

PT. GUDANG GARAM Tbk.

BUY

Investment Consideration

Fastest quarterly growth

- GGRM 4Q2021 sales growth was faster than other quarters in 2021 from a higher ASP and a recovery in sales volume as the industry enjoyed faster growth from domestic economic improvement.
- GGRM booked sales of IDR 32.8 trillion which is +5% YoY, +4% QoQ. Total domestic sales increased +6% YoY to IDR 32.4 trillion while export sales decreased -24% YoY to IDR 388.6 billion. For 2021 GGRM booked sales of IDR 124 trillion, an increase of 9% YoY. Export sales decreased -5.8% YoY to IDR 1.79 trillion. The domestic market continues to recover with sales up +9.34% YoY to IDR 123 trillion in 2021.
- Machine-made clove cigarettes sales increased +4.8% YoY to IDR 29.9 trillion, while hand-rolled clove cigarettes sales increased +2.7% to IDR 2.2 trillion after a decrease in 2Q2021 and 3Q2021.
- The easing of PPKM restrictions is having a positive impact on higher sales volume and we expect 2022F sales will grow 9.5% YoY to IDR 136.8 trillion.

4Q2021 Results: Lower margins

- GGRM net profit decreased by -26% YoY and -19% QoQ to IDR 766 billion with a margin decline in 4Q2021. GGRM NPM declined to 4.5% from 5.8% in 3Q2021.
- For 2021FY, net profit decreased by -26.7% YoY to IDR 5.6 trillion.
- Operating expenses increased +20% QoQ to IDR 1.83 trillion, resulting in a decrease in operating profit by -15% YoY or -13% QoQ to IDR 2.04 trillion in line with a lower operating profit margin, of 6.2% from 7.4%. GGRM's cost of sales increased +8% YoY or +5% QoQ to IDR 28.9 trillion in 4Q2021. This resulted in a lower gross profit -12% YoY to IDR 3.87 trillion, inline with a lower gross profit margin of 11.8% from 12.2%. In 3Q2021.
- Despite the recovery in domestic sales volume, negative sentiment still weighs on the cigarette sector as the government has increased excise tax again in January 2022. After these results, we expect GGRM's margin to contract for their resulting in a net profit of IDR 3.2 trillion.

Valuation: Maintain BUY, but lower TP 37.600

- We are targeting GGRM to trade at a 10.5x PE within a year. Target Price is IDR 37.600 which represents 22% upside. We maintain our recommendation to BUY.

Financial Highlights	2017A	2018A	2019A	2020A	2021A	2022F	2023F
Sales (In IDR Bn)	83.305	95.707	110.524	114.477	124.881	136.794	150.005
Net Profit (In IDR Bn)	4.029	4.049	5.655	3.975	2.913	3.203	3.572
EPS (IDR)	4.029	4.049	5.655	3.975	2.913	3.203	3.572
GPM (%)	21,9%	19,5%	20,6%	15,2%	11,4%	11,4%	11,5%
OPM (%)	13,5%	11,7%	13,6%	8,8%	5,9%	5,9%	6,0%
NPM (%)	9,3%	8,1%	9,8%	6,7%	4,5%	4,5%	4,6%
Net debt/ equity (x)	0,5	0,4	0,3	0,1	0,2	0,2	0,2

Source: Company and Binaartha

11 April 2022
Non Cyclical - Tobacco

Price	IDR	30,800
Target Price	IDR	37,600
JKSE Index		7,210.830



Stock Information

Bloomberg Code	GGRM IJ
Market Cap (IDR bn)	59,410
52-week high (IDR)	47,250
52-week low (IDR)	29,925
Shares issued (mn)	1,924.1
6-m avg. daily Val (IDR)	33,647
Free float	24.45%

Major share holders

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

USD/ IDR – YE (IDR)

2021	14,300
2022F (6m-avg)	14,308

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Company Profile

PT Gudang Garam Tbk. (GGRM) produces a wide range of kretek cigarettes including low tar nicotine variants, as well as traditional hand-rolled kreteks. The company has increased market share to 26.6% of the domestic cigarette market as at the end of 2020. GGRM operates production facilities at two main sites, Kediri and Gempol, East Java. GGRM also operates an in-house printing facility and seven subsidiaries engaged in commercial operations. GGRM listed on the Indonesia Stock Exchange in 1990.

