erajaya Group of Companies

BUY

Target Price : 2,000

Stock Data

Current Price	:	IDR: 1.780
52wk Range H-L	:	IDR: 2.120-565
Share Outstanding	:	3.190 mn
Free Float (%)	:	76,87%
Mkt Capitalization (IDR bn)	:	5.726

Major Shareholders

Eralink Internasional	:	60,00%
Public	:	40,00%

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PT Erajaya Swasembada Tbk (ERAA)

Trade, Service & Investment

XIAOMI AND ASUS : Get In The Spot-Light

Solid Performance in 1Q18

ERAA showing satisfactory performance, with revenues in 1Q18 increasing by 60.28% YoY, from IDR5.16 trillion in 1Q17 to IDR8.28 trillion in 1Q18. This is above our expectation, which represent 30.76% of the MNCS estimate. The rise in sales was supported by cellular phones and tablets, which recorded growth by 70.04% YoY, respectively, contributing 83.53% to total sales. We believe increasing sales volume in Samsung and Xiaomi brand drives the topline growth. ERAA also successfully managed to maintain operational performance and cost efficiency, holding their operating margin at a level 3,95% (vs 2.29% at 1Q17). EBITDA stood at IDR308.10 billion or 205.45% YoY higher. Meanwhile, net profit increased significantly by 214.18% YoY to IDR205.35 billion in 1Q18 from IDR60.89 billion in 1Q17, which reflects 50,24% of MNCS estimate.

Xiaomi and Asus Captivates the Middle-to-Low Segment with Affordable Prices

International Data Corporation (IDC) research reveals smartphone products targeting middle-to-low consumers accounted for 71% of total smartphone sales in Indonesia in 2Q17, with low-end and mid-range prices around USD100-200 and USD200-400, respectively. We see that Xiaomi and Asus comes with fantastic specifications at an affordable price (value for money).

Black Market Devices Still a Threat

Up to 5M17, 60 million 4G-enabled smartphones are circulating in Indonesia; of these, around 20% are illegally-imported products that do not have an official import permit. The Government is dealing with this issue by ensuring that the IMEI number of each mobile unit is registered with the appropriate ministry. A price differential of 20%-30% for black market products means ERAA tends to lose market share, so it needs appealing innovations to attract and keep customer appeal.

Recommend BUY With Target Price IDR 2,000

We recommend **BUY** for ERAA, with a **TP: of IDR 2,000** which implies a PE18E/19F 14,19x/12,32x and PBV18E/19F 1.45x/1.33x. We believe the strategy of product mix development and opportunities in the wearable device market can increase its margins in the future. In addition, the ERAA's business is supported by 57 authorized stores and 42 service centers offering vital after-sales service. ERAA is currently trading at a level of +0.5 STD (average 5-years PE) with PE of 10.84x.

Key Financial Highlight

In billion IDR	FY2015	FY2016	FY2017	FY2018E	FY2019F
Revenues	20,007.60	20,547.13	24,229.91	26,922.38	29,788.73
EBITDA	424.30	528.49	672.92	835.28	933.42
Net Income	226.02	263.75	339.47	408.75	470.76
ROA (%)	2.90	3.55	3.83	4.18	4.43
ROE (%)	7.05	7.74	9.16	10.19	10.78
PER (x)	22.84	19.57	15.21	12.63	10.97
PBV (x)	1.61	1.51	1.39	1.29	1.18

Source: Bloomberg, MNCS as of May 08, 2018

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Solid Financial Performance in 1Q18, Above Expected

As the largest cellular product retailer in Indonesia, ERAA showing satisfactory performance, with revenues in 1Q18 increasing by 60.28% YoY, from IDR5.16 trillion in 1Q17 to IDR8.28 trillion in 1Q18. This is above our expectation, which represent 30.76% of the MNCS estimate. The rise in sales was supported by the two divisions: cellular phones and tablets, which recorded growth by 70.04% YoY, respectively, contributing 83.53% to total sales. Accessories which contributed 4.50% has increased by 123.74% YoY. We believe increasing sales volume in Samsung and Xiaomi brand drives the topline growth.

