

PT. GUDANG GARAM Tbk.
HOLD
Investment Consideration
Sales decline while peers rise

- As of 1Q2022, GGRM sales decreased slightly -1.5% YoY or -10.7% QoQ to IDR 29.29 trillion while peers like HMSP and WIIM had growth of +11% +32% YoY respectively. The total domestic cigarette market sales volume also increased 5.8% YoY to 75.1 billion sticks.
- GGRM's export sales decreased -20.8% YoY or -10.7% QoQ to IDR 346.9 billion. GGRM's domestic sales also declined -1.2% YoY or -10.7% YoY to IDR 28.94 billion in 1Q2022.
- Machine-made clove cigarettes sales decreased -1.7% YoY or -10.9% QoQ to IDR 26.7 trillion, while hand-rolled clove cigarettes sales also decreased -6.3% YoY or -8.3% QoQ to IDR 2.05 trillion in 1Q2022.
- With Ramadan season in 2Q2022 we expect slower growth compared to other quarters. But for 2022F, we expect GGRM sales will have positive growth of 9.5% YoY to IDR 136.8 trillion.

Lower margins

- GGRM net profit decreased by -38% YoY and -27% QoQ to IDR 1.07 trillion.
- The margins continued to decline in 1Q2022, with the NPM falling to 3.7% from 4.5% in 4Q2021.
- Operating expenses continue to increased +9% YoY to IDR 1.8 trillion, resulting in a decrease in operating profit by -35% YoY or -28% QoQ to IDR 1.46 trillion in line with a lower operating profit margin, of 5.0% from 6.2%.
- GGRM's cost of sales increased +1% YoY but was lower compared to the 4Q2021 by -10% QoQ to IDR 26.01 trillion in 1Q2022. This resulted in a decline in gross profit of -16% YoY to IDR 3.27 trillion, inline with a lower gross profit margin of 11.2% from 11.8% in 4Q2021.
- Despite the margin contraction, we expect GGRM's bottom line will reach IDR 5.76 trillion this full year.
- In 30 June 2022, GGRM declared a dividend for fiscal year 2021, with a total value of IDR 4.32 trillion or IDR 2,250 per share, which is a yield of 7%.

Valuation: HOLD, TP 35,240

- We are targeting GGRM to trade at a 10.57X PE within a year. Target Price is IDR 35,240 which represents 11% upside. We downgrade our recommendation to hold.

Financial Highlights	2018A	2019A	2020A	2021A	2022F	2023F
Sales (In IDR Bn)	95.707	110.524	114.477	124.881	136.794	150.005
Net Profit (In IDR Bn)	4.049	5.655	3.975	2.913	2.995	3.284
EPS (IDR)	4.049	5.655	3.975	2.913	2.995	3.284
GPM (%)	19,5%	20,6%	15,2%	11,4%	11,5%	11,5%
OPM (%)	11,7%	13,6%	8,8%	5,9%	5,7%	5,7%
NPM (%)	8,1%	9,8%	6,7%	4,5%	4,2%	4,2%
Net debt/ equity (x)	0,4	0,3	0,1	0,2	0,1	0,1

Source: Company and Binaartha

 6 July 2022
 Non Cyclical - Tobacco

Price	IDR	31,750
Target Price	IDR	35,240
JKSE Index		6,703.27


Stock Information

Bloomberg Code	GGRM IJ
Market Cap (IDR bn)	60,753
52-week high (IDR)	47,250
52-week low (IDR)	29,850
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)	14,455

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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	1Q2022	YoY	4Q2021
Revenue	29.747	29.291	-2%	32.810
Cost of Sales	-25.838	-26.018	1%	-28.937
Gross Profit	3.909	3.273	-16%	3.873
Operating Expense	-1.651	-1.805	9%	-1.833
Operating Profit	2.259	1.468	-35%	2.041
Other Expenses	-29	-94	220%	-33
Profit Before Tax	2.229	1.374	-38%	2.007
Tax	-483	-297	-38%	-537
Profit After Tax	1.746	1.077	-38%	1.471
Non-controlling Interest	0	0		4
Net Profit	1.746	1.077	-38%	1.475
EPS	908	560	-38%	766
GPM	13,1%	11,2%		11,8%
OPM	7,6%	5,0%		6,2%
NPM	5,9%	3,7%		4,5%