HAND MADE
SIGARET KRETEK
TANGAN (SKT)



Klobot



Sriwedari



Djaja



Patra

MACHINE MADE
SIGARET KRETEK
MESIN (SKM)



Gudang Garam Series

LOW TAR NICOTINE
RENDAH TAR
NIKOTIN (LTN)



Gudang Garam Signature Mild

Source: Company

Table: Income Statement In IDR Bn QoQ & YoY

Income Statement (IDR Bn)	1Q2021	2Q2021	3Q2021	4Q2021	QoQ	4Q2020	YoY
Revenue	29.747	30.840	31.484	32.810	4%	31.102	5%
Cost of Sales	-25.838	-28.207	-27.627	-28.937	5%	-26.698	8%
Gross Profit	3.909	2.634	3.857	3.873	0%	4.404	-12%
Operating Expense	-1.651	-1.905	-1.523	-1.833	20%	-1.992	-8%
Operating Profit	2.259	728	2.334	2.041	-13%	2.413	-15%
Other Expenses	-29	-3	-9	-33	272%	-28	18%
Profit Before Tax	2.229	725	2.325	2.007	-14%	2.384	-16%
Tax	-483	-161	-501	-537	7%	-384	40%
Profit After Tax	1.746	564	1.824	1.471	-19%	2.000	-26%
Non-controlling Interest	0	-2	-2	4	-300%	2	100%
Net Profit	1.746	562	1.822	1.475	-19%	2.002	-26%
EPS	908	292	947	766	-19%	1.041	-26%
GPM	13,1%	8,5%	12,2%	11,8%		14,2%	
OPM	7,6%	2,4%	7,4%	6,2%		7,8%	
NPM	5,9%	1,8%	5,8%	4,5%		6,4%	

Source: Company

Table: Income Statement in IDR Billion YoY

Income Statement (IDR Bn)	2017A	2018A	2019A	2020A	2021A	2022F	2023F
Revenue	83.305	95.707	110.524	114.477	124.881	136.794	150.005
Cost of Sales	-65.084	-77.063	-87.741	-97.089	-110.609	-121.200	-132.754
Gross Profit	18.221	18.644	22.783	17.388	14.273	15.595	17.251
Operating Expense	-6.984	-7.488	-7.710	-7.342	-6.911	-7.524	-8.250
Operating Profit	11.237	11.156	15.073	10.046	7.362	8.071	9.000
Other Expenses	-801	-678	-585	-383	-75	-68	-75
Profit Before Tax	10.436	10.479	14.488	9.663	7.287	8.002	8.925
Tax	-2.681	-2.686	-3.607	-2.015	-1.682	-1.841	-2.053
Profit After Tax	7.755	7.793	10.881	7.648	5.605	6.162	6.872
Non-controlling Interest	-2	-1	0	0	0	0	0
Net Profit	7.753	7.791	10.881	7.648	5.605	6.162	6.872
EPS	4.029	4.049	5.655	3.975	2.913	3.203	3.572
EBITDA	13.481	13.421	17.602	12.621	9.949	10.667	11.888

Source: Company and Binaartha

Table: Cash Flow in IDR Billion YoY

Cash Flow (In IDR Bn)	2018A	2019A	2020A	2021A	2022F	2023F
Net Income	7.791	10.881	7.648	5.605	6.162	6.872
Depreciation	2.265	2.529	2.575	2.588	2.588	2.881
Change in WC	-2.423	-2.304	-4.203	980	-265	-281
Cash From Operating Activities	7.633	11.106	6.019	9.173	8.484	9.473
Capex	-3.082	-5.283	-4.662	-4.586	-5.258	-5.854
Cash From Investing Activities	-3.082	-5.283	-4.662	-4.586	-5.258	-5.854
Long-term liabilities	-68	433	210	-491	185	164
Others Noncurrent Liabilities	67	65	-9	139	4	67
Equity	-4.846	-5.083	-56	-4.839	-3.081	-3.435
Cash From Financing Activities	-4.847	-4.586	145	-5.192	-2.892	-3.204
Net Changes in Cash	-296	1.238	1.502	-604	334	414
Beginning Balance	2.329	2.034	3.272	4.774	4.170	4.504
Ending Balance	2.034	3.272	4.774	4.170	4.504	4.918

