

PT. GUDANG GARAM Tbk.

BUY

Investment Consideration

Stable sales

- GGRM sales increased +2.4% YoY or -0.4% QoQ to IDR 32.25 trillion bellow the total domestic cigarette sales growth of +11.6% in 3Q2022. For 9M2022, GGRM booked +2% sales growth to IDR 93.9 trillion.
- GGRM's export sales decreased -30% YoY or -13% QoQ to IDR 385 billion in 3Q2022, while GGRM's domestic sales increased +3% YoY but were slightly lower -0.2% QoQ to IDR 31.8 trillion in 3Q2022.
- Despite a higher ASP in 3Q2022, all of GGRM's types of cigarettes maintained positive growth. Machine-made clove cigarettes sales maintained positive growth of +1.7% YoY to IDR 29.5 trillion, hand-rolled clove cigarettes sales increased at a faster rate of +13% YoY to IDR 2.38 trillion in 3Q2022.
- We expect GGRM will maintain positive sales growth of 4.7% YoY to IDR 137 trillion in 2023F because of higher prices and stable sales volumes.

Excise tax hike

- The government has increased tobacco excise tax again for 2023.
- As the details, the excise tax for SKM groups I and II will increase 11.5% and 11.75% respectively. While SPM excise will increase by 11% and 12%, For SKT tax also rises by 5%. The government also increased the excise tax for electric cigarettes by 15% every year until 2027.
- Amid differences in cigarette excise tax increases, there is a widening gap between cigarette prices for tier 1 (SKM 1) and non-tier 1 producers, resulting in a shift in cigarette consumption to the cheaper brands.
- As of 9M2022, most of GGRM revenue came from more expensive machine-made clove cigarettes (SKM) at 92%. The excise tax hike, will therefore likely have an impact on sales volume if GGRM passes on the tax by raising selling prices.

3Q2022 Results: More pressure from higher excise tax

- After a loss in 2Q2022, GGRM booked a profit in 3Q2022 of IDR 543 billion but still -70% YoY. For 9M2022, GGRM still booked a net profit of IDR 1.49 trillion, but that's a drop of -64% YoY. This meant higher margins in 3Q2022, with the NPM at 5.8%.
- Operating expenses were lower QoQ from a gain in forex, resulting in an operating profit of IDR 753 billion with a higher OPM of 2.3% in 3Q2022.
- GGRM's cost of sales was slightly lower quarterly but still higher YoY, resulting in a higher gross profit of +37% QoQ or -34% YoY to IDR 2.55 trillion.
- With more pressure on the bottom line profit from more excise hikes, we revise down our GGRM 2023F bottom line profit target to IDR 2.1 trillion.

Valuation: BUY, TP 21,200

- GGRM's share price continues to drop pressured by the excise tax hike. However the margin improvement in 3Q2022, shows that GGRM can still grow. We are targeting GGRM to trade at a 19X PE within a year. Target Price is IDR 21,200 which represents 27% upside. We upgrade our recommendation to BUY.

Financial Highlights	2018A	2019A	2020A	2021A	2022F	2023F
Sales (In IDR Bn)	95.707	110.524	114.477	124.881	130.902	137.133
Net Profit (In IDR Bn)	7.791	10.881	7.648	5.605	2.016	2.112
EPS (IDR)	4.049	5.655	3.975	2.913	1.048	1.098
GPM (%)	19,5%	20,6%	15,2%	11,4%	8,2%	8,2%
OPM (%)	11,7%	13,6%	8,8%	5,9%	2,2%	2,2%
NPM (%)	8,1%	9,8%	6,7%	4,5%	1,5%	1,5%
PER (x)	20,7	9,4	10,3	10,5	20,4	19,5
PBV (x)	3,6	2,0	1,3	1,0	0,7	0,7
Net debt/ equity (x)	0,4	0,3	0,1	0,2	0,0	0,0

Source: Company and Binaartha

6 January 2023

Non Cyclical - Tobacco

Price **IDR 16,600**

Target Price **IDR 21,200**

JKSE Index **6,653.841**



Stock Information

Bloomberg Code	GGRM IJ
Market Cap (IDR bn)	31,940
52-week high (IDR)	36,050
52-week low (IDR)	16,500
Shares issued (mn)	1,924.1
6-m avg. daily Val (IDR)	30,530
Free float	24.45%

