

PT. GUDANG GARAM Tbk.

BUY

Investment Consideration

Lower sales, higher ASP

- In 1H2023, Indonesia's cigarette sales volume decreased by -4.7% to 72 billion units due to higher cigarette prices following the excise hike in early 2023.
- GGRM also reported lower sales volume amid the decline in domestic cigarette sales. As a result, revenue decreased to IDR 55.85 trillion in 1H2023, a decline of -9.4%. For 2Q2023, sales also decreased by -19.3% YoY to IDR 26.1 trillion. Machine-made clove cigarette sales decreased by -20.5% YoY to IDR 23.7 trillion, while hand-rolled clove cigarette sales slightly increased by +1.5% YoY to IDR 2.16 trillion in 2Q2023.
- GGRM's export sales decreased by -0.8% YoY but increased by +12.6% QoQ to IDR 437.6 billion in 2Q2023, while GGRM's domestic sales decreased by a larger -19.6% YoY or -12.5% QoQ to IDR 25.68 trillion in 2Q2023.
- As cigarette consumption in 1H2023 remained weak due to higher cigarette prices and the fasting month, we expect an improvement in demand in 2H2023. The political year is also expected to boost election spending and consumer spending. We anticipate that GGRM will maintain positive sales growth of +3.75% YoY, reaching IDR 129 trillion in 2023F.

2Q2023 Results: Better YoY performance

- Despite lower sales, GGRM achieved a higher margin after a price hike earlier this year.
- GGRM reported a net profit of IDR 1.32 trillion, a significant improvement from a loss of IDR 122 billion in 2Q2022. For 1H2023, the net profit significantly increased by +244% YoY to IDR 3.28 trillion, with the net profit margin improving to 5.9% from 1.5% last year.
- Due to lower sales volume, GGRM's cost of sales also decreased by -26% YoY or -11% QoQ to IDR 22.54 trillion, including lower excise tax expenses, which fell by -39% YoY, resulting in a higher gross profit of +92% YoY, reaching IDR 3.57 trillion.
- Operating expenses remained stable with higher transportation, freight, advertising, and promotion expenses by +9.7% YoY, which resulted in an operating profit of IDR 1.87 trillion after an operating loss of IDR 72 billion in 2Q2022.
- With a better bottom line profit in 1H2023 and improved margins, we are targeting GGRM's profit to reach IDR 3.2 trillion in 2023FY.

Valuation: BUY, TP 35,000

- We maintain our recommendation to BUY. We are targeting GGRM to trade at an 11X PE within a year, with a Target Price of IDR 35,000, representing 40% potential upside.

Financial Highlights	2020A	2021A	2022A	2023F	2024F
Sales (In IDR Bn)	114.477	124.881	124.683	129.357	134.268
Net Profit (In IDR Bn)	7.648	5.605	2.780	6.275	6.513
EPS (IDR)	3.975	2.913	1.445	3.261	3.385
GPM (%)	15,2%	11,4%	8,9%	13,0%	13,0%
OPM (%)	8,8%	5,9%	3,1%	6,9%	6,9%
NPM (%)	6,7%	4,5%	2,2%	4,9%	4,9%
PER (x)	10,3	10,5	12,5	10,7	10,3
PBV (x)	1,3	1,0	0,6	1,1	1,0
Net debt/ equity (x)	0,1	0,2	0,2	0,2	0,2

Source: Company and Binaartha

16 October 2023

Non Cyclical - Tobacco

Price IDR 25,025

Target Price IDR 35,000

JKSE Index 6,926.780



Stock Information

Bloomberg Code	GGRM JI
Market Cap (IDR bn)	48,390
52-week high (IDR)	30,050
52-week low (IDR)	16,500
Shares issued (mn)	1,924.1
Free float	24.45%

Major share holders

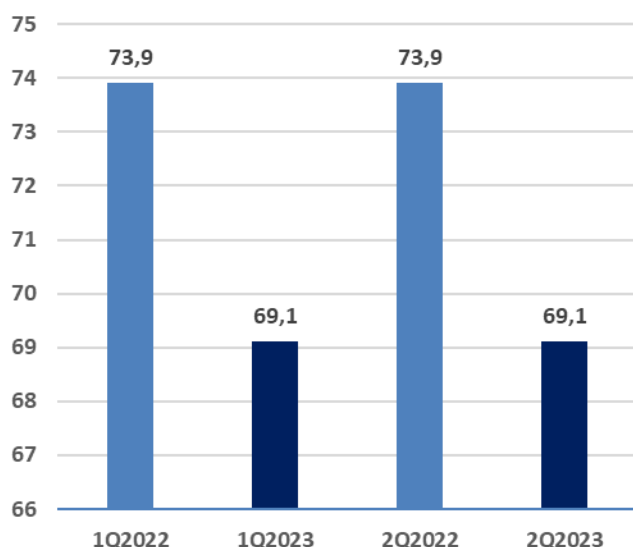
PT Suryaduta Investama	69.29%
PT Suryamitra Kusuma	6.26%
Public	24.45%

