

16 August 2024

Consumer Cyclical | Retailing

## Erajaya Swasembada (ERAA IJ)

**Neutral** (from Buy)

### Navigating Rough Waters, D/G To NEUTRAL

- **D/G to NEUTRAL from BUY with IDR420 TP from IDR620, 2% downside.** We cut our earnings assumptions for FY24-26F at 26.9%, 30%, and 30.5% given several potential challenges ahead for Erajaya Swasembada. Minimal spending catalysts in 2H24 could bring pressure to purchasing power – adversely impacting ERAA. We like its expansion initiatives for non-digital business but these would take some time to produce meaningful impact. The company is trading at c.6x 2024F P/E, around -1SD from its 5-year P/E band. However, substantial rerating might not be imminent against the current backdrop.
- **Bumpy recovery road.** We remain concerned on ERAA's growth in 2024 given the economic challenges, particularly for its mid-to-low consumer segment. According to International Data Corporation (IDC) statistics, the below USD200 smartphone category dominated more than 70% of Indonesia's market. Despite ERAA's aggressive expansion of Infinix and Tecno, we think it would take time to challenge the Chinese smartphone brands. We note that Infinix market share still came at c.4% in Jul 2024 based on StatCounter data.
- **Staying vigilant on expansion ramp-up.** We estimate ERAA to have c.200 store openings in 2024. We think concrete strategy execution to improve productivity as well as managing the cost from this expansion plan remain critical. The company plans to focus more on the mono-brand stores (ie NASA and iBox), especially for ex-Greater Jakarta. A number of the company's stores, especially on multi-brand concept and in street level, have operated below optimum sales level. We believe it might take time for it to substantially improve these stores' performance against the aforementioned situation.
- **Non-smartphone business remains positive but needs more time to produce tangible impact.** The company has put in strong effort to expand its non-smartphone retail business, which fetches higher margins. Almost all segments (ie active, consumer electronics) booked positive performance, except for beauty and wellness segments. The recent openings of new F&B businesses Curry Up and Bacha Coffee have gained strong interest but we deem scalability is limited. Nevertheless, the revenue portion of the food & nourishment division still made up 2.6% of the total in 1H24. The consolidation of JD Sports is still in progress, and remains as an overhang.
- **We apply a 2% ESG discount to our TP as ERAA's 2.9 ESG score is below the country median.** Key downside risks include short-term cost increase from aggressive expansion strategy and cannibalisation from new stores. Upside risks include better-than-expected purchasing power and more tangible contribution from non-smartphone businesses.

Target Price (Return):	IDR420 (-1.9%)
Price (Market Cap):	IDR428 (USD435m)
ESG score:	2.9 (out of 4)
Avg Daily Turnover (IDR/USD)	6,961m/0.43m

#### Analysts

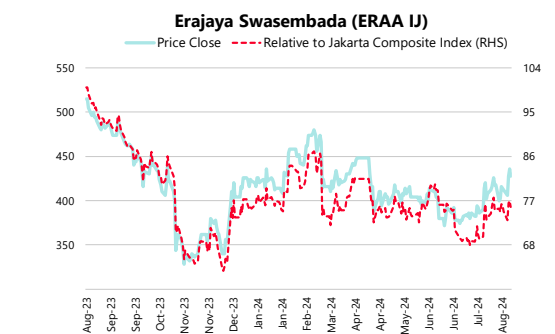
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.5	12.0	5.4	(5.3)	(14.4)
Relative	(1.4)	10.2	2.2	(6.8)	(21.5)
52-wk Price low/high (IDR)					328 – 505



Source: Bloomberg

#### Overall ESG Score: 2.9 (out of 4)

##### E: GOOD

The company has involved in engaging with communities to plant trees and preserve the environment. However, we haven't obtain detail insights on other categories such as energy, electricity used and its target ahead. Also, we are looking for clear information regarding its electronic waste management

##### S: GOOD

The company is actively engaged in corporate social responsibility activities, to empower enhance mass community's welfare. It is coordinated under Erajaya Lentera Peduli Program. There are no major issues between employees and employers.

##### G: GOOD

The company continued to complied with current regulations, such as regularly conducting shareholders meeting and ensure equal distribution of public information to all stakeholders. All capital market participants can have access to disclosures of material information.

#### Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (IDRb)	49,471	60,139	65,405	70,910	76,706
Recurring net profit (IDRb)	867	674	869	1,013	1,186
Recurring net profit growth (%)	(1.7)	(22.3)	29.0	16.5	17.1
Recurring P/E (x)	7.87	10.14	7.86	6.75	5.76
P/B (x)	1.0	0.9	0.8	0.7	0.7
P/CF (x)	3.66	9.43	76.15	4.88	3.72
Dividend Yield (%)	5.3	4.4	2.4	3.0	4.4
EV/EBITDA (x)	5.47	5.67	5.78	5.07	4.51
Return on average equity (%)	15.7	11.7	13.3	13.7	14.3
Net debt to equity (%)	39.8	47.3	56.5	50.6	42.5

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary (IDR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Indonesia	Recurring EPS	54.35	42.22	54.47	63.45	74.31
Consumer Cyclical	DPS	22.70	18.79	10.35	12.91	18.70
<b>Erajaya Swasembada</b>	BVPS	422.46	458.87	513.11	575.09	643.36
ERAA IJ	Return on average equity (%)	15.7	11.7	13.3	13.7	14.3
Neutral						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
<b>Valuation basis</b>	Recurring P/E (x)	7.87	10.14	7.86	6.75	5.76
Our 12-month TP is derived from a 10-year DCF valuation	P/B (x)	1.0	0.9	0.8	0.7	0.7
	FCF Yield (%)	16.6	(4.4)	(10.1)	9.4	15.8
<b>Key drivers</b>	Dividend Yield (%)	5.3	4.4	2.4	3.0	4.4
i. Improving lifestyle products trends;	EV/EBITDA (x)	5.47	5.67	5.78	5.07	4.51
ii. Softening purchasing power	EV/EBIT (x)	6.13	6.78	7.03	6.13	5.47
iii. Long term margin expansion and improved valuation from diversification strategy						
	Income statement (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
<b>Key risks</b>	Total turnover	49,471	60,139	65,405	70,910	76,706
Downside Risks:	Gross profit	5,362	6,448	7,041	7,756	8,449
i. Geopolitical risks that could affect supply chain;	EBITDA	1,782	1,945	2,114	2,399	2,605
ii. Cannibalisation from new stores;	Depreciation and amortisation	(191)	(320)	(374)	(418)	(454)
iii. Short- term cost increase from aggressive expansion strategy.	Operating profit	1,591	1,625	1,740	1,981	2,151
	Net interest	(280)	(583)	(427)	(539)	(531)
Upside Risks:	Pre-tax profit	1,497	1,242	1,526	1,670	1,862
i. Better-than-expected purchasing power;	Taxation	(421)	(385)	(488)	(468)	(465)
ii. Faster-than-expected JD Sports consolidation;	Reported net profit	1,013	826	1,030	1,194	1,387
iii. More tangible contribution from non-smartphone business.	Recurring net profit	867	674	869	1,013	1,186
	Cash flow (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
<b>Company Profile</b>	Change in working capital	661	(386)	(1,314)	(212)	(6)
Established in 1996, ERAA engages in the distribution and retail of mobile telecommunication devices, such as mobile phones and tablets, subscriber identity module cards, mobile network operator voucher top-ups, accessories, as well as gadgets such as computers and other electronic devices. It has a market share of over 40% in Indonesia.	Cash flow from operations	1,864	725	90	1,400	1,835
	Capex	(733)	(1,022)	(781)	(756)	(756)
	Cash flow from investing activities	(1,304)	(1,927)	(1,247)	(1,246)	(1,275)
	Dividends paid	(362)	(300)	(165)	(206)	(298)
	Cash flow from financing activities	(36)	1,924	735	374	(213)
	Cash at beginning of period	521	1,044	1,766	1,343	1,870
	Net change in cash	524	722	(423)	528	347
	Ending balance cash	1,045	1,766	1,343	1,870	2,217
	Balance sheet (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	1,094	1,817	1,394	1,921	2,268
	Tangible fixed assets	1,573	2,217	2,624	2,962	3,263
	Total investments	401	465	511	562	619
	Total assets	17,058	20,447	21,932	23,965	25,632
	Short-term debt	3,777	4,447	6,484	6,984	6,984
	Total long-term debt	182	1,214	0	0	0
	Total liabilities	9,855	12,317	12,928	13,964	14,531
	Total equity	7,203	8,131	9,004	10,002	11,101
	Total liabilities & equity	17,058	20,447	21,932	23,965	25,632
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	13.8	21.6	8.8	8.4	8.2
	Recurrent EPS growth (%)	(1.7)	(22.3)	29.0	16.5	17.1
	Gross margin (%)	10.8	10.7	10.8	10.9	11.0
	Operating EBITDA margin (%)	3.6	3.2	3.2	3.4	3.4
	Net profit margin (%)	2.0	1.4	1.6	1.7	1.8
	Dividend payout ratio (%)	35.8	36.3	16.0	17.3	21.5
	Capex/sales (%)	1.5	1.7	1.2	1.1	1.0
	Interest cover (x)	5.49	2.70	3.83	3.55	3.85

