

BUY | TP : IDR690
ERAA Stock Price Data

Last Price	:	IDR478
52wk High	:	IDR580
52wk Low	:	IDR376
Share Out	:	16.0bn
Market Cap	:	IDR7.6tn

ERAA Stock Price Performance

1-Day	:	+0.4%
1-Week	:	-0.4%
1-Month	:	-2.8%
3-Month	:	-0.8%
Year-to-Date	:	+22.5%

Shareholders

PT Eralink International (P)	:	54.5%
Public	:	44.4%
Treasury	:	1.1%

PT Erajaya Swasembada Tbk (ERAA IJ)
Revealing the Potential Behind Growing Sports Enthusiasm
Demand for Mid to High Segments Remained Intact; “price-to-performances” brand seems to be opportunity

We noted that domestic smartphone shipment volumes shrank by -12.4% YoY in 1Q23, while ERAA's sales volume declined only -4.8% YoY, on the back of repressed demand from lingering chip shortage. Yet, according to IDC, Samsung's shipment volume witnessed a growth of +5.6% YoY, **reflecting that purchasing power in mid-high consumers remained resilient.** On the expansion front, ERAA increased its total stores by +160 YTD to reach 1,849 outlets in 1Q23 (vs 1,689 outlets in FY22), comprised primarily of its digital segments (i. e. Erafone, iBox, Samsung) which accounted for 150 of the new outlets. On the flip side, we see that OnePlus (flagship killer), a sibling brand of Oppo and Vivo, will reenter the domestic market. Moreover, Itel (affiliated with Infinix and Tecno) successfully attracted consumer attention at a price of <IDR1.5mn with competitive specs, which disrupted its market segments (low-mid entry) [\(exhibit 04\)](#). However, we have no further information of those brands' availability at Erafone, **yet it's a promising opportunity for ERAA to capitalize on these brands as volume drivers in the future.**

Rising Sports Enthusiasm Indicates Improved Mobility

We noticed that post-pandemic relaxations have given rise to new healthy habits, including sports trends (running, workouts, etc), which have positively benefited ERAA through its active lifestyle segment. The segment's revenue managed to grow by +37.9% YoY, reaching IDR902.4bn in 1Q23. After opening JD Sport and ASICS stores as sport apparel, ERAA continued its diversification by establishing a JV with MST Golf from Malaysia. MST Golf (revenue/net profit CAGR in FY19-21 of +8.3%/+38.8%), a specialized golf retailer with a strong market position in Malaysia of 52% (based on import volume), has expanded to Singapore. The partnership aims to provide golf equipment stores, indoor play areas, and Golf labs (club fitting outlets) in Indonesia. This development is expected to be an engine for its active lifestyle segment going forward as well as ERAA's revenue stream, and hence we projected the segment to possibly grow by +17.5% YoY in FY23E.

Favorable Foreign ownership activity

Interestingly, ERAA's stock yielded +22.5% YTD, with foreign ownership of the total free float having risen to 32.9% in Jun-23 (vs 26.2% in Jun-22), largely driven by a growth in mutual fund ownership to 12.3% at the same period (vs 6.9% in Jun-22) [\(exhibit 06\)](#). We see that despite potential margin contractions given its expansion, now markets tend to appreciate ERAA's ongoing business diversification efforts with optimistic future prospects.

Valuation and Recommendation : Reiterate BUY with a Target Price of IDR690

We recommend **BUY** for **ERAA IJ at a TP of IDR690**, implying PE/PBV of 10.4x/1.5x in FY23E. ERAA is currently trading near the level -1x STD PE Ratio (5-mean-average) of 7.6x. Downside risks include: 1) lower ASP; 2) higher-than-expected OPEX; 3) below-than-anticipated sales volume.

