

BUY | TP : IDR505
Stock Price Data

Last Price	:	IDR410
52wk High	:	IDR580
52wk Low	:	IDR326
Share Out	:	16.0bn
Market Cap	:	IDR6.5tn

Stock Price Performance

1-Day	:	-1.0%
1-Week	:	-0.5%
1-Month	:	-3.3%
3-Month	:	+0.0%
Year-to-Date	:	-3.8%

Shareholders

PT Eralink International (P)	:	54.5%
Public	:	44.5%
Treasury	:	1.0%


Research Analyst

Raka Junico W.

raka.widyaman@mncgroup.com

PT Erajaya Swasembada Tbk (ERAA IJ)
Bulking up volume as the chip shortage has diminished
Expected rise of worldwide handset output, on the back of optimism for chip recovery

We anticipate that the chip shortage has subsided and will begin recovering in FY24E, signalling positive prospects for the handset industry to boost volume growth, particularly in the mid-low segment. We observe that after experiencing negative returns for 14 consecutive months, world chip sales recorded a growth of +5.7% YoY in Nov-23, reaching USD48bn (Exhibit 02). Furthermore, the projection for semiconductor segment revenue in FY24F is estimated to grow +20.7% YoY (vs -13.1% YoY in FY23E), driven by recovering demand and AI. With optimism for chip recovery, global handset unit production is projected to increase by +3.8% YoY in FY24F (vs -3.5% YoY in FY23E) (Exhibit 03).

A bounce back in ERAA's volume

After experiencing a moderation trend since the pandemic, ERAA's handset sales volume bounced back to 7.4mn units in 9M23, up +4.8% YoY. This figure was mainly supported by a nearly double-digit increase in handset sales in 2Q23, coinciding with the festive season (Eid). We assess that the rebound was also supported by affordable tier's (<IDR3mn) handset volume. This is reflected in the increased domestic shipping units at Transsion Holding (Infinix, Techno) reaching 2.6mn units by 9M23 (vs <1mn previously). Yet, we are convinced ERAA's sales volume remains on a recovery trajectory.

Leveraging volume through the affordable tier onward

In our recent meeting, ERAA outlined its focus on leveraging the brand portfolio at the affordable prices for handsets and accessories. ERAA is also considering potential brands that can boost productivity per store. Among existing brands, we see several handsets in the affordable tier (<IDR3mn) or with attractive value-to-performance, such as Tecno Spark 10C, Infinix HOT 30 Play, and Tecno Camon 20 Pro. In February, the market is expected to be busy with the release of new mid-range handsets, such as the Redmi Note 13 series, POCO X6 5G, and Realme 12 series. In the flagship tier, the Samsung S24 series is attracting consumer demand with the "Galaxy AI" feature, making it a breakthrough in the handset industry.

We raise revenue estimates in FY24, driven by higher volume

With the aforementioned factors, we fine-tune our model with positive handset volume growth and a softening ASP due to the focus on affordable tier products. We project handset volume growth of +9.2% YoY in FY24E, mainly driven by higher supply coupled with store expansions (flat as FY23) to boost coverage areas, as well as improved productivity per store. This leads to revenue in FY24 reaching IDR67.2tn, or +4.8% higher than our previous estimate of IDR64.2tn (Exhibit 01). However, we only raise handset volume in our model, leaving room for increased volume for other electronic equipment in the future as the chip shortage diminishes.

Valuation and Recommendation: Reiterate BUY with a Target Price of IDR505

We recommend a BUY for ERAA IJ with a higher TP of IDR505, implying PE/PBV of 7.2x/0.9x in FY24E. We assess that the potential increase in volume will be the company's growth engine going forward, as the chip shortage diminishes. ERAA is currently trading near the level -1x STD PE Ratio (5-mean-average) of 7.5x. Downside risks include: 1) higher-than-expected OPEX; 2) lack of handset sales volume growth.

Key Financial Highlight	FY21	FY22	FY23E	FY24F	FY25F
Revenue (IDR Bn)	43,467.0	49,471.5	59,973.0	67,249.7	74,553.6
EBITDA (IDR Bn)	1,786.3	1,984.4	1,921.8	2,429.3	2,655.7
Net Income (IDR Bn)	1,012.4	1,012.9	845.3	1,114.7	1,234.0
ROA (%)	8.9	5.9	4.2	5.3	5.6
ROE (%)	15.7	14.1	10.8	12.8	12.9
PE (x)	6.5	6.5	7.7	5.9	5.3
PBV (x)	1.0	0.9	0.8	0.8	0.7
EPS (IDR)	63.5	63.5	53.0	69.9	77.4

