

# Erajaya Swasembada

ERAA IJ / ERAA.JK

Company Update | BCAS Vignette | Telco Sector

**BUY**

(Unchanged)

13 February 2017

Aditya Eka Prakasa

[aditya.prakasa@bcasecurities.co.id](mailto:aditya.prakasa@bcasecurities.co.id)

+6221 23587222 ext 182

Current Price: IDR625

Target Price: IDR720

(Unchanged)

Upside potential: 15.2%

## TKDN ready

### Facts: Apple allowed to import iPhones despite higher TKDN

The Ministry of Industry has issued Kemenperin No 65/2016, imposing regulations on mobile 4G phones, handheld devices and tablet computers, specifying minimum local content (TKDN) of 30%, increased from the previous policy of 20%, effective beginning in 2017. The local content requirement for the three products would cover either hardware, software or investment commitment: 1) 30% of hardware should be produced locally; 2) 30% of software, including firmware and apps, to be locally produced; 3) a commitment to invest a minimum of IDR550bn in Indonesia within 3 years. In fact, all 4G Android devices within ERAA's portfolio have already fulfilled these requirements. As for Apple, with recent plans to build a USD44mn R&D center in Indonesia within the next 3 years, Apple has received a green light from the government to resume imports of its 4G device. ERAA will thus be able to resume sales of iPhone 6s, 7 and 7 plus.

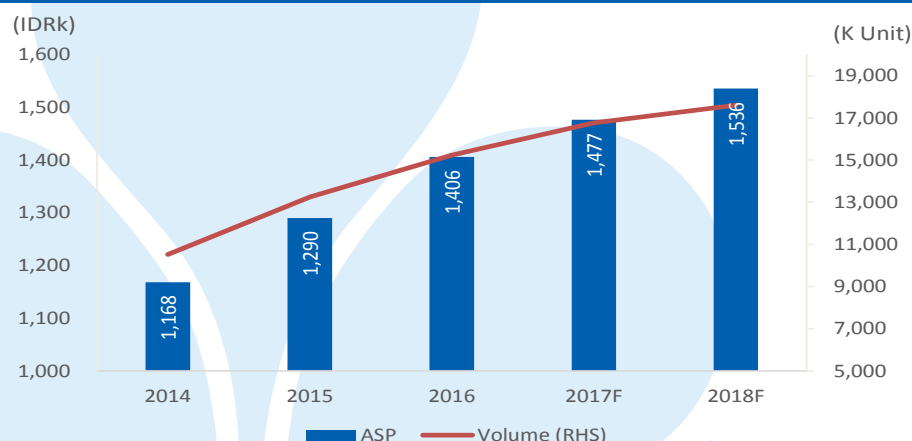
### Outlook: Main contribution from mid-range; 10-20% from high end

The largest chunk of revenue contribution will emerge from middle-range 4G handhelds, mostly Taiwanese brands such as Lenovo, Asus and Xiaomi, and also from Samsung, in a price range of IDR1-3.5mn (already replete with full 4G capabilities). In our view, these middle-range mobile phones have a short lifespan, compared to high-end units, signifying a faster replacement cycle. ERAA will also continue to sell older versions of the iPhone (5s), discounted to prices as low as IDR4mn, which we suspect could spur volume sales from their iBox business. Additional revenue support will also derive from high-end devices such as the iPhone 7 and Samsung Galaxy series, whose higher selling price means better margins, which typically contributes 10-20% to sales volume. Given the above, we expect ERAA's revenue to grow 15%, reaching IDR28.2tn, the result of 15.2mn sales volume (+10% YoY), coupled with an ASP of IDR1.4mn (+5% YoY). The higher volume will also be supported by cooperation with financing companies which allow up to 12x installments.

