



Arwana Ceramics

**BUY**

Target Price : IDR1,350

## Stock Data

Current Price : IDR955  
 52w Range H-L : IDR1,120-840  
 Share Outstanding : 7.34bn  
 Free Float : 47.58%  
 Mkt. Capitalization : IDR7.01tn

## 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

### Positioned to Benefit from New Plant

#### FY22 Results : Net Profit remains Upbeat

- ARNA FY22 revenue is relatively flat +1.2% YoY to IDR2.6tn, reaching 93.9%/92.3% of consensus/MNCS estimates, respectively. This was driven from the lower-than-anticipated sales volume by -1.6% YoY to 66.6 mn sqm (vs 67.7 mn sqm in FY21), which was partly offset by solid product mix.
- Gross profit was recorded at IDR1.1tn in FY22, or climbed up +14.5% YoY (vs IDR919.1bn in FY21), thanks to lower COGS (-6.2% YoY) from gas consumption effectivity amidst higher production output (+2.2% YoY). Thus, it resulted in another high level of GPM to 40.7% (vs 36.0% in FY21).
- ARNA managed to deliver impressive net profit at IDR576.2bn, or rose +9.3% YoY, meeting 99.1% of consensus estimates and reflecting 92.9% of MNCS. This positive result came from higher operating profit (+23.1% YoY) given its decent cost leadership impacting on the stable OPEX (-1.7% YoY). Therefore, NPM edged up to 22.3% (vs 18.4% in FY21).

#### Enlarged Capacity with New Plant

ARNA released its new plant 5C in Mojokerto, East Java. This plant is able to produce 4.4mn sqm/year ceramics, translating the total capacity to reached 68.8mn sqm/year (vs 64.4mn sqm/year). The plant 5C is targeted to operate early 2Q23, and expected to produce a mid-high segment ceramics 60x60cm called "ARNA" about 3.5mn sqm. Along with the plant 5B, a mid-high segment "ARNA" has a capacity of 7.7mn sqm/year, which can expand to 11.4mn sqm/year awaiting plant 4C development is completed in FY24F.

#### Strengthened Footprint through Outlet Expansion and Enriching SKUs

In FY22, management added 365 SKUs, bringing the total SKUs to 1,918. Furthermore, the management conducted a product innovation by launching a 30x60cm type variant at plant 5B ([exhibit 05](#)). Despite the declined sales volume, outlet distribution experienced an increase of +5.7% YoY to 46 sub-distributors & 39,918 outlets in FY22, thus increasing its product absorption.

#### Supported by Macro Backdrop

To date, the regulation of ODOL (Over Dimension Over Load) has not yet been put into practice, due to the lack of nation truck vehicles and waiting for a clear roadmap. The management also disclosed that the USD6/MMBtu gas price for the ceramic sector was in the process to be Government Regulation (PP), which has a greater level of legal authority and will continue moving ahead than the ongoing Presidential Regulation (Perpres) which was effective until FY24F. Both of these will benefit ARNA, in our view.

#### Valuation and Recommendation: Maintain BUY with TP IDR1,350

We recommend **BUY** for **ARNA IJ with a TP of IDR1,350**, implying PE/PBV of 15.7x/4.7x in FY23E. The new plant 5C is able to produce a mid-high segment that could deliver profitability as well as margin onwards. ARNA trades at an undemanding valuation of 12.6x PE, near at the level -2.0 STD PE (5-year average). Downsides risk including: 1) lower sales volume; 2) massive sales of imported products; 3) higher than expected logistic cost.

Key Financial Highlight	FY20	FY21	FY22	FY23E	FY24F
Revenue (IDR Bn)	2,211.74	2,554.88	2,586.67	2,892.87	3,136.82
EBITDA (IDR Bn)	524.92	703.73	835.34	922.67	1,037.30
EBITDA Margin (%)	23.73	27.54	32.29	31.89	33.07
Net Income (IDR Bn)	323.01	470.90	576.21	629.77	703.29
Dividend Yield (%)	2.30	3.11	4.67	4.74	5.22
ROE (%)	24.75	29.93	31.43	29.78	28.52
PE (x)	21.71	14.89	12.17	11.13	9.97
PBV (x)	5.37	4.46	3.82	3.31	2.84

