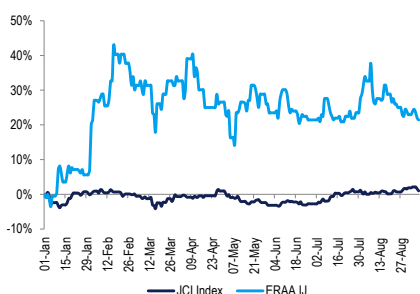


Stock Data

Target price (Rp)	N/A
Prior TP (Rp)	N/A
Current price (Rp)	Rp478
Upside/downside	N/A
Shares outstanding (mn)	15,950
Market cap (Rp bn)	7,592
Free float	44%
Avg. 6m daily T/O (Rp bn)	32

Price Performance

	3M	6M	12M
Absolute	-5.7%	-8.5%	0.4%
Relative to JCI	-9.5%	-10.2%	4.8%
52w low/high (Rp)	378 – 560		



Major Shareholders

PT Eralink International	54.5%
Treasury shares	1.1%

Lukito Supriadi

PT Indo Premier Sekuritas
lukito.supriadi@ipc.co.id
+62 21 5088 7168 ext. 716

Andrianto Saputra

PT Indo Premier Sekuritas
andrianto.saputra@ipc.co.id
+62 21 5088 7168 ext. 712

Post pandemic update on the largest multi-brand handset distributor/retailer

- ERAA will focus more on store productivity in 2H23F i.e. pushing more mid-low SKU, new brands Tecno/Infinix) post aggressive store rollout.
- Implied handset market share has already reached 28% in 1Q23 from 24% in 4Q22.
- It plans to continue to maintain healthy market share on handset while maintaining cost discipline by toning down its store expansion plan.

Handset business remains the driver for ERAA

We recently had a discussion with ERAA on the latest update and outlook. Given the bulk of revenue contribution coming from cell phones & tablets (c.81% in 1H23, details in Fig. 6) and the fact that cell phones & tablets remain one of its fastest growing segment (+26.4% yoy), and this segment remains the main driver of the group; and diversification into other verticals may take some time until their contribution becomes more material.

Aggressive retail store expansion

ERAA has opened 323 new stores (out of 400 store openings in FY23 target), reaching a total of 1,752 stores in 1H23. ERAA’s aggressive store opening strategy in the past few years (FY22: 577 stores) has lifted its retail sales contribution to c.58% in 1H23 (vs. 53-54% in FY22 and <50% in FY21) with distribution business making up the rest. Nonetheless, this strategy has also resulted in a opex growth of +34% yoy in 1H23 (vs. sales growth of +23.5% yoy) and is one of the key reasons for ERAA’s 1H23 PATMI decline of -9.6% yoy.

Store productivity is the key in ensuring future profit growth

Management plans to scale down store expansion target from initially 600 stores to 400 stores; and instead focus on store productivity optimisation. New stores typically require 6-8 months for sales to ramp up. Looking into 2H23F, ERAA aims to boost its retail store productivity by pushing mid-low handset models from existing principals as Indonesia’s handset industry is driven by low-mid end handset. In addition, ERAA has on-boarded two new handset brands namely, Tecno and Infinix in recent years.

Imperative cost discipline

It plans to maintain healthy market share in handset along with cost discipline pertaining to its aggressive store rollout. While other multibrand handset retailers such as TELE and TRIO have scaled down operations significantly, we identify ERAA’s main competition lie in the principals outside of their distribution – OPPO/Vivo/Realme, which combined have a vast network reaching tens of thousands stores nationwide.

Financial Summary (Rp bn)	2018A	2019A	2020A	2021A	2022A
Net revenue	34,744	32,945	34,113	43,467	49,471
EBITDA	1,563	883	1,486	2,091	2,361
Net profit	850	295	612	1,012	1,013
EPS	53	18	38	63	64
EPS growth	150.4%	-65.3%	107.4%	65.4%	0.0%
ROE	20.4%	6.2%	12.0%	17.5%	15.7%
PER (x)	9.0	26.6	12.6	7.6	7.5
Dividend yield	1.2%	2.1%	0.3%	3.7%	5.3%

Source: Company, Indo Premier

Share price closing as of: 8 September 2023

Market share recovery following resolution of chip shortage issue

In FY22, the handset industry was impacted by supply chain issues on chip shortage. This resulted in handset manufacturers focusing on producing higher value products over those with low values and is reflected in ERAA's volume decline in handsets of -20.3% yoy in FY22 (ASP: +41.3% yoy). In parallel, we also noted a rising market share of Chinese brands, namely Oppo, Vivo and Realme (sub-brand of Oppo) from a combined 51.1% in FY21 to 52.1% in FY22. Because ERAA does not carry these brands in its distribution and only through its retail network, ERAA's implied market share (based on industry volume from IDC) declined accordingly from 27.8% in FY21 to 25.9% in FY22.

