales, low enthusiasm on new product launch, and loosening IMEI regulation.

PT Erajaya Swasembada Tbk | Summary

	2019A	2020E	2021F	2022F
Sales	32,945	28,164	30,479	32,897
Growth (%)	-5.2%	-14.5%	8.2%	7.9%
EBIT	777	763	893	1,099
Net Profit	304	354	454	611
EPS (IDR)	95	111	142	192
P/E	0.6x	0.4x	0.4x	0.4x
P/BV	0.5x	0.4x	0.4x	0.4x
EV/EBITDA	13.1x	8.2x	6.4x	5.0x
ROE (%)	5.8%	6.3%	7.6%	9.9%
ROA (%)	3.2%	3.9%	4.7%	6.1%
Dividend Yield	3.1%	0.0%	4.0%	4.9%

Unit: IDR bn, %, x

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

HOLD

Target Price (IDR)	1,300
Consensus Price (IDR)	1,200
TP to Consensus Price	8.3%
vs. Last Price	7.0%

Shares data

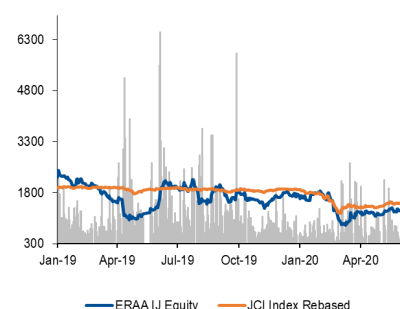
Last Price (IDR)	1,215
Price Date as of	June. 26, 2020
52 wk Range (Hi/Lo)	3,280 / 560
Free Float (%)	45.20
Outstanding sh.(mn)	3,191
Market Cap (IDR bn)	3,988
Market Cap (USD mn)	275
Avg. Trd Vol - 3M (mn)	23.64
Avg. Trd Val - 3M (bn)	28.46
Foreign Ownership	6.8%

Trade, Services, and Investment

Retail Trade

Bloomberg	ERAA IJ
Reuters	ERAA.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-33.6%	-3.2%	37.3%	-36.7%
Rel. Ret.	-11.6%	-4.3%	29.5%	-13.8%

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Summary of Financials

INCOME STATEMENT

(IDR bn)	2019/12A	2020/12F	2021/12F	2022/12F
Sales	32.945	28.164	30.479	32.897
<i>Growth</i>	-5,2%	-14,5%	8,2%	7,9%
COGS	(30.096)	(25.580)	(27.675)	(29.739)
Gross Profit	2.849	2.584	2.804	3.158
<i>Gross Margin</i>	8,6%	9,2%	9,2%	9,6%
Operating Expenses	(2.336)	(2.009)	(2.135)	(2.289)
EBIT	777	763	893	1.099
<i>EBIT Margin</i>	2,4%	2,7%	2,9%	3,3%
Depreciation	123	146	136	155
EBITDA	901	908	1.030	1.255
Interest Expenses	(313)	(220)	(204)	(172)
EBT	482	546	689	927
Income Tax	(147)	(156)	(189)	(254)
Minority Interest	(31)	(36)	(46)	(62)
Net Profit	304	354	454	611
<i>Growth</i>	-64,1%	16,5%	28,3%	34,5%
<i>Net Profit Margin</i>	0,9%	1,3%	1,5%	1,9%

PROFITABILITY & STABILITY

	2019/12A	2020/12F	2021/12F	2022/12F
ROE	5,8%	6,3%	7,6%	9,9%
ROA	3,2%	3,9%	4,7%	6,1%
ROIC	4,3%	5,1%	6,1%	7,1%
Cash Dividend (IDR bn)	160	-	141	171
Dividend Yield	3,06%	0,00%	4,00%	4,86%
Payout Ratio	52%	0%	40%	38%
DER	27,7%	17,9%	14,4%	13,7%
Net Gearing	64%	36%	27%	26%
LT Debt to Equity	0,0%	0,0%	0,0%	0,0%
Capitalization Ratio	21,7%	15,2%	12,6%	12,1%
Debt Ratio	27,7%	17,9%	14,4%	13,7%
Financial Leverage	181,3%	163,9%	160,2%	160,3%
Current Ratio	150,5%	171,1%	182,3%	179,6%
Par Value (IDR)	100	100	100	100
Total Shares (mn)	2.900	2.900	2.900	2.900
Share Price (IDR)	1.795	1.215	1.215	1.215
Market Cap (IDR tn)	5,2	3,5	3,5	3,5