Source: MNCS

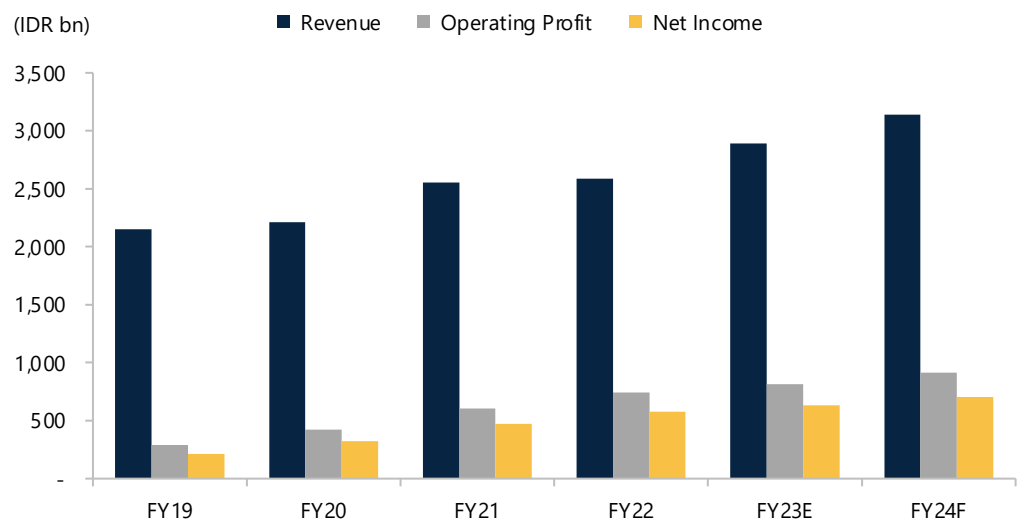
Exhibit 01. ARNA's 4Q22 Result

IDR bn	3Q22	4Q22	QoQ	FY21	FY22	YoY	FY22E Cons	FY22E MNCS	% Cons	% MNCS
<b>Revenues</b>	<b>644.98</b>	<b>583.61</b>	<b>-9.52%</b>	<b>2,554.88</b>	<b>2,586.67</b>	<b>1.24%</b>	<b>2,753.94</b>	<b>2,801.83</b>	<b>93.9%</b>	<b>92.3%</b>
COGS	375.94	352.93	-6.12%	1,635.75	1,533.95	-6.22%				
<b>Operating Profit</b>	<b>197.30</b>	<b>150.09</b>	<b>-23.93%</b>	<b>602.72</b>	<b>741.84</b>	<b>23.08%</b>	<b>739.57</b>	<b>791.71</b>	<b>100.3%</b>	<b>93.7%</b>
Operating Profit Margin	30.59%	25.72%		23.59%	28.68%					
PBT	198.03	151.38	-23.56%	609.65	746.10	22.38%				
<b>Net Profit</b>	<b>152.56</b>	<b>117.85</b>	<b>-22.75%</b>	<b>470.90</b>	<b>576.21</b>	<b>22.36%</b>	<b>581.74</b>	<b>620.21</b>	<b>99.1%</b>	<b>92.9%</b>
Net Margin	23.65%	20.19%		18.43%	22.28%					

Sources : Company, MNCS

*ARNA's lean manufacturing concept lead to gas consumption effectivity, bringing FY18-22 net profits to grow with a CAGR of +38.5% while revenue only +7.0% at the same time*

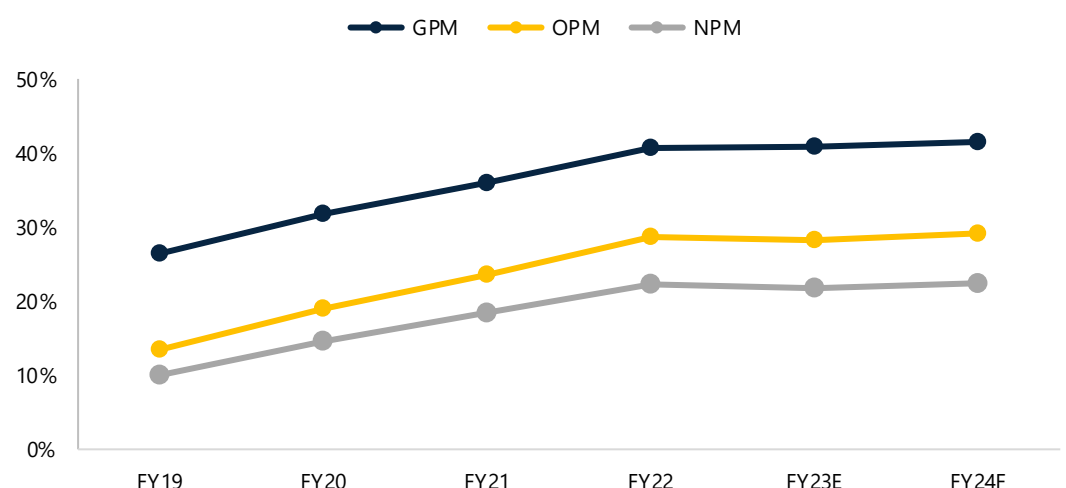
Exhibit 02. ARNA's Revenue, Operating Profit and Net Income