Fig. 1: FY22's Indonesia's Smartphone Industry (mn units)

Brand	FY22	FY21	% yoy
OPPO	7.8	8.5	-8.0%
Samsung	7.6	7.2	5.4%
Vivo	6.3	7.4	-15.2%
Xiaomi	5	8.1	-38.6%
Realme	4.1	5	-17.1%
Others	4.2	4.7	-10.2%
Total	35	40.9	-14.3%
ERAA	9.05	11.4	-20.3%

Source: IDC, Company, Indo Premier

Fig. 2: FY22's Indonesia's Smartphone market share

Market share	FY22	FY21	% yoy
OPPO	22.4%	20.8%	1.6%
Samsung	21.7%	17.6%	4.1%
Vivo	17.9%	18.1%	-0.2%
Xiaomi	14.2%	19.8%	-5.6%
Realme	11.8%	12.2%	-0.4%
Others	12.0%	11.5%	0.5%
Total	100.0%	100.0%	0.0%
ERAA	25.9%	27.8%	-6.8%

Source: IDC, Company, Indo Premier

Following the chip shortage normalization, ERAA's implied market share has started to improve in 1Q23 to 27.8% from 4Q22's 23.8%, coinciding with Oppo/Vivo/Realme's declining combined market share (50.6% in 1Q23 vs 56.0% in 4Q22), based on total industry volume from IDC. This is in-line with ERAA's sales volume recovery of +9.0% qoq in 1Q23 driven by sales of lower value phones (1Q23 ASP -2.6% qoq) which is followed by further volume growth in 2Q23 (+8.7% yoy/+18.2% qoq as ASP declined -19.5% qoq). Notably, ERAA does not carry OPPO/VIVO/Realme brands' distribution.

Fig. 3: 1Q23's Indonesia's Smartphone Industry (mn units)

Brand	1Q23	1Q22	% yoy	4Q22	% qoq
OPPO	1.8	1.8	1.6%	2.2	-18.2%
Samsung	1.9	2.1	-9.0%	1.8	5.6%
Vivo	1.3	1.5	-14.6%	1.5	-13.3%
Xiaomi	1.1	1.3	-17.2%	1.1	0.0%
Realme	0.8	1.1	-23.3%	1	-20.0%
Others	0.9	1.1	-18.2%	0.8	12.5%
Total	7.9	8.9	-11.9%	8.5	-7.1%
ERAA	2.2	2.3	-5.6%	2.0	9.0%