BALANCE SHEET

(IDR bn)	2019/12A	2020/12F	2021/12F	2022/12F
Cash	571	859	1.735	2.714
Receivables	1.042	856	898	526
Inventories	3.693	3.084	2.224	2.013
Total Current Assets	6.945	6.052	6.018	6.385
Net Fixed Assets	615	770	826	856
Other Non Current Asset	2.189	2.324	2.377	2.698
Total Assets	9.748	9.146	9.221	9.938
Payables	1.435	1.299	1.431	1.665
ST Bank Loan	2.703	1.633	1.325	1.364
LT Debt	-	-	-	-
Total Liabilities	4.769	3.702	3.461	3.737
Capital Stock + APIC	2.189	2.189	2.189	2.189
Retained Earnings	2.620	2.975	3.290	3.731
Shareholders' Equity	9.748	9.146	9.221	9.938

VALUATION INDEX

	2019/12A	2020/12F	2021/12F	2022/12F
Price/Earnings	0,6x	0,4x	0,4x	0,4x
Price/Book Value	0,5x	0,4x	0,4x	0,4x
Price/Sales	0,2x	0,1x	0,1x	0,1x
PE/EPS Growth	0,0x	0,0x	0,0x	0,0x
EV/EBITDA	13,1x	8,2x	6,4x	5,0x
EV/EBIT	15,2x	9,7x	7,4x	5,8x
EV (IDR bn)	11.775	7.407	6.613	6.332
Sales CAGR (3-Yr)	-	-	-2,6%	5,3%
EPS CAGR (3-Yr)	-	-	-18,7%	26,2%
Basic EPS (IDR)	3.000	3.000	3.000	3.000
Diluted EPS (IDR)	3.000	3.000	3.000	3.000
BVPS (IDR)	3.361	3.154	3.180	3.427
Sales PS (IDR)	11.360	9.712	10.510	11.344
DPS (IDR)	55	-	49	59

CASH FLOW STATEMENT

(IDR bn)	2019/12A	2020/12F	2021/12F	2022/12F
Operating Cash Flow	2.431	1.556	1.573	1.594
Investing Cash Flow	(377)	(226)	(243)	(485)
Financing Cash Flow	(1.861)	(788)	(454)	(129)
Net Changes in Cash	192	542	876	979

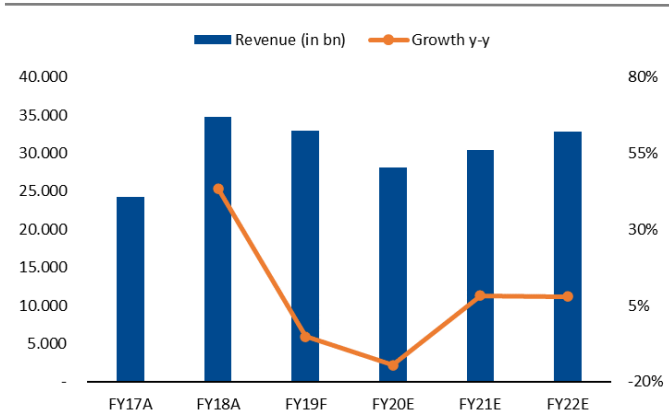
TOP OWNERSHIP

By Geography	% Shareholders	%
Indonesia	91,2	PT Eralink International
United States	4,8	Dimensional Fund
Norway	1,8	Norges Bank
United Kingdom	0,8	TIAA Cref