Key Financial Highlight	FY20	FY21	FY22	FY23E	FY24F
Revenue (IDR Bn)	34,113.5	43,467.0	49,471.5	56,322.4	64,174.9
EBITDA (IDR Bn)	1,236.1	1,786.3	1,984.4	2,052.6	2,760.4
Net Income (IDR Bn)	612.0	1,012.4	1,012.9	1,060.9	1,473.8
ROA (%)	5.5	8.9	5.9	5.6	7.3
ROE (%)	10.8	15.7	14.1	13.9	17.0
PE (x)	12.5	7.5	7.5	7.2	5.2
PBV (x)	1.3	1.2	1.1	1.0	0.9
EPS (IDR)	38.4	63.5	63.5	66.5	92.4

Sources : Company, MNCS


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Exhibit 01. We revised our projection in FY23E following higher-than-expected 1Q23 revenues

	FY23E			FY24F		
	Revised	Old	Change	Revised	Old	Change
Revenue (IDR Bn)	56,322.4	51,980.4	8.4%	64,174.9	64,174.9	0.0%
Gross Profit (IDR Bn)	5,884.7	5,971.6	-1.5%	7,633.7	7,633.7	0.0%
Operating Profit (IDR Bn)	1,815.0	1,638.6	10.8%	2,365.0	2,365.0	0.0%
Net Income (IDR Bn)	1,060.9	1,063.9	-0.3%	1,474.9	1,474.9	0.0%
GPM (%)	10.4	11.5	-104 bps	11.9	11.9	0 bps
OPM (%)	3.2	3.2	7 bps	3.7	3.7	0 bps
NPM (%)	1.9	2.0	-17 bps	2.3	2.3	0 bps

Source : MNCS

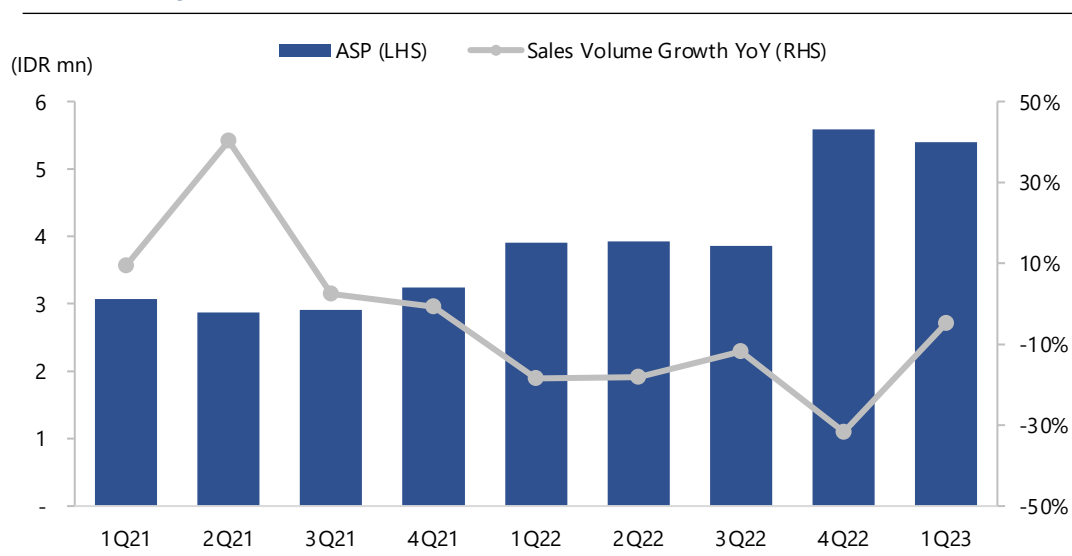
Exhibit 02. Revenue per segments in 1Q23 (IDR bn)

	1Q22	2Q22	3Q22	4Q22	1Q23
Digital	10,676	11,016	10,594	13,278	13,624
Beauty & wellness	46	24	35	143	44
Food & Nourishment	115	143	162	174	222
Active Lifestyle	654	703	774	936	902

In 1Q23, food & nourishment led the growth by +93.3% YoY, followed by active lifestyle at +37.9% YoY as well as digital +27.6% YoY. Meanwhile, beauty & wellness went down -3.4% YoY.






Sources : Company, MNCS

Exhibit 03. A greater product mix enacts solid ASP on the back of lower sales volume.



