

Stellar 1Q21 performance. ERAA booked 1Q21 sales of IDR 10.8 tn (-0.9% QoQ, +39% YoY), forming 29.1%/28.6% of our/consensus estimate. All segments other than voucher segment contributed to the rise: cellular phones by 47.8% YoY, computer by 71.6% YoY, accessories by 47.6% YoY, while voucher sales fell by 24.1% YoY. Looking into its operational metrics, 1Q21 ASP rose by 35% YoY to IDR 3.1 mn and its handset sales volume grew by 9% YoY to 2.9 mn units. On a quarterly basis, 1Q21 phone sales still grew by 0.9% from 4Q20, reaching an all-time high at IDR 8.8tn, despite the fact that 4Q has historically been the top quarter due to year-end festive season. Meanwhile, computer/accessories/voucher sales declined by 1.2%/15.9%/2.9% QoQ respectively. GPM stood at 11.1% (-20 bps QoQ/+110 bps YoY), and EBIT margin rose to 4.1% (vs. 3.1% in 4Q20/2.4% in 1Q20). In all, 1Q21 net profit came in at IDR 278 bn, declined by 12.2% QoQ but jumped c.2.7x from IDR 103 bn in 1Q20.

Earnings upgrade. ERAA is undeniably benefiting from the implementation of IMEI regulation policy in Sep-20. Coupled with pent-up demand during the pandemic, ERAA has shown solid performances over the last three quarters (3Q20 NP: IDR 182 bn; 4Q20 NP: IDR 317 bn; 1Q21 NP: IDR 278 bn). We believe that the IMEI regulation has established pricing stability and set aside competition with illegal phone distributors, resulting in a higher profitability for ERAA. Apart from that, ERAA is still set to be aggressive in 2021 and aims to open more than 200 new stores in 2021 (vs. 135 new stores in 2020), or additional 17.4% from existing stores in 2020. As of 1Q21, company has successfully opened 36 new stores from various brands (Erafone, Huawei, iBox, Mi Store, Samsung Experience Store, etc.) across Indonesia. We are positive that ERAA's efforts to increase its coverage and secure its market leader position in the smartphone distribution and retail industry would deliver outstanding results in FY21E. Taking all into account, we upgrade our initial FY21E/FY22F earnings forecast by 46.7%/35.2%.

We slightly tone down our recommendation from BUY to ADD on PT Erajaya Swasembada (ERAA) with a higher 52-week TP of IDR 700 post 5-for-1 stock split. Our TP derived from 12.9x FY21F PE (+1 SD from its 5-year average). We believe that ERAA deserves a re-rating given its ability to deliver consistent outstanding results over the last quarters, as well as margin expansion from pricing stability and limited rivalry. Downside risks include weaker-than-expected economic growth and consumption level.

Highlights (IDR Bn)	2019	2020	2021E	2022F	2023F
Revenue	32,945	34,113	42,525	45,755	48,562
% growth	-5.2%	3.5%	24.7%	7.6%	6.1%
Gross Profit	2,849	3,410	4,090	4,441	4,693
Net Profit	295	612	867	991	1,065
% growth	-65.3%	107.5%	41.7%	14.3%	7.5%
Gross Margin (%)	8.6%	10.0%	9.6%	9.7%	9.7%
Net Margin (%)	0.9%	1.8%	2.0%	2.2%	2.2%
Return on Equity (%)	6.2%	12.0%	15.0%	15.1%	14.3%
Return on Assets (%)	2.8%	5.2%	6.7%	7.3%	7.6%
EPS (IDR)	18	38	54	62	67

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Sector	Retail
Bloomberg Ticker	ERAA IJ
Market Cap. (IDR tn)	9.9
Share Out./Float (mn)	15,950/1,442
Current Price	625
FY21F Target Price	700
Upside	12.0%

Share Price Performance

52W High (04/19/21)	660
52W Low (05/26/20)	227
52W Beta	1.5
YTD Change	42%

Relative Valuations

Trailing P/E	16.3x
Forward P/E	11.5x
P/BV	0.3x

ERAA 1Q21 Earnings Summary

IDR Bn	1Q20	4Q20	1Q21	%QoQ	%YoY	3M20	3M21	%YoY	%DH	%Cons
Revenue	7,807	10,943	10,848	-0.9%	39.0%	7,807	10,848	39.0%	29.1%	28.6%
Gross Profit	778	1,233	1,199	-2.7%	54.1%	778	1,199	54.1%		
Operating Profit	184	334	449	34.5%	143.9%	184	449	143.9%		
Net Profit	103	317	278	-12.2%	170.9%	103	278	170.9%	47.1%	36.7%
Gross Profit Margin	10.0%	11.3%	11.1%			10.0%	11.1%			
Operating Profit Margin	2.4%	3.1%	4.1%			2.4%	4.1%			
Net Profit Margin	1.3%	2.9%	2.6%			1.3%	2.6%			

Source: Company Data, Sinarmas Investment Research

Earnings Changes

(IDR Bn)	Old		New		Changes	
	FY21	FY22	FY21	FY22	FY21	FY22
Revenue	37,242	39,913	42,525	45,755	14.2%	14.6%
Gross Profit	3,470	3,725	4,090	4,441	17.9%	19.2%
Operating Profit	1,050	1,170	1,072	1,191	2.1%	1.8%
Net Profit	591	715	867	991	46.7%	38.5%
EPS (IDR)	37	45	54	62	46.7%	38.5%
Gross Margin	9.3%	9.3%	9.6%	9.7%		
Operating Margin	2.8%	2.9%	2.5%	2.6%		
Net Margin	1.6%	1.8%	2.0%	2.2%		

