

# Erajaya Swasembada (ERAA)

## More potential to unlock

### 2021 recap: all-time-high performance

Unlike other retailers, despite PPKM being imposed back and forth, ERAA's 2021 performance was remarkable with an all time-high profit generation. Its top-line was driven by both ASP and volume growth in phone segment, while higher contribution from IoT goods underpinned margin expansion. On that basis, net profit surpassed IDR 1tn (+65% YoY). We believe that the favorable performance was aided by (1) faster digital adoption due to pandemic, (2) pent-up demand in middle-upper class, (3) limited rivalry, and (4) a rebound in its retail business along with mobility recovery.

### More outlets are on their way

After adding a gross 289 stores in 2021, ERAA plans to open another 500 new outlets in 2022 (+41% from 2021e), with a concentration on second and third-tier cities. We think those areas offer lucrative growth potential, given ERAA's sales in Java and Sumatra have grown rapidly in the past 4 years with a 33% CAGR in 2018-21, increasing its contribution to total sales to 25% in 2021 (vs. only 10% in 2018). We believe that wider penetration, combined with digital adoption that is likely to persist post pandemic, would be key drivers of ERAA in the near-term. We forecast ERAA to post 11% top-line growth in FY22F, albeit higher opex might result from the newly opened outlets.

### Business expansion serves as mid to long-term catalyst

ERAA has actively expanded its product and service offering over the last two years. It now caters to new categories such as active lifestyle, food & nourishment, and beauty and wellness. The majority of them are part of JVs with such industry expertise, minimizing the risks for ERAA who are new to those areas while also enhancing ERAA's position to have more bargaining power with landlords. Given most of the brands are new to society, we believe acceptance will take time. Nonetheless, we think this will serve as a good catalyst for ERAA to improve the company's profitability profile in the future.

### Re-initiate coverage with BUY recommendation with TP of IDR 820

Our TP implies 11x FY22F PE, based on its 5-year average. We think current valuation at 6.8x FY22F PE is undeniably appealing, with a favorable outlook on the back of: (1) wider penetration, (2) pricing stability from minimal competition, and (3) potential enhanced profitability from its business initiatives. Downside risks: weaker-than-expected purchasing power and slower brand acceptance.

	2020A	2021A	2022F	2023F	2024F
Sales (IDR bn)	34,113	43,467	48,361	51,436	54,824
GP (IDR bn)	3,410	4,806	5,428	5,782	6,360
OP (IDR bn)	858	1,486	1,592	1,698	1,894
NP (IDR bn)	612	1,012	1,201	1,313	1,465
EBITDA (IDR bn)	991	1,613	1,779	1,929	2,174
Net debt/(cash) (IDR bn)	(123)	1,125	(937)	(1,476)	(1,323)
OP margin (%)	2.5	3.4	3.3	3.3	3.5
ROE (%)	12.0	17.5	18.2	17.3	16.9
Dividend yield (%)	-	2.7	3.1	3.7	4.0
EPS (IDR)	38.4	63.5	75.3	82.3	91.9
chg. (% YoY)	106.8	65.4	18.7	9.3	11.6
BPS (IDR)	339.1	384.9	444.3	507.7	579.1
DPS (IDR)	-	13.8	15.9	18.8	20.6
PE (x)	13.3	8.0	6.8	6.2	5.5
PB (x)	1.5	1.3	1.1	1.0	0.9
EV/EBITDA (x)	8.4	5.9	4.2	3.6	3.3

## Company

## In-Depth

## Retailers

25 May 2022

12M rating **BUY (Initiate)**

12M TP **IDR 820**

Upside **61%**

### Stock Data

JCI (May 24)	6,914
Stock price (May 24, IDR)	510
Market cap (IDR bn)	8,135
Shares outstanding (mn)	15,950
52-week high/low (IDR)	725 / 482
6M avg. daily turnover (IDR bn)	29.6
Free float (%)	45.2

### Major shareholders (%)

PT Eralink International	54.5
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### Performance

