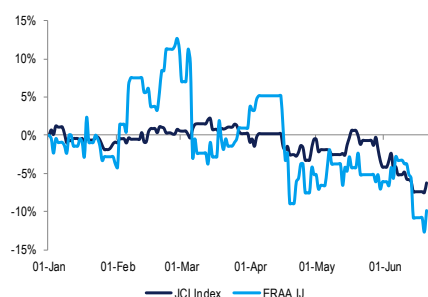


**Stock Data**

Target price (Rp)	N/A
Prior TP (Rp)	N/A
Current price (Rp)	Rp384
Upside/downside	N/A
Shares outstanding (mn)	15,950
Market cap (Rp bn)	6,125
Free float	44%
Avg. 6m daily T/O (Rp bn)	8

**Price Performance**

	3M	6M	12M
Absolute	-8.1%	-4.5%	-19.3%
Relative to JCI	-1.2%	1.1%	-21.1%
52w low/high (Rp)	328 – 540		



**Major Shareholders**

PT Eralink International	54.5%
Treasury shares	1.0%

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**Sales productivity now prioritised after years of aggressive expansion**

- After years of aggressive retail store roll-out, ERAA is planning to scale back the store expansion in FY24F and focus on productivity instead.
- More affordable handset offerings from principals (post chip shortage normalization) may be the key to improve Erafone store productivity.
- Handset principals are prioritizing retailers’ margin over distributors’; net positive for ERAA with higher retail sales contribution.

**Focusing on store productivity as FY24F Lebaran shows improvement**

Our recent discussion with ERAA recently suggests that it shall focus on improving store productivity whilst scaling down store expansion to c.200 stores (vs. FY22/23’s 575/629 gross store addition). We view this to be a rationale decision noting the higher average opex/sales ratio in FY22-23 of c.7.8% opex/sales ratio vs. pre-pandemic FY18-19’s average of c.6.2%. At the same time, the 2Q24 Lebaran festive has shown improved sales performance compared last year’s Lebaran.

**More affordable handset rollout is key to improve store productivity**

Encouragingly, we are seeing more affordable handset rollouts in 1Q24 (>10 affordable SKU rollout vs. 5 in 1Q23). This results in ERAA’s handset volume rising +25% yoy in 1Q24, whilst handset ASP declined by c.9% yoy. Considering the current soft buying power backdrop, more affordable handset offerings is imperative to drive Erafone store productivity.

**Updates on other verticals diversification – Lifestyle and F&B**

ERAA’s initiatives in diversifying into other verticals apart from handset have seen the addition of “Bacha Coffee” and “Curry Up”. Additions to F&B and fashion sub-segment have resulted in higher ‘Accessories and others’ segmental GPM to 25.3% in 1Q24 (vs. 20.6% in 1Q23). Discussion on potential JD Sports’ consolidation is still on-going and may be finalized in 2H24. All else being equal, JD Sports shall boost sales by mid-single digit at Erajaya Lifestyle (ERAL) level upon consolidation or 0.7% of FY23 sales accretion at ERAA’s level. More importantly, this shall allow ERAL greater flexibility to rollout more JD Sports stores - currently capped at minimal size of 400m2 due to foreign ownership in the JV.

**Handset retailers’ margin prioritized by principals over distributors’**

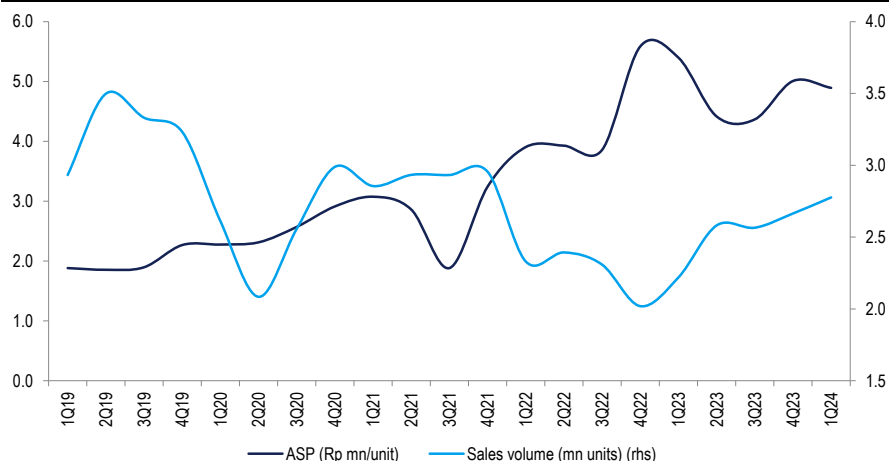
Recently, handset principals in general are prioritizing margins at retailers’ level instead of distributors’. Considering ERAA’s FY23/1Q24 retail sales contribution of close to 70% (vs. FY22’s c.65%), the shift in prioritization from principals may bode well for ERAA – especially noting their aggressive retail store rollouts in recent years. Going forward, we view ERAA’s success hinges on their initiatives to improve store productivity and diversify into other verticals, whilst sticking to financial discipline that includes de-leveraging.