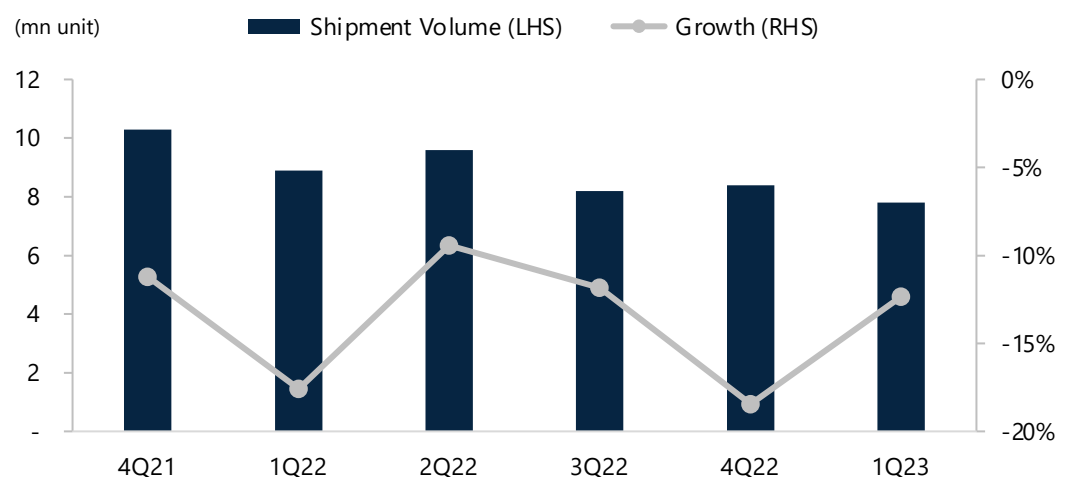
Sources : Company, MNCS

Exhibit 04. Itel S23 vs peers in price-to-performance brands at range ~IDR1.5mn

Smartphone	Specs								Price
	Chipset	GPU	RAM	Storage	Battery	Display	Resolution	Network	
 Itel S23	Unisoc Tiger T606	Mali-G57 MP1	8GB (up to 16GB ext.)	128GB	5000 mAh	6.6"	720x1612	4G	IDR1,299k-1,449k
 Samsung A04	Mediatek MT6765 Helio P35	Power VR GE8320	4GB	64GB	5000 mAh	6.5"	720x1600	4G	IDR1,432k-1,699k
 Redmi 12C	Mediatek MT6769Z Helio G85	Mali-G52 MC2	4GB	64GB	5000 mAh	7.7"	720x1650	4G	IDR1,549k-1,799k
 Vivo Y15S	Mediatek MT6765 Helio P35	PowerVR GE8320	3GB	64GB	5000 mAh	6.5"	720x1600	4G	IDR1,699k-1,899k
 Realme Narzo 50	MediaTek Helio G85	Mali-G52 MC2	4GB	128GB	6000 mAh	6.5"	720x1600	4G	IDR1,749k-2,499k
 Oppo A16	MediaTek Helio G35	PowerVR GE8320	4GB	64GB	5000 mAh	6.5"	720x1600	4G	IDR1,699k-2,199k

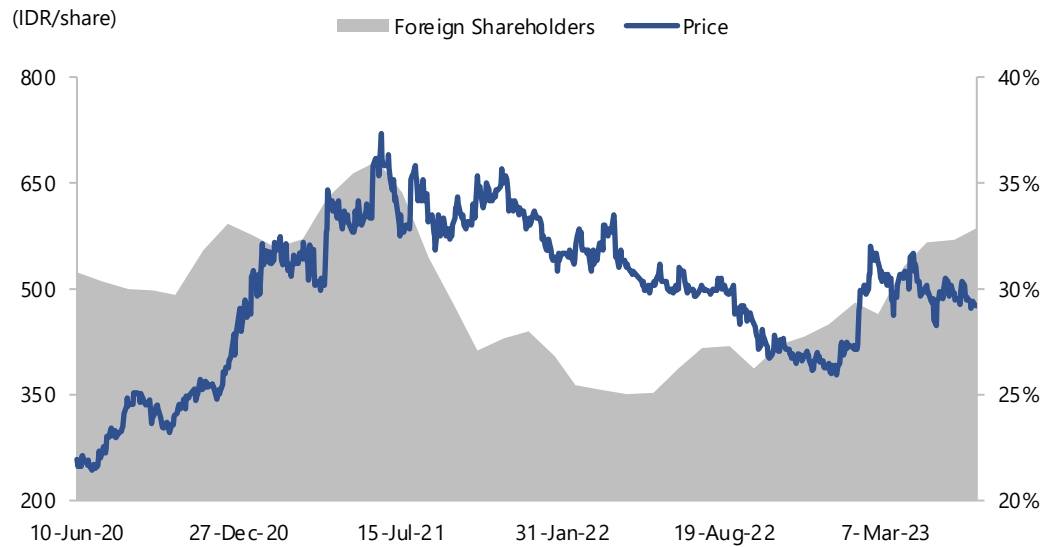
Sources : erafone, e-commerce, GSM Arena, MNCS

