



ERAA is licensed to distribute international brands of cell phones, operates a chain of retail shops in Indonesia such as Mall of Indonesia. Together with the one in Solo as the first of its kind. 300sqm – 1000sqm in size, selling 11 brands.

Erajaya Swasembada

Loud and Clear

What's Interesting ?

Covering All Grounds with Relatively Low Capex to Grow...

Erajaya is the leader of mobile telecommunication device distribution and retail, conquering 24% of the market with more than Rp4.6tr revenue as of 2010. The business always needs proportionate working capital but does not need high capex to grow. Currently it has 70 distribution points, catering more than 16,000 third-party resellers across the nation. Furthermore, it also operates 236 retail shops in 27 cities and two megastores. The estimated Indonesian market size of mobile handset alone is about US2.6bn in 2010, with 26.8% CAGR till 2013, measured by sales value. Erajaya mainly competes with Trikonsel Oke (TRIO) which holds 17% market share.

...While Trying to Keep More from The Margin

The company distributes products directly to independent retailers and to its Erafone stores. To supply into small cities Erajaya works with master and sub dealers, but will reduce its dependency over time. As of 1H11, 80.5% and 19.0% of sales derive from handset and top-up vouchers, respectively. Proportion of handset sales will be larger post TAM's earning consolidation. Gross margins were 10.5%, 6.0%, and 11.2% in FY08, FY09, and FY10, respectively. 1H11 earnings was Rp2.0bn, a 10.5% decline YoY due to Nokia sales drop; however, with the inclusion of TAM on 2H11 earnings, we estimate revenue may possibly reach Rp5.7bn for FY11, thus 18.3% CAGR from FY08.

Expanding The Retail Business...

This year Erajaya plans to open 40-60 retail outlets and 5 more megastores. The latter will be sized between 300 – 1000sqm, with estimated investment of Rp1.0bn – Rp5.0bn and BEP of 2-3 years. Two already opened at Mall of Indonesia (MOI) with 450sqm since November and in Solo with 250sqm since Jun'11. Our estimate concludes that the store at MOI should generate between Rp7.5bn – Rp9.5bn/month. Two more will be opened at Taman Anggrek Mall and Makassar in May'12.

NOT RATED

Company Update

Share Price Rp1,280
Sector Retail

Stock Data

Reuters Code ERAA.JK
Bloomberg Code ERAA.IJ
Issued Shares (m) 2,900.0
Mkt Cap (Rpbn) 3,770.0
Average Daily T/O 8.6m
52-Wk range Rp 950/ Rp 1,310

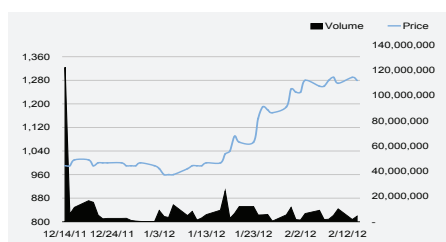
Major Shareholders:

PT Eralink International 68.3%
Public 31.7%

Consensus

	11E	12F
Consensus (Rp)	n/a	n/a

Stock Price



Financial Summary

Year end Dec (Rpbn)	Proforma			
	2010	1H11	2011E	2012F
Revenue (Rpbn)	6,138	3,155	5,723	10,023
Net profit (Rpbn)	270	91	229	401
EPS (Rp)	136	46	77	136
EPS Growth (%)	23.6	34.5	(43.7)	77.7
P/E (x)	-	-	13.1	9.3
P/BV (x)	-	-	1.5	1.8

Source: Company, TRIM Research

Note : Some data are not available prior to IPO

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Erajaya is maximizing its retail growth

Erajaya has all the top brands

Debt is very low, ready to take more if accelerated growth is needed

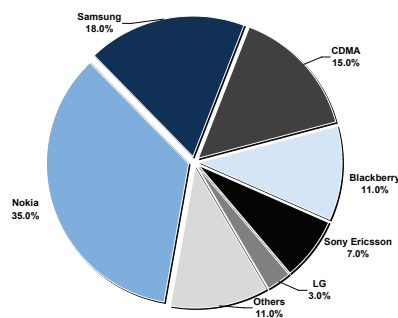
More upside if new Nokia smartphone succeed

Relatively low capex, mostly for warehousing and distribution points

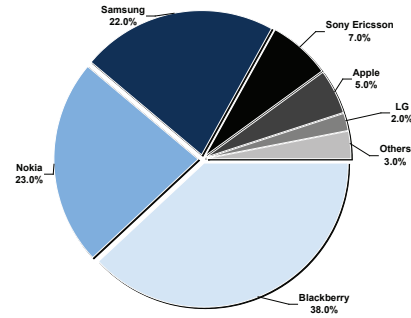
...That Has Shown More Contribution to Revenue

Retail contributes more to total revenue each year, from 10.5% in FY08 to 41.9% in 1H11, which translates to CAGR of 58.6%. Each of the existing 236 retail stores are estimated to generate Rp15.1mn/sqm/month revenue with 20-30sqm of stall space. Hence, each retail outlets should contribute Rp300mn – Rp450mn/month.