	1M	6M	12M
Absolute (%)	(4.7)	(22.9)	(12.4)
Relative to JCI (%p)	0.6	(23.6)	(32.0)

### ERAA stock price

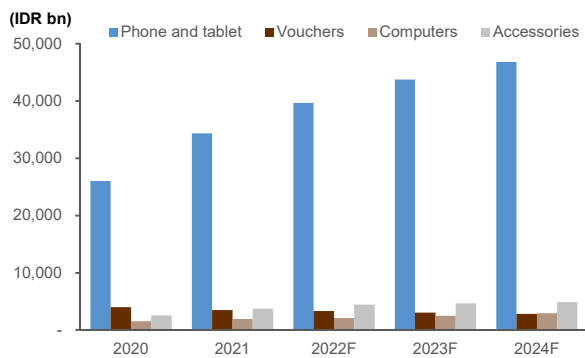


Source: Bloomberg

**Elvira Natalia**

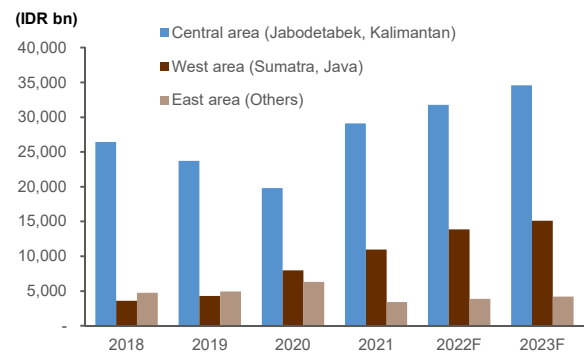
[elvira.n@kisi.co.id](mailto:elvira.n@kisi.co.id)