Exhibit 05. Domestic shipment volumes in quarterly basis



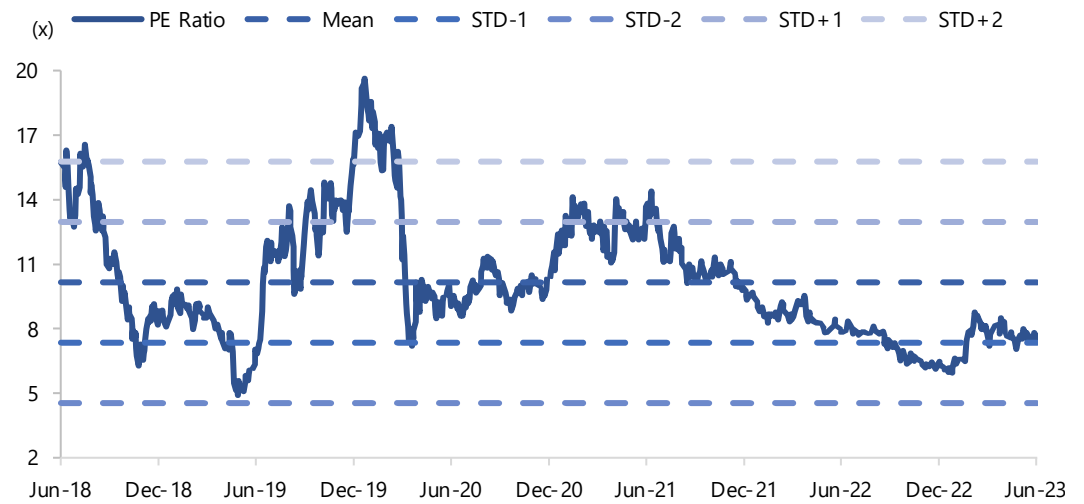
Sources : IDC, MNCS

Exhibit 06. Foreign shareholders composition from its free float



Sources : KSEI, Bloomberg, MNCS

Exhibit 07. ERAA's currently trading near its -1x STD (5-Year Average) at 7.6x PE



Sources : Bloomberg, MNCS

Exhibit 08. Financial Projections

Income Statement						Balance Sheet					
in Billion IDR	FY20	FY21	FY22	FY23E	FY24F	in Billion IDR	FY20	FY21	FY22	FY23E	FY24F
Revenue	34,113.5	43,467.0	49,471.5	56,322.4	64,174.9	Cash & Equivalents	2,002.0	520.7	1,044.2	794.2	364.6
COGS	(30,703.4)	(38,661.1)	(44,109.9)	(50,437.7)	(56,541.2)	Trade Receivables	1,011.5	616.4	1,054.8	1,251.6	1,604.4
Gross Profit	3,410.0	4,805.9	5,361.5	5,884.7	7,633.7	Inventory	3,259.5	3,931.6	6,064.7	7,145.3	7,538.8
Selling Expense	(1,473.7)	(2,156.8)	(2,184.1)	(2,511.4)	(2,784.5)	Others Current Assets	1,273.9	1,555.6	3,053.4	3,053.4	3,053.4
G&A Expense	(1,078.5)	(1,162.9)	(1,586.7)	(1,773.8)	(2,726.4)	Total Current Assets	7,547.0	6,624.3	11,217.1	12,244.6	12,561.3
Other Income (Expense)	245.5	173.2	202.2	215.4	242.1	Fixed Assets-net	716.5	851.9	1,573.1	1,881.7	2,111.1
Operating Income	1,103.3	1,659.4	1,793.0	1,815.0	2,365.0	Other Non-Current Assets	2,947.9	3,896.0	4,268.0	4,859.1	5,536.5
Finance Income (Expense)	(185.5)	(179.9)	(279.7)	(356.8)	(322.5)	Total Non-Current Assets	3,664.4	4,747.9	5,841.1	6,740.8	7,647.6
Other Income (Expense)	(0.5)	15.6	(16.0)	17.3	7.3	TOTAL ASSETS	11,211.4	11,372.2	17,058.2	18,985.4	20,208.9
Profit Before Tax	917.3	1,495.1	1,497.3	1,475.5	2,049.8	Trade Payables	2,088.2	1,513.8	2,400.8	2,101.6	2,355.9
Tax Income (Expense)	(246.1)	(377.1)	(420.8)	(414.6)	(576.0)	Short-term Debt	2,106.4	1,729.7	4,220.0	5,491.4	5,054.9
Minority Interest	(59.2)	(105.5)	(63.7)	-	-	Other Current Liabilities	948.3	1,035.9	2,400.4	2,732.8	3,113.8
Net Income	612.0	1,012.4	1,012.9	1,060.9	1,473.8	Total Current Liabilities	5,143.0	4,279.5	9,021.2	10,325.8	10,524.5
EPS (IDR)	38.4	63.5	63.5	66.5	92.4	Long-term Debt	179.4	439.2	613.2	798.0	734.6
						Other Long-term Liabilities	201.0	191.2	220.9	251.5	286.5
						Total LT-Liabilities	380.4	630.4	834.1	1,049.5	1,021.1
						Total Equity	5,688.0	6,462.4	7,202.9	7,610.1	8,663.2
						TOTAL LIABILITY AND EQUITY	11,211.4	11,372.2	17,058.2	18,985.4	20,208.9

