



Arwana Ceramics

BUY

Target Price : IDR1,100

Stock Data

Current Price	: 900
52w Range H-L	: 685-945
Share Outstanding	: 7.34 Bn
Free Float	: 47.58%
Mkt Capitalization (IDR bn)	: 6,607.3 Bn

Major Shareholders

Tandean Rustandy	: 37.32%
PT Suprakreasi Eradinamika	: 14.13%
Public	: 47.59%
Treasury	: 0.96%

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PT Arwana Citramulia Tbk (ARNA IJ)

Ceramics

Unbeatable in the Industry

FY21: Solid Top & Bottom Line with Double Digit Growth

- ARNA IJ booked a revenue of IDR2.55 Tn in FY21, grew +15.51% YoY (vs IDR2.21 Tn in FY20) supported by 1) Sales volume recorded at 67.71 Mn sqm or increased by +11.37% YoY (vs 60.80 Mn sqm in FY20); 2 Increase in ASP by +3.72% YoY. ARNA also took the initiative to launch 132 new patterns with a total of 296 stock keeping units (SKUs) through 14,066 stores (+2.3% YoY).
- GPM increased to a level of 35.98%, followed by OPM which increased to a level of 23.59% thanks to the efficiency of decreasing energy consumption in FY21. Net profit increased by +45.78% YoY, or IDR470.90 Bn in FY21 (vs IDR323.01 Bn in FY20), followed by NPM at 18.43%. The increase in net profit was due to a decrease in finance expenses -56.97% YoY, as well as an increase in financial income by +4.99% YoY in FY21.

2022 Business Prospects

- Focusing on Porcelain Tile, Getting More Margin:** In line with the economic recovery, the Company launched a new glazed porcelain tile product, namely "ARNA" (produced by Plant 5B) on Apr-21 for the mid-high market segment and has contributed ~3% to total sales mix in FY21. Management believes this product has the potential to provide higher margins and contribute up to 16% of the Company's sales mix in FY25F. This target is supported by the addition of the 5C plant which is estimated to start production in Dec-22, where the production capacity of glazed porcelain tile will increase from 3 Mn sqm/year to 7.4 Mn sqm/year. The Company has plans to increase production to FY25F by adding FY23F (Plant 5C); and FY25F (Plant 6), so that porcelain tile capacity can reach 13.4 Mn sqm.
- Efficiency Improved, Preparing for ODOL:** The Lean Manufacturing concept reduces gas consumption which has an impact on cost efficiency. In FY21 gas consumption fell -8% YoY resulting in cost savings reaching IDR30.94 Bn. Cumulatively, energy consumption in FY21 was reduced to 30% (vs 33% in FY20). The reduction in gas consumption will continue to be carried out as a readiness for the end of the relaxation of industrial gas prices of USD6/MMBtu until FY24F later. We see that this efficiency effort can be used to deal with the planned implementation of Zero Over Dimension Over Load (ODOL) which can burden OPM. We project OPM in FY22F at 26.33% (vs 23.59% in FY21).
- Weakening Foreign Competitors:** We see that ARNA's position has benefited from: 1) Container shortage which has increased the shipping costs of imported producers; 2) China, which once more imposed a lockdown policy in the beginning of 2Q22, resulting in the supply chain of production raw materials being hampered; 3) The imposition of safeguards (BMTP) at a rate of 15%. It should be noted that ARNA's factory locations are located on the islands of Java and Sumatra, where the mobility of goods delivery is carried out by land. The small export portion (1% in FY21) and shipping costs charged to consumers have prevented ARNA from being exposed to shortage containers.

Estimated Top & Bottom Line Grew +8.24% YoY/+23.65% YoY

We project revenue in FY22F of IDR 2.76 Tn (+8.24% YoY) supported by more massive expansion of porcelain tile products, acceleration of domestic property sector, as well as increase in sales volume and ASP by +6.34% YoY/+1.79% YoY respectively. We post a moderate target for its gross profit and operating profit to grow +16.14% YoY/+20.82% YoY in FY22F considering the gas logistics problems that are still happening in East Java (including Plants 3&5) until 1H22 later, resulting in a higher purchase price redemption than incentives (around USD6.5/MMBtu). Moreover, FY22F net profit grew +23.65% YoY and NPM 21.06%.