Smartphone Market Share (unit)



Regular Phone Market Share (unit)



Source: Company

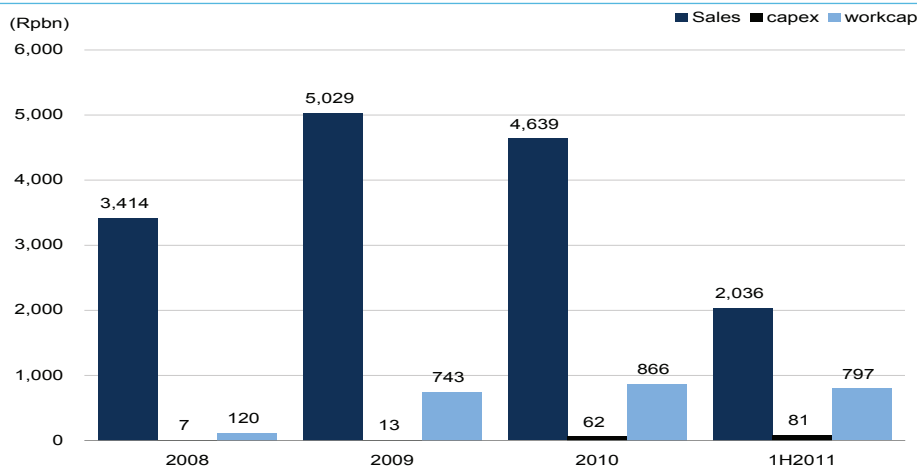
Low Gearing Bodes Well for More Growth

We like the fact that the company has a very low D/E at 0.2x, and healthy quick ratio at 3.0x. Post-acquisition PE is between 8.8x – 9.8, below the JCI's 17.5x. Inclusive of TAM's acquisition costs, it has Rp54.8bn for expansion and Rp82bn for working capital, in cash. Debt will be kept within the ballpark but ready with Rp800m loan cap from BCA. Net margin were 2.3%, 4.1%, and 4.7% for FY08 – FY10, respectively. 1H11 net profit is at 3.3% but should improve as BlackBerry and Samsung launched several highly-demanded new premium products in 2H11.

Several Growth Catalysts That Make Sense...

By FY12, Erajaya is aiming for Rp10.5tr revenue. We see several factors why it can be reached: 1) It owns exclusive Nokia distribution rights to eastern regions (C.Java and beyond) which contribution increased by 198% CAGR from FY08 to 1H11, 2) If the new Windows OS Nokia Smartphone campaign succeed, the company can reclaim former glory with the brand, 3) TAM earned more than Rp1.7bn in FY10, and already breaching Rp1.2bn by 1H11. If it reaches Rp2.5bn by FY11, it is growing by 47% from FY10; 4) If TAM plans drop most of its master dealers, it will add 2.0% - 3.0% CAGR on gross margin each year until 2013, and 5) Telco providers have been expanding their broadband data network, hence urging the need for more smartphones.

Sales vs Capex vs Working Capital



Source: Company

No one else in the business has 11 brands in its arsenal

...Combined with Diversified Products to Confine Risks

Erajaya has 11 brands in its portfolio: Nokia, Blackberry, Samsung, Sony Ericsson, LG, Motorola, Apple, Acer, Dell, Huawei, and its in-house brand, Venera. In average the company can reap about 10% gross margin due to their exclusive agreements with the company, except for Samsung that gives less margin. However in return the South Korean company distributes its products to alleviate the costs typically burdened to dealers, sub-distributors, and retailers. Furthermore, Erajaya plans to sell laptops, printers, and toners in their mega stores.

Investors need to always be vigilant

A Lot of Upside but Surely with Inherent Systemic Risk

Conclusively we see a salient growth story here and fueled with ambitious yet experienced management. We are confident that Erajaya will post robust YoY revenue growth due to the inclusion of TAM's earnings since mid-Aug'11. We need to note that for FY12, any consumer business will need a favorable macro-economic mood. In other words, there is an inherent risk that Erajaya's performance may be adversely affected if the current GDP growth and inflation level cannot be maintained or improved. Prudence is always required.