Cash Flow						Ratios					
in Billion IDR	FY20	FY21	FY22	FY23E	FY24F		FY20	FY21	FY22	FY23E	FY24F
Net Income	612.0	1,012.4	1,012.9	1,060.9	1,473.8	Revenue Growth (%)	3.5	27.4	13.8	13.8	13.9
D&A	132.8	126.9	191.4	237.7	395.4	Operating Profit Growth (%)	42.0	50.4	8.1	1.2	30.3
Changes in WC	1,118.3	(851.4)	(1,684.4)	(1,576.7)	(491.9)	Net Profit Growth (%)	107.4	65.4	0.0	4.7	38.9
Others	800.1	(237.5)	(134.0)	335.9	384.5	Receivable Days (x)	10.7	5.1	7.7	8.0	9.0
Operating CF	2,663.1	50.4	(614.1)	57.6	1,761.7	Inventory Days (x)	38.2	36.6	49.5	51.0	48.0
Capex	(254.1)	(290.8)	(727.4)	(546.2)	(624.8)	Payable Days (x)	24.5	14.1	19.6	15.0	15.0
Others	(724.9)	(876.2)	(556.6)	(594.5)	(680.9)	DER (x)	0.4	0.3	0.7	0.8	0.7
Investing CF	(979.0)	(1,167.0)	(1,284.1)	(1,140.7)	(1,305.7)	Net Gearing Ratio (x)	0.0	0.3	0.5	0.7	0.6
Dividend Paid	-	(219.4)	(362.3)	(299.1)	(420.7)	Interest Coverage (x)	5.8	8.5	6.2	4.9	7.1
Net Change in Debt	(419.3)	(116.9)	2,664.4	1,456.1	(500.0)	Dividend Yield (%)	3.6	4.1	4.0	3.6	4.3
Equity Fund Raised	113.3	48.2	82.2	(396.7)	-	P/S (x)	0.2	0.2	0.2	0.1	0.1
Others	52.6	(76.7)	37.4	72.7	35.1	Gross Profit Margin (%)	10.0	11.1	10.8	10.4	11.9
Financing CF	(253.4)	(364.7)	2,421.7	833.1	(885.6)	Operating Profit Margin (%)	3.2	3.8	3.6	3.2	3.7
Cash at Beginning	571.3	2,002.0	520.7	1,044.2	794.2	EBITDA Margin (%)	3.6	4.1	4.0	3.6	4.3
Cash at Ending	2,002.0	520.7	1,044.2	794.2	364.6	Net Income Margin (%)	1.8	2.3	2.0	1.9	2.3
						BVPS (IDR)	356.6	405.2	451.6	477.1	543.1

Sources : Company, MNCS

MNC Research Industry Ratings Guidance

- **OVERWEIGHT** : Stock's total return is estimated to be above the average total return of our industry coverage universe over next 6-12 months
- **NEUTRAL** : Stock's total return is estimated to be in line with the average total return of our industry coverage universe over next 6-12 months
- **UNDERWEIGHT** : Stock's total return is estimated to be below the average total return of our industry coverage universe over next 6-12 months

MNC Research Investment Ratings Guidance

- **BUY** : Share price may exceed 10% over the next 12 months
- **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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