Sources : Company, MNCS

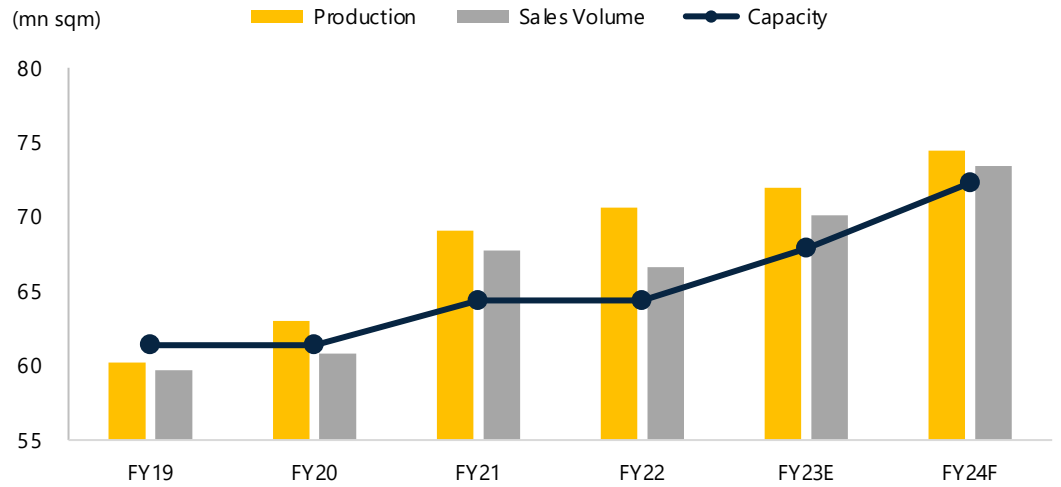
*We projected a conservative margin view as anticipating the body and logistic cost is likely to elevate ahead*

Exhibit 03. ARNA's Margin Seemed to Slightly Narrow Ahead



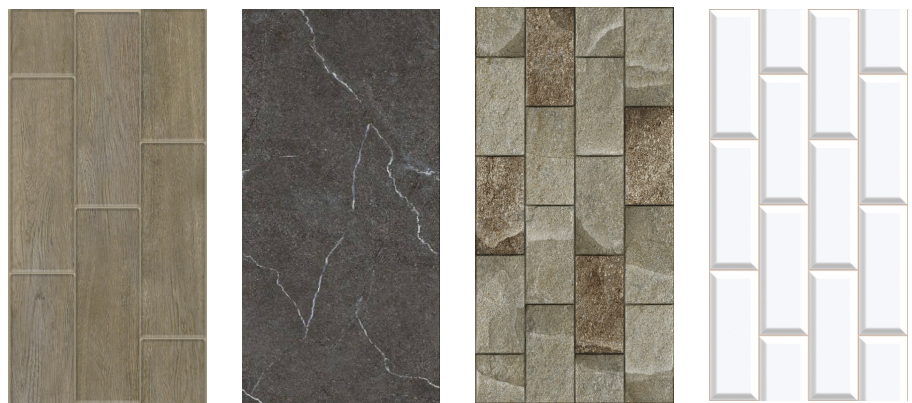
Sources : Company, MNCS

Exhibit 04. ARNA's Capacity will continue to Increased following Plant 5C & 4C is completed