Major share holders

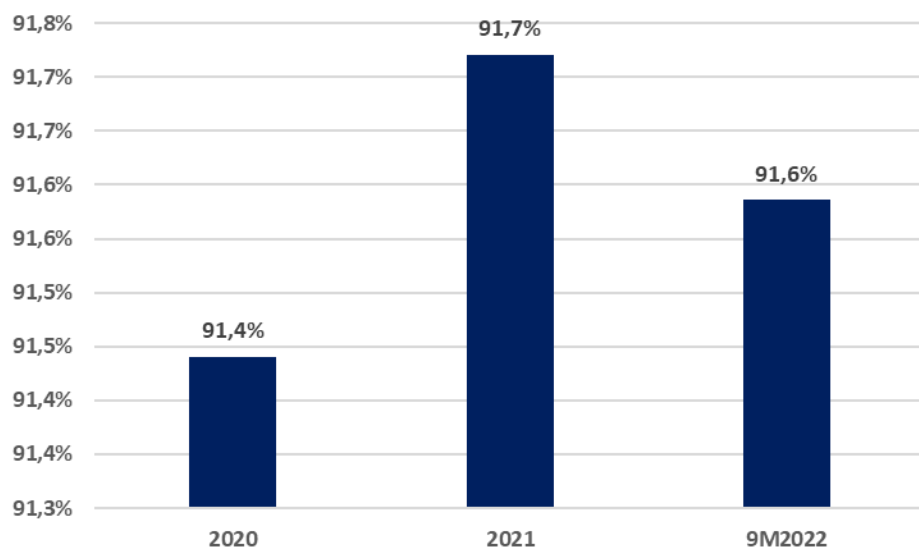
PT Suryaduta Investama	69.29%
PT Suryamitra Kusuma	6.26%
Public	24.45%

USD/ IDR – YE (IDR)

2022	15,592
2023F (6m-avg)	15,251

Analyst
eka.rahmah@binaartha.com

Chart: Machine-made clove cigarettes (SKM) contribution to Sales YoY



Source: Company

Table: Income Statement In IDR Bn QoQ & YoY

Income Statement (IDR Bn)	1Q2022	2Q2022	3Q2022	QoQ	3Q2021	YoY	9M2021	9M2022	YoY
Revenue	29.291	32.382	32.247	0%	31.484	2%	92.071	93.919	2%
Cost of Sales	-26.018	-30.518	-29.694	-3%	-27.627	7%	-81.672	-86.230	6%
Gross Profit	3.273	1.864	2.553	37%	3.857	-34%	10.399	7.689	-26%
Operating Expense	-1.805	-1.936	-1.800	-7%	-1.523	18%	-5.078	-5.541	9%
Operating Profit	1.468	-72	753		2.334	-68%	5.321	2.149	-60%
Other Expenses	-94	-72	-39		-9	339%	-42	-205	393%
Profit Before Tax	1.374	-144	713		2.325	-69%	5.279	1.944	-63%
Tax	-297	24	-172		-501	-66%	-1.145	-446	-61%
Profit After Tax	1.077	-120	541		1.824	-70%	4.135	1.497	-64%
Non-controlling Interest	0	-2	2		-2	-200%	-4	-0	-100%
Net Profit	1.077	-122	543		1.822	-70%	4.131	1.497	-64%
EPS	560	-63	186		947	-80%	2.147	778	-64%
GPM	11,2%	5,8%	7,9%		12,2%		11,3%	8,2%	
OPM	5,0%	-0,2%	2,3%		7,4%		5,8%	2,3%	
NPM	3,7%	-0,4%	1,7%		5,8%		4,5%	1,6%	

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	130.902	137.133
Cost of Sales	-65.084	-77.063	-87.741	-97.089	-110.609	-120.168	-125.888
Gross Profit	18.221	18.644	22.783	17.388	14.273	10.734	11.245
Operating Expense	-6.984	-7.488	-7.710	-7.342	-6.911	-7.854	-8.228
Operating Profit	11.237	11.156	15.073	10.046	7.362	2.880	3.017
Other Expenses	-801	-678	-585	-383	-75	-262	-274
Profit Before Tax	10.436	10.479	14.488	9.663	7.287	2.618	2.743
Tax	-2.681	-2.686	-3.607	-2.015	-1.682	-602	-631
Profit After Tax	7.755	7.793	10.881	7.648	5.605	2.016	2.112
Non-controlling Interest	-2	-1	0	0	0	0	0
Net Profit	7.753	7.791	10.881	7.648	5.605	2.016	2.112
EPS	4.029	4.049	5.655	3.975	2.913	1.048	1.098
EBITDA	13.481	13.421	17.602	12.621	9.949	5.226	5.645