Maintain BUY with TP IDR1.100

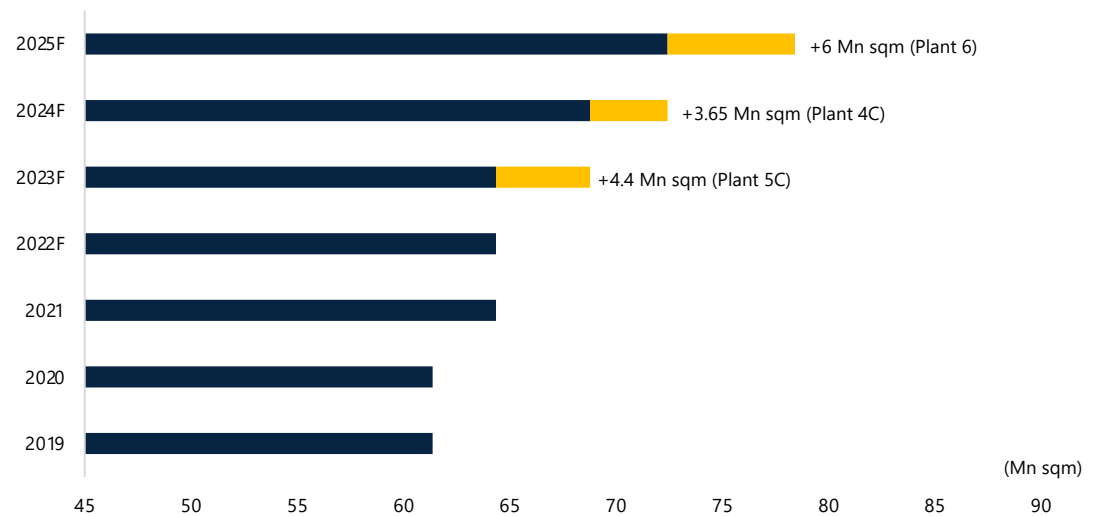
We maintain our **BUY** recommendation for ARNA with a Target Price of **IDR1,100 (+22% upside)** which implies **PE/PBV 13.87x/4.35x** in FY22F. Currently, ARNA is trading at -0.5STD PE of its 3-years-mean. Key downside risks: 1) weak of sales products, especially in mid-high segment; 2) gas supply constraint that continue to occur; 3) a higher imported product than expected.

Key Financial Highlight	FY19	FY20	FY21	FY22F	FY23F
Revenue (IDR Bn)	2,151.80	2,211.74	2,554.88	2,765.34	2,870.15
EBITDA (IDR Bn)	397.01	524.92	703.73	847.17	920.24
Net Profit (IDR Bn)	215.53	323.01	470.90	582.28	626.43
EPS (IDR)	29.36	44.00	64.14	79.31	85.33
PE (x)	30.66	20.46	14.03	11.35	10.55
BVPS (IDR)	160.29	177.75	214.29	252.79	281.80
PBV (x)	5.61	5.06	4.20	3.56	3.19
ROE (%)	18.61	25.16	30.41	31.38	30.28

Source: Company, MNCS (at closing price IDR900/share)