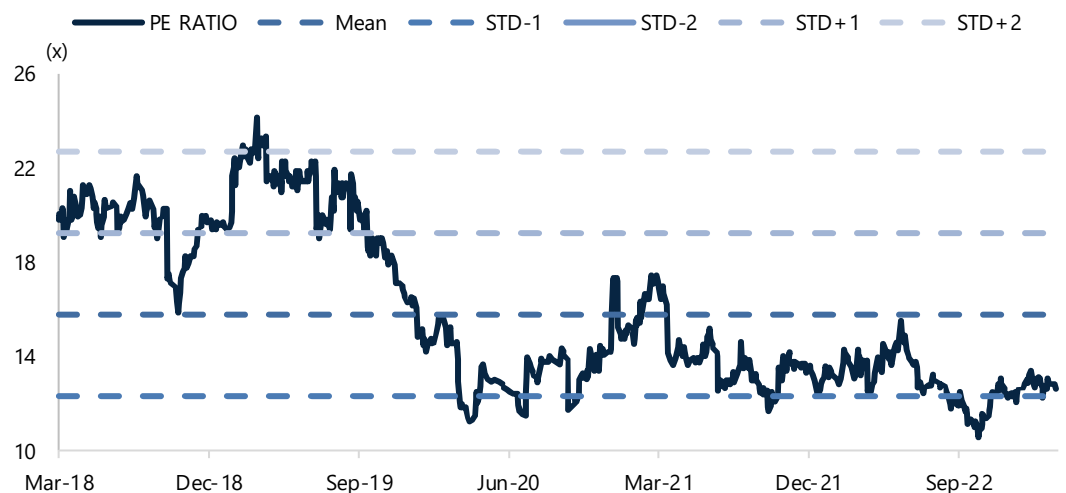
Sources : Company, MNCS

Exhibit 05. ARNA's new SKUs with 30x60cm size



Source : Company

Exhibit 06. ARNA's Currently Trading Near at -2 STD (5-Year Average) at 12.62x PE