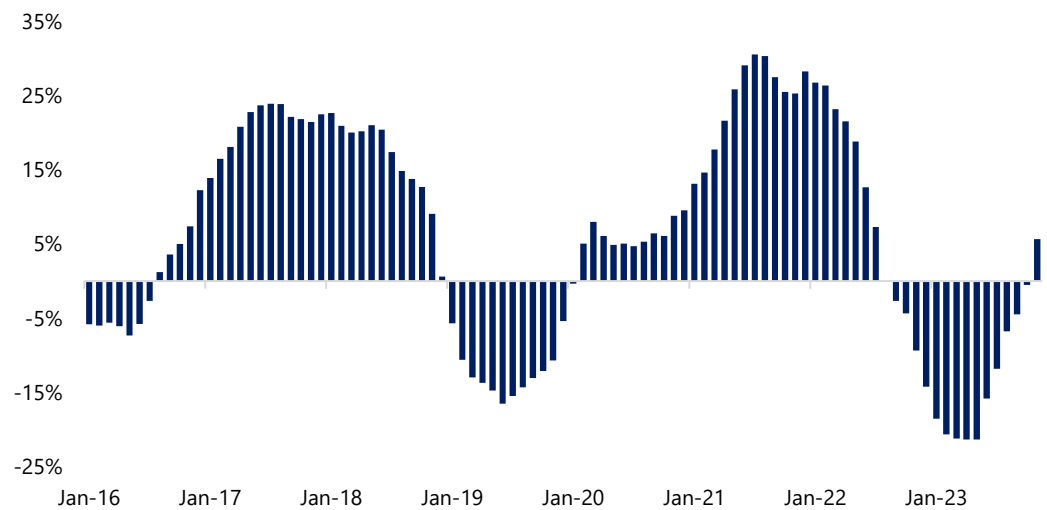
Sources : Company, MNCS

Exhibit 01. We fine-tuned our projection due to higher assumption of handsets' volume, boosting profitability

	FY23E			FY24F		
	Revised	Old	Change	Revised	Old	Change
Revenue (IDR Bn)	59,973.0	56,322.4	6.5%	67,249.7	64,174.9	4.8%
Gross Profit (IDR Bn)	6,051.4	5,884.7	2.8%	6,932.7	6,729.5	3.0%
Operating Profit (IDR Bn)	1,681.3	1,549.7	8.5%	2,026.7	1,885.7	7.5%
Net Income (IDR Bn)	845.3	805.0	5.0%	1,114.7	1,058.2	5.3%
GPM (%)	10.1	10.4	-36 bps	10.3	10.5	-18 bps
OPM (%)	2.8	2.8	5 bps	3.0	2.9	7 bps
NPM (%)	1.4	1.4	-2 bps	1.7	1.6	1 bps