**Fig 1. Revenue breakdown by segment**



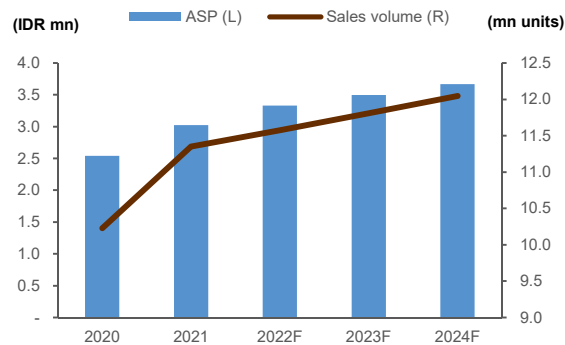
Source: Company, KISI

**Fig 2. Revenue breakdown by area**



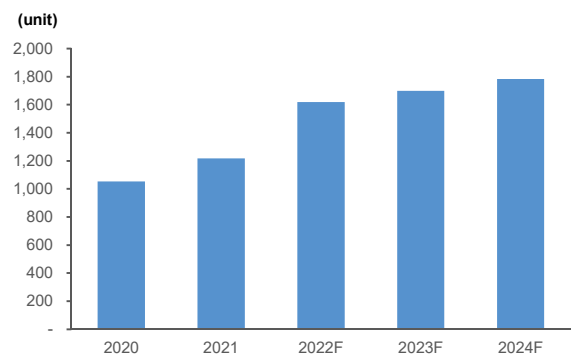
Source: Company, KISI

**Fig 3. Handset ASP and sales volume**



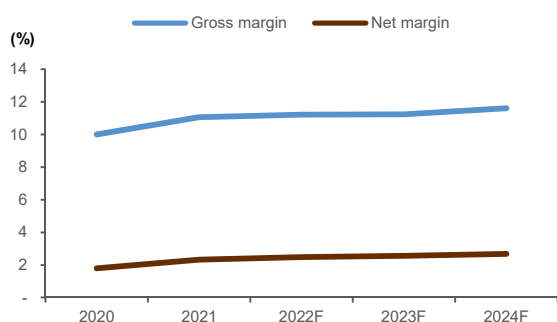
Source: Company, KISI

**Fig 4. No. of stores**



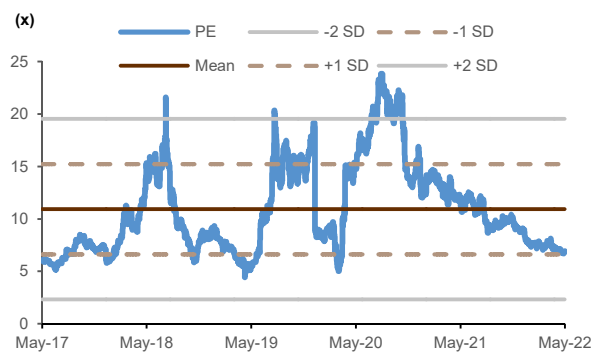
Source: Company, KISI

**Fig 5. Gross and net margin (%)**



Source: Company, KISI

**Fig 6. ERAA's FY22F PE band**

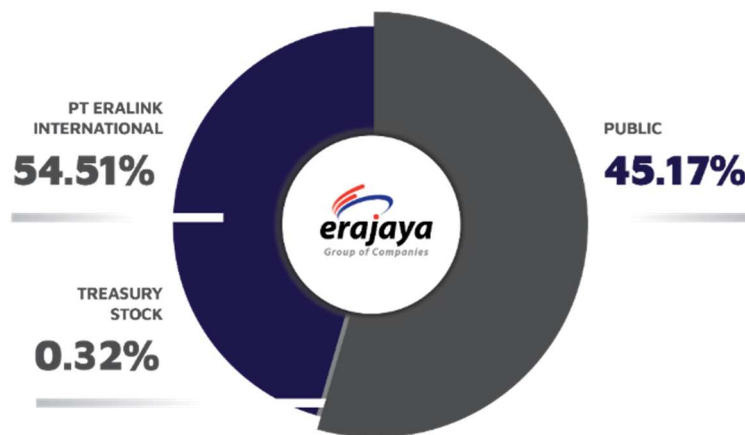


Source: Bloomberg, KISI

## Company Overview

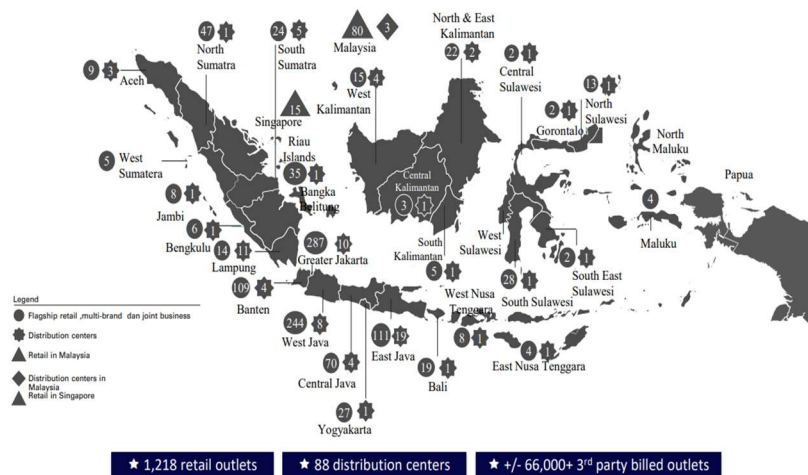
Established in 1996 as a smartphone dealer, Erajaya Swasembada (ERAA) has tremendously growing and becoming the biggest retailer and distributor of mobile communication devices, IoT products, gadgets, accessories, and value-added services. The company distributes renowned brand such as Apple, Samsung, Xiaomi, Huawei, Oppo, Vivo, and etc. It has 1,126 retail outlets, 88 distribution centers, and works with ~65k third-party shops and service points spread nationwide. To reach their goal of becoming the largest lifestyle smart retailer, they have aggressively expanded their product and service portfolio in the last two years to include: (1) active lifestyle through JD Sports, (2) food & nourishment through Paris Baguette, Grand Lucky supermarket, and minority ownership in Sushi Tei, (3) beauty and wellness through The Face Shop and Apotek Wellings, and adding Erablu (multibrand CE, JV with Mobile World Group Vietnam) to its digital segment.