ERAA also successfully managed to maintain operational performance and cost efficiency, holding their operating margin at a level 3,95% (vs 2.29% at 1Q17). EBITDA stood at IDR308.10 billion or 205.45% YoY higher. Meanwhile, net profit increased significantly by 214.18% YoY to IDR205.35 billion in 1Q18 from IDR60.89 billion in 1Q17, which reflects 50,24% of MNCS estimate.

Exhibit 01. Revenue per Segments

(IDR billion)	1Q17	4Q17	1Q18	QoQ	YoY
Cellular phone & tablets	4.068	6.317	6.917	9,50%	70,04%
Voucher	772	757	763	0,75%	-1,21%
Computer & other electronic devices	158	189	225	18,94%	42,18%
Accesories	168	312	376	20,42%	123,74%

Source : Company, MNCS

Exhibit 02. 1Q18 Financial Results

IDR Billion	1Q17	4Q17	1Q18	QoQ	YoY	FY18E Consensus	FY18E MNCS	% Consensus	% MNCS
Sales	**5.166**	**7.576**	**8.280**	**9,29%**	**60,28%**	**29.656**	**26.922**	**27,92%**	**30,76%**
COGS	4.683	6.934	7.449	7,42%	59,04%				
Gross Profit	**483**	**642**	**831**	**29,50%**	**72,30%**	**2.647**	**2.282**	**24,26%**	**36,44%**
Gross Profit Margin	9,34%	8,47%	10,04%						
Operating Income	**118**	**160**	**327**	**104,53%**	**176,87%**	**819**	**769**	**19,52%**	**42,57%**
EBIT Margin	2,29%	2,11%	3,95%						
EBITDA	**65**	**340**	**205**	**74,48**	**215,94%**	**848**	**835**	**24,22%**	**24,59%**
EBITDA Margin	1,27%	1,40%	2,48%						
PBT	**93**	**162**	**282**	**74,01%**	**201,86%**	**642**	**565**		**49,91%**
Net Profit	**65**	**117**	**205**	**75,52%**	**214,18%**	**464**	**409**		**50,24%**
Net Margin	1,27%	1,54%	2,48%						

Source : Company, Bloomberg, MNCS

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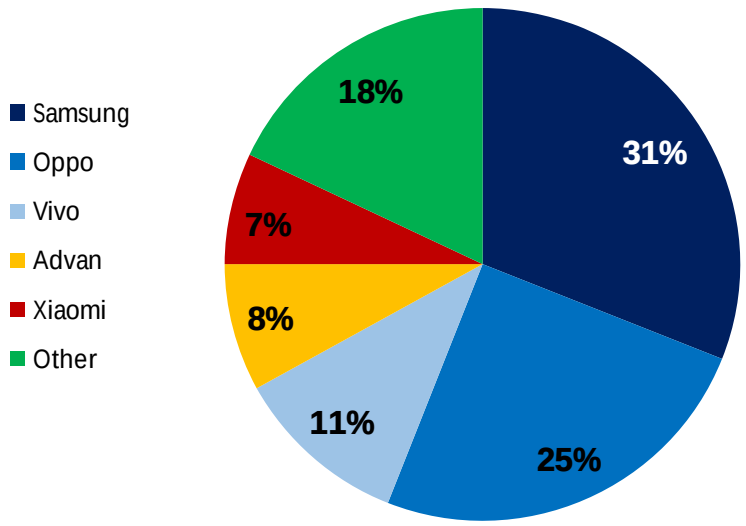
Broadening Middle Class and Lifestyle Evolution of Indonesian Society as Positive Catalyst

Indonesia is the fourth-most-populous country in the world, with a productive age population of more than 65%. High population levels, demographic bonuses and middle-class income growth will potentially boost consumption growth over the long term. World Bank projects Indonesia's GDP growth in FY17 to mark 5.10%, with a projection in a range of 5.30-5.50% for the next two years. Indonesia's relatively exciting economic growth compares to Asia's 4.10% in FY17E implying a relatively better lifestyle for the Indonesian public, supported by steady growth of a middle class. Statistics Indonesia (BPS) has calculated a decrease in the unemployment rate in Indonesia over the last three years, from 6.18% in 8M15 to 5.50% in 8M17. Boston Consulting Group (BCG) projects the middle class population in Indonesia will grow from 88 million in FY14 to 140 million in FY20E. We believe these two factors will be positive catalysts for ERAA.

