

PT. GUDANG GARAM Tbk.

BUY

Investment Consideration

Higher QoQ Sales

- 3Q2021's GGRSM sales were higher compared to 1Q2021 and 2Q2021 from higher sales volume. GGRM booked sales of IDR 31.5 trillion which is +5.9% YoY or +2.1% QoQ growth. For 9M2021 GGRM booked sales of IDR 92 trillion, an increase of 10.4% YoY.
- As global markets have shown an improvement QoQ but are still in decline YoY, export sales decreased -12% YoY but grew +29.6% QoQ to IDR 549 billion in 3Q2021.
- The domestic market continues to recovery with sales up +6.3% YoY or +1.7% QoQ to IDR 30.9 trillion in 3Q2021.
- Machine-made clove cigarettes sales increased +6% YoY to IDR 28.9 trillion, while hand-rolled clove cigarettes sales decreased -2.4% to IDR 2.11 trillion.
- GGRM sales performances in 9M2021 was better compared to its peers. We now expect GGRM sales to reach IDR 128.5 trillion or +12.2% growth this year.

Margins Improved QoQ

- GGRM margins showed an improvement in the 3Q2021 after a weak performance in the 2Q2021, GGRM net profit increased by +224% QoQ but still decreased slightly -0.2% YoY to IDR 1.82 trillion. The increase was mainly due to lower operating expenses down -20% YoY.
- As a result, GGRM net profit margin increased to 5.8% from 1.8% in 2Q2021.
- For 9M2021, net profit still decreased by -23% YoY to IDR 7.5 trillion.
- GGRM's cost of sales increased +8.8% YoY but slightly decreased -2.1% QoQ to IDR 27.6 trillion in 3Q2021. This resulted in a lower gross profit -11% YoY to IDR 3.86 trillion, but the gross profit margin improved to 12.2% from 8.5% in 2Q2021.
- With lower opex, operating profit slightly decreased by -3.4% YoY but increased +220% QoQ to IDR 2.3 trillion in line with a higher operating profit margin, of 7.4% from 2.4%.
- Negative sentiment still weighs on the cigarettes sector as the government plans to further increase excise tax net year. After these results we expect GGRM's profit will decrease -22% YoY to IDR 5.9 trillion.

Valuation: Upgrade to BUY with TP 40,700

- As GGRM has shown an improvement in 3Q2021 performance with better QoQ sales and margins, we upgrade our recommendation to BUY.
- We are targeting GGRM to trade at a 12x 2022F PE within a year. Target Price is IDR 40,700 which represents 23% upside. We recommendation to BUY.

Financial Highlights	2017A	2018A	2019A	2020A	2021F	2022F
Sales (In IDR Bn)	83.305	95.707	110.524	114.477	128.457	144.307
Net Profit (In IDR Bn)	4.029	4.049	5.655	3.975	3.096	3.478
EPS (IDR)	4.029	4.049	5.655	3.975	3.096	3.478
GPM (%)	21,9%	19,5%	20,6%	15,2%	12,0%	12,0%
OPM (%)	13,5%	11,7%	13,6%	8,8%	6,0%	6,0%
NPM (%)	9,3%	8,1%	9,8%	6,7%	4,6%	4,6%
Net debt/ equity (x)	0,5	0,4	0,3	0,1	0,0	0,0

Source: Company and Binaartha

8 November 2021
Non Cyclical - Tobacco

Price	IDR	33,025
Target Price	IDR	40,700
JKSE Index		6,581.785



Stock Information

Bloomberg Code	GGRM JI
Market Cap (IDR bn)	63,300
52-week high (IDR)	49,975
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)

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

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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 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

Table: Income Statement In IDR Bn QoQ & YoY

Income Statement (IDR Bn)	1Q2021	2Q2021	3Q2021	QoQ	9M2020	9M2021	YoY
Revenue	29.747	30.840	31.484	2%	83.375	92.071	10%
Cost of Sales	-25.838	-28.207	-27.627	-2%	-70.391	-81.672	16%
Gross Profit	3.909	2.634	3.857	46%	12.984	10.399	-20%
Operating Expense	-1.651	-1.905	-1.523	-20%	-5.351	-5.078	-5%
Operating Profit	2.259	728	2.334	220%	7.633	5.321	-30%
Other Expenses	-29	-3	-9	177%	-354	-42	-88%
Profit Before Tax	2.229	725	2.325	221%	7.279	5.279	-27%
Tax	-483	-161	-501	211%	-1.632	-1.145	-30%
Profit After Tax	1.746	564	1.824	223%	5.647	4.135	-27%
Non-controlling Interest	0	-2	-2	100%	-2	-4	100%
Net Profit	1.746	562	1.822	224%	5.645	4.131	-27%
EPS	908	292	947	224%	2.934	2.147	-27%
GPM	13,1%	8,5%	12,2%		15,6%	11,3%	
OPM	7,6%	2,4%	7,4%		9,2%	5,8%	
NPM	5,9%	1,8%	5,8%		6,8%	4,5%	