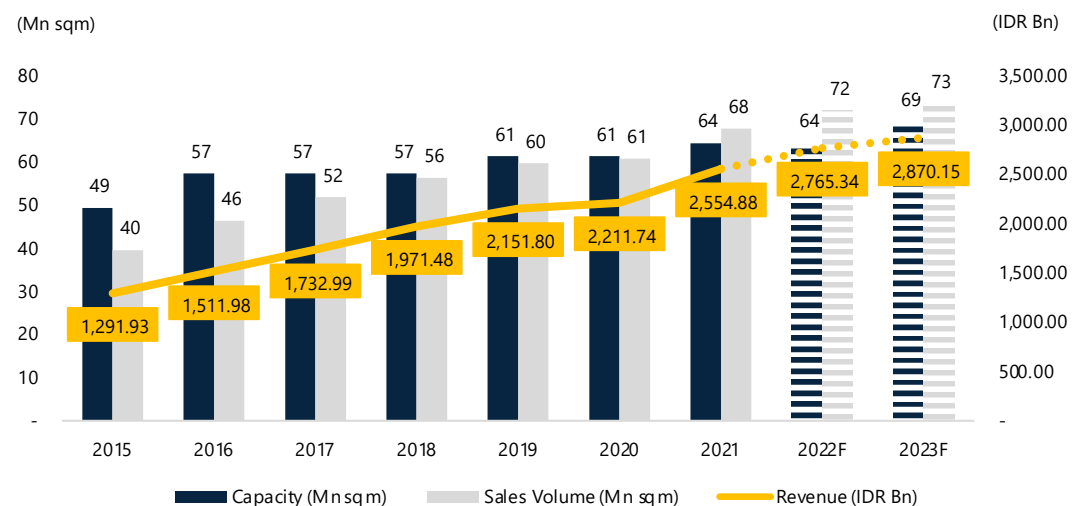
ARNA has plans to develop Plant 5C on FY23F, Plant 4C on FY24F, and Plant 6 on FY25F, totaling 78.42 Mn sqm

Exhibit 01. Additional Plants Capacity Untill FY25F



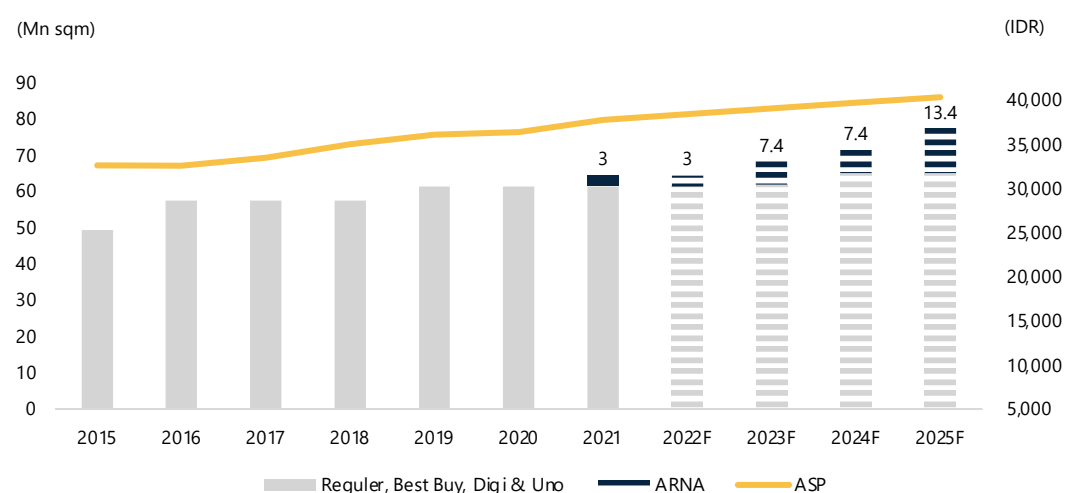
Source : Company, MNCS

Exhibit 02. ARNA's Capacity, Sales Volume and Revenue FY15-FY23F



Source : Company, MNCS

Exhibit 03. Estimated Capacity Production of Porcelain Tile "ARNA" and ASP untill FY25F