Xiaomi Captivates the Middle-to-Low Segment with Affordable Prices

The current trend in middle-to-low income group is to be able to purchase a sophisticated smartphone at a relatively affordable price. International Data Corporation (IDC) research reveals smartphone products targeting middle-to-low consumers accounted for 71% of total smartphone sales in Indonesia in 2Q17, with low-end and mid-range prices around USD100-200 and USD200-400, respectively. The rise of smartphone sales in Indonesia is driven by China-based vendors, marketing under Oppo, Vivo and Xiaomi brands, offering quality products and relatively affordable prices. Currently ERAA has become a partner in the assembly of Xiaomi smartphones, and has been awarded TKDN certificates for three types of handset. In our view, Xiaomi Brand, featuring 'good enough' specifications at an affordable price (value for money) has the potential to stimulate better sales for ERAA in the future.

Exhibit 03. 4Q17 Smartphone Market Share in Indonesia



Source : IDC

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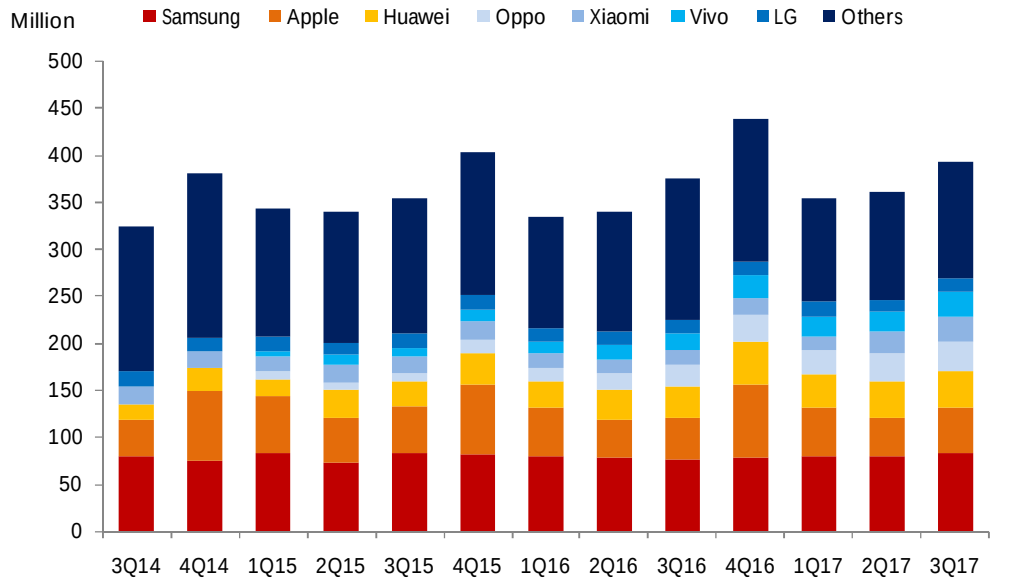
Exhibit 04. Global Smartphone Distribution



Source : Telecoms

ASUS release Limitless Gaming Zenfone Maxpro M1

ASUS's own position last year was at the fourth level with 6.5% market share. Asus's position dropped when compared to 2016, at which time ASUS is still perched in the third position. For that, Asus Indonesia officially launched their latest smartphone named Asus Zenfone Max Pro M1 which has a price of IDR2.3 million/unit that currently sells in the middle to lower class with fantastic specifications.

The Asus ZenFone Max Pro M1 has a 5.99-inch FHD+ display with an aspect ratio of 18:9. Under the hood, the phone is powered by the Snapdragon 636 SoC, which includes an Adreno 509 GPU. The phone has been launched in three variants which are 3 GB RAM + 32 GB storage, a 4 GB RAM + 64 GB storage and finally, a 6 GB RAM + 64 GB storage. In terms of software, the phone runs on Android Oreo 8.1.

To strengthen its position in gadget market, Asus provides the tagline "Limitless Gaming" on this smartphone, which means Asus Zenfone Max Pro M1 targeting Indonesian gamers. In our view, Asus Indonesia is smart enough in determining its positioning in the market, given the mobile gamers are flourishing and quite a lot of numbers in the country.