Priced below peers

Price Not yet Weighted in for Exponential Growth

Based on Erajaya's local, regional, and global peers, we calculated the group's weighted average PE at 11.6x. We estimated that the company's valuation will be between 8.8x – 9.8x PE based on Rp9.5tr – Rp10.5tr revenue range and Rp380bn – Rp420bn net profit for FY12, with Rp131 – Rp145 EPS. The average of the PE range is 9.3x and that is 24.7% and 88.2% less expensive than its peers and the JCI, respectively. Also equally important, we would like to reiterate that Erajaya's D/E is way below its peers. Trikonsel as its only publicly-listed competitor in Indonesia is trading at higher PE than the group, but still lower than JCI's valuation.

Relative Valuation

Companies FY2010	MktCap (USDmn)	GPM (%)	NPM (%)	ROE (%)	P/E (x)	D/E (x)
Erajaya Swasembada	419	11.2	4.7	21.5	9.3	0.2
Trikonsel Oke	406	12.9	3.7	26.5	12.8	2.4
Brightpoint (USA)	685	7.17	0.9	18.2	9.0	4.2
Digital China (HK)	1986	6.89	1.8	19.7	12.7	2.7

Source: Company, Bloomberg

Capital History

14-Dec-2011

IPO @ Rp1,000

Balance Sheet (Rpbn)

Year end Dec (Rpbn)	ERAA				Proforma 1H11
	2008	2009	2010	1H11	
Cash and equivalents	22	77	97	141	174
Other current assets	1,427	1,082	1,063	966	1,364
Fixed assets	7	13	62	81	97
Other assets	39	82	64	129	732
Total assets	1,495	1,254	1,285	1,318	2,367
ST debt	32	103	180	99	286
Other current liabilities	1,295	274	76	116	911
LT debt	1	1	0	0	0
Other LT liabs	5	7	12	12	13
Total liabilities	1,333	385	268	226	1,210
Minority interest	10	12	14	19	0
Shareholder's equity	162	869	1,018	1,092	1,157

Key Ratio Analysis

Year end Dec (Rpbn)	ERAA			TAM	
	2009	2010	1H11	2010	1H11
Profitability					
Gross Margins (%)	6.0	11.2	11.1	9.1	8.8
Op Margins (%)	5.9	6.3	5.3	5.4	4.3
Net Margins (%)	4.1	4.7	3.3	3.3	2.3
ROE (%)	23.6	21.5	6.2	24.4	11.6
ROA (%)	16.4	17.0	5.1	9.5	5.7
Stability					
Current ratio (x)	3.1	4.5	5.2	1.3	1.5
Net Debt/Equity (x)	0.4	0.3	0.2	3.2	1.6
Int Coverage (x)	34.0	105.5	11.7	6.4	3.9
Efficiency					
A/P days	57	12	6	-	-
A/R days	58	43	32	-	-
Inventory days	26	31	43	-	-

Income Statement

Year end Dec (Rpbn)	ERAA			Proforma	
	2009	2010	1H11	2010	1H11
Revenue	5,029	4,639	2,036	6,138	3,155
COGS	(4,725)	(4,118)	(1,810)	(5,459)	(2,821)
SG&A	(124)	(214)	(110)	(300)	(170)
Other opr income	121	6	1	21	4
Other opr expense	(0)	(14)	(4)	(14)	(7)
Operational profit	299	294	108	386	161
Interest income	2	3	1	4	1
Interest expense	(9)	(3)	(9)	(25)	(27)
Gain (loss) in asc entity	0	3	(4)	3	(4)
EBIT	292	297	96	368	131
Tax payable	(83)	(76)	(28)	(98)	(39)
Proforma adj effect	(4)	(2)	0	0	0
Net profit	205	219	68	270	91

Cash Flow

Year end Dec (Rpbn)	ERAA		
	2009	2010	1H11
Net profit	209	221	68
Deferred Tax	1	(5)	(2)
Amortization	(0)	(0)	(0)
Depreciation	4	7	11
Working capital	(699)	(166)	(179)
Cash flow from operation	(484)	58	(102)
Capital expenditures	(30)	(36)	(68)
Free cash flow	(514)	21	(176)
Cash flow from investing	(31)	(41)	(76)
Cash flow from financing	570	4	178
Net changes in cash	55	21	(1)
Beginning cash balance	22	77	98
Ending cash balance	77	98	97

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