Source: Company and Binaartha

Table: Statement of Financial Position in IDR Billion YoY

	2017A	2018A	2019A	2020A	2021A	2022F	2023F
ASSETS							
CURRENT ASSETS							
Cash and Cash Equivalents	2.329	2.034	3.272	4.774	4.170	4.504	4.918
Trade Accounts Receivable	2.229	1.726	1.876	2.556	2.774	2.720	3.053
Inventories	37.920	38.560	42.847	39.895	47.456	49.246	51.002
Others Current Assets	1.286	2.965	4.086	2.313	4.913	5.472	6.000
Total Current Assets	43.764	45.285	52.081	49.538	59.313	61.942	64.973
NONCURRENT ASSETS							
Fixed Assets	21.409	22.759	25.374	27.605	29.780	32.368	35.249
Other Noncurrent Assets	1.587	1.054	1.192	1.048	872	955	1.047
Total Noncurrent Assets	22.995	23.813	26.566	28.653	30.652	33.322	36.296
TOTAL ASSETS	66.760	69.097	78.647	78.191	89.964	95.265	101.268
LIABILITIES AND EQUITY							
LIABILITIES							
CURRENT LIABILITIES							
Short-term Bank Loans	20.600	17.322	17.216	6.009	9.980	10.260	10.800
Trade Account Payable	1.214	1.130	1.297	1.124	1.002	1.094	1.050
Excise duty, VAT and Cigarettes tax payables	1	2.699	5.085	9.059	16.103	17.639	19.342
Others Current Liabilities	796	853	1.660	818	1.284	1.407	1.542
Total Current Liabilities	22.611	22.004	25.259	17.010	28.369	30.399	32.735
NONCURRENT LIABILITIES							
Long-term liabilities	1.578	1.510	1.766	1.996	1.539	1.685	1.848
Long-term Bank loan	0	0	177	157	123	161	162
Others Noncurrent Liabilities	384	450	515	506	646	650	717
Total Noncurrent Liabilities	1.961	1.960	2.458	2.659	2.307	2.496	2.727
TOTAL LIABILITIES	24.572	23.964	27.716	19.669	30.676	32.895	35.462
Non-controlling interest	17	0	0	0	0	0	0
EQUITY	42.172	45.133	50.931	58.522	59.288	62.369	65.806
TOTAL LIABILITIES & EQUITY	66.760	69.097	78.647	78.191	89.964	95.265	101.269

Source: Company and Binaartha

Table: Ratio Highlights YoY

	2017A	2018A	2019A	2020A	2021A	2022F	2023F
Growth (% YoY)							
Sales		14,9%	15,5%	3,6%	9,1%	9,5%	9,7%
OP		-0,7%	35,1%	-33,4%	-26,7%	9,6%	11,5%
EBITDA		-0,4%	31,1%	-28,3%	-21,2%	7,2%	11,4%
NP		0,5%	39,7%	-29,7%	-26,7%	9,9%	11,5%
EPS		0,5%	39,7%	-29,7%	-26,7%	9,9%	11,5%
Profitability (%)							
Gross Margin	21,9%	19,5%	20,6%	15,2%	11,4%	11,4%	11,5%
Operating Margin	13,5%	11,7%	13,6%	8,8%	5,9%	5,9%	6,0%
EBITDA margin	16,2%	14,0%	15,9%	11,0%	8,0%	7,8%	7,9%
NET Profit margin	9,3%	8,1%	9,8%	6,7%	4,5%	4,5%	4,6%
ROA	11,6%	11,3%	13,8%	9,8%	6,2%	6,5%	6,8%
ROE	31,6%	32,5%	39,3%	38,9%	18,3%	18,7%	19,4%
Solvability (x)							
Net debt/ equity	0,5	0,4	0,3	0,1	0,2	0,2	0,2
Tot. debt/ Tot.equity	0,6	0,5	0,5	0,3	0,5	0,5	0,5
Debt Ratio	0,4	0,3	0,4	0,3	0,3	0,3	0,4
Int. Coverage	16,8	19,8	30,1	33,0	132,8	138,1	146,3
Liquidity (x)							
Current Ratio	1,9	2,1	2,1	2,9	2,1	2,0	2,0
Cash Ratio	0,3	0,3	0,4	0,6	0,4	0,4	0,4
Per Share data (IDR)							
EPS	4.029	4.049	5.655	3.975	2.913	3.203	3.572
EBITDA/share	7.006	6.975	9.148	6.559	5.171	5.544	6.178

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**.

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