Fig 7. ERAA shareholder structure



Source: Company, KISI

Fig 8. ERAA distribution network



Source: Company, KISI

Fig 9. ERAA business segment



Source: Company, KISI

Fig 10. ERAA latest initiatives

No	Category	Brand	Type of ownership	Description
1	Active lifestyle	JD Sports	JV with JD Sports Fashion (UK)	JD Sports is a sports-fashion retail company from UK. It ranges the latest and greatest products from international brands such as Nike, Adidas, The North Face, EA7, Hugo Boss, Tommy Hilfiger, Pink Soda and Supply & Demand in an elevated and premium environment.
2	Food & Nourishment	Paris Baguette	JV with Paris Baguette Singapore	Paris Baguette is a fast-casual bakery from South Korea that provides a premium quality selection of breads, as well as pastries, cakes, sandwiches, and some exclusive menus, all made with high-grade ingredients.
		Sushi Tei	Minority ownership (20% ownership)	Sushi Tei is an international Japanese restaurant chain originated in Singapore with around 80 outlets across Asia Pacific. It offers a wide range of Japanese dishes including fresh sashimi, sushi, and etc.
		Grand Lucky	JV with Grand Lucky Group	Grand Lucky Group operates a retail chain of supermarkets, convenience stores and grocery stores in Indonesia. It targets middle to upper segment.
3	Beauty & Wellness	Apotek Wellings (Wellings Pharmacy)	JV with Caring Pharmacy	Apotek Wellings is a leading lifestyle pharmacy from Malaysia. It provides prescription filling services, health and drug consultations, nutrition, supplements and other health products, and etc.
4	Consumer Electronics	Erablu	JV with Mobile World Group (Vietnam)	Mobile World Group (MWG) is a leading gadget and consumer electronic retailer in Vietnam. Together with Erajaya, MWG will carry the latest and best products from well-known consumer electronics brands under brand "Erablu".

Source: Company, KISI

## Balance sheet (IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
<b>Current assets</b>					
Cash & cash equivalent	2,002	520	2,080	2,619	2,466
Accounts & other receivables	1,576	1,047	1,991	2,117	2,257
Inventories	3,259	3,932	2,222	2,615	3,741
Others	710	1,125	1,125	1,125	1,125
<b>Non-current assets</b>					
Fixed assets	716	852	1,062	1,253	1,423
Intangible assets	727	768	768	768	768
Total investment	707	936	1,931	1,900	2,180
Other non-current assets	1,515	2,192	2,187	2,187	2,187
<b>Total assets</b>	<b>11,212</b>	<b>11,372</b>	<b>13,366</b>	<b>14,584</b>	<b>16,147</b>
<b>Current liabilities</b>					
Accounts & other payables	2,871	2,369	3,262	3,470	3,698
ST debt	1,879	1,288	1,000	1,000	1,000
Current portion of LT debt	-	143	143	143	143
Others	393	479	843	832	934
<b>Non-current liabilities</b>					
LT debt	-	214	-	-	-
Other non-current liabilities	382	418	692	684	762
<b>Total liabilities</b>	<b>5,525</b>	<b>4,911</b>	<b>5,940</b>	<b>6,129</b>	<b>6,537</b>
<b>Controlling interest</b>					
Capital stock	1,595	1,595	1,595	1,595	1,595
Additional paid-in capital	594	598	598	598	598
Retained earnings	3,211	4,004	4,952	5,964	7,102
Others	8	(59)	(59)	(59)	(59)
Minority interest	279	323	340	357	374
<b>Shareholders' equity</b>	<b>5,687</b>	<b>6,461</b>	<b>7,426</b>	<b>8,455</b>	<b>9,610</b>