USD/ IDR – YE (IDR)

2022	15,592
2023F (6m-avg)	15,476

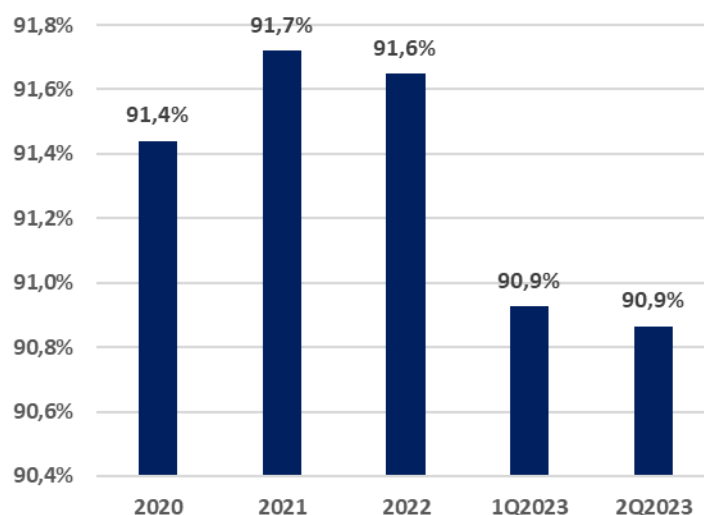
Analyst
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Chart: Indonesia Cigarette Sales Volume in Billion Units



Source: PMI

Chart: Machine-made clove cigarettes contribution to revenue YoY



Source: Company

Table: Income Statement In IDR Bn QoQ & YoY

Income Statement (IDR Bn)	1Q2023	2Q2023	QoQ	2Q2022	YoY	1H2022	1H2023	YoY
Revenue	29.731	26.120	-12%	32.382	-19%	61.673	55.851	-9%
Cost of Sales	-25.375	-22.543	-11%	-30.518	-26%	-56.536	-47.918	-15%
Gross Profit	4.356	3.577	-18%	1.864	92%	5.137	7.933	54%
Operating Expense	-1.700	-1.702	0%	-1.936	-12%	-3.741	-3.402	-9%
Operating Profit	2.656	1.875	-29%	-72	-2706%	1.396	4.531	225%
Other Expenses	-156	-163	4%	-72	128%	-166	-320	93%
Profit Before Tax	2.499	1.712	-31%	-144		1.230	4.211	242%
Tax	-536	-388	-28%	24		-274	-924	237%
Profit After Tax	1.964	1.324	-33%	-120		957	3.288	244%
Non-controlling Interest	0	-0		-2		-2	-0	-100%
Net Profit	1.964	1.324	-33%	-122		955	3.288	244%
EPS	1.020	688	-33%	-63		496	1.709	244%
GPM	14,7%	13,7%		5,8%		8,3%	14,2%	
OPM	8,9%	7,2%		-0,2%		2,3%	8,1%	
NPM	6,6%	5,1%		-0,4%		1,5%	5,9%	

Source: Company

Table: Income Statement in IDR Billion YoY

Income Statement (IDR Bn)	2019A	2020A	2021A	2022A	2023F	2024F
Revenue	110.524	114.477	124.881	124.683	129.357	134.268
Cost of Sales	-87.741	-97.089	-110.609	-113.587	-112.540	-116.813
Gross Profit	22.783	17.388	14.273	11.096	16.816	17.455
Operating Expense	-7.710	-7.342	-6.911	-7.187	-7.891	-8.190
Operating Profit	15.073	10.046	7.362	3.909	8.926	9.265
Other Expenses	-585	-383	-75	-262	-776	-806
Profit Before Tax	14.488	9.663	7.287	3.647	8.149	8.459
Tax	-3.607	-2.015	-1.682	-867	-1.874	-1.946
Profit After Tax	10.881	7.648	5.605	2.780	6.275	6.513
Non-controlling Interest	0	0	0	0	0	0
Net Profit	10.881	7.648	5.605	2.780	6.275	6.513
EPS	5.655	3.975	2.913	1.445	3.261	3.385
EBITDA	17.602	12.621	9.949	6.882	11.169	11.712

Source: Company and Binaartha

Table: Cash Flow in IDR Billion YoY

Cash Flow (In IDR Bn)	2019A	2020A	2021A	2022A	2023F	2024F
Net Income	10.881	7.648	5.605	2.780	6.275	6.513
Depreciation	2.529	2.575	2.588	2.973	2.938	3.173
Change in WC	-2.304	-4.203	980	4.860	-336	-173
Cash From Operating Activities	11.106	6.019	9.173	10.613	8.877	9.513
Change in Non-current Asset	-5.283	-4.662	-4.586	-5.438	-5.902	-6.373
Cash From Investing Activities	-5.283	-4.662	-4.586	-5.438	-5.902	-6.373
Long-term liabilities	433	210	-491	-408	-21	47
Others Noncurrent Liabilities	65	-9	139	-317	199	4
Equity	-5.083	-56	-4.839	-4.212	-3.137	-3.256
Cash From Financing Activities	-4.586	145	-5.192	-4.937	-2.959	-3.204
Net Changes in Cash	1.238	1.502	-604	237	16	-65
Beginning Balance	2.034	3.272	4.774	4.170	4.407	4.423
Ending Balance	3.272	4.774	4.170	4.407	4.423	4.359