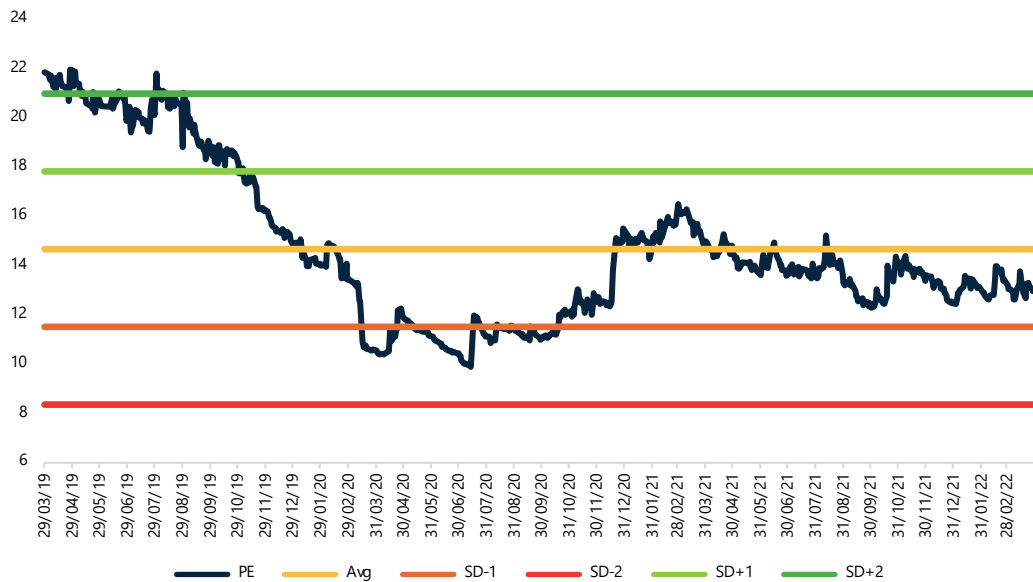
Source : Company, MNCS

Exhibit 04. Sample Products of Porcelain Tile 60x60 cm "ARNA"



Source : PGK Website

Exhibit 05. ARNA is currently trading at 12.99x PE, close to its -0.5 STD (3-years-mean)



Source : Bloomberg, MNCS

Exhibit 06. Financial Summary

Income Statement					
In Billion IDR	FY19	FY20	FY21	FY22F	FY23F
Revenue	2,151.80	2,211.74	2,554.88	2,765.34	2,870.15
COGS	(1,583.14)	(1,508.74)	(1,635.75)	(1,697.84)	(1,708.76)
Gross Profit	568.66	703.01	919.13	1,067.50	1,161.39
Operating Expense	(279.19)	(282.86)	(316.41)	(339.33)	(379.39)
Selling Expenses	(219.14)	(208.60)	(228.57)	(242.96)	(269.86)
G&A	(66.94)	(78.44)	(94.32)	(102.85)	(116.00)
Other	6.89	4.18	6.48	6.48	6.48
Operating Profit	289.47	420.15	602.72	728.17	782.01
EBITDA	397.01	524.92	703.73	847.17	920.24
Other Income (Expense)	10.60	10.86	11.40	29.48	31.65
Interest Income	(8.46)	(10.38)	(4.47)	(3.11)	(2.56)
Profit Before Tax	291.61	420.63	609.65	754.55	811.10
Tax Expense	(73.93)	(94.38)	(133.67)	(165.44)	(177.84)
Earnings	217.68	326.24	475.98	589.11	633.26
Minority Interest	(2.14)	(3.23)	(5.08)	(6.83)	(6.83)
Net Income	215.53	323.01	470.90	582.28	626.43
EPS (IDR)	29.36	44.00	64.14	79.31	85.33

Cash Flow					
In Billion IDR	FY19	FY20	FY21	FY22F	FY23F
Net Profit	215.53	323.01	470.90	582.28	626.43
D&A	17.00	105.40	102.46	122.22	141.98
Changes in WC	111.31	(62.99)	(89.28)	(70.64)	(50.02)
Operating CF	343.85	365.41	484.09	633.86	718.39
Capex	(21.21)	(72.86)	(101.39)	(300.00)	(300.00)
Others	6.25	3.57	(6.47)	(0.04)	(0.04)
Investing CF	(14.97)	(69.29)	(107.86)	(300.04)	(300.04)
Dividend Paid	(117.25)	(161.09)	(218.11)	(349.37)	(413.44)
Net Borrowing	(48.26)	(16.84)	(9.97)	(3.78)	(2.82)
Others	(7.21)	(31.28)	18.51	49.76	-
Financing CF	(172.71)	(209.22)	(209.56)	(303.39)	(416.27)
Net-Cash Flow	156.16	86.90	166.67	30.44	2.08
Cash at Beginning	192.81	348.98	435.88	602.55	632.99
Cash at Ending	348.98	435.88	602.55	632.99	635.07