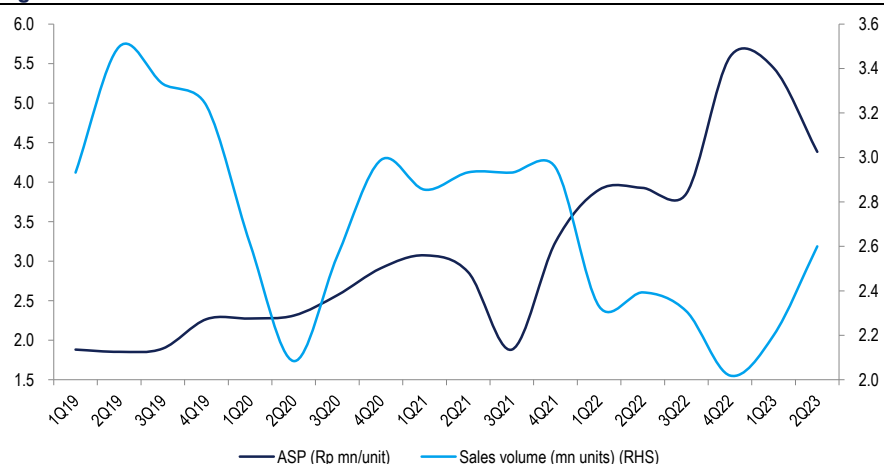
Source: IDC, Company, Indo Premier

Fig. 4: 1Q23's Indonesia's Smartphone market share

Market share	1Q23	1Q22	% yoy	4Q22	% qoq
OPPO	23.3%	20.2%	3.1%	26.1%	-2.8%
Samsung	24.0%	23.3%	0.7%	21.8%	2.2%
Vivo	16.5%	17.1%	-0.6%	18.2%	-1.7%
Xiaomi	13.7%	14.6%	-0.9%	12.7%	1.0%
Realme	10.8%	12.3%	-1.5%	11.7%	-0.9%
Others	11.6%	12.5%	-0.9%	9.6%	2.0%
ERAA	27.8%	26.2%		23.8%	

Source: IDC, Company, Indo Premier

Fig. 5: ERAA's ASP & sales volume trend



Source: IDC, Company, Indo Premier

Fig. 6: ERAA's 2Q23 Result

(Rp bn)	2Q23	2Q22	% YoY	1Q23	% QoQ	1H23	1H22	% YoY
Revenue	14,104	11,920	18.3%	14,793	-4.7%	28,897	23,400	23.5%
COGS	(12,610)	(10,785)	16.9%	(13,209)	-4.5%	(25,820)	(20,986)	23.0%
Gross profit	1,494	1,135	31.6%	1,584	-5.6%	3,078	2,414	27.5%
Opex	(1,432)	(1,080)	32.6%	(1,541)	-7.1%	(2,230)	(1,664)	34.0%
Others	62	55	13.0%	42	46.0%	104	72	43.7%
EBIT	481	350	37.4%	471	2.1%	952	822	15.8%
PBT	309	291	6.2%	368	-16.1%	677	707	-4.2%
Tax	(88)	(93)	-5.5%	(128)	-31.4%	(216)	(209)	3.3%
Minorities	0	14	-99.2%	(3)	-103.5%	(3)	9	-132.9%
Net profit	221	212	4.3%	237	-6.6%	459	508	-9.6%
Margin (%)								
Gross profit margin	10.6%	9.5%		10.7%		10.7%	10.3%	
EBIT margin	3.4%	2.9%		3.2%		3.3%	3.5%	
Net margin	1.6%	1.8%		1.6%		1.6%	2.2%	
Segment information								
Revenue								
Cellular phones and tablet	11,397	9,398	21.3%	11,977	-4.8%	23,375	18,492	26.4%
Voucher	694	683	1.7%	742	-6.4%	1,436	1,384	3.8%
Computer & other electronic devices	443	480	-7.8%	420	5.3%	863	1,000	-13.8%
Accessories and others	1,570	1,360	15.5%	1,654	-5.1%	3,224	2,524	27.8%
Gross profit								
Cellular phones and tablet	1,055	732	44.1%	1,178	-10.5%	2,233	1,642	36.0%
Voucher	26	24	10.3%	22	20.5%	48	37	30.4%
Computer & other electronic devices	38	47	-19.3%	42	-10.4%	80	103	-21.8%
Accessories and others	375	332	13.0%	341	9.9%	716	632	13.3%
GPM								
Cellular phones and tablet	9.3%	7.8%		9.8%		9.6%	8.9%	
Voucher	3.8%	3.5%		2.9%		3.3%	2.7%	
Computer & other electronic devices	8.6%	9.8%		10.1%		9.3%	10.3%	
Accessories and others	23.9%	24.4%		20.6%		22.2%	25.1%	
%Salary to sales	-3.4%	-3.0%		-3.6%		-3.5%	-3.2%	
%Rental to sales	-1.3%	-1.1%		-1.2%		-1.2%	-1.1%	

Source: IDC, Company, Indo Premier

Income Statement (Rp bn)	2018A	2019A	2020A	2021A	2022A
Net Revenue	34,744	32,945	34,113	43,467	49,471
Cost of Sales	(31,575)	(30,096)	(30,703)	(38,661)	(44,110)
Gross Profit	3,169	2,849	3,410	4,806	5,362
SG&A Expenses	(1,858)	(2,344)	(2,599)	(3,372)	(3,858)
Operating Profit	1,474	760	1,085	1,636	1,764
Net Interest	(334)	(313)	(226)	(184)	(273)
Forex Gain (Loss)	54	18	18	23	29
Others-Net	10	8	40	20	(23)
Pre-Tax Income	1,203	473	917	1,495	1,497
Income Tax	(314)	(147)	(246)	(377)	(421)
Net Income	850	295	612	1,012	1,013

