

BUY (from HOLD)

| | |
|----------------------|------|
| Target Price (IDR) | 550 |
| Potential Upside (%) | 19.0 |

Price Comparison

| | |
|--------------------------|------|
| Cons. Target Price (IDR) | 620 |
| SSI vs. Cons. (%) | 88.7 |

Stock Information

| | |
|------------------------------|---------|
| Last Price (IDR) | 462 |
| Shares Issued (Mn) | 15,950 |
| Market Cap. (IDR Bn) | 7,369 |
| 52-Weeks High/Low (IDR) | 580/376 |
| 3M Avg. Daily Value (IDR Bn) | 30.8 |
| Free Float (%) | 44.1 |

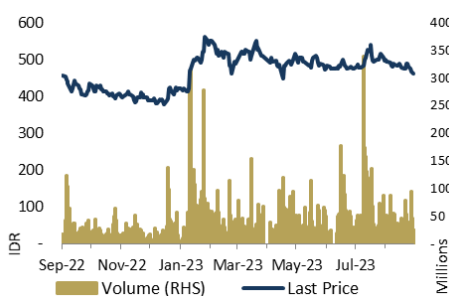
Shareholder Structure:

| | |
|------------------------------|------|
| PT Eralink International (%) | 54.5 |
| Public (%) | 44.1 |
| Other (%) | 1.4 |

Stock Performance

| (%) | YTD | 1M | 3M | 12M |
|------------|------|-------|-------|-------|
| Absolute | 17.9 | (7.6) | (4.1) | 1.3 |
| JCI Return | 2.1 | 1.1 | 5.1 | (3.2) |
| Relative | 15.8 | (8.7) | (9.2) | 4.5 |

Stock Price & Volumes, 12M



Company Background

Established in 1996, PT Erajaya Swasembada Tbk. engages in the distribution and retail trading of cellular telecommunications equipment, such as cellular telephones and tablets, MNO vouchers, accessories, and computers and other electronic equipment.

Ashalia Fitri

+62 21 2854 8389

ashalia.fitri@samuel.co.id

Pebe Peresia

+62 21 2854 8339

pebe.peresia@samuel.co.id

Year of Aggressive Expansion

iPhone 15 as a potential sales driver. The introduction of the iPhone 15 in September 2023 with several new features, including USB-C port, Dynamic Island on all models (prev: only available on the Pro models), and the A17 Pro chipset (Pro/Pro Max), is expected to help boost ERAA's cellular phone sales (which contributes 81% of the company's revenue) in 4Q23. It should be noted that the iPhone's contribution to ERAA's performance is quite significant, as reflected by the fact that a significant portion of ERAA's cellular phone sales usually come in 4Q (5-year 4Q/FY average: 29%; Apple usually starts selling its new iPhone models in Indonesia one or two months after its global launch), as well as the ratio between ERAA's iPhone-related COGS and its revenue, which came in at 46.9% in 1H23 (1H22: 28.9%). In light of this, we project ERAA's cellular phone segment to book revenue of IDR 47.1 trillion in FY23F (+21.9% YoY) and ERAA to book consolidated revenue of IDR 58.2 trillion in FY23F (+17.7% YoY).

Store expansion and optimization. We believe ERAA will be able to achieve its gadget store expansion target for FY23F (400 new stores), given that by the end of 1H23, ERAA had opened 292 new gadget stores (73% of FY23F target), mainly in tier 2 and tier 3 cities. Considering these numbers, we expect ERAA to slow down the pace of new store openings and shift its focus to increasing store productivity in 2H23F, which should help slow down the increase in interest and debt expenses, both of which had spiked in 1H23 (+134.1% YoY and +50.7% YoY, respectively). Since it will take around 10-12 months for ERAA's new stores to achieve their optimal performance, we believe that the results of ERAA's expansion efforts in 1H23 will start to appear in its books in FY24F; therefore, we project ERAA's net profit to fall slightly in FY23F (projection: -2.2% YoY, partly due to higher debt and interest expenses) before bouncing back in FY24F (projection: IDR 1.1 trillion, +15.9% YoY).

