

PT. GUDANG GARAM Tbk.

BUY

Investment Consideration

Positive Sales Growth in 1Q2021

- Despite most of the peers recording a decline in sales, GGRM recorded positive sales growth in 1Q2021 of +9.1% YoY to IDR 29.7 trillion.
- Export sales grew +34.7% YoY to IDR 437 billion. Domestic sales also grew +8.8% to IDR 29.3 trillion.
- Machine-made clove cigarettes are still the biggest contributor with 91.3% of total sales, followed by Hand-rolled clove cigarettes with 7.34% of total sales.
- Despite the new cigarette tax, GGRM is managing to maintain positive growth and we expect this will continue throughout 2021.

Margin Contraction

- As of February 2021, the new cigarette excise tax increase has been implemented. Most cigarette companies have to increase ASPs in order to pass on the excise. The increase in cigarette excise tax on the machine-made and white cigarettes has had a negative impact of contraction of the margins of most cigarette companies. As GGRM sales mainly came from machine-made clove cigarettes, GGRM margins in 1Q2021 contracted.
- In 1Q2021, GGRM net profit margin declined to 5.9% from 9% in 1Q2020. Net profit decreased by -28.6% YoY to IDR 1.74 trillion.
- GGRM's cost of sales increased +15.8% YoY to IDR 25.8 trillion in line with the increase in raw materials +11% YoY. This resulted in lower gross profit -21% YoY to IDR 3.9 trillion with a lower gross profit margin of 13.1% from 18.1%.
- Operating profit decreased by -32.4% YoY to IDR 2.25 trillion in line with a lower operating profit margin, of 7.6% from 12.3%.
- From the impact of cigarette tax increases, we are expecting the margins for the full year 2021 will contract. We expect GGRM's sales will grow single digit +9% YoY to reach IDR 124.9 trillion with a lower net profit of IDR 3.95 trillion.

Valuation: TP 44,400, 23% upside

- We are targeting GGRM to trade at a 10.3x 2022F PE within a year. Target Price is IDR 44,400 which represents 23% upside. Our recommendation is BUY.

Financial Highlights	2017A	2018A	2019A	2020A	2021F	2022F
Sales (In IDR Bn)	83.305	95.707	110.524	114.477	124.934	136.448
Net Profit (In IDR Bn)	4.029	4.049	5.655	3.975	3.950	4.314
EPS (IDR)	4.029	4.049	5.655	3.975	3.950	4.314
GPM (%)	21,9%	19,5%	20,6%	15,2%	14,0%	14,0%
OPM (%)	13,5%	11,7%	13,6%	8,8%	8,0%	8,0%
NPM (%)	9,3%	8,1%	9,8%	6,7%	6,1%	6,1%
Net debt/ equity (x)	0,5	0,4	0,3	0,1	0,1	0,1

Source: Company and Binaartha

18 June 2021
Non Cyclical - Tobacco

Price	IDR	36,025
Target Price	IDR	44,400
JKSE Index		6,078.447



Stock Information

Bloomberg Code	GGRM IJ
Market Cap (IDR bn)	66,765
52-week high (IDR)	55,000
52-week low (IDR)	32,750
Shares issued (mn)	1,924.1
6-m avg. daily Val (IDR)	37,259
Free float	24.45%

Major share holders

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

USD/ IDR – YE (IDR)

2020	14,175
2021F (6m-avg)	14,285

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 kretek. 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 Exchanges in 1990.

HAND MADE
SIGARET KRETEK
TANGAN (SKT)



Klobot



Sriwedari



Djaja



Patra

MACHINE MADE
SIGARET KRETEK
MESIN (SKM)