Balance Sheet (Rp bn)	2018A	2019A	2020A	2021A	2022A
Cash & Equivalent	272	571	2,002	521	1,044
Receivable	1,417	1,042	1,012	616	1,055
Inventory	6,795	3,693	3,259	3,932	6,065
Other Current Assets	1,570	1,638	1,274	1,556	3,053
Total Current Assets	10,054	6,945	7,547	6,624	11,217
Fixed Assets - Net	554	615	1,372	1,668	2,961
Goodwill	2,076	2,189	2,292	3,080	2,881
Non Current Assets	2,629	2,803	3,664	4,748	5,841
Total Assets	12,683	9,748	11,211	11,372	17,058
ST Loans	4,285	2,704	2,106	1,730	4,220
Payable	2,807	1,435	2,088	1,514	2,401
Other Payables	92	41	123	136	1,065
Current Portion of LT Loans	557	436	825	900	1,335
Total Current Liab.	7,741	4,616	5,143	4,279	9,021
Long Term Loans	1	0	179	439	613
Other LT Liab.	116	153	201	191	221
Total Liabilities	7,857	4,769	5,523	4,910	9,855
Equity	2,189	2,189	2,189	2,193	2,193
Retained Earnings	2,503	2,632	3,219	3,946	4,549
Minority Interest	133	157	279	323	460
Total SHE + Minority Int.	4,826	4,979	5,688	6,462	7,203
Total Liabilities & Equity	12,683	9,748	11,211	11,372	17,058

Source: Company, Indo Premier

Cash Flow Statement (Rp bn)	2018A	2019A	2020A	2021A	2022A
Net Income	850	295	612	1,012	1,013
Depr. & Amortization	91	127	670	476	694
Changes in Working Capital	(3,668)	1,785	1,930	(1,803)	(1,482)
Others	(19)	(11)	(18)	(315)	(329)
Cash Flow From Operating	(2,746)	2,196	3,194	(629)	(104)
Capital Expenditure	(138)	(173)	(1,142)	(435)	(1,560)
Others	(13)	0	(301)	(62)	(204)
Cash Flow From Investing	(151)	(173)	(1,442)	(497)	(1,764)
Loans	2,534	(1,582)	(418)	(117)	2,664
Equity	306	0	0	4	(0)
Dividends	(90)	(166)	(25)	(286)	(409)
Others	53	24	122	44	137
Cash Flow From Financing	2,803	(1,724)	(321)	(355)	2,392
Changes in Cash	(94)	299	1,431	(1,481)	523

Key Ratios	2018A	2019A	2020A	2021A	2022A
Gross Margin	9.1%	8.6%	10.0%	11.1%	10.8%
Operating Margin	4.2%	2.3%	3.2%	3.8%	3.6%
Pre-Tax Margin	3.5%	1.4%	2.7%	3.4%	3.0%
Net Margin	2.4%	0.9%	1.8%	2.3%	2.0%
ROA	7.9%	2.6%	5.8%	9.0%	7.1%
ROE	20.4%	6.2%	12.0%	17.5%	15.7%
Acct. Receivables TO (days)	14.9	11.5	10.8	5.2	7.8
Inventory TO (days)	78.5	44.8	38.7	37.1	50.2
Payable TO (days)	32.4	17.4	24.8	14.3	19.9
Debt to Equity	91.3%	56.1%	42.3%	35.3%	71.7%
Interest Coverage Ratio (x)	-4.4	-2.4	-4.8	-8.9	-6.5
Net Gearing	85.5%	44.2%	5.2%	26.8%	56.2%

Source: Company, Indo Premier

INVESTMENT RATINGS

BUY	: Expected total return of 10% or more within a 12-month period
HOLD	: Expected total return between -10% and 10% within a 12-month period
SELL	: Expected total return of -10% or worse within a 12-month period

ANALYSTS CERTIFICATION

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

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