BUY, TP IDR 550. In light of the factors outlined above, we decided to upgrade our rating for ERAA to BUY (from HOLD) with a TP of IDR 550, implying 7.6x FY24F PE. ERAA's share price has dropped -4.5% MTD, and in our opinion, its current valuation is quite attractive (below -1SD of the 5-year PE average).

Forecasts and Valuations (at closing price IDR 462 per share)

| Y/E Dec | 20A | 21A | 22A | 23F | 24F |
|---------------------|--------|--------|--------|--------|--------|
| Revenue (IDR Bn) | 34,113 | 43,467 | 49,469 | 58,212 | 66,074 |
| EBITDA (IDR Bn) | 1,218 | 1,740 | 1,983 | 2,321 | 2,680 |
| EV/EBITDA(X) | 6.3 | 5.2 | 5.6 | 5.0 | 4.3 |
| Net Profit (IDR Bn) | 612 | 1,012 | 1,013 | 991 | 1,148 |
| EPS (IDR) | 38 | 63 | 64 | 62 | 72 |
| EPS Growth (%) | 107.4 | 65.4 | 0.0 | -2.2 | 15.9 |
| P/E Ratio (x) | 12.0 | 7.3 | 7.3 | 7.4 | 6.4 |
| BVPS (IDR) | 357 | 405 | 452 | 503 | 570 |
| P/BV Ratio (x) | 1.3 | 1.1 | 1.0 | 0.9 | 0.8 |

ERAL's huge potential. Aside from its main business, another factor that might become one of ERAA's primary drivers in the future is ERAL (PT Sinar Eka Selaras Tbk), its subsidiary in the active lifestyle sector, which has been listed on the Indonesia Stock Exchange since August 2023. By the end of 1H23, ERAL had opened 86 stores covering several segments, including IoT (Urban Republic, Garmin, IT, Marshall), as well as sportswear, fashion & outdoors (JD, Asiscs, Urban Adventure), and the company plans to open 500 stores within the next five years. Although its current contribution to ERAA's consolidated revenue is relatively insignificant (~2.8%), it's worth noting that ERAL's profit margin (FY22 OPM: 8.0%) is higher than ERAA's (3.6%); thus, if ERAL can develop its business and increase its contribution, its impact on ERAA's financial performance will be massive.

Table 1. ERAA's 1H23 Results

| (IDR Bn) | 2Q22 | 1Q23 | 2Q23 | QoQ | YoY | 1H22 | 1H23 | YoY |
|---------------------|--------|--------|--------|---------|---------|--------|--------|---------|
| Revenue | 11,920 | 14,793 | 14,104 | -4.7% | 18.3% | 23,400 | 28,897 | 23.5% |
| Gross Profit | 1,135 | 1,584 | 1,494 | -5.6% | 31.6% | 2,414 | 3,078 | 27.5% |
| Operating Profit | 350 | 469 | 482 | 2.8% | 37.9% | 822 | 952 | 15.8% |
| Net Profit | 212 | 235 | 223 | -5.2% | 5.1% | 508 | 459 | -9.6% |
| Gross Profit Margin | 9.5% | 10.7% | 10.6% | -11 bps | 107 bps | 10.3% | 10.7% | 34 bps |
| Operating Margin | 2.9% | 3.2% | 3.4% | 25 bps | 49 bps | 3.5% | 3.3% | -22 bps |
| Net Margin | 1.8% | 1.6% | 1.6% | -1 bps | -20 bps | 2.5% | 1.6% | -58 bps |

Source: Company, SSI Research

Table 2. ERAA's 1H23 Results (by Segment)

