

Soft 1H19 performance. In-line with global phone sales trend that we have noted in our previous report ([ERAA IJ - Off to an Unfavorable Start](#)), ERAA recorded a weak 1H19 performance in which top-line came in at IDR 15.4 tn (-9.7% YoY), while bottom-line was at IDR 109 bn (-74.9% YoY), primarily dragged down by declining gadget sales. Looking at 2Q19 alone, revenue was growing on QoQ basis by 16.6%, while dropped by 5.8% on yearly basis. Besides, gross margin showed 180 bps decrease to 7.3% from 9.1% in 1Q19. This might be affected by clearance sale to reduce inventory level and product launchings during the quarter which was dominated by mid-range smartphones (i.e. Samsung A Series, Oppo F11). In 2Q19, Xiaomi which used to be ERAA's main volume driver dropped to the second place after Samsung as there was limited product launching. On the operating side, we note a better opex to sales ratio which was down to 5% level (vs 6.6% in 1Q19/5.4% in 2Q18) as well as lower finance costs given the shifting for Xiaomi's spareparts import responsibility to the principal.

Weighting in the effects of IMEI implementation. The law for IMEI control is planned to be legalized on 17th August 2019 and the system operations would be run under three ministries: Trade, Industry, and Communication. This has driven ERAA's share price rally for the past few weeks as the market was pricing in potential revenue growth from black market diminishing presence. However, we see a lot of uncertainties on this issue lingering, from the details of the law to its implementation timeline. In addition, delayed on the IMEI control rollout was indicated during a listed telco player's earnings call as the management stated that the implementation will be postponed due to the ongoing preparation process.

Exploring future outlook. Seeing the company's extensive footprints and exclusive brand partnership with Apple and Xiaomi, of which are popular brands among black market phone sales, we see ERAA as the main beneficiary of IMEI control implementation. Nevertheless, we remain cautious on the development considering that the implementation would involve and affect many. Setback on the law enforcement may postpone the company from reaping potential sales from black market players. **Therefore, we maintain our NEUTRAL call on ERAA with FY20F target price of IDR 1,800, which implies 8.3x FY20F P/E** deriving from 3-yr P/E mean as we have yet to fully bake in IMEI implementation's benefits to our forecast on ERAA.

Highlights (IDR Bn)	2017	2018	2019E	2020F	2021F
Net Revenue	24,230	34,744	30,901	35,908	40,331
% growth	17.9%	43.4%	-11.1%	16.2%	12.3%
Gross Profit	2,159	3,169	2,601	3,124	3,496
Net Profit	339	850	457	680	766
% growth	28.9%	150.4%	-46.2%	48.8%	12.6%
Gross Margin (%)	8.9%	9.1%	8.4%	8.7%	8.7%
Net Margin (%)	1.4%	2.6%	1.6%	2.0%	2.0%
Return on Equity (%)	9.5%	19.9%	9.1%	12.3%	12.5%
Return on Assets (%)	4.2%	7.9%	3.7%	5.5%	5.5%
EPS	106	266	143	213	240

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Sector	Retail
Bloomberg Ticker	ERAA IJ
Market Cap. (IDR tn)	6.3
Share Out./Float (mn)	3,190/1,442
Current Price	1,990
FY20F Target Price	1,800
Upside	-9.5%