Gudang Garam Series

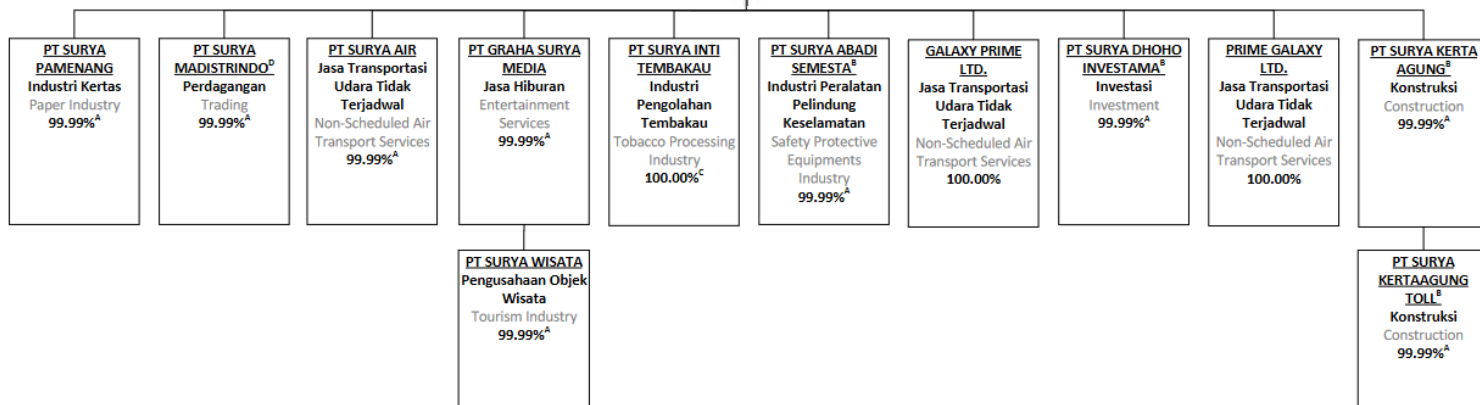
LOW TAR NICOTINE
RENDAH TAR
NIKOTIN (LTN)



Gudang Garam Signature Mild

Source: Company

Company Structure



Source: Company

Table: Income Statement in IDR Billion YoY

Income Statement (IDR Bn)	2017A	2018A	2019A	2020A	2021F	2022F
Revenue	83.305	95.707	110.524	114.477	124.934	136.448
Cost of Sales	-65.084	-77.063	-87.741	-97.089	-107.444	-117.345
Gross Profit	18.221	18.644	22.783	17.388	17.491	19.103
Operating Expense	-6.984	-7.488	-7.710	-7.342	-7.496	-8.187
Operating Profit	11.237	11.156	15.073	10.046	9.995	10.916
Other Expenses	-801	-678	-585	-383	-375	-409
Profit Before Tax	10.436	10.479	14.488	9.663	9.620	10.506
Tax	-2.681	-2.686	-3.607	-2.015	-2.020	-2.206
Profit After Tax	7.755	7.793	10.881	7.648	7.600	8.300
Non-controlling Interest	-2	-1	0	0	0	0
Net Profit	7.753	7.791	10.881	7.648	7.600	8.300
EPS	4.029	4.049	5.655	3.975	3.950	4.314
EBITDA	13.481	13.421	17.602	12.799	12.559	13.768

Source: Company and Binaartha

Table: Cash Flow in IDR Billion YoY

Cash Flow (In IDR Bn)	2018A	2019A	2020A	2021F	2022F
Net Income	7.791	10.881	7.648	7.600	8.300
Depreciation	2.265	2.529	2.753	2.750	3.026
Change in WC	-2.423	-2.304	-4.203	-2.363	-1.195
Cash From Operating Activities	7.633	11.106	6.197	7.987	10.131
Capex	-3.082	-5.283	-4.840	-5.577	-6.155
Cash From Investing Activities	-3.082	-5.283	-4.840	-5.577	-6.155
Long-term liabilities	-68	433	210	81	226
Others Noncurrent Liabilities	67	65	-9	68	48
Equity	-4.846	-5.083	-56	-3.800	-4.150
Cash From Financing Activities	-4.847	-4.586	145	-3.651	-3.876
Net Changes in Cash	-296	1.238	1.502	-1.241	100
Beginning Balance	2.329	2.034	3.272	4.774	3.534
Ending Balance	2.034	3.272	4.774	3.534	3.634