Sources : Company, MNCS

Exhibit 07. Financial Summary

Income Statement						Balance Sheet					
in Billion IDR	FY20	FY21	FY22	FY23E	FY24F	in Billion IDR	FY20	FY21	FY22	FY23E	FY24F
<b>Revenue</b>	<b>2,211.74</b>	<b>2,554.88</b>	<b>2,586.67</b>	<b>2,892.87</b>	<b>3,136.82</b>	Cash & Equivalents	435.88	602.55	438.36	464.67	607.73
COGS	(1,508.74)	(1,635.75)	(1,533.95)	(1,711.17)	(1,835.20)	Trade Receivables	616.01	682.45	735.09	811.61	871.34
<b>Gross Profit</b>	<b>703.01</b>	<b>919.13</b>	<b>1,052.72</b>	<b>1,181.70</b>	<b>1,301.62</b>	Inventory	122.13	158.72	257.59	261.43	270.18
Selling Expense	(208.60)	(228.57)	(215.98)	(272.26)	(293.55)	Others Current Assets	9.15	7.22	9.18	9.92	10.50
G&A Expense	(78.44)	(94.32)	(94.43)	(97.42)	(99.57)	<b>Total Current Assets</b>	<b>1,183.16</b>	<b>1,450.95</b>	<b>1,440.22</b>	<b>1,547.63</b>	<b>1,759.76</b>
Other income (Expense)	4.18	6.48	(0.47)	5.33	5.83	Fixed Assets-net	767.22	766.15	945.34	1,136.68	1,309.82
<b>Operating Income</b>	<b>420.15</b>	<b>602.72</b>	<b>741.84</b>	<b>817.35</b>	<b>914.32</b>	Other Non-Current Assets	19.95	26.42	193.31	194.76	195.92
<b>EBITDA</b>	<b>524.92</b>	<b>703.73</b>	<b>835.34</b>	<b>922.67</b>	<b>1,037.30</b>	<b>Total Non-Current Assets</b>	<b>787.18</b>	<b>792.57</b>	<b>1,138.64</b>	<b>1,331.44</b>	<b>1,505.74</b>
Finance Cost (Income)	0.48	6.94	4.26	2.74	1.52	<b>TOTAL ASSETS</b>	<b>1,970.34</b>	<b>2,243.52</b>	<b>2,578.87</b>	<b>2,879.07</b>	<b>3,265.49</b>
<b>Profit Before Tax</b>	<b>420.63</b>	<b>609.65</b>	<b>746.10</b>	<b>820.09</b>	<b>915.84</b>	Trade Payables	295.37	283.64	312.19	304.21	321.16
Tax Income (Expense)	(94.38)	(133.67)	(164.54)	(184.02)	(205.51)	Short-term Debt	29.79	19.82	50.49	45.47	39.29
Minority Interest	(3.23)	(5.08)	(5.34)	(6.30)	(7.04)	Other Current Liabilities	277.41	300.98	323.22	347.46	366.77
<b>Net Income</b>	<b>323.01</b>	<b>470.90</b>	<b>576.21</b>	<b>629.77</b>	<b>703.29</b>	<b>Total Current Liabilities</b>	<b>602.57</b>	<b>604.45</b>	<b>685.89</b>	<b>697.13</b>	<b>727.22</b>
EPS (IDR)	44.00	64.14	78.49	85.78	95.80	Long-term Debt	-	-	-	-	-
						Other Long-term Liabilities	62.83	65.91	59.80	66.88	72.52
						<b>Total Non-Current Liabilities</b>	<b>62.83</b>	<b>65.91</b>	<b>59.80</b>	<b>66.88</b>	<b>72.52</b>
						<b>Total Equity</b>	<b>1,304.94</b>	<b>1,573.17</b>	<b>1,833.17</b>	<b>2,115.06</b>	<b>2,465.75</b>
						<b>TOTAL LIABILITY AND EQUITY</b>	<b>1,970.34</b>	<b>2,243.52</b>	<b>2,578.87</b>	<b>2,879.07</b>	<b>3,265.49</b>
Cash Flow						Ratios					
in Billion IDR	FY20	FY21	FY22	FY23E	FY24F		FY20	FY21	FY22	FY23E	FY24F
Net Income	323.01	470.90	576.21	629.77	703.29	Revenue Growth (%)	2.79	15.51	1.24	11.84	8.43
D&A	105.40	102.46	90.44	108.65	126.87	Operating Profit Growth (%)	45.14	43.45	23.08	10.18	11.86
Changes in WC	(55.32)	(114.77)	(122.96)	(88.34)	(51.53)	Net Profit Growth (%)	49.87	45.78	22.36	9.30	11.67
Others	(17.12)	26.03	27.03	23.50	18.72	Current Ratio (%)	196.35	240.05	233.52	245.16	264.19
<b>Operating CF</b>	<b>355.97</b>	<b>484.62</b>	<b>570.72</b>	<b>673.59</b>	<b>797.35</b>	Quick Ratio (%)	176.08	213.79	195.97	207.66	227.04
Capex	(72.86)	(101.39)	(269.63)	(300.00)	(300.00)	Receivable Days (x)	100.27	96.16	102.31	101.00	100.00
Others	3.57	(6.47)	(166.88)	(1.45)	(1.16)	Inventory Days (x)	29.14	34.93	60.45	55.00	53.00
<b>Investing CF</b>	<b>(69.29)</b>	<b>(107.86)</b>	<b>(436.51)</b>	<b>(301.45)</b>	<b>(301.16)</b>	Payable Days (x)	70.48	62.42	73.27	64.00	63.00
Dividend Paid	(161)	(218)	(327)	(332)	(366)	DER (x)	0.02	0.01	0.03	0.02	0.02
Net Change in Debt	(16.84)	(9.97)	30.66	(5.02)	(6.17)	Dividend Yield (%)	2.30	3.11	4.67	4.74	5.22
Equity Fund Raised	(24)	15	4	(16)	13	Gross Profit Margin (%)	31.79	35.98	40.70	40.85	41.49
Others	2.48	3.08	(6.11)	7.08	5.64	Operating Profit Margin (%)	19.00	23.59	28.68	28.25	29.15
<b>Financing CF</b>	<b>(199.78)</b>	<b>(210.09)</b>	<b>(298.40)</b>	<b>(345.83)</b>	<b>(353.13)</b>	EBITDA Margin (%)	23.73	27.54	32.29	31.89	33.07
Cash at Beginning	348.98	435.88	602.55	438.36	464.67	Net Income Margin (%)	14.60	18.43	22.28	21.77	22.42
<b>Cash at Ending</b>	<b>435.88</b>	<b>602.55</b>	<b>438.36</b>	<b>464.67</b>	<b>607.73</b>	EPS (IDR)	44.00	64.14	78.49	85.78	95.80
						BVPS (IDR)	177.75	214.29	249.70	288.10	335.87

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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