### Recommendation: Still the largest distributor; Buy with IDR720 TP

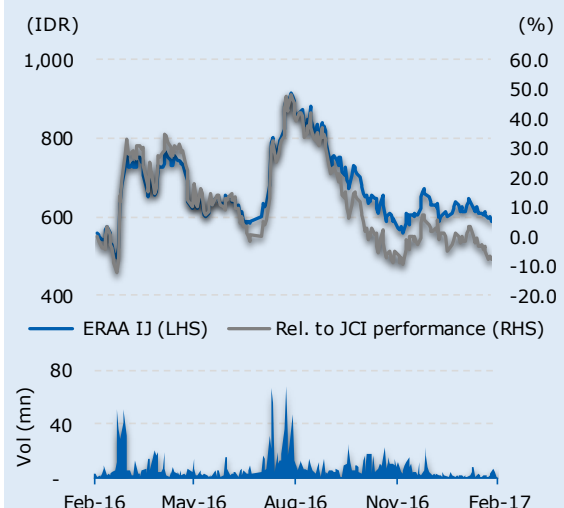
We retain our positive outlook on ERAA, given better GDP growth outlook in 2017, which we believe will definitely drive smartphone sales. Additionally, as the largest mobile phone distributor, with almost every brand in its portfolio, ERAA will spread the risk of from any failing brands. Thus, we retain our TP of IDR720, based on SD-1.5 2017F PE of 6.2x. With 15.2% upside, we reiterate our BUY call on ERAA. Risks are impaired purchasing power, higher rentals and unfavorable government policies.

### Exhibit 1. ERAA's ASP and sales volume, 2014-2018F



Source: Company, BCA Sekuritas

### 12M PRICE PERFORMANCE



Source: Bloomberg

### STOCK PERFORMANCE

	YTD	1M	3M	12M
Absolute	4.2%	-0.8%	5.0%	11.6%
JCI Return	1.4%	1.2%	-1.4%	13.5%
Relative	2.8%	-2.0%	6.5%	-1.9%

Source: Bloomberg

### MARKET DATA

12M price range (IDR)	:	497 - 915
12M PE range (x)	:	5.0 - 9.3
Outstanding shares (mn)	:	2,900
Market cap (IDRbn)/(USDmn)	:	1,813 / 136
Avg daily turn. (IDRbn/USDmn)	:	4.8 / 0.4

Source: Bloomberg

### SHAREHOLDERS

PT Eralink International	:	60.0%
Public & Others (each below 5%)	:	40.0%

Source: Bloomberg

**Exhibit 2. Local content ruling on product manufacturing**

No	Description	Weighting
1.	Touch Display Module (TDM) modules component	12.0%
	Bonding (Full Lamination)	4.0%
2.	Camera	
	Front camera	5.0%
	Rear camera	10.0%
3.	Printed circuit board (PCB)	
	Main & subprinted circuit boards components	13.0%
	PCB assembly	8.0%
4.	Enclosure casing assembly set	10.0%
5.	Flexible connector	4.0%
6.	Battery	8.0%
7.	Vibration motor	3.0%
8.	Speaker and earpiece	3.0%
9.	Interconnect electrical wire assembly	3.0%
10.	Accessories	
	Earphone	4.0%
	Charger	3.0%
	Cable	3.0%
	Packing	3.0%

Source: Permenperin no 65/2016

**Exhibit 3. Local content ruling on labor**

No	Description	Weighting
1.	Assembling	0.5%
2.	Testing	1.0%
3.	Packing	0.5%

Source: Permenperin no 65/2016

**Exhibit 4. Local content ruling on production machine**

No	Description	Weighting
1.	Assembling	1.0%
2.	Testing	2.0%

Source: Permenperin no 65/2016

**Exhibit 5. Local content ruling on investment**

No	Total investment	Weighting
1.	Investment of IDR250bn - IDR400bn	20%
2.	Investment of IDR400bn - IDR550bn	25%
3.	Investment of IDR550bn - IDR700bn	30%
4.	Investment of IDR700bn - IDR1tn	35%
5.	Investment above IDR1tn	40%

Source: Permenperin no 65/2016

**Teguh Hartanto**  
**Director of Equity, ext: 129**  
[teguh.hartanto@bcasekuritas.co.id](mailto:teguh.hartanto@bcasekuritas.co.id)