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	128.457	144.307
Cost of Sales	-65.084	-77.063	-87.741	-97.089	-113.042	-126.990
Gross Profit	18.221	18.644	22.783	17.388	15.415	17.317
Operating Expense	-6.984	-7.488	-7.710	-7.342	-7.707	-8.658
Operating Profit	11.237	11.156	15.073	10.046	7.707	8.658
Other Expenses	-801	-678	-585	-383	-64	-72
Profit Before Tax	10.436	10.479	14.488	9.663	7.643	8.586
Tax	-2.681	-2.686	-3.607	-2.015	-1.681	-1.889
Profit After Tax	7.755	7.793	10.881	7.648	5.962	6.697
Non-controlling Interest	-2	-1	0	0	-5	-6
Net Profit	7.753	7.791	10.881	7.648	5.957	6.692
EPS	4.029	4.049	5.655	3.975	3.096	3.478
EBITDA	13.481	13.421	17.602	12.799	10.433	11.663

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	5.957	6.692
Depreciation	2.265	2.529	2.753	2.750	3.026
Change in WC	-2.423	-2.304	-4.203	-22	-1.171
Cash From Operating Activities	7.633	11.106	6.197	8.685	8.546
Capex	-3.082	-5.283	-4.840	-5.608	-6.194
Cash From Investing Activities	-3.082	-5.283	-4.840	-5.608	-6.194
Long-term liabilities	-68	433	210	-164	237
Others Noncurrent Liabilities	67	65	-9	84	68
Equity	-4.846	-5.083	-56	-2.978	-3.346
Cash From Financing Activities	-4.847	-4.586	145	-3.058	-3.041
Net Changes in Cash	-296	1.238	1.502	19	-689
Beginning Balance	2.329	2.034	3.272	4.774	4.794
Ending Balance	2.034	3.272	4.774	4.794	4.105

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	4.794	4.105
Trade Accounts Receivable	2.229	1.726	1.876	2.556	2.701	2.827
Inventories	37.920	38.560	42.847	39.895	46.244	49.064
Others Current Assets	1.286	2.965	4.086	2.313	1.028	1.732
Total Current Assets	43.764	45.285	52.081	49.538	54.766	57.728
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	1.156	1.299
Total Noncurrent Assets	22.995	23.813	26.566	28.653	31.511	34.680
TOTAL ASSETS	66.760	69.097	78.647	78.191	86.278	92.407
LIABILITIES AND EQUITY						
LIABILITIES						
CURRENT LIABILITIES						
Short-term Bank Loans	20.600	17.322	17.216	6.009	642	722
Trade Account Payable	1.214	1.130	1.297	1.124	1.259	1.154
Excise duty, VAT and Cigarettes tax payables	1	2.699	5.085	9.059	19.268	21.646
Others Current Liabilities	796	853	1.660	818	1.028	1.154
Total Current Liabilities	22.611	22.004	25.259	17.010	22.197	24.677
NONCURRENT LIABILITIES						
Long-term liabilities	1.578	1.510	1.766	1.996	1.798	2.020
Long-term Bank loan	0	0	177	157	191	206
Others Noncurrent Liabilitie	384	450	515	506	590	658
Total Noncurrent Liabilities	1.961	1.960	2.458	2.659	2.579	2.884
TOTAL LIABILITIES	24.572	23.964	27.716	19.669	24.777	27.561
Non-controlling interest	17	0	0	0	0	0
EQUITY	42.172	45.133	50.931	58.522	61.501	64.846
TOTAL LIABILITIES & EQUITY	66.760	69.097	78.647	78.191	86.277	92.407

Source: Company and Binaartha

Table: Ratio Highlights YoY

	2017A	2018A	2019A	2020A	2021F	2022F
Growth (% YoY)						
Sales		14,9%	15,5%	3,6%	12,2%	12,3%
OP		-0,7%	35,1%	-33,4%	-23,3%	12,3%
EBITDA		-0,4%	31,1%	-27,3%	-18,5%	11,8%
NP		0,5%	39,7%	-29,7%	-22,1%	12,3%
EPS		0,5%	39,7%	-29,7%	-22,1%	12,3%
Profitability (%)						
Gross Margin	21,9%	19,5%	20,6%	15,2%	12,0%	12,0%
Operating Margin	13,5%	11,7%	13,6%	8,8%	6,0%	6,0%
EBITDA margin	16,2%	14,0%	15,9%	11,2%	8,1%	8,1%
NET Profit margin	9,3%	8,1%	9,8%	6,7%	4,6%	4,6%
ROA	11,6%	11,3%	13,8%	9,8%	6,9%	7,2%
ROE	31,6%	32,5%	39,3%	38,9%	24,0%	24,3%
Solvability (x)						
Net debt/ equity	0,5	0,4	0,3	0,1	0,0	0,0
Tot. debt/ Tot.equity	0,6	0,5	0,5	0,3	0,4	0,4
Debt Ratio	0,4	0,3	0,4	0,3	0,3	0,3
Int. Coverage	16,8	19,8	30,1	33,4	261,7	228,7
Liquidity (x)						
Current Ratio	1,9	2,1	2,1	2,9	2,5	2,3
Cash Ratio	0,3	0,3	0,4	0,6	0,4	0,4
Per Share data (IDR)						
EPS	4.029	4.049	5.655	3.975	3.096	3.478
EBITDA/share	7.006	6.975	9.148	6.652	5.422	6.061

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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