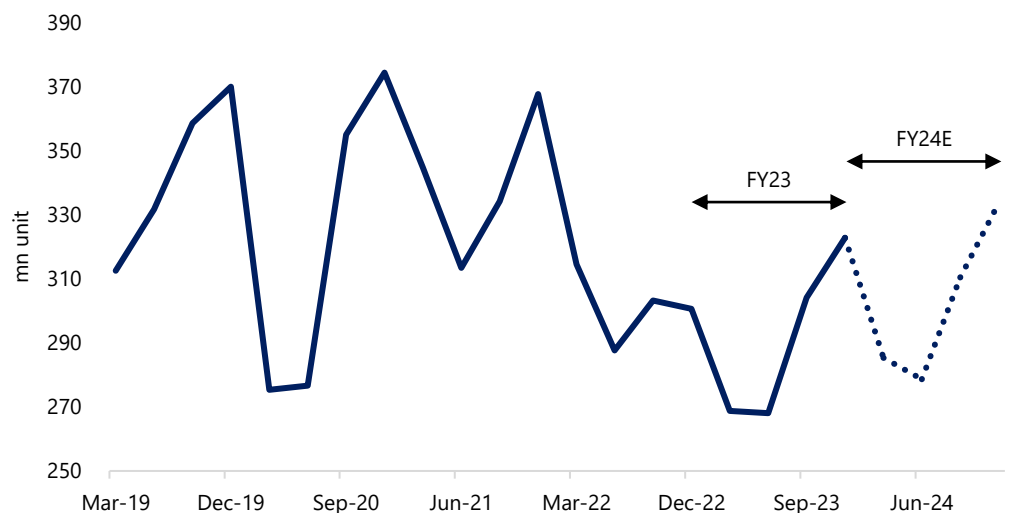
Source : MNCS

Exhibit 02. World chip sales growth rose into positive territory in Nov-23



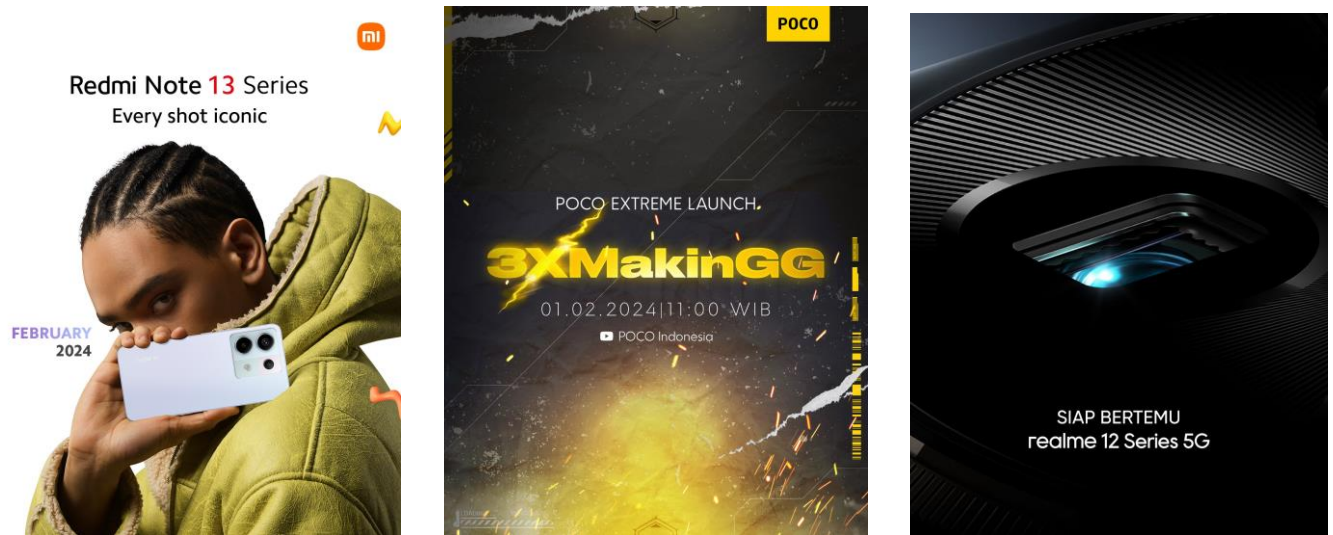
Sources : Bloomberg, MNCS

Exhibit 03. Global handset output is projected to recover at +3.8% YoY in FY24E



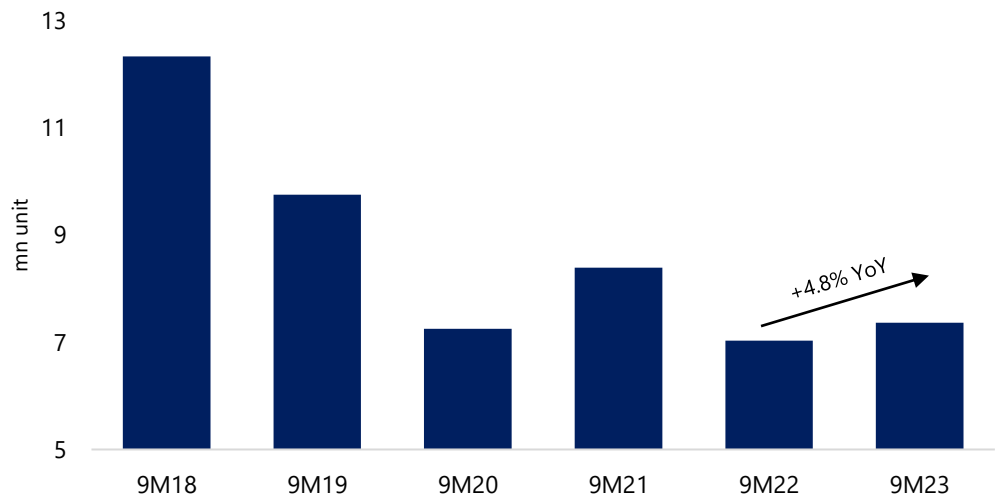
Sources : Bloomberg, MNCS

Exhibit 04. Several campaign from brands to launch their products in Feb-24, here is Redmi Note 13 series, POXO X6 5G and Realme 12 series 5G