Source: Company and Binaartha

Table: Statement of Financial Position in IDR Billion YoY

	2017A	2018A	2019A	2020A	2021F	2022F
ASSETS						
CURRENT ASSETS						
Cash and Cash Equivalents	2.329	2.034	3.272	4.774	3.534	3.634
Trade Accounts Receivable	2.229	1.726	1.876	2.556	2.627	2.673
Inventories	37.920	38.560	42.847	39.895	41.228	43.663
Others Current Assets	1.286	2.965	4.086	2.313	2.499	2.729
Total Current Assets	43.764	45.285	52.081	49.538	49.887	52.699
NONCURRENT ASSETS						
Fixed Assets	21.409	22.759	25.374	27.605	30.355	33.381
Other Noncurrent Assets	1.587	1.054	1.192	1.048	1.124	1.228
Total Noncurrent Assets	22.995	23.813	26.566	28.653	31.480	34.609
TOTAL ASSETS	66.760	69.097	78.647	78.191	81.367	87.308
LIABILITIES AND EQUITY						
LIABILITIES						
CURRENT LIABILITIES						
Short-term Bank Loans	20.600	17.322	17.216	6.009	3.748	4.093
Trade Account Payable	1.214	1.130	1.297	1.124	1.224	1.337
Excise duty, VAT and Cigarettes tax payables	1	2.699	5.085	9.059	9.995	10.916
Others Current Liabilities	796	853	1.660	818	1.269	1.407
Total Current Liabilities	22.611	22.004	25.259	17.010	16.236	17.753
NONCURRENT LIABILITIES						
Long-term liabilities	1.578	1.510	1.766	1.996	2.048	2.265
Long-term Bank loan	0	0	177	157	185	195
Others Noncurrent Liabilitie	384	450	515	506	574	622
Total Noncurrent Liabilities	1.961	1.960	2.458	2.659	2.808	3.082
TOTAL LIABILITIES	24.572	23.964	27.716	19.669	19.044	20.835
Non-controlling interest	17	0	0	0	0	0
EQUITY	42.172	45.133	50.931	58.522	62.322	66.472
TOTAL LIABILITIES & EQUITY	66.760	69.097	78.647	78.191	81.367	87.308

Source: Company and Binaartha

Table: Ratio Highlights YoY

	2017A	2018A	2019A	2020A	2021F	2022F
Growth (% YoY)						
Sales		14,9%	15,5%	3,6%	9,1%	9,2%
OP		-0,7%	35,1%	-33,4%	-0,5%	9,2%
EBITDA		-0,4%	31,1%	-27,3%	-1,9%	9,6%
NP		0,5%	39,7%	-29,7%	-0,6%	9,2%
EPS		0,5%	39,7%	-29,7%	-0,6%	9,2%
Profitability (%)						
Gross Margin	21,9%	19,5%	20,6%	15,2%	14,0%	14,0%
Operating Margin	13,5%	11,7%	13,6%	8,8%	8,0%	8,0%
EBITDA margin	16,2%	14,0%	15,9%	11,2%	10,1%	10,1%
NET Profit margin	9,3%	8,1%	9,8%	6,7%	6,1%	6,1%
ROA	11,6%	11,3%	13,8%	9,8%	9,3%	9,5%
ROE	31,6%	32,5%	39,3%	38,9%	39,9%	39,8%
Solvability (x)						
Net debt/ equity	0,5	0,4	0,3	0,1	0,1	0,1
Tot. debt/ Tot.equity	0,6	0,5	0,5	0,3	0,3	0,3
Debt Ratio	0,4	0,3	0,4	0,3	0,2	0,2
Int. Coverage	16,8	19,8	30,1	33,4	66,7	58,4
Liquidity (x)						
Current Ratio	1,9	2,1	2,1	2,9	3,1	3,0
Cash Ratio	0,3	0,3	0,4	0,6	0,5	0,5
Per Share data (IDR)						
EPS	4.029	4.049	5.655	3.975	3.950	4.314
EBITDA/share	7.006	6.975	9.148	6.652	6.527	7.156

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
(62 21) 520 6678 ext. 611

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