Financial Summary (Rp bn)	2019A	2020A	2021A	2022A	2023A
Net revenue	32,945	34,113	43,467	49,471	60,139
EBITDA	883	1,486	2,091	2,361	2,691
Net profit	295	612	1,012	1,013	826
EPS	18	38	63	64	52
EPS growth	-65.3%	107.4%	65.4%	0.0%	-18.4%
ROE	6.2%	12.0%	17.5%	15.7%	11.7%
PER (x)	21.7	10.5	6.3	6.3	7.8
Dividend yield	2.6%	0.4%	4.5%	6.4%	3.8%

Source: Company, Indo Premier

Share price closing as of: 20 June 2024

**Fig. 1: ERAA's ASP & sales volume trend**



Source: Company, Indo Premier

**Fig. 2: ERAA's 1Q24 Result**

(Rp bn)	1Q24	1Q23	% YoY	4Q23	% QoQ	3M2024	3M2023	% YoY
<b>Revenue</b>	<b>16,650</b>	<b>14,793</b>	<b>12.6%</b>	<b>17,323</b>	<b>-3.9%</b>	<b>16,650</b>	<b>14,793</b>	<b>12.6%</b>
COGS	(14,812)	(13,209)	12.1%	(15,359)	-3.6%	(14,812)	(13,209)	12.1%
<b>Gross profit</b>	<b>1,837</b>	<b>1,584</b>	<b>16.0%</b>	<b>1,964</b>	<b>-6.5%</b>	<b>1,837</b>	<b>1,584</b>	<b>16.0%</b>
Opex	(1,772)	(1,541)	15.0%	(1,866)	-5.0%	(1,374)	(1,155)	19.0%
Others	65	42	54.6%	99	-33.8%	65	42	54.6%
<b>EBIT</b>	<b>529</b>	<b>471</b>	<b>12.3%</b>	<b>656</b>	<b>-19.4%</b>	<b>529</b>	<b>471</b>	<b>12.3%</b>
PBT	380	368	3.2%	482	-21.2%	380	368	3.2%
Tax	(106)	(128)	-17.2%	(127)	-16.9%	(106)	(128)	-17.2%
Minorities	(19)	(3)	491.6%	(23)	-20.4%	(19)	(3)	491.6%
<b>Net profit</b>	<b>255</b>	<b>237</b>	<b>7.6%</b>	<b>331</b>	<b>-22.9%</b>	<b>255</b>	<b>237</b>	<b>7.6%</b>
<b>Margin (%)</b>								
Gross profit margin	11.0%	10.7%		11.3%		11.0%	10.7%	
EBIT margin	3.2%	3.2%		3.8%		3.2%	3.2%	
Net margin	1.5%	1.6%		1.9%		1.5%	1.6%	
Opex to sales	-7.9%	-7.5%		-7.6%		-7.9%	-7.5%	
<b>Segment information</b>								
<b>Revenue</b>								
Cellular phones and tablet	13,582	11,977	13.4%	13,340	1.8%	13,582	11,977	13.4%
Voucher	551	742	-25.7%	951	-42.0%	551	742	-25.7%
Computer & other electronic devices	621	420	47.8%	1,183	-47.5%	621	420	47.8%
Accessories and others	1,895	1,654	14.6%	1,850	2.5%	1,895	1,654	14.6%
<b>Gross profit</b>								
Cellular phones and tablet	1,296	1,178	10.0%	1,425	-9.0%	1,296	1,178	10.0%
Voucher	16	22	-27.4%	17	-7.3%	16	22	-27.4%
Computer & other electronic devices	47	42	10.0%	44	6.1%	47	42	10.0%
Accessories and others	479	341	40.3%	479	0.0%	479	341	40.3%
<b>GPM</b>								
Cellular phones and tablet	9.5%	9.8%		10.7%		9.5%	9.8%	
Voucher	2.9%	2.9%		1.8%		2.9%	2.9%	
Computer & other electronic devices	7.5%	10.1%		3.7%		7.5%	10.1%	
Accessories and others	25.3%	20.6%		25.9%		25.3%	20.6%	

Source: Company, Indo Premier

Income Statement (Rp bn)	2019A	2020A	2021A	2022A	2023A
Net Revenue	32,945	34,113	43,467	49,471	60,139
Cost of Sales	(30,096)	(30,703)	(38,661)	(44,110)	(53,692)
<b>Gross Profit</b>	<b>2,849</b>	<b>3,410</b>	<b>4,806</b>	<b>5,362</b>	<b>6,448</b>
SG&A Expenses	(2,344)	(2,599)	(3,372)	(3,858)	(4,895)
<b>Operating Profit</b>	<b>760</b>	<b>1,085</b>	<b>1,636</b>	<b>1,764</b>	<b>1,830</b>
Net Interest	(313)	(226)	(184)	(273)	(509)
Forex Gain (Loss)	18	18	23	29	15
Others-Net	8	40	20	(23)	(95)
<b>Pre-Tax Income</b>	<b>473</b>	<b>917</b>	<b>1,495</b>	<b>1,497</b>	<b>1,242</b>
Income Tax	(147)	(246)	(377)	(421)	(385)
<b>Net Income</b>	<b>295</b>	<b>612</b>	<b>1,012</b>	<b>1,013</b>	<b>826</b>

