

Above estimates sales amid higher opex in 4Q19. In 4Q19, ERAA recorded IDR 9.3tn in revenue (+14% QoQ/-1% YoY), exceeding our and cons forecast by 6%/4% respectively. Net profit came in at IDR 129bn (+130% QoQ/-39%YoY), 9% higher from ours and 3% lower from cons. The successful launching of iPhone 11 series in early Dec-19 contributed to favorable sales during the quarter. Gross margin expanded in 4Q19 to 10.7% (+340bps QoQ/+190bps YoY) mainly supported by stronger Rupiah, whereas opex to sales ratio showed a hike to 7.7% (+200bps QoQ/+350bps YoY) as rapid new store openings in the last two years escalate fixed costs which primarily include salary and rental expenses. The company managed to open 278 new outlets in FY19 while closing down approximately 50 stores that underperformed.

Assessing 2020 outlook. 2020 would be undeniably challenging for brick and mortar retailers as we face the spreading coronavirus which forces citizens to reduce social activities. Considering 73% of ERAA's stores are located in Central Indonesia, almost 50% of which are in Greater Jakarta, we expect that the current social distancing measure would likely to lower company's phone sales volume by 15% YoY. While company is promoting sales through online channel, we think that customer behavior might shift towards buying less discretionary products amidst tough economic environment. Moreover, recent hiccup in economic activities is likely to cause higher unemployment and smaller income basket, thus even lower discretionary spending. In addition, we expect GPM to contract to 8.0% (-60bps YoY) as a result of weak IDR against USD and CNY (-19% and 17% YTD respectively). Meanwhile, based on our channel check, IMEI control preparation is still running as per schedule, though there is a possibility of delay in implementation due to the uncertainty during Covid-19 crisis.

Forward-looking valuation appeared demanding. Following our forecast adjustment to price in Covid-19 impact on ERAA, we see potential 5% drop in FY20's top-line given the low traction in shopping centers and softer purchasing power as a result of Covid's ripple effects. This translates to 23% fall in bottom-line as margins compress while operating leverage diminish. **Therefore, we downgrade our recommendation on ERAA to NEUTRAL with target price of IDR 880 per share, implying FY20F 13.4x P/E.** Key risks to our call: sooner-than-expected end of Covid-19 which might lead to strong rebound in heavily punished sector including retail, and stronger-than-expected Rupiah.

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Sector	Retail
Bloomberg Ticker	ERAA IJ
Market Cap. (IDR tn)	3.0
Share Out./Float (mn)	3,190/1,442
Current Price	930
FY20F Target Price	880
Upside	-5.4%

Share Price Performance

52W High (04/07/19)	2,260
52W Low (03/26/20)	805
52W Beta	1.4
YTD Change	-47.4%

Relative Valuations

Trailing P/E	10.2x
Forward P/E	14.2x
P/BV	0.6x

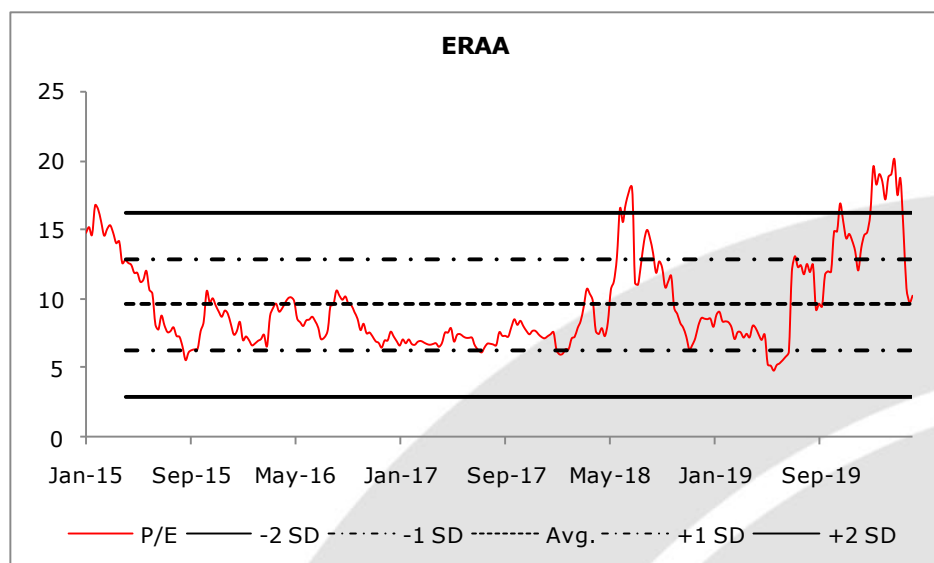
Highlights (IDR Bn)	2018	2019	2020E	2021F	2022F
Net Revenue	34,744	32,945	31,272	33,737	36,405
% growth	43.4%	-5.2%	-5.1%	7.9%	7.9%
Gross Profit	3,169	2,849	2,514	2,738	3,007
Net Profit	850	295	226	270	326
% growth	150.4%	-65.3%	-23.3%	19.5%	20.5%
Gross Margin (%)	9.1%	8.6%	8.0%	8.1%	8.3%
Net Margin (%)	2.4%	0.9%	0.7%	0.8%	0.9%
Return on Equity (%)	19.9%	6.0%	4.5%	5.3%	6.2%
Return on Assets (%)	7.9%	2.6%	2.3%	2.8%	3.2%
EPS	266	92	71	85	102

