

BUY | TP : IDR1,250
ARNA Stock Price Data

Last Price	:	IDR915
52wk High	:	IDR1,120
52wk Low	:	IDR840
Share Out	:	7.3bn
Market Cap	:	IDR6.7tn

ARNA Stock Price Performance

1-Day	:	-0.5%
1-Week	:	-1.1%
1-Month	:	-1.6%
3-Month	:	-19.3%
Year-to-Date	:	-8.0%

Shareholders

Tandean Rustandy (P)	:	37.3%
PT Suprakreasi Eradinamika	:	14.2%
Public	:	47.5%
Treasury	:	1.0%

PT Arwana Citramulia Tbk (ARNA IJ)
Expect Some Outturn in 2H23 given Eased Headwinds
1Q23 Results: Another Lower YoY Basis

ARNA's 1Q23 revenue stood at IDR659.8bn (+13.1% QoQ/-11.3% YoY). This figure was below consensus/our estimates, achieving 22.1%/22.8% of FY23E's target, respectively. The increase in the QoQ basis was in-line with sales volume which climbed up +10.8% QoQ, while the lower YoY basis tumbled by -13.9%. Nevertheless, 1Q23's ASP stood at IDR39.7k (+2.0% QoQ/+3.0% YoY). Net profit in 1Q23 was at IDR145.3bn (+23.3% QoQ/-14.8% YoY), yet still below consensus/our estimates, reflecting 21.5%/23.1% of FY23E target, respectively, making its net profit margin to be 22.0% (+183 bps QoQ/-92 bps YoY). The squeeze in NPM was backed by a higher OPEX of +6.1% YoY.

Visible Recovery Sign across Industry

- The softening demand in the ceramic tile industry since 4Q22 continues into 1Q23, not only in ceramics but also across the entire building materials industry.
- This circumstance was exacerbated by the constant price rises, with an average weekly increase of +0.5%, resulting in a negative impact on purchasing power and leading customers to defer their purchases.
- Yet, we see that building material prices have begun to stabilize, reflected by **the slowing building material inflation in Apr-23** which stood at +2.9% YoY, following its peak in Oct-22 at +3.9% YoY ([exhibit 04](#)).
- Therefore, we expect ARNA's sales volume to rebound in 3Q22, driven by the addition of outlet coverage units by +348 (+1.0% YTD), coupled with new +365 SKUs. In terms of seasonality, ARNA's sales volume usually peaks in 3Q & 4Q, driven by: 1) post-festive Eid; 2) reduced public holidays; and 3) tender project realization.

Paving The Way for a Greater Market Share given Import Lessening

We noticed that ceramic import volume had a significant drop in 4M23 by -45.3% YoY, translating to 6.5k ton (vs 11.8k ton in 4M22), in-line with the weakening demand of the ceramic tile industry ([exhibit 05](#)). However, we see this could be an opportunity for ARNA as their main focus being high segments of ceramic tiles, specifically Homogeneous Tiles (HT) sized 60x60cm which are previously dominated by imported products. ARNA conducted its expansion through Plant 5C in 2Q23 with a capacity of 4.4mn sqm/year, bringing the total production capacity of HT 60x60cm to 7.4mn sqm/year in FY23E. We assess this as a plausibility for ARNA to seize greater market share following lessened import volume, with an estimated HT 60x60cm market volume at around 150mn sqm/year. Moreover, we believe that competition in ASP against import products will be minimal, thanks to the adjustment in certain industrial natural gas prices (HGBT) to USD6/MMBtu.

Valuation and Recommendation : Reiterate BUY with TP IDR1,250

We reiterate **BUY** for **ARNA IJ** with a lower TP of IDR1,250, but still implying PE/PBV of 15.2x/4.4x in FY23E. ARNA trades at an undemanding valuation of 12.6x PE, near at the level -2.0 STD PE (5-year average). Downsides risk included: 1) increased building material prices; 2) lower-than-anticipated sales volume; 3) higher-than-expected logistic cost.