Source: Company and Binaartha

Table: Statement of Financial Position in IDR Billion YoY

	2019A	2020A	2021A	2022A	2023F	2024F
ASSETS						
CURRENT ASSETS						
Cash and Cash Equivalents	3.272	4.774	4.170	4.407	4.423	4.359
Trade Accounts Receivable	1.876	2.556	2.774	2.181	2.846	2.954
Inventories	42.847	39.895	47.456	47.640	41.394	41.623
Others Current Assets	4.086	2.313	4.913	1.217	1.552	1.611
Total Current Assets	52.081	49.538	59.313	55.445	50.216	50.547
NONCURRENT ASSETS						
Fixed Assets	25.374	27.605	29.780	32.426	35.364	38.537
Other Noncurrent Assets	1.192	1.048	872	691	717	744
Total Noncurrent Assets	26.566	28.653	30.652	33.117	36.081	39.282
TOTAL ASSETS	78.647	78.191	89.964	88.563	86.297	89.829
LIABILITIES AND EQUITY						
LIABILITIES						
CURRENT LIABILITIES						
Short-term Bank Loans	17.216	6.009	9.980	10.071	10.995	10.741
Trade Account Payable	1.297	1.124	1.002	1.309	1.552	1.611
Excise duty, VAT and Cigarettes tax payables	5.085	9.059	16.103	16.266	7.761	8.056
Others Current Liabilities	1.660	818	1.284	1.479	3.234	3.357
Total Current Liabilities	25.259	17.010	28.369	29.125	23.543	23.765
NONCURRENT LIABILITIES						
Long-term liabilities	1.766	1.996	1.539	1.188	1.233	1.279
Long-term Bank loan	177	157	123	65	0	0
Others Noncurrent Liabilities	515	506	646	328	527	531
Total Noncurrent Liabilities	2.458	2.659	2.307	1.582	1.760	1.811
TOTAL LIABILITIES	27.716	19.669	30.676	30.707	25.303	25.576
Non-controlling interest	0	0	0	0	0	0
EQUITY	50.931	58.522	59.288	57.856	60.994	64.252
TOTAL LIABILITIES & EQUITY	78.647	78.191	89.964	88.563	86.297	89.829

Source: Company and Binaartha

Table: Ratio Highlights YoY

	2020A	2021A	2022A	2023F	2024F
Growth (% YoY)					
Sales	3,6%	9,1%	-0,2%	3,7%	3,8%
OP	-33,4%	-26,7%	-46,9%	128,3%	3,8%
EBITDA	-28,3%	-21,2%	-30,8%	62,3%	4,9%
NP	-29,7%	-26,7%	-50,4%	125,7%	3,8%
EPS	-29,7%	-26,7%	-50,4%	125,7%	3,8%
Profitability (%)					
Gross Margin	15,2%	11,4%	8,9%	13,0%	13,0%
Operating Margin	8,8%	5,9%	3,1%	6,9%	6,9%
EBITDA margin	11,0%	8,0%	5,5%	8,6%	8,7%
NET Profit margin	6,7%	4,5%	2,2%	4,9%	4,9%
ROA	9,8%	6,2%	3,1%	7,3%	7,3%
ROE	38,9%	18,3%	9,1%	24,8%	25,5%
Solvability (x)					
Net debt/ equity	0,1	0,2	0,2	0,2	0,2
Tot. debt/ Tot.equity	0,3	0,5	0,5	0,4	0,4
Debt Ratio	0,3	0,3	0,3	0,3	0,3
Int. Coverage	33,0	132,8	26,2	137,0	147,1
Liquidity (x)					
Current Ratio	2,9	2,1	1,9	2,1	2,1
Cash Ratio	0,6	0,4	0,3	0,4	0,4
Per Share data (IDR)					
EPS	3.975	2.913	1.445	3.261	3.385
PER (x)	10	11	12	11	10
PBV (x)	1,3	1,0	0,6	1,1	1,0
EBITDA/share	6.559	5.171	3.577	5.805	6.087

Source: Company and Binaartha

Stock Ratings:

- Buy : a recommendation to purchase the security with upside potential of **20% or greater**
- Hold : a recommendation to neither buy nor sell a security with upside potential of **0-19%**.
- Sel : a recommendation to close out a long position in a security with upside potential **below 0% or negative**.

RESEARCH TEAM
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