**RESEARCH DIVISION**  
[research@bcasekuritas.co.id](mailto:research@bcasekuritas.co.id)

**Darmawan Halim**  
**Head of Research, ext: 168**  
Strategy, Automotive, Heavy Equipment  
[darmawan.halim@bcasekuritas.co.id](mailto:darmawan.halim@bcasekuritas.co.id)

**Jennifer Frederika Yapply**  
**Equity Analyst, ext: 179**  
Cigarettes, Consumer, Health Care  
[jennifer.yapply@bcasekuritas.co.id](mailto:jennifer.yapply@bcasekuritas.co.id)

**Michael Ramba**  
**Equity Analyst, ext: 184**  
Construction, Property Residential  
[michael.ramba@bcasekuritas.co.id](mailto:michael.ramba@bcasekuritas.co.id)

**Yuni Pratiwi**  
**Research Assistant, ext: 183**  
[yuni.pratiwi@bcasekuritas.co.id](mailto:yuni.pratiwi@bcasekuritas.co.id)

**Arga Samudro**  
**FI Analyst, ext: 181**  
FI Strategies & Macroeconomist  
[arga.samudro@bcasekuritas.co.id](mailto:arga.samudro@bcasekuritas.co.id)

**Aditya Eka Prakasa**  
**Equity Analyst, ext: 182**  
Telco, Coal, Metal Mining  
[aditya.prakasa@bcasekuritas.co.id](mailto:aditya.prakasa@bcasekuritas.co.id)

**Nyoman Widita Prabawa**  
**Equity Analyst, ext: 180**  
Cement, Plantation, Oil & Gas  
[nyoman.prabawa@bcasekuritas.co.id](mailto:nyoman.prabawa@bcasekuritas.co.id)

**Igor Nyoman Putra**  
**Equity Analyst, ext: 178**  
Banking, Industrial Estate  
[igor.putra@bcasekuritas.co.id](mailto:igor.putra@bcasekuritas.co.id)

**Johanes Prasetya**  
**Equity Analyst, ext: 185**  
Retail, Poultry  
[johanes.prasetya@bcasekuritas.co.id](mailto:johanes.prasetya@bcasekuritas.co.id)

**Achmad Yaki Yamani**  
**Technical Analyst, ext: 186**  
Technical Analyst  
[achmad.yamani@bcasekuritas.co.id](mailto:achmad.yamani@bcasekuritas.co.id)

**EQUITY CAPITAL MARKET DIVISION**  
[ecm@bcasekuritas.co.id](mailto:ecm@bcasekuritas.co.id)

**Ermawati Agustina Erman**  
**Head of Institutional Sales, ext: 159**  
[ermawati.erman@bcasekuritas.co.id](mailto:ermawati.erman@bcasekuritas.co.id)

**Haslienda**  
**Equity Capital Market, ext: 137**  
[haslienda.rifman@bcasekuritas.co.id](mailto:haslienda.rifman@bcasekuritas.co.id)

**Santoso Jodikin**  
**Sales Trader, ext: 164**  
[santoso@bcasekuritas.co.id](mailto:santoso@bcasekuritas.co.id)

**Arief Iskandar**  
**Institutional Dealer, ext: 136**  
[arief.iskandar@bcasekuritas.co.id](mailto:arief.iskandar@bcasekuritas.co.id)



Menara BCA – Grand Indonesia, 41<sup>st</sup> Floor  
Jl. MH Thamrin No. 1, Jakarta 10310  
Tel. +62 21 2358 7222  
Fax. +62 21 2358 7250/300/290



## DISCLAIMER

By receiving this research report ("Report"), you confirm that: (i) you have previously requested PT BCA Sekuritas to deliver this Report to you and you are legally entitled to receive the Report in accordance with Indonesian prevailing laws and regulations, and (ii) you have fully read, understood and agreed to be bound by and comply with the terms of this Report as set out below. Your failure to comply with the terms below may constitute a violation of law.