Exhibit 05. Asus Zenfone Maxpro M1 Specifications

Source : Company, MNCS

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Opportunity in Wearable Device Market

The contemporary lifestyle involving high technology and Internet of Things (IoT) will continue to expand in the future. In 1Q18, ERAA recorded accessory sales of IDR376 billion, an increase of 123.74% YoY from IDR168 billion. Several brands with a strong market share among gadget addicts include Go Pro, DJI Drone, iWatch, Xiaomi Ecosystem and Garmin Wearable are sold through the Urban Republic business unit. 'Wearables' trend in Indonesia will cover two segments of the circle, namely, sport enthusiasts with a device able to monitor health, and business people who demand ease and immediacy in communication and exchange of information that is continuously updated.

Black Market Devices Still Become a Threat

Up to 5M17, 60 million 4G-enabled smartphones are circulating in Indonesia; of these, around 20% are illegally-imported products that do not have an official import permit. The Government is dealing with this issue by ensuring that the IMEI number of each mobile unit is registered with the appropriate ministry. A price differential of 20%-30% for black market products means ERAA tends to lose market share, so it needs appealing innovations to attract and keep customer appeal.

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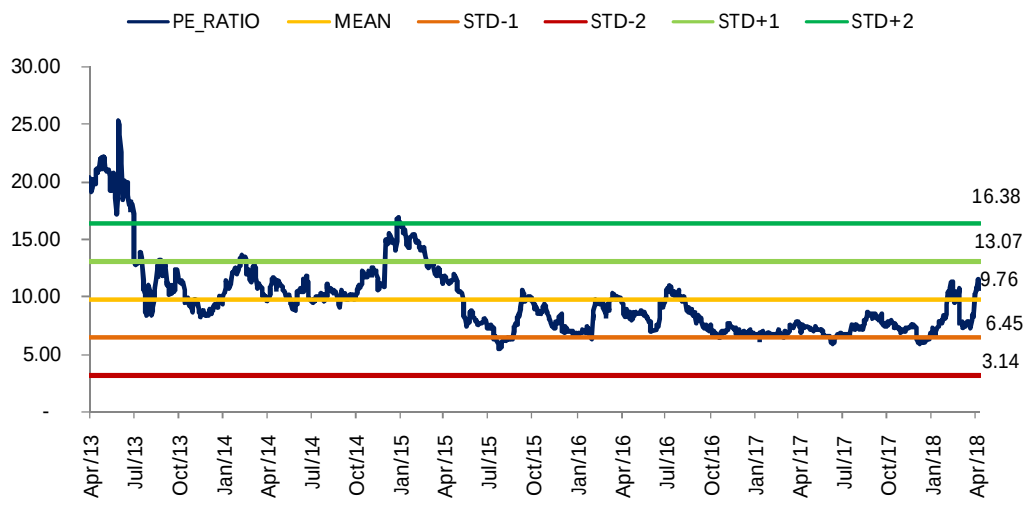
Exhibit 06. ERAA's FY15-FY18 P/E Band trades at a level of +0.5 STD (average 5 years PE)



Source : Bloomberg

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Exhibit 07. Financial Projection

Income Statement

IDR Billion	FY2015	FY2016	FY2017	FY2018E	FY2019F
Revenues	**20.008**	**20.547**	**24.230**	**26.922**	**29.789**
COGS	**18.502**	**18.755**	**22.071**	**24.641**	**27.332**
Gross Profit	**1.506**	**1.792**	**2.159**	**2.282**	**2.457**
Operating Expense	**1.128**	**1.324**	**1.559**	**1.513**	**1.594**
Selling Expenses	601	739	955	814	809
General and Administrative	512	570	680	699	785
Operating Profit	**377**	**468**	**600**	**769**	**863**
EBITDA	**424**	**528**	**673**	**835**	**933**
Interest Expense	150	149	143	204	213
Interest Income	-	-	3	-	-
Other	-	(300)	20	-	-
Profit Before Tax	**320**	**384**	**480**	**565**	**650**
Tax Expense	91	122	133	156	180
Net Income Before MI	230	262	347	409	471
Minority Interest	4	(2)	8	-	-
Net Income	**226**	**264**	**339**	**409**	**471**
EPS (full amount)	78	91	117	141	162