Source: Company

Table: Income Statement in IDR Billion YoY

Income Statement (IDR Bn)	2018A	2019A	2020A	2021A	2022F	2023F
Revenue	95.707	110.524	114.477	124.881	136.794	150.005
Cost of Sales	-77.063	-87.741	-97.089	-110.609	-121.063	-132.754
Gross Profit	18.644	22.783	17.388	14.273	15.731	17.251
Operating Expense	-7.488	-7.710	-7.342	-6.911	-7.934	-8.700
Operating Profit	11.156	15.073	10.046	7.362	7.797	8.550
Other Expenses	-678	-585	-383	-75	-410	-450
Profit Before Tax	10.479	14.488	9.663	7.287	7.387	8.100
Tax	-2.686	-3.607	-2.015	-1.682	-1.625	-1.782
Profit After Tax	7.793	10.881	7.648	5.605	5.762	6.318
Non-controlling Interest	-1	0	0	0	0	0
Net Profit	7.791	10.881	7.648	5.605	5.762	6.318
EPS	4.049	5.655	3.975	2.913	2.995	3.284
EBITDA	13.421	17.602	12.621	9.949	10.034	11.044

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	5.762	6.318
Depreciation	2.265	2.529	2.575	2.588	2.588	2.881
Change in WC	-2.423	-2.304	-4.203	980	290	-227
Cash From Operating Activities	7.633	11.106	6.019	9.173	8.639	8.972
Change in Non-current Asset	-3.082	-5.283	-4.662	-4.586	-5.534	-5.881
Cash From Investing Activities	-3.082	-5.283	-4.662	-4.586	-5.534	-5.881
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	-2.881	-3.158
Cash From Financing Activities	-4.847	-4.586	145	-5.192	-2.692	-2.927
Net Changes in Cash	-296	1.238	1.502	-604	413	164
Beginning Balance	2.329	2.034	3.272	4.774	4.170	4.583
Ending Balance	2.034	3.272	4.774	4.170	4.583	4.747

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	4.583	4.747
Trade Accounts Receivable	1.726	1.876	2.556	2.774	2.720	3.053
Inventories	38.560	42.847	39.895	47.456	47.878	49.502
Others Current Assets	2.965	4.086	2.313	4.913	2.736	3.000
Total Current Assets	45.285	52.081	49.538	59.313	57.917	60.301
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	1.231	1.350
Total Noncurrent Assets	23.813	26.566	28.653	30.652	33.599	36.599
TOTAL ASSETS	69.097	78.647	78.191	89.964	91.516	96.900
LIABILITIES AND EQUITY						
LIABILITIES						
CURRENT LIABILITIES						
Short-term Bank Loans	17.322	17.216	6.009	9.980	7.934	8.250
Trade Account Payable	1.130	1.297	1.124	1.002	1.094	1.050
Excise duty, VAT and Cigarettes tax payables	2.699	5.085	9.059	16.103	16.415	18.001
Others Current Liabilities	853	1.660	818	1.284	1.407	1.542
Total Current Liabilities	22.004	25.259	17.010	28.369	26.850	28.843
NONCURRENT LIABILITIES						
Long-term liabilities	1.510	1.766	1.996	1.539	1.685	1.848
Long-term Bank loan	0	177	157	123	161	162
Others Noncurrent Liabilities	450	515	506	646	650	717
Total Noncurrent Liabilities	1.960	2.458	2.659	2.307	2.496	2.727
TOTAL LIABILITIES	23.964	27.716	19.669	30.676	29.347	31.570
Non-controlling interest	0	0	0	0	0	0
EQUITY	45.133	50.931	58.522	59.288	62.169	65.329
TOTAL LIABILITIES & EQUITY	69.097	78.647	78.191	89.964	91.516	96.900

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%	9,5%	9,7%
OP	-0,7%	35,1%	-33,4%	-26,7%	5,9%	9,7%
EBITDA	-0,4%	31,1%	-28,3%	-21,2%	0,9%	10,1%
NP	0,5%	39,7%	-29,7%	-26,7%	2,8%	9,7%
EPS	0,5%	39,7%	-29,7%	-26,7%	2,8%	9,7%
Profitability (%)						
Gross Margin	19,5%	20,6%	15,2%	11,4%	11,5%	11,5%
Operating Margin	11,7%	13,6%	8,8%	5,9%	5,7%	5,7%
EBITDA margin	14,0%	15,9%	11,0%	8,0%	7,3%	7,4%
NET Profit margin	8,1%	9,8%	6,7%	4,5%	4,2%	4,2%
ROA	11,3%	13,8%	9,8%	6,2%	6,3%	6,5%
ROE	32,5%	39,3%	38,9%	18,3%	19,6%	20,0%
Solvability (x)						
Net debt/ equity	0,4	0,3	0,1	0,2	0,1	0,1
Tot. debt/ Tot.equity	0,5	0,5	0,3	0,5	0,5	0,5
Debt Ratio	0,3	0,4	0,3	0,3	0,3	0,3
Int. Coverage	19,8	30,1	33,0	132,8	167,2	177,1
Liquidity (x)						
Current Ratio	2,1	2,1	2,9	2,1	2,2	2,1
Cash Ratio	0,3	0,4	0,6	0,4	0,4	0,4
Per Share data (IDR)						
EPS	4.049	5.655	3.975	2.913	2.995	3.284
EBITDA/share	6.975	9.148	6.559	5.171	5.215	5.740

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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