Balance Sheet					
In Billion IDR	FY19	FY20	FY21	FY22F	FY23F
Cash & Equivalents	348.98	435.88	602.55	632.99	635.07
Trade Receivables	522.18	614.59	681.50	752.70	773.07
Inventory	93.73	122.13	158.72	151.09	158.94
Others	10.97	10.56	8.18	8.96	9.00
Total Current Asset	975.86	1,183.16	1,450.95	1,545.73	1,576.07
Net Fixed Asset	799.76	767.22	766.15	943.93	1,101.95
Other Assets	23.52	19.95	26.42	26.46	26.51
Total Asset	1,799.14	1,970.34	2,243.52	2,516.12	2,704.52
Payables	315.72	329.06	312.84	306.55	284.79
ST. Debt	46.63	29.79	19.82	16.05	13.22
Other Current Liabilities	199.65	243.72	271.78	271.78	271.78
Current Liability	562.00	602.57	604.45	594.38	569.79
LT. Debt	-	-	-	-	-
Other LT. Liabilities	60.35	62.83	65.91	65.91	65.91
Total Liability	622.36	665.40	670.35	660.29	635.70
Minority Interest	18.58	20.90	24.85	-	-
Total Equity	1,176.78	1,304.94	1,573.17	1,855.84	2,068.82
Total Liabilities & Equity	1,799.14	1,970.34	2,243.52	2,516.12	2,704.52

Ratios					
	FY19	FY20	FY21	FY22F	FY23F
Revenue Growth (%)	9.15	2.79	15.51	8.24	3.79
Operating Profit Growth (%)	30.26	45.14	43.45	20.82	7.39
Net Profit Growth (%)	37.61	49.87	45.78	23.65	7.58
Current Ratio (%)	173.64	196.35	240.05	260.06	276.60
Quick Ratio (%)	156.96	176.08	213.79	234.64	248.71
Receivable Days (x)	87.64	100.27	96.16	98.21	97.19
Inventory Days (x)	21.31	29.14	34.93	32.04	33.48
Payable Days (x)	71.79	78.52	68.85	65.00	60.00
DER (x)	0.04	0.02	0.01	0.01	0.01
DAR (x)	0.03	0.02	0.01	0.01	0.00
Gross Profit Margin (%)	26.43	31.79	35.98	38.60	40.46
Operating Profit Margin (%)	13.45	19.00	23.59	26.33	27.25
EBITDA Margin (%)	18.45	23.73	27.54	30.64	32.06
Net Income Margin (%)	10.02	14.60	18.43	21.06	21.83
EPS (IDR)	29.36	44.00	64.14	79.31	85.33
BVPS (IDR)	160.29	177.75	214.29	252.79	281.80

Sources : Company, MNCS

MNC Research Industry Ratings Guidance

OVERWEIGHT: Stock's total return is estimated to be above the average total return of our industry coverage universe over next 6-12 months

NEUTRAL: Stock's total return is estimated to be in line with the average total return of our industry coverage universe over next 6-12 months

UNDERWEIGHT: Stock's total return is estimated to be below the average total return of our industry coverage universe over next 6-12 months

MNC Research Investment Ratings Guidance

BUY : Share price may exceed 10% over the next 12 months

HOLD : Share price may fall within the range of +/- 10% of the next 12 months

SELL : Share price may fall by more than 10% over the next 12 months

Not Rated : Stock is not within regular research coverage

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