Source: Company Data, NHKSI Research

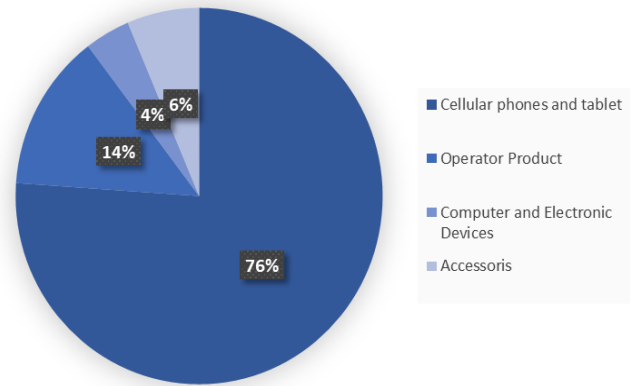
Key Charts

ERAA's FY17A—FY22E Revenues



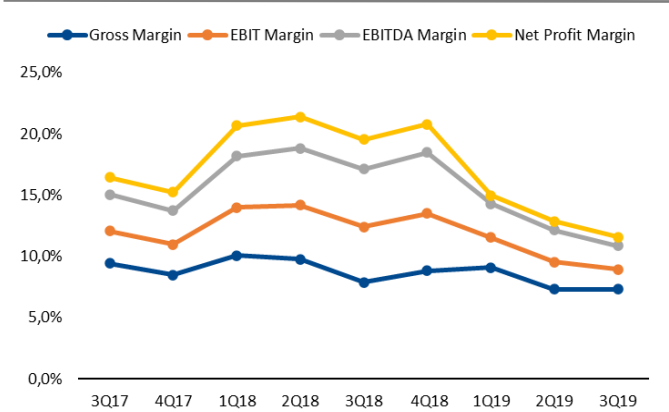
Source: Company Data, NHKSI Research

ERAA's Revenue Breakdown



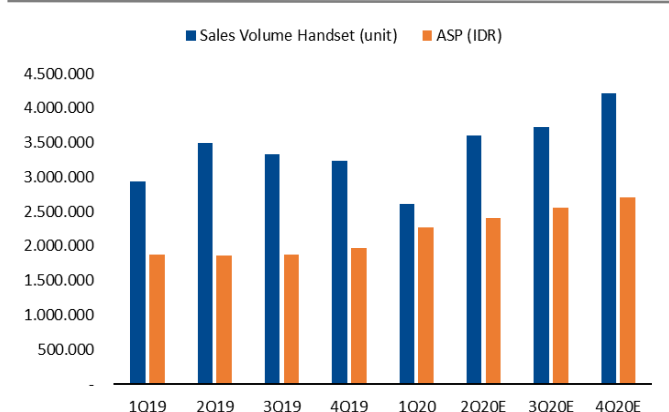
Source: Company Data, NHKSI Research

ERAA's Margin Ratios



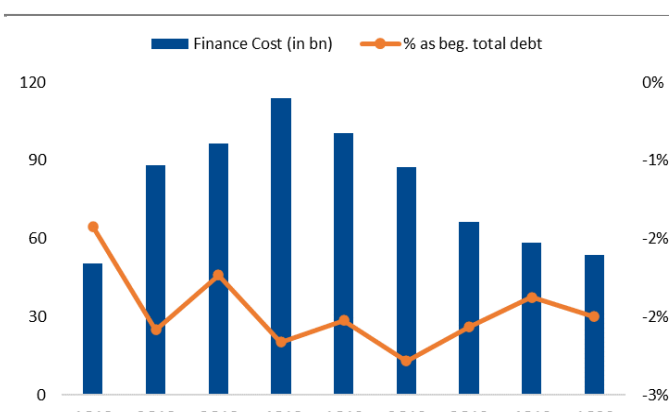
Source: Company Data, NHKSI Research

ERAA's ASP and Volume Handset



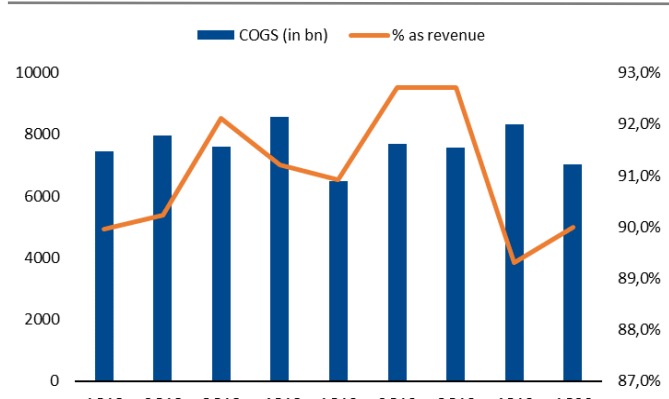
Source: Company Data, NHKSI Research

ERAA's Finance Costs



Source: Company Data, NHKSI Research

ERAA's COGS



Source: Company Data, NHKSI Research

Company Background

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.

Peers Comparison

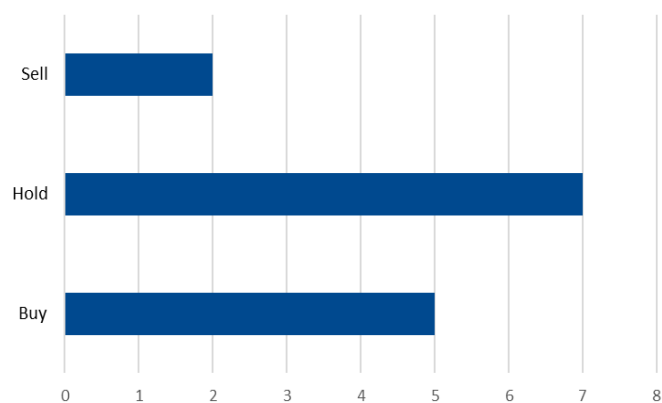
Global Companies

	Market Cap	Total Asset	Sales Growth LTM	Gross Margin LTM	Operating Margin LTM	Net Profit Growth LTM	ROE LTM	P/E LTM	Dividend Yield
Indonesia									
ERAJAYA SWASEMBADA	275	704	-5,2%	8,6%	2,3%	-49,4%	7,2%	11,4x	N/A
TIPHONE MOBILE INDONESIA	N/A	578	5,1%	5,4%	3,4%	-31,3%	10%	2,3x	5,0%
Hong Kong									
CHINA MOBILE	138.169	233.972	1,2%	N/A	15,2%	-9,5%	9,9%	9,1x	6,2%
Japan									