| Revenue (IDR Bn) | 2Q22 | 1Q23 | 2Q23 | QoQ | YoY | 1H22 | 1H23 | YoY |
|-------------------------------------|-------|--------|--------|--------|--------|--------|--------|--------|
| Cellular Phone | 9,398 | 11,977 | 11,397 | -4.8% | 21.3% | 18,492 | 23,375 | 26.4% |
| Voucher | 683 | 742 | 694 | -6.4% | 1.7% | 1,384 | 1,436 | 3.8% |
| Computer & Other Electronic Devices | 480 | 420 | 443 | 5.3% | -7.8% | 1,000 | 863 | -13.8% |
| Accessories & Others | 1,360 | 1,654 | 1,570 | -5.1% | 15.5% | 2,524 | 3,224 | 27.8% |
| Gross Profit (IDR Bn) | | | | | | | | |
| Cellular Phone | 732 | 1,178 | 1,055 | -10.5% | 44.1% | 1,642 | 2,233 | 36.0% |
| Voucher | 24 | 22 | 26 | 20.5% | 10.3% | 37 | 48 | 30.4% |
| Computer & Other Electronic Devices | 47 | 42 | 38 | -10.4% | -19.3% | 103 | 80 | -21.8% |
| Accessories & Others | 332 | 341 | 375 | 9.9% | 13.0% | 632 | 716 | 13.3% |

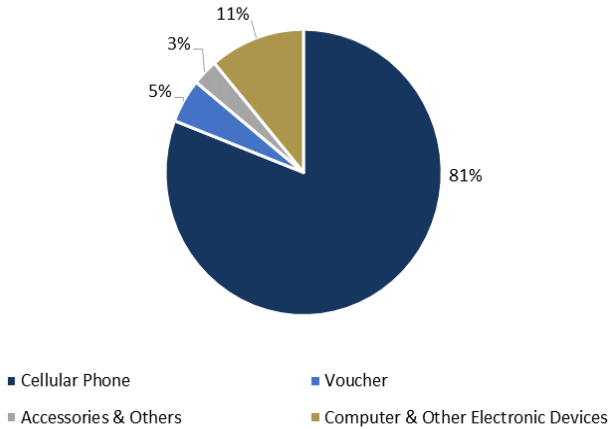
Source: Company, SSI Research

Table 3. Comparison between iPhone models

| | iPhone 12 Pro Max | iPhone 13 Pro Max | iPhone 14 Pro Max | iPhone 15 Pro Max |
|----------------|---|---|--|--|
| Launching | 2020 | 2021 | 2022 | 2023 |
| Dimension (mm) | 160.8 x 78.1 x 7.4 | 160.8 x 78.1 x 7.7 | 160.7 x 77.6 x 7.85 | 159.9 x 76.7 x 8.25 |
| Weight (gram) | 228 | 240 | 240 | 221 |
| Screen | Layar Super retina XDR Display 6.7 inci Resolution 2,778x 1,284 pixel | Layar Super retina XDR Display 6.7 inci Resolution 2,778 x 1,284 pixel | Layar Super retina XDR Display 6.7 inci Resolution 2,796 x 1,290 pixel | Layar Super retina XDR Display 6.7 inci Resolution 2,796 x 1,290 pixel |
| Chipset | Apple 14 Bionic | Apple 15 Bionic | Apple 16 Bionic | Apple A17 Pro |
| Camera (Front) | 12 MP (f/1.5) | 12 MP (f/1.5) | 12 MP (f/1.9) | 12 MP (f/1.9) |
| Camera (Rear) | Wide: 12 MP (f/1.5) Ultra-wide: 12 MP (f/1.8) Telefoto: 12 MP (f/2.8) | Wide: 12 MP (f/1.5) Ultra-wide: 12 MP (f/1.8) Telefoto: 12 MP (f/2.8) | Main: 48 MP (f/1.78) Ultra-wide: 12 MP (f/2.2) Telefoto: 12 MP (f/2.8) | Main: 48 MP (f/1.78) Ultra-wide: 12 MP (f/2.2) Telefoto: 12 MP (f/2.8) |
| Other Features | 5G (sub-6 GHz) | Baterai 4,373 mAh | Optical zoom 3x dan spatial video Dynamic Island | Optical zoom5x dan spatial video Port USB C |