## Cash flow (IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
<b>C/F from operating</b>	<b>2,462</b>	<b>(649)</b>	<b>2,696</b>	<b>1,244</b>	<b>607</b>
Net profit	612	1,012	1,201	1,313	1,465
Depreciation	133	127	187	232	279
Net incr. in W/C	1,648	(1,886)	1,308	(301)	(1,137)
Others	69	98	-	-	-
<b>C/F from investing</b>	<b>(303)</b>	<b>(361)</b>	<b>(397)</b>	<b>(422)</b>	<b>(450)</b>
CAPEX	(303)	(361)	(397)	(422)	(450)
Others	-	-	-	-	-
<b>C/F from financing</b>	<b>(728)</b>	<b>(472)</b>	<b>(739)</b>	<b>(283)</b>	<b>(310)</b>
Incr. in equity	-	4	-	-	-
Incr. in debts	(825)	(234)	(502)	-	-
Dividends	-	(219)	(253)	(300)	(328)
Others	97	(23)	16	17	18
<b>Increase in cash</b>	<b>1,431</b>	<b>(1,482)</b>	<b>1,560</b>	<b>539</b>	<b>(153)</b>

## Income statement (IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Sales	34,113	43,467	48,361	51,436	54,824
COGS	(30,703)	(38,661)	(42,933)	(45,654)	(48,464)
<b>Gross profit</b>	<b>3,410</b>	<b>4,806</b>	<b>5,428</b>	<b>5,782</b>	<b>6,360</b>
SG&A expense	(2,552)	(3,320)	(3,836)	(4,084)	(4,466)
<b>Operating profit</b>	<b>858</b>	<b>1,486</b>	<b>1,592</b>	<b>1,698</b>	<b>1,894</b>
<b>Financial income</b>					
Interest income	6	15	15	28	30
<b>Financial expense</b>					
Interest expense	(191)	(195)	(190)	(189)	(203)
Other non-operating profit	245	173	193	205	218
Gains (Losses) from associates and JV	(1)	16	47	70	84
<b>Earnings before tax</b>	<b>917</b>	<b>1,495</b>	<b>1,657</b>	<b>1,812</b>	<b>2,023</b>
Income taxes	(246)	(377)	(331)	(362)	(405)
<b>Net profit</b>	<b>612</b>	<b>1,012</b>	<b>1,201</b>	<b>1,313</b>	<b>1,465</b>
Non-controlling interest	59	106	125	137	153
<b>EBITDA</b>	<b>991</b>	<b>1,613</b>	<b>1,779</b>	<b>1,929</b>	<b>2,174</b>

## Key financial data

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
<b>per share data (IDR)</b>					
EPS	38.4	63.5	75.3	82.3	91.9
BPS	339.1	384.9	444.3	507.7	579.1
DPS	-	13.8	15.9	18.8	20.6
<b>Growth (%)</b>					
Sales growth	3.5	27.4	11.3	6.4	6.6
OP growth	67.3	73.2	7.1	6.7	11.5
NP growth	106.8	65.4	18.7	9.3	11.6
EBITDA growth	55.8	62.8	10.3	8.4	12.7
<b>Profitability (%)</b>					
OP margin	2.5	3.4	3.3	3.3	3.5
NP margin	1.8	2.3	2.5	2.6	2.7
EBITDA margin	2.9	3.7	3.7	3.8	4.0
ROA	5.8	9.0	9.7	9.4	9.5
ROE	12.0	17.5	18.2	17.3	16.9
Dividend yield	-	2.7	3.1	3.7	4.0
Dividend payout ratio	-	35.8	25.0	25.0	25.0
<b>Stability</b>					
Net debt/(cash) (IDR bn)	(123)	1,125	(937)	(1,476)	(1,323)
Int.-bearing debt/equity (%)	36.7	28.5	17.3	15.1	13.2
<b>Valuation (X)</b>					
PE	13.3	8.0	6.8	6.2	5.5
PB	1.5	1.3	1.1	1.0	0.9
EV/EBITDA	8.4	5.9	4.2	3.6	3.3

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