Balance Sheet (Rp bn)	2019A	2020A	2021A	2022A	2023A
Cash & Equivalent	571	2,002	521	1,044	1,766
Receivable	1,042	1,012	616	1,055	1,365
Inventory	3,693	3,259	3,932	6,065	8,047
Other Current Assets	1,638	1,274	1,556	3,053	1,787
<b>Total Current Assets</b>	<b>6,945</b>	<b>7,547</b>	<b>6,624</b>	<b>11,217</b>	<b>12,965</b>
Fixed Assets - Net	615	1,372	1,668	2,961	3,811
Goodwill	2,189	2,292	3,080	2,881	3,672
<b>Non Current Assets</b>	<b>2,803</b>	<b>3,664</b>	<b>4,748</b>	<b>5,841</b>	<b>7,483</b>
<b>Total Assets</b>	<b>9,748</b>	<b>11,211</b>	<b>11,372</b>	<b>17,058</b>	<b>20,447</b>
ST Loans	2,704	2,106	1,730	4,220	4,875
Payable	1,435	2,088	1,514	2,401	3,671
Other Payables	41	123	136	1,065	237
Current Portion of LT Loans	436	825	900	1,335	1,547
<b>Total Current Liab.</b>	<b>4,616</b>	<b>5,143</b>	<b>4,279</b>	<b>9,021</b>	<b>10,330</b>
Long Term Loans	0	179	439	613	1,713
Other LT Liab.	153	201	191	221	273
<b>Total Liabilities</b>	<b>4,769</b>	<b>5,523</b>	<b>4,910</b>	<b>9,855</b>	<b>12,317</b>
Equity	2,189	2,189	2,193	2,193	2,193
Retained Earnings	2,632	3,219	3,946	4,549	5,130
Minority Interest	157	279	323	460	807
<b>Total SHE + Minority Int.</b>	<b>4,979</b>	<b>5,688</b>	<b>6,462</b>	<b>7,203</b>	<b>8,131</b>
<b>Total Liabilities &amp; Equity</b>	<b>9,748</b>	<b>11,211</b>	<b>11,372</b>	<b>17,058</b>	<b>20,447</b>

Source: Company, Indo Premier

Cash Flow Statement (Rp bn)	2019A	2020A	2021A	2022A	2023A
Net Income	295	612	1,012	1,013	826
Depr. & Amortization	127	670	476	694	961
Changes in Working Capital	1,785	1,930	(1,803)	(1,482)	(1,165)
Others	(11)	(18)	(315)	(329)	(431)
<b>Cash Flow From Operating</b>	<b>2,196</b>	<b>3,194</b>	<b>(629)</b>	<b>(104)</b>	<b>190</b>
Capital Expenditure	(173)	(1,142)	(435)	(1,560)	(1,280)
Others	0	(301)	(62)	(204)	(46)
<b>Cash Flow From Investing</b>	<b>(173)</b>	<b>(1,442)</b>	<b>(497)</b>	<b>(1,764)</b>	<b>(1,326)</b>
Loans	(1,582)	(418)	(117)	2,664	1,755
Equity	0	0	4	(0)	(0)
Dividends	(166)	(25)	(286)	(409)	(245)
Others	24	122	44	137	347
<b>Cash Flow From Financing</b>	<b>(1,724)</b>	<b>(321)</b>	<b>(355)</b>	<b>2,392</b>	<b>1,857</b>
<b>Changes in Cash</b>	<b>299</b>	<b>1,431</b>	<b>(1,481)</b>	<b>523</b>	<b>722</b>

Key Ratios	2019A	2020A	2021A	2022A	2023A
Gross Margin	8.6%	10.0%	11.1%	10.8%	10.7%
Operating Margin	2.3%	3.2%	3.8%	3.6%	3.0%
Pre-Tax Margin	1.4%	2.7%	3.4%	3.0%	2.1%
Net Margin	0.9%	1.8%	2.3%	2.0%	1.4%
ROA	2.6%	5.8%	9.0%	7.1%	4.4%
ROE	6.2%	12.0%	17.5%	15.7%	11.7%
Acct. Receivables TO (days)	11.5	10.8	5.2	7.8	8.3
Inventory TO (days)	44.8	38.7	37.1	50.2	54.7
Payable TO (days)	17.4	24.8	14.3	19.9	25.0
Debt to Equity	56.1%	42.3%	35.3%	71.7%	90.0%
Interest Coverage Ratio (x)	-2.4	-4.8	-8.9	-6.5	-3.6
Net Gearing	44.2%	5.2%	26.8%	56.2%	65.9%

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

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