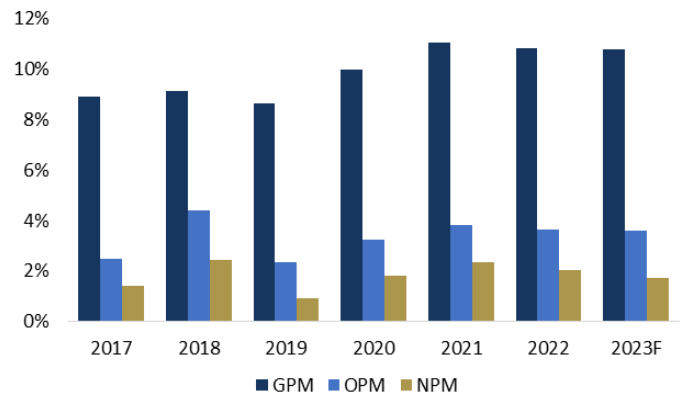
Source: SSI Research

Figure 1. Revenue Mix 1H23



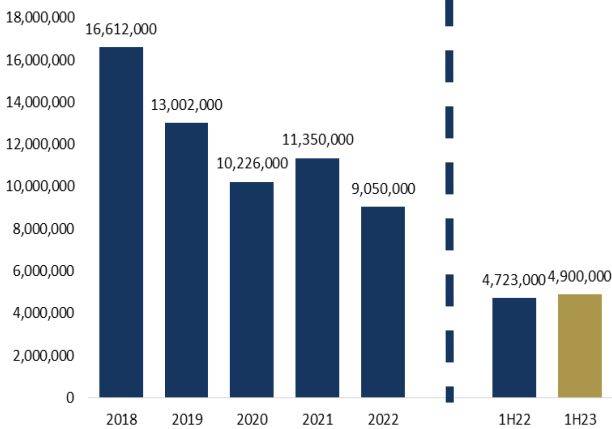
Source: Company, SSI Research

Figure 2. Profitability Margin



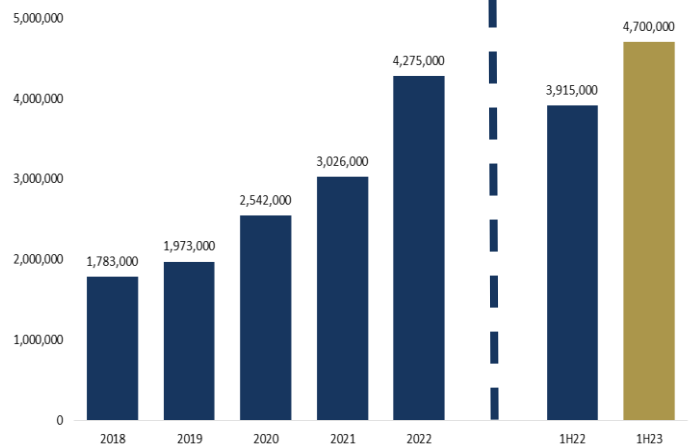
Source: Company, SSI Research

Figure 3. Handset Volume



Source: Company

Figure 4. Handset ASP



Source: Company

Figure 5. P/E Band



Source: Bloomberg, SSI Research

| Research Team | | | |
|---------------------------------|--|--------------------------------|-----------------|
| Prasetya Gunadi | Head of Equity Research, Strategy, Banking, Digital Banks | prasetya.gunadi@samuel.co.id | +6221 2854 8320 |
| Lionel Priyadi | Macro Equity Strategist | lionel.priyadi@samuel.co.id | +6221 2854 8854 |
| Muhamad Alfatih, CSA, CTA, CFTe | Senior Technical Analyst | m.alfatih@samuel.co.id | +6221 2854 8129 |
| Yosua Zisokhi | Cement, Cigarette, Paper, Plantation, Telco Infra, Chemicals | yosua.zisokhi@samuel.co.id | +6221 2854 8387 |
| M. Farras Farhan | Media, Poultry, Oil & Gas, Technology | farras.farhan@samuel.co.id | +6221 2854 8346 |
| Pebe Peresia | Automotive, Consumer Staples, Retail | pebe.peresia@samuel.co.id | +6221 2854 8339 |
| Juan Oktavianus Harahap | Coal, Metal Mining | juan.oktavianus@samuel.co.id | +6221 2854 8846 |
| Jonathan Guyadi | Banking, Healthcare, Telco | jonathan.guyadi@samuel.co.id | +6221 2854 8321 |
| Adolf Richardo | Editor | adolf.richardo@samuel.co.id | +6221 2864 8397 |
| Ashalia Fitri Yuliana | Research Associate | ashalia.fitri@samuel.co.id | +6221 2854 8389 |
| Daniel Aditya Widjaja | Research Associate | daniel.aditya@samuel.co.id | +6221 2854 8322 |
| Laurencia Hiemas | Research Associate | laurencia.hiemas@samuel.co.id | +6221 2854 8392 |
| Brandon Boedhiman | Research Associate | brandon.boedhiman@samuel.co.id | +6221 2854 8392 |
| Haikal Putra Samsul | Research Associate | haikal.putra@samuel.co.id | +6221 2854 8353 |