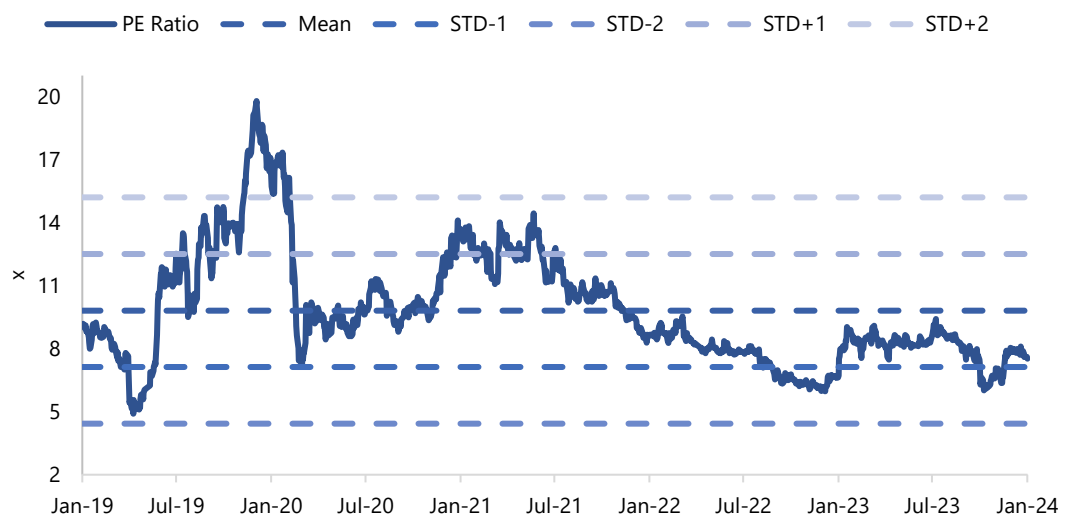
Sources : Various source, MNCS

Exhibit 05. ERAA's handset sales volume experienced growth of +4.8% YoY in 9M23



Sources : Company, MNCS

Exhibit 06. ERAA's currently trading near its -1x STD (5-Year Average) at 7.5x PE



Sources : IDX, Company, MNCS

Exhibit 07. Financial Projections

Income Statement						Balance Sheet					
in Billion IDR	FY21	FY22	FY23E	FY24F	FY25F	in Billion IDR	FY21	FY22	FY23E	FY24F	FY25F
Revenue	43,467.0	49,471.5	59,973.0	67,249.7	74,553.6	Cash & Equivalents	520.7	1,044.2	889.0	827.0	632.2
COGS	(38,661.1)	(44,109.9)	(53,921.6)	(60,317.0)	(66,768.9)	Trade Receivables	616.4	1,054.8	1,332.7	1,681.2	1,760.3
Gross Profit	4,805.9	5,361.5	6,051.4	6,932.7	7,784.7	Inventory	3,931.6	6,064.7	7,638.9	7,539.6	7,975.2
Selling Expense	(2,156.8)	(2,184.1)	(2,674.1)	(3,065.9)	(3,577.6)	Others Current Assets	1,555.6	3,053.4	3,053.4	3,053.4	3,053.4
G&A Expense	(1,162.9)	(1,586.7)	(1,925.4)	(2,093.9)	(2,297.5)	Total Current Assets	6,624.3	11,217.1	12,914.0	13,101.3	13,421.2
Other Income (Expense)	173.2	202.2	229.4	253.7	254.8	Fixed Assets-net	851.9	1,573.1	1,914.3	2,166.4	2,361.5
Operating Income	1,659.4	1,793.0	1,681.3	2,026.7	2,164.4	Other Non-Current Assets	3,896.0	4,268.0	5,174.0	5,801.8	6,431.9
Finance Income (Expense)	(179.9)	(279.7)	(524.0)	(484.0)	(450.6)	Total Non-Current Assets	4,747.9	5,841.1	7,088.3	7,968.2	8,793.4
Other Income (Expense)	15.6	(16.0)	18.4	7.7	2.4	TOTAL ASSETS	11,372.2	17,058.2	20,002.3	21,069.4	22,214.6
Profit Before Tax	1,495.1	1,497.3	1,175.7	1,550.4	1,716.3	Trade Payables	1,513.8	2,400.8	2,246.7	2,513.2	2,782.0
Tax Income (Expense)	(377.1)	(420.8)	(330.4)	(435.7)	(482.3)	Short-term Debt	1,729.7	4,220.0	5,870.6	5,508.8	5,180.3
Minority Interest	(105.5)	(63.7)	-	-	-	Other Current Liabilities	1,035.9	2,400.4	2,909.9	3,263.0	3,617.4
Net Income	1,012.4	1,012.9	845.3	1,114.7	1,234.0	Total Current Liabilities	4,279.5	9,021.2	11,027.2	11,285.0	11,579.7
EPS (IDR)	63.5	63.5	53.0	69.9	77.4	Long-term Debt	439.2	613.2	853.1	800.5	752.8
						Other Long-term Liabilities	191.2	220.9	267.8	300.3	332.9
						Total LT-Liabilities	630.4	834.1	1,120.9	1,100.8	1,085.7
						Total Equity	6,462.4	7,202.9	7,854.2	8,683.6	9,549.2
						TOTAL LIABILITY AND EQUITY	11,372.2	17,058.2	20,002.3	21,069.4	22,214.6