ERAA 4Q19 Earnings Summary

IDR bn	4Q18	3Q19	4Q19	%QoQ	%YoY	12M18	12M19	%YoY	% DH	% Cons
Net Revenues	9,411	8,184	9,332	14.0%	-0.8%	34,744	32,945	-5.2%	106%	104%
COGS	(8,583)	(7,587)	(8,333)	9.8%	-2.9%	(31,575)	(30,096)	-4.7%		
Gross Profit	828	597	999	67.4%	20.7%	3,169	2,849	-10.1%		
Operating Profit	441	132	284	115.1%	-35.5%	1,527	777	-49.1%		
Net Income	214	56	129	129.5%	-39.4%	850	295	-65.3%	109%	97%
Gross Margin	8.8%	7.3%	10.7%			9.1%	8.6%			
Operating Margin	4.7%	1.6%	3.0%			4.4%	2.4%			
Opex to Sales	4.1%	5.7%	7.7%			4.7%	6.3%			
Net Margin	2.3%	0.7%	1.4%			2.4%	0.9%			

Source: Company Data, Sinarmas Investment Research

ERAA 3-Yr P/E Band



Source: Bloomberg, Sinarmas Investment Research

Income Statement (IDR Bn)	2018	2019	2020E	2021F	2022F
Revenue	34,744	32,945	31,272	33,737	36,405
Cost of Revenue	31,575	30,096	28,758	31,000	33,398
Gross Profit	3,169	2,849	2,514	2,738	3,007
% growth	46.8%	-10.1%	-11.8%	8.9%	9.8%
Operating Expenses	1,852	2,336	2,192	2,376	2,571
Opex to Sales (%)	5.3%	7.1%	7.0%	7.0%	7.1%
Operating Profit	1,527	777	573	633	727
% growth	154.6%	-49.1%	-26.2%	10.4%	14.9%
Net Financing	(345)	(321)	(219)	(212)	(222)
EBT	1,203	473	371	438	522
Tax	(314)	(147)	(115)	(136)	(163)
Non Controlling Interest	39	31	29	31	34
Net Profit for the Year	850	295	226	270	326
% growth	150.4%	-65.3%	-23.3%	19.5%	20.5%

Balance Sheet (IDR Bn)	2018	2019	2020E	2021F	2022F
Cash and Cash Equivalent	272	571	705	345	331
Trade Receivables	1,417	1,042	989	1,067	1,152
Inventories	6,795	3,693	3,619	3,904	4,213
Other Current Assets	1,570	1,638	1,554	1,677	1,810
Total Current Assets	10,054	6,945	6,867	6,994	7,505
Fixed Assets	554	615	571	516	428
Other Non Current Assets	2,076	2,189	2,308	2,394	2,488
Total Assets	12,683	9,748	9,745	9,904	10,422
Trade Payables	2,807	1,435	1,362	1,469	1,585
ST Bank Loans	4,284	2,703	2,703	2,583	2,785
Other Current Liabilities	650	478	452	488	526
Total Current Liabilities	7,741	4,616	4,517	4,540	4,896
Other Non Current Liabilities	117	153	145	157	169
Total Liabilities	7,857	4,769	4,662	4,697	5,065
Share & APIC	2,189	2,189	2,189	2,189	2,189
Retained Earnings	2,484	2,620	2,724	2,848	2,998
Non Controlling Interest	133	157	157	157	157
Other Components of Equity	19	13	13	13	13
Total Equity	4,826	4,979	5,083	5,207	5,357
Total Equity & Liabilities	12,683	9,748	9,745	9,904	10,422

Source: Company Data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2018	2019	2020E	2021F	2022F
Net Income	850	295	226	270	326
Depreciation	70	112	115	126	131
Chg. in NWC	3,386	(1,946)	(64)	270	292
Chg. in Other CT Assets	(23)	47	(53)	79	85
Chg. in Other CT Liabilities	55	(35)	(4)	5	6
CF from Operating	(2,388)	2,271	455	54	86
Capital Expenditure	138	173	71	71	44
Chg. in LT Assets	372	113	119	87	94
Chg in LT Liabilities	2	38	(8)	11	12
CF from Investing	(508)	(248)	(198)	(147)	(125)
Dividends Paid	(110)	(160)	(122)	(146)	(176)
Chg. in Debt	2,533	(1,582)	(2)	(120)	201
Share Capital & APIC	306	-	-	-	-
Others	73	18	-	-	-
CF from Financing	2,802	(1,724)	(124)	(266)	25
Change in Cash	(94)	299	133	(359)	(14)
Beginning Cash	366	272	571	705	345
Ending Cash	272	571	705	345	331

Financial Ratio	2018	2019	2020E	2021F	2022F
Profitability					
ROE	19.9%	6.0%	4.5%	5.3%	6.2%
ROA	7.9%	2.6%	2.3%	2.8%	3.2%
Gross Margin	9.1%	8.6%	8.0%	8.1%	8.3%
Operating Margin	4.4%	2.4%	1.8%	1.9%	2.0%
Net Margin	2.4%	0.9%	0.7%	0.8%	0.9%
Liquidity & Solvency					
Current Ratio	1.3	1.5	1.5	1.5	1.5
Debt to Equity	1.6	1.0	0.9	0.9	0.9
Debt to Assets	0.6	0.5	0.5	0.5	0.5
Interest Coverage	4.4	2.4	2.5	2.8	3.2
Valuation					
Price to Earning (PE)	3.6	10.3	13.4	11.2	9.3
Price to Book (PBV)	0.6	0.6	0.6	0.6	0.6

Key Assumptions	2018	2019	2020E	2021F	2022F
Number of Stores	936	1,164	1,214	1,254	1,284
Phones ASP Growth	12%	11%	3%	3%	3%
Phones Volume Growth	30%	-20%	-15%	5%	5%

Source: Company Data, Sinarmas Investment Research

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NEUTRAL: Share price may range between -10% to +10% over the next 12 months.

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