| Equity Institutional Team | | | |
|---------------------------|------------------------------------|---------------------------------|-----------------|
| Benny Bambang Soebagjo | Head of Institutional Equity Sales | | +6221 2854 8312 |
| Ronny Ardianto | Institutional Equity Sales | ronny.ardianto@samuel.co.id | +6221 2854 8399 |
| Anthony Yunus | Institutional Equity Sales | anthony.yunus@samuel.co.id | +6221 2854 8314 |
| Widya Meidrianto | Institutional Equity Sales | widya.meidrianto@samuel.co.id | +6221 2854 8317 |
| Fachruly Fiater | Institutional Sales Trader | fachruly.fiater@samuel.co.id | +6221 2854 8325 |
| Lucia Irawati | Institutional Sales Trader | lucia.irawati@samuel.co.id | +6221 2854 8173 |
| Alexander Tayus | Institutional Equity Dealer | alexander.tayus@samuel.co.id | +6221 2854 8319 |
| Leonardo Christian | Institutional Equity Dealer | leonardo.christian@samuel.co.id | +6221 2854 8147 |

| Equity Retail Team | | | |
|---------------------|------------------------------|--------------------------------|-----------------|
| Joseph Soegandhi | Head of Equity | joseph.soegandhi@samuel.co.id | +6221 2854 8872 |
| Damargumilang | Head of Equity Retail | damargumilang@samuel.co.id | +6221 2854 8309 |
| Clarice Wijana | Head of Equity Sales Support | clarice.wijana@samuel.co.id | +6221 2854 8395 |
| Gitta Wahyu Retnani | Equity Sales & Trainer | gitta.wahyu@samuel.co.id | +6221 2854 8365 |
| Vincentius Darren | Equity Sales | darren@samuel.co.id | +6221 2854 8348 |
| Michael Alexander | Equity Sales | michael.alexander@samuel.co.id | +6221 2854 8369 |
| Sylviawati | Equity Sales | sylviawati@samuel.co.id | +6221 2854 8112 |
| Wandha Ahmad | Equity Sales | wandha.ahmad@samuel.co.id | +6221 2854 8316 |
| Handa Sandiawan | Equity Sales | handa.sandiawan@samuel.co.id | +6221 2854 8302 |
| Denzel Obaja | Equity Sales | denzel.obaja@samuel.co.id | +6221 2854 8342 |
| Wahyudi Budiyo | Dealer | wahyudi.budiyo@samuel.co.id | +6221 2854 8152 |

| Fixed Income Sales Team | | | |
|--------------------------|----------------------|-------------------------------|-----------------|
| R. Virine Tresna Sundari | Head of Fixed Income | virine.sundari@samuel.co.id | +6221 2854 8170 |
| Rudianto Nugroho | Fixed Income Sales | rudianto.nugroho@samuel.co.id | +6221 2854 8306 |
| Sany Rizal Keliobas | Fixed Income Sales | sany.rizal@samuel.co.id | +6221 2854 8337 |
| Safitri | Fixed Income Sales | safitri@samuel.co.id | +6221 2854 8376 |
| Khairanni | Fixed Income Sales | khairanni@samuel.co.id | +6221 28548104 |
| Saldy Achmad Yanuar | Fixed Income Sales | saldy.achmad@samuel.co.id | +6221 28548384 |
| Nadya Attahira | Fixed Income Sales | nadya.attahira@samuel.co.id | +6221 2854 8305 |

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