Cash Flow						Ratios					
in Billion IDR	FY21	FY22	FY23E	FY24F	FY25F		FY21	FY22	FY23E	FY24F	FY25F
Net Income	1,012.4	1,012.9	845.3	1,114.7	1,234.0	Revenue Growth (%)	27.4	13.8	21.2	12.1	10.9
D&A	126.9	191.4	240.5	402.6	491.3	Operating Profit Growth (%)	50.4	8.1	(6.2)	20.5	6.8
Changes in WC	(851.4)	(1,684.4)	(2,006.3)	17.2	(245.8)	Net Profit Growth (%)	65.4	0.0	(16.5)	31.9	10.7
Others	(237.5)	(134.0)	513.0	356.5	357.8	Receivable Days (x)	5.1	7.7	8.0	9.0	8.5
Operating CF	50.4	(614.1)	(407.5)	1,891.0	1,837.3	Inventory Days (x)	36.6	49.5	51.0	45.0	43.0
Capex	(290.8)	(727.4)	(581.6)	(654.7)	(686.4)	Payable Days (x)	14.1	19.6	15.0	15.0	15.0
Others	(876.2)	(556.6)	(909.4)	(631.2)	(633.6)	DER (x)	0.3	0.7	0.9	0.7	0.6
Investing CF	(1,167.0)	(1,284.1)	(1,491.1)	(1,285.9)	(1,320.0)	Net Gearing Ratio (x)	0.3	0.5	0.7	0.6	0.6
Dividend Paid	(219.4)	(362.3)	(299.9)	(285.3)	(368.4)	Interest Coverage (x)	8.5	6.2	3.1	4.1	4.7
Net Change in Debt	(116.9)	2,664.4	1,890.4	(414.3)	(376.3)	Dividend Yield (%)	4.1	4.0	3.2	3.6	3.6
Equity Fund Raised	48.2	82.2	63.8	-	-	P/S (x)	0.2	0.1	0.1	0.1	0.1
Others	(76.7)	37.4	89.0	32.5	32.6	Gross Profit Margin (%)	11.1	10.8	10.1	10.3	10.4
Financing CF	(364.7)	2,421.7	1,743.3	(667.1)	(712.1)	Operating Profit Margin (%)	3.8	3.6	2.8	3.0	2.9
Cash at Beginning	2,002.0	520.7	1,044.2	889.0	827.0	EBITDA Margin (%)	4.1	4.0	3.2	3.6	3.6
Cash at Ending	520.7	1,044.2	889.0	827.0	632.2	Net Income Margin (%)	2.3	2.0	1.4	1.7	1.7
						BVPS (IDR)	405.2	451.6	492.4	544.4	598.7

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

PT MNC SEKURITAS

MNC Bank Tower Lt. 16
Jl. Kebon Sirih No. 21 - 27, Jakarta Pusat 10340
Telp : (021) 2980 3111
Fax : (021) 3983 6899
Call Center : 1500 899

Disclaimer

This research report has been issued by PT MNC Sekuritas, It may not be reproduced or further distributed or published, in whole or in part, for any purpose. PT MNC Sekuritas has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; PT MNC Sekuritas makes no guarantee, representation or warranty and accepts no responsibility to liability as to its accuracy or completeness. Expression of opinion herein are those of the research department only and are subject to change without notice. This document is not and should not be construed as an offer or the solicitation of an offer to purchase or subscribe or sell any investment. PT MNC Sekuritas and its affiliates and/or their offices, director and employees may own or have positions in any investment mentioned herein or any investment related thereto and may from time to time add to or dispose of any such investment. PT MNC Sekuritas and its affiliates may act as market maker or have assumed an underwriting position in the securities of companies discusses herein (or investment related thereto) and may sell them to or buy them from customers on a principal basis and may also perform or seek to perform investment banking or underwriting services for or relating to those companies.