Source: Sinarmas Investment Research

Income Statement (IDR Bn)	2019	2020	2021E	2022F	2023F
Revenue	32,945	34,113	42,525	45,755	48,562
% growth	-5.2%	3.5%	24.7%	7.6%	6.1%
Cost of Good Sold	(30,096)	(30,703)	(38,436)	(41,314)	(43,870)
Gross Profit	2,849	3,410	4,089	4,441	4,692
% growth	-10.1%	19.7%	19.9%	8.6%	5.7%
Operating Expenses	(2,336)	(2,552)	(3,017)	(3,250)	(3,444)
Opex to Sales (%)	7.1%	7.5%	7.1%	7.1%	7.1%
EBIT	513	858	1,072	1,191	1,248
% growth	-61.0%	67.3%	24.9%	11.1%	4.8%
EBITDA	625	1,239	1,465	1,676	1,850
% growth	-55.0%	98.2%	18.2%	14.4%	10.4%
Other Inc (Exp)	281	245	301	324	344
Net Financing Income (Expenses)	(321)	(185)	(155)	(157)	(134)
EBT	473	918	1,218	1,358	1,458
Tax Expenses	(147)	(247)	(267)	(271)	(290)
Minority Interest	(31)	(59)	(84)	(96)	(103)
Net Income	295	612	867	991	1,065
% growth	-65.3%	107.5%	41.7%	14.3%	7.5%
EPS (IDR)	18	38	54	62	67
Balance Sheet (IDR Bn)	2019	2020	2021E	2022F	2023F
Cash & Equivalents	572	2,001	550	949	1,291
Trade Receivables	1,628	1,576	1,679	1,796	1,904
Inventories	3,693	3,259	5,551	5,766	5,742
Other Current Assets	1,052	710	1,038	1,112	1,159
Total Current Assets	6,945	7,546	8,818	9,623	10,096
Fixed Assets	615	1,372	1,409	1,386	1,513
Other Non Current Assets	2,189	2,292	2,302	2,317	2,340
Total Assets	9,749	11,210	12,529	13,326	13,949
Short Term Debt	2,703	2,106	2,211	1,948	1,316
Trade Payables	1,739	2,732	3,229	3,284	3,432
Other Current Liabilities	174	305	242	275	299
Total Current Liabilities	4,616	5,143	5,682	5,507	5,047
Long Term Debt	1	179	262	351	446
Other Non Current Liabilities	153	201	172	197	218
Total Liabilities	4,770	5,523	6,116	6,055	5,711
Share & APIC	2,189	2,189	2,189	2,189	2,189
Retained Earnings	2,620	3,211	3,974	4,817	5,769
Minority Interest	157	279	293	308	323
Others	13	8	(43)	(43)	(43)
Total Equity	4,979	5,687	6,413	7,271	8,238
Total Liabilities & Equity	9,749	11,210	12,529	13,326	13,949

Source: Company Data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2019	2020	2021E	2022F	2023F
Net Income	295	612	867	991	1,065
Dep. & Amortization	112	381	393	485	602
Chg. In NWC	1,864	1,952	(2,287)	(318)	42
CF from Operating	2,271	2,945	(1,027)	1,158	1,709
Capital Expenditure	(173)	(1,139)	(430)	(463)	(728)
Chg. in LT Assets	(113)	(103)	(10)	(15)	(23)
Chg. in LT Liabs	39	47	(30)	26	19
CF from Investing	(247)	(1,195)	(470)	(452)	(732)
Chg. in Share & APIC	-	-	-	-	-
Chg. in Debt	(1,582)	(418)	188	(174)	(537)
Dividends Paid	(160)	-	(105)	(148)	(113)
Others	18	97	(37)	15	15
CF from Financing	(1,724)	(321)	46	(307)	(635)
Chg. in Cash	300	1,429	(1,451)	399	342
Beginning Cash	272	572	2,001	550	949
Ending Cash	572	2,001	550	949	1,291

Financial Ratio & Key Assumption	2019	2020	2021E	2022F	2023F
Profitability					
Return on Equity	6.2%	12.0%	15.0%	15.1%	14.3%
Return on Assets	2.8%	5.2%	6.7%	7.3%	7.6%
Gross Margin	8.6%	10.0%	9.6%	9.7%	9.7%
Operating Margin	1.6%	2.5%	2.5%	2.6%	2.6%
EBITDA Margin	1.9%	3.6%	3.4%	3.7%	3.8%
Net Margin	0.9%	1.8%	2.0%	2.2%	2.2%
Liquidity					
Current Ratio (x)	1.5	1.5	1.6	1.7	2.0
Quick Ratio (x)	0.5	0.7	0.4	0.5	0.6
Solvency					
Debt to Equity (x)	0.5	0.4	0.4	0.3	0.2
Debt to Assets (x)	0.3	0.2	0.2	0.2	0.1
Interest Cov. (x)	1.6	4.5	6.7	7.4	9.0
Valuation					
Price to Earnings (x)	37.8	18.2	12.9	11.3	10.5
Price to Book (x)	2.2	0.4	0.3	0.3	0.3

Key Assumptions	2019	2020	2021E	2022F	2023F
Number of Stores	1,049	1,053	1,253	1,378	1,447
Phones ASP Growth	11%	29%	25%	5%	5%
Phones Volume Growth	-22%	-21%	5%	1%	1%

Source: Company Data, Sinarmas Investment Research

SINARMAS SEKURITAS INVESTMENT RATINGS GUIDE

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SELL: Share price may fall by more than 15% over the next 12 months.

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