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	2.016	2.112
Depreciation	2.265	2.529	2.575	2.588	2.588	2.881
Change in WC	-2.423	-2.304	-4.203	980	2.138	2.667
Cash From Operating Activities	7.633	11.106	6.019	9.173	6.741	7.660
Change in Non-current Asset	-3.082	-5.283	-4.662	-4.586	-5.481	-5.818
Cash From Investing Activities	-3.082	-5.283	-4.662	-4.586	-5.481	-5.818
Long-term liabilities	-68	433	210	-491	56	82
Others Noncurrent Liabilities	67	65	-9	139	-24	34
Equity	-4.846	-5.083	-56	-4.839	-1.008	-1.055
Cash From Financing Activities	-4.847	-4.586	145	-5.192	-975	-940
Net Changes in Cash	-296	1.238	1.502	-604	284	902
Beginning Balance	2.329	2.034	3.272	4.774	4.170	4.454
Ending Balance	2.034	3.272	4.774	4.170	4.454	5.356

Source: Company and Binaartha

Table: Statement of Financial Position in IDR Billion YoY

	2018A	2019A	2020A	2021A	2022F	2023F
ASSETS						
CURRENT ASSETS						
Cash and Cash Equivalents	2.034	3.272	4.774	4.170	4.454	5.356
Trade Accounts Receivable	1.726	1.876	2.556	2.774	2.356	1.646
Inventories	38.560	42.847	39.895	47.456	43.198	42.511
Others Current Assets	2.965	4.086	2.313	4.913	1.309	1.097
Total Current Assets	45.285	52.081	49.538	59.313	51.317	50.610
NONCURRENT ASSETS						
Fixed Assets	22.759	25.374	27.605	29.780	32.368	35.249
Other Noncurrent Assets	1.054	1.192	1.048	872	1.178	1.234
Total Noncurrent Assets	23.813	26.566	28.653	30.652	33.546	36.483
TOTAL ASSETS	69.097	78.647	78.191	89.964	84.863	87.093
LIABILITIES AND EQUITY						
LIABILITIES						
CURRENT LIABILITIES						
Short-term Bank Loans	17.322	17.216	6.009	9.980	2.618	2.743
Trade Account Payable	1.130	1.297	1.124	1.002	1.283	1.344
Excise duty, VAT and Cigarettes tax payables	2.699	5.085	9.059	16.103	17.017	17.827
Others Current Liabilities	853	1.660	818	1.284	1.309	1.371
Total Current Liabilities	22.004	25.259	17.010	28.369	22.227	23.285
NONCURRENT LIABILITIES						
Long-term liabilities	1.510	1.766	1.996	1.539	1.613	1.690
Long-term Bank loan	0	177	157	123	105	110
Others Noncurrent Liabilities	450	515	506	646	622	656
Total Noncurrent Liabilities	1.960	2.458	2.659	2.307	2.339	2.455
TOTAL LIABILITIES	23.964	27.716	19.669	30.676	24.567	25.740
Non-controlling interest	0	0	0	0	0	0
EQUITY	45.133	50.931	58.522	59.288	60.296	61.353
TOTAL LIABILITIES & EQUITY	69.097	78.647	78.191	89.964	84.863	87.093

Source: Company and Binaartha

Table: Ratio Highlights YoY

	2018A	2019A	2020A	2021A	2022F	2023F
Growth (% YoY)						
Sales	14,9%	15,5%	3,6%	9,1%	4,8%	4,8%
OP	-0,7%	35,1%	-33,4%	-26,7%	-60,9%	4,8%
EBITDA	-0,4%	31,1%	-28,3%	-21,2%	-47,5%	8,0%
NP	0,5%	39,7%	-29,7%	-26,7%	-64,0%	4,8%
EPS	0,5%	39,7%	-29,7%	-26,7%	-64,0%	4,8%
Profitability (%)						
Gross Margin	19,5%	20,6%	15,2%	11,4%	8,2%	8,2%
Operating Margin	11,7%	13,6%	8,8%	5,9%	2,2%	2,2%
EBITDA margin	14,0%	15,9%	11,0%	8,0%	4,0%	4,1%
NET Profit margin	8,1%	9,8%	6,7%	4,5%	1,5%	1,5%
ROA	11,3%	13,8%	9,8%	6,2%	2,4%	2,4%
ROE	32,5%	39,3%	38,9%	18,3%	8,2%	8,2%
Solvability (x)						
Net debt/ equity	0,4	0,3	0,1	0,2	0,0	0,0
Tot. debt/ Tot.equity	0,5	0,5	0,3	0,5	0,4	0,4
Debt Ratio	0,3	0,4	0,3	0,3	0,3	0,3
Int. Coverage	19,8	30,1	33,0	132,8	258,9	266,9
Liquidity (x)						
Current Ratio	2,1	2,1	2,9	2,1	2,3	2,2
Cash Ratio	0,3	0,4	0,6	0,4	0,4	0,3
Per Share data (IDR)						
EPS	4.049	5.655	3.975	2.913	1.048	1.098
PER (x)	21	9	10	11	20	19
PBV (x)	3,6	2,0	1,3	1,0	0,7	0,7
EBITDA/share	6.975	9.148	6.559	5.171	2.716	2.934

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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