Source: Company data, RHB

Figure 1: Revised forecasts

	New			Old			New/Old (%)		
	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F
<b>Income Statement (IDRbn)</b>									
Total turnover	65,405	70,910	76,706	63,111	70,417	76,801	3.6	0.7	(0.1)
Gross profit	7,041	7,756	8,449	7,329	8,344	9,243	(3.9)	(7.0)	(8.6)
EBIT	1,740	1,981	2,151	2,259	2,645	2,967	(23.0)	(25.1)	(27.5)
EBITDA	2,114	2,399	2,605	2,518	2,925	3,259	(16.1)	(18.0)	(20.0)
Pretax profit	1,526	1,670	1,862	2,000	2,417	2,829	(23.7)	(30.9)	(34.2)
Net profit	1,030	1,194	1,387	1,410	1,704	1,995	(26.9)	(29.9)	(30.5)
<b>Key Metrics</b>									
EPS (IDR)	65	75	87	88	107	125	(26.9)	(29.9)	(30.5)
DPS (IDR)	10	13	19	13	18	27	(18.7)	(26.9)	(29.9)
Revenue growth (%)	8.8	8.4	8.2	11.2	11.6	9.1			
EPS growth (%)	24.7	15.9	16.2	38.8	20.9	17.1			
EBITDA margin (%)	3.2	3.4	3.4	4.0	4.2	4.2			
Net profit margin (%)	1.6	1.7	1.8	2.2	2.4	2.6			

Source: Bloomberg, Company data, RHB

Figure 2: RHB vs Street estimates

IDRbn	RHB			Consensus			RHB/Cons (%)		
	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F
Net revenue	65,405	70,910	76,706	66,200	72,398	78,079	98.8	97.9	98.2
Gross profit	7,041	7,756	8,449	7,109	7,873	8,680	99.1	98.5	97.3
EBITDA	2,114	2,399	2,605	2,480	2,880	3,217	85.2	83.3	81.0
EBIT	1,740	1,981	2,151	1,853	2,135	2,385	93.9	92.8	90.2
PBT	1,526	1,670	1,862	1,431	1,707	2,034	106.6	97.8	91.5
NPAT	1,030	1,194	1,387	996	1,197	1,414	103.4	99.7	98.1

Source: Bloomberg, RHB

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Figure 3: DCF valuation

IDRbn	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F
<b>EBIT</b>	1,740	1,981	2,151	2,349	2,640	2,829	3,101	3,324	3,511	3,685	3,808
<b>EBIT (1-t)</b>	1,183	1,427	1,613	1,762	1,980	2,122	2,326	2,493	2,633	2,763	2,856
Depreciation & Amortization	374	418	454	483	499	513	525	515	503	487	466
Change in working capital	(1,356)	(256)	(52)	(140)	184	225	42	(368)	(333)	(363)	(381)
Capex	(781)	(756)	(756)	(748)	(686)	(754)	(830)	(609)	(669)	(736)	(810)
<b>Net free cash flow to firm</b>	<b>(579)</b>	<b>833</b>	<b>1,260</b>	<b>1,356</b>	<b>1,978</b>	<b>2,106</b>	<b>2,063</b>	<b>2,032</b>	<b>2,134</b>	<b>2,151</b>	<b>2,131</b>
Terminal Value											18,033
PV	(579)	727	961	903	1,150	1,070	915	788	722	636	5,205
Total discounted firm value	12,499										
Less: net debt	4,657										
Less: minority interest	815										
Equity value	7,026										
Number of shares (bn)	16.5										
<b>Equity value per share (IDR)</b>	<b>427</b>										
ESG premium / (discount)	-2%										
<b>TP (IDR)</b>	<b>419</b>										
Assumptions											
Risk free rate	7.0%										
Beta	1.1										
Equity market premium	6%										
WACC	15%										
Terminal growth	2%										