Share Price Performance

52W High (08/02/18)	3,230
52W Low (05/10/19)	695
52W Beta	0.9
YTD Change	-9.6%

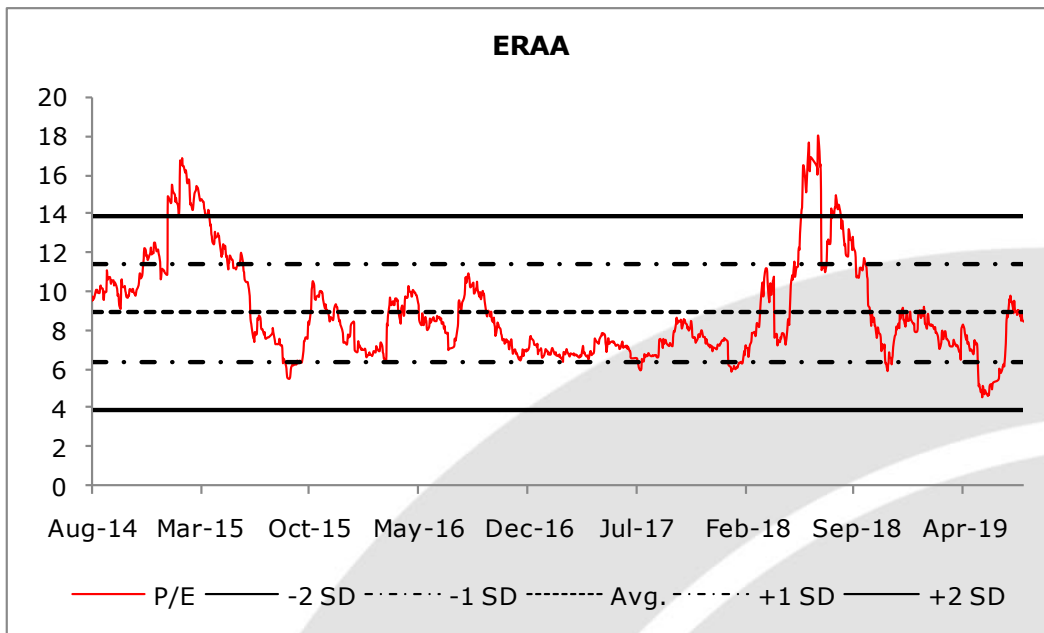
Relative Valuations

Trailing P/E	12.4
Forward P/E	9.3
P/BV	1.2

ERAA 2Q19 Earnings Summary

IDR bn	2Q18	1Q19	2Q19	%QoQ	%YoY	6M18	6M19	%YoY	% DH	% Cons
Net Revenues	8,812	7,124	8,305	16.6%	-5.8%	17,092	15,429	-9.7%	50%	48%
COGS	(7,952)	(6,477)	(7,699)	18.9%	-3.2%	(15,401)	(14,176)	-7.9%		
Gross Profit	860	647	606	-6.4%	-29.6%	1,692	1,253	-26.0%		
Operating Profit	388	174	186	7.1%	-52.0%	715	361	-49.6%		
Net Income	230	47	62	30.4%	-73.1%	435	109	-74.9%	24%	19%
Gross Margin	9.8%	9.1%	7.3%			9.9%	8.1%			
Operating Margin	4.4%	2.4%	2.2%			4.2%	2.3%			
Opex to Sales	5.4%	6.6%	5.0%			5.7%	5.8%			
Net Margin	2.6%	0.7%	0.7%			2.5%	0.7%			

P/E Band



Source: Bloomberg, Sinarmas Investment Research

Income Statement (IDR Bn)	2017	2018	2019E	2020F	2021F
Revenue	24,230	34,744	30,901	35,908	40,331
Cost of Revenue	22,071	31,575	28,300	32,785	36,836
Gross Profit	2,159	3,169	2,601	3,124	3,496
% growth	20.5%	46.8%	-17.9%	20.1%	11.9%
Operating Expenses	1,636	1,852	1,741	2,023	2,273
Opex to Sales (%)	6.8%	5.3%	5.6%	5.6%	5.6%
Operating Profit	600	1,527	1,047	1,317	1,467
% growth	12.6%	154.6%	-31.5%	25.8%	11.3%
Net Financing	(140)	(345)	(396)	(364)	(398)
EBT	480	1,203	671	973	1,089
Tax	(133)	(314)	(175)	(254)	(284)
Non Controlling Interest	8	39	39	39	39
Net Profit for the Year	339	850	457	680	766
% growth	28.9%	150.4%	-46.2%	48.8%	12.6%

Balance Sheet (IDR Bn)	2017	2018	2019E	2020F	2021F
Cash and Cash Equivalent	366	272	234	151	139
Trade Receivables	1,571	1,417	1,260	1,465	1,645
Inventories	3,388	6,795	5,981	6,950	7,833
Other Current Assets	1,359	1,570	1,396	1,622	1,822
Total Current Assets	6,685	10,054	8,871	10,188	11,439
Fixed Assets	486	554	606	582	551
Other Non Current Assets	1,703	2,076	2,237	2,414	2,570
Total Assets	8,874	12,683	11,714	13,184	14,560
Trade Payables	2,619	2,807	2,496	2,901	3,258
ST Bank Loans	1,747	4,284	3,315	3,679	3,934
Other Current Liabilities	682	650	577	670	753
Total Current Liabilities	5,049	7,741	6,388	7,250	7,945
Other Non Current Liabilities	119	117	102	119	133
Total Liabilities	5,167	7,857	6,491	7,369	8,078
Share & APIC	1,884	2,189	2,189	2,189	2,189
Retained Earnings	1,744	2,484	2,882	3,474	4,141
Non Controlling Interest	79	133	133	133	133
Other Components of Equity	(1)	19	19	19	19
Total Equity	3,707	4,826	5,223	5,815	6,482
Total Equity & Liabilities	8,874	12,683	11,714	13,184	14,560

Source: Company Data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2017	2018	2019E	2020F	2021F
Net Income	339	850	457	680	766
Depreciation	58	70	94	101	110
Chg. in NWC	920	3,386	(663)	772	709
Chg. in Other CT Assets	553	(23)	(111)	145	128
Chg. in Other CT Liabilities	(24)	55	(12)	15	14
CF from Operating	(1,100)	(2,388)	1,313	(120)	52
Capital Expenditure	87	138	146	78	78
Chg. in LT Assets	(96)	372	162	177	156
Chg in LT Liabilities	37	2	(13)	16	14
CF from Investing	46	(508)	(320)	(238)	(220)
Dividends Paid	(58)	(110)	(59)	(88)	(99)
Chg. in Debt	848	2,533	(972)	364	255
Share Capital & APIC	0	306	-	-	-
Others	16	73	-	-	-
CF from Financing	806	2,802	(1,031)	275	156
Change in Cash	(248)	(94)	(38)	(83)	(12)
Beginning Cash	615	366	272	234	151
Ending Cash	366	272	234	151	139

Financial Ratio	2017	2018	2019E	2020F	2021F
Profitability					
ROE	9.5%	19.9%	9.1%	12.3%	12.5%
ROA	4.2%	7.9%	3.7%	5.5%	5.5%
Operating Margin	2.5%	4.4%	3.4%	3.7%	3.6%
Liquidity & Solvency					
Current Ratio	1.3	1.3	1.4	1.4	1.4
Debt to Equity	1.4	1.6	1.2	1.3	1.2
Debt to Assets	0.6	0.6	0.6	0.6	0.6
Interest Coverage	4.2	4.4	2.6	3.6	3.7
Valuation					
Price to Earning (PE)	16.6	6.6	12.4	8.3	7.4
Price to Book (PBV)	0.6	1.2	1.1	1.0	0.9

Key Assumptions	2017	2018	2019E	2020F	2021F
Number of Stores	775	936	1056	1106	1146
ASP Growth	14%	12%	15%	10%	10%
Volume Growth	-1%	30%	-25%	10%	5%

Source: Company Data, Sinarmas Investment Research

SINARMAS SEKURITAS INVESTMENT RATINGS GUIDE

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