YAMADA DENKI NOJIMA CORP	4.738 1.271	10.795 2.656	0,7% 2,1%	28,6% 27,5%	2,4% 4,3%	67,5% 8,4%	4,0% 18,6%	18,7x 8,4x	1,9% 1,5%

Source: Bloomberg, NHKSI Research

Valuation and Highlight

Analyst Coverage Rating



Source: Bloomberg

Rating and target price update

Date	Rating	Target price	Consensus
2020.02.17	Buy	IDR2,000 (12M)	IDR1,982
2020.07.01	Buy	IDR1,400 (12M)	IDR1,200

Source: NHKSI research, Bloomberg

1Q20 review (IDR bn)

	1Q19	2Q19	3Q19	4Q19	1Q20			2Q20E
					Actual	y-y	q-q	
Sales	7,124	8,305	8,184	9,332	7,807	9.6%	-16.3%	5,797
Gross Profit	647	606	597	999	778	20.3%	-22.2%	429
<i>Gross Margin</i>	9.1%	7.3%	7.3%	10.7%	10.0%	9.7%	-6.9%	7.4%
EBIT	174	186	132	284	211	21.0%	-25.9%	133
<i>EBIT Margin</i>	2.4%	2.2%	1.6%	3.0%	2.7%	10.4%	-11.5%	2.3%
Net Profit	47	62	56	129	102	116.6%	-21.1%	48
<i>Net Margin</i>	0.7%	0.7%	0.7%	1.4%	1.3%	97.7%	-5.7%	0.8%

NH Korindo Sekuritas Indonesia (NHKS) stock ratings

1. Period: End of year target price
2. Rating system based on a stock's absolute return from the date of publication
 - Buy : Greater than +15%
 - Hold : -15% to +15%
 - Sell : Less than -15%

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