Source: Company data, Bloomberg, RHB

Figure 4: Bacha Coffee outlet in Plaza Senayan



Source: RHB

Figure 5: Curry Up in Astha Mall



Source: RHB

## Emissions And ESG

### Trend analysis

Total emissions in 2023 increased by 7.6%, mainly due to increased logistics activities. However, the emissions intensity of net sales fell 11.5% since net sales increased by 21.6% compared to the previous year.

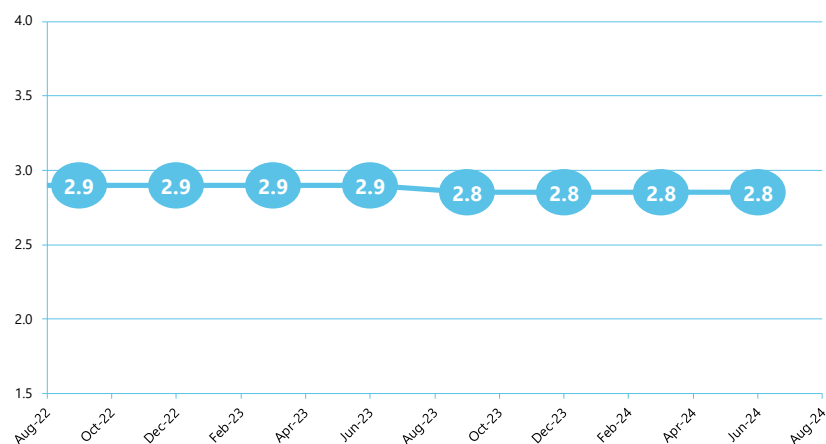
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	1,116	999	1,065
Scope 2	4	4	14
Scope 3	na	na	na
Total emissions	1,121	1,003	1,079

Source: Company data, RHB

## Latest ESG-Related Developments

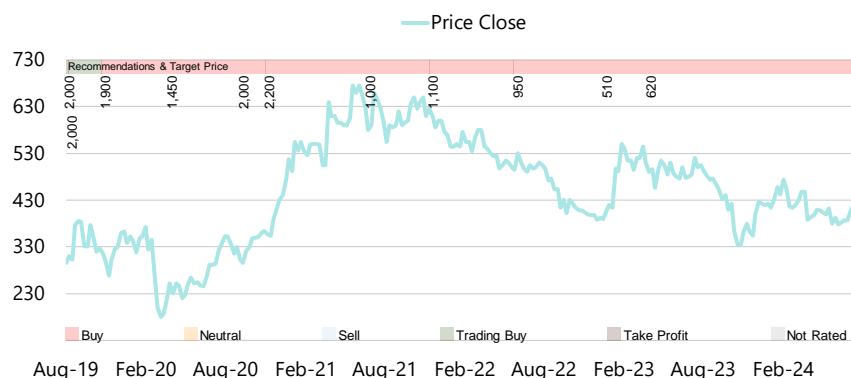
- It has four main pillars for “Sustainable Development Goals”, consisting of: i) Lentera Kasih (Encourage the empowerment of local community potential to generate income), ii) Lentera Sehat (Ensure healthy lives and promote the community well-being of all ages), iii) Lentera Cerdas (Support business flow process and business needs through competency improvement of teachers and students in our core business), and iv) Lentera Hijau (Develop forest area as reforestation centres and environmental-based education models by involving the community).

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-09-04	Buy	620	486
2023-04-16	Buy	620	510
2023-01-06	Buy	510	390
2022-06-16	Buy	950	500
2021-12-03	Buy	1,100	625
2021-07-12	Buy	1,000	605
2020-11-23	Buy	2,200	363
2020-09-24	Buy	2,000	304
2020-04-14	Buy	1,450	241
2019-11-13	Buy	1,900	321
2019-09-11	Trading Buy	2,000	359
2019-08-29	Trading Buy	2,000	315
2019-07-09	Take Profit	2,000	392
2019-06-25	Buy	2,000	367
2019-05-29	Buy	2,000	230

Source: RHB, Bloomberg

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