This Report is strictly confidential and is for private circulation only to clients of PT BCA Sekuritas. This Report is being supplied to you strictly on the basis that it will remain confidential and that you will maintain its confidentiality at all times. Without the prior written consent of PT BCA Sekuritas authorized representative(s), no part of this Report may be (i) copied or reproduced in any form by any means, (ii) redistributed or delivered, directly or indirectly, to any person other than you, or (iii) used for any other purpose that is not in line with the terms of the Report.

PT BCA Sekuritas, its affiliates and related companies, their directors, associates, connected parties and/or employees (excluding the individual analysts who prepare this Report) may own or have positions in securities of the company(ies) covered in this Report and may from time to time buy or dispose, or may have material interest in, those securities.

Further, PT BCA Sekuritas, its affiliates and its related companies do and seek to do business with the company(ies) covered in this Report and may from time to time: (i) act as market maker or have assumed an underwriting commitment in the securities of such company(ies), (ii) sell to or buy those securities from other investors for its own account, (iii) perform or seek to perform significant investment banking, advisory or underwriting services for or relating to such company(ies), or (iv) solicit any investment, advisory or other services from any entity covered in this Report. Furthermore, the personnel involved in the preparation of this Report may also participate in the solicitation of the businesses as described above.

The views expressed in this Report reflect the personal views of the individual analyst(s) at PT BCA Sekuritas about the securities or companies mentioned in the Report and the compensation of the individual analyst(s), is, or will be directly or indirectly related to the performance of PT BCA Sekuritas' activities. PT BCA Sekuritas prohibits the individual analyst(s) who prepared this Report from receiving any compensation, incentive or bonus based on specific investment banking transactions or for providing a specific recommendation for, or view of, a particular company (including those covered in the Report). However, the individual analyst(s) may receive compensation based on the scope of his/her coverage of company(ies) in the performance of his/her duties or the performance of his/her recommendations.

In reviewing this Report, you should be aware that any or all of the above activities of PT BCA Sekuritas, its affiliates and related companies, their directors, associates, connected parties and/or employees, among other things, may give rise to real or potential conflicts of interest between them and you.

The content of this Report is prepared based on data believed to be correct and reliable on the date of this Report. However, this Report: (i) is not intended to contain all necessary information that a prospective investor may need, (ii) is not and should not be considered as an investment advice in any way, and (iii) cannot be relied as a basis for making an informed investment decision. Accordingly, PT BCA Sekuritas does not guarantee the adequacy, accuracy, completeness, reliability or fairness of any content of this Report and PT BCA Sekuritas, its affiliates and related companies, their directors, associates, connected parties and/or employees (including the analysts) will not be liable in any way for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) arising from or relating to any reliance on or use of the content of this Report by any person (including you).

This Report is general in nature and has been prepared for information purposes only. It is intended for circulation amongst PT BCA Sekuritas' clients only and does not consider any specific investment objectives, financial situation and the particular needs of any specific person who may receive this Report. The entire content of this Report is not and cannot not be construed or considered as an offer, recommendation, invitation or solicitation to enter into any transaction (including trading and hedging) relating to the securities, other financial instruments, and other form of investments issued or offered by the company(ies) covered in this Report.

It is your own responsibility to: (i) independently evaluate the content of this Report, (ii) consider your own individual investment objectives, financial situation and particular needs, and (iii) consult your own professional and financial advisers as to the legal, business, financial, tax and other aspects before participating in any transaction in respect of the securities of company(ies) covered in this Report.

Please note that the securities of the company(ies) covered in this Report might not be eligible for sale in all jurisdictions or to all categories of investors. The availability of those securities and your eligibility to invest in those securities will be subject to, among others, the prevailing laws of the relevant jurisdiction covering those securities. Furthermore, the value and income of any of the securities covered in this Report can fall as well as rise and an investor (including you) may get back less than invested. Future returns are not guaranteed, and a loss of original capital may be incurred. Foreign-currency denominated securities are subject to fluctuation in exchange rates that could have a positive or adverse effect on the value, price or income of such securities and financial instruments. Past performance is not indicative of comparable future results and no guarantee regarding future performance is provided in this Report.

This Report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to the applicable laws or regulation of such jurisdiction.