Balance Sheet

IDR Billion	FY2015	FY2016	FY2017	FY2018E	FY2019F
Current Assets	**5.466**	**5.168**	**6.685**	**7.372**	**8.001**
Cash and Cash Equivalents	127	615	366	334	203
Trade Receivable	1.889	1.442	1.571	1.745	1.931
Inventories	2.553	2.203	3.388	3.783	4.196
Others current Assets	897	909	1.359	1.510	1.671
Non-Current Assets	**2.335**	**2.256**	**2.189**	**2.397**	**2.617**
Fix Asset - net	437	457	486	504	524
Other Non-Current Assets	1.898	1.799	1.703	1.892	2.094
TOTAL ASSETS	**7.800**	**7.425**	**8.874**	**9.769**	**10.618**
Current Liabilities	**4.399**	**3.935**	**5.049**	**5.624**	**6.107**
Account Payable	2.566	2.614	2.619	2.924	3.244
Short Term Debt	1.460	900	1.747	1.942	2.024
Other current liabilities	373	421	682	758	839
Non-Current Liabilities	**196**	**80**	**118**	**132**	**146**
Long-term Liabilities - Net	136	3	3	3	3
Other Non-Current Liabilities	60	78	116	129	142
TOTAL EQUITY	**3.205**	**3.409**	**3.707**	**4.013**	**4.366**
TOTAL LIABILITIES & EQUITY	**7.800**	**7.425**	**8.874**	**9.769**	**10.619**

Cash Flow

IDR Billion	FY2015	FY2016	FY2017	FY2018E	FY2019F
CFO Total	**526**	**1.204**	**(1.085)**	**136**	**181**
Net Income	226	264	339	409	471
Depreciation	47	60	73	67	70
Change in Working Capital	197	844	(1.309)	(264)	(280)
Change in others	56	36	(189)	(75)	(80)
CFI Total	**(555)**	**18**	**(5)**	**(274)**	**(291)**
Change in ST Investment	-	-	-	-	-
Change in LT Investment	-	-	-	-	-
Capex	(81)	81)	(101)	(85)	(89)
Change in Others	(474)	99	96	(189)	(201)
CFF Total	**(28)**	**(732)**	**846**	**106**	**(21)**
Net Change in Debt	32	(692)	847	195	83
Equity financing	-	7	1	-	-
Dividend payment	(58)	(58)	(58)	(102)	(118)
Others	(2)	11	57	13	14
Net Cash Increase	(43)	488	(244)	(33)	(131)
Closing Balance	**127**	**615**	**366**	**334**	**203**

Ratios

Ratio	FY2015	FY2016	FY2017	FY2018E	FY2019F
Revenue Growth (%)	38,45	2,70	17,92	11,11	10,65
Operating Profit Growth (%)	(6,74)	24,09	28,20	28,09	12,34
Net Profit Growth (%)	3,65	16,69	28,71	20,41	15,17
Current Ratio (%)	12,42	13,13	13,24	13,11	13,10
Quick Ratio (%)	45,82	52,25	38,37	36,96	34,94
Receiveable Days	34,46	25,61	23,66	23,66	23,66
Inventory Days	50,35	42,87	56,03	56,03	56,03
Payable Days	50,63	50,87	43,32	43,32	43,32
Debt to Equity (x)	1,43	1,18	1,39	1,43	1,43
Debt to EBITDA (x)	10,83	7,60	7,68	6,89	6,70
Gross Profit Margin (%)	7,53	8,72	8,91	8,47	8,25
Operating Profit Margin (%)	1,89	2,28	2,48	2,86	2,90
EBITDA Margin (%)	2,12	2,57	2,78	3,10	3,13
Net Profit Margin (%)	1,13	1,28	1,40	1,52	1,58
ROA (%)	2,90	3,55	3,83	4,18	4,43
ROE (%)	7,05	7,74	9,16	10,19	10,78

Source : Company, MNCS

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HOLD : Share price may fall within the range of +/- 10% of the next 12 months
SELL : Share price may fall by more than 10% over the next 12 months
Not Rated : Stock is not within regular research coverage

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