Research Analyst

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Key Financial Highlight	FY20	FY21	FY22	FY23E	FY24F
Revenue (IDR Bn)	2,211.7	2,554.9	2,586.7	2,859.3	3,203.9
EBITDA (IDR Bn)	524.9	703.7	835.3	887.3	1,080.7
EBITDA Margin (%)	23.7	27.5	32.3	31.0	33.7
Net Income (IDR Bn)	323.0	470.9	576.2	602.6	736.3
Dividend Yield (%)	2.4	3.2	4.9	4.7	5.7
ROE (%)	24.8	29.9	31.4	28.7	29.8
PE (x)	20.8	14.3	11.7	11.1	9.1
PBV (x)	5.1	4.3	3.7	3.2	2.7

Sources : Company, MNCS

Exhibit 01. ARNA's 1Q23 results was below consensus/MNCS estimates

IDR Bn	4Q22	1Q22	1Q23	QoQ	YoY	FY23E Cons	FY23E MNCS	% Cons	% MNCS
Revenues	583.6	743.6	659.8	13.1%	-11.3%	2,986.7	2,892.9	22.1%	22.8%
COGS	(352.9)	(441.9)	(391.8)	11.0%	-11.3%				
Operating Profit	150.1	218.7	184.4	22.9%	-15.7%	855.4	817.4	21.6%	22.6%
Operating Profit Margin	25.7%	29.4%	27.9%						
Net Profit	117.9	170.6	145.3	23.3%	-14.8%	675.4	629.8	21.5%	23.1%
Net Margin	20.2%	22.9%	22.0%						

Sources : Company, Bloomberg, MNCS

Exhibit 02. We revised our projection in FY23E-FY24F

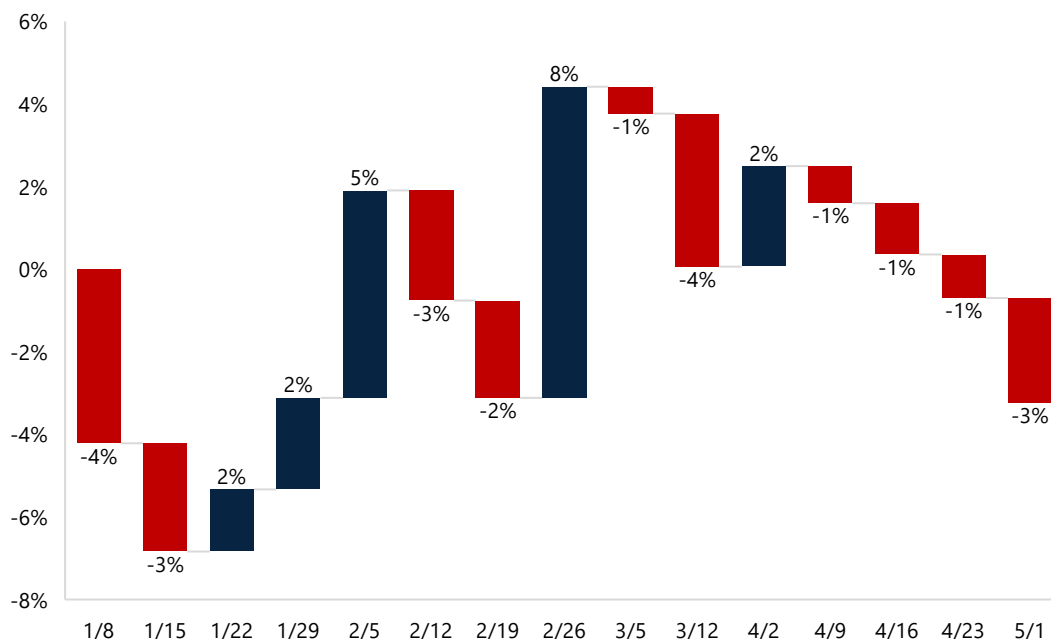
We slightly trimmed our FY23E figures, as we cut FY23E's sales volume estimates to 69.3mn sqm (vs 70.1mn sqm previously) following weak results in 1Q23

	FY23E			FY24F		
	Revised	Old	Change	Revised	Old	Change
Revenue (IDR Bn)	2,859.3	2,892.9	-1.2%	3,203.9	3,136.8	2.1%
Gross Profit (IDR Bn)	1,136.3	1,181.7	-3.8%	1,348.3	1,301.6	3.6%
Operating Profit (IDR Bn)	782.0	817.4	-4.3%	957.8	914.3	4.8%
Net Income (IDR Bn)	602.6	629.8	-4.3%	736.3	703.3	4.7%
GPM (%)	39.7	40.8	-11 bps	42.1	41.5	6 bps
OPM (%)	27.3	28.3	-10 bps	29.9	29.1	8 bps
NPM (%)	21.1	21.8	-7 bps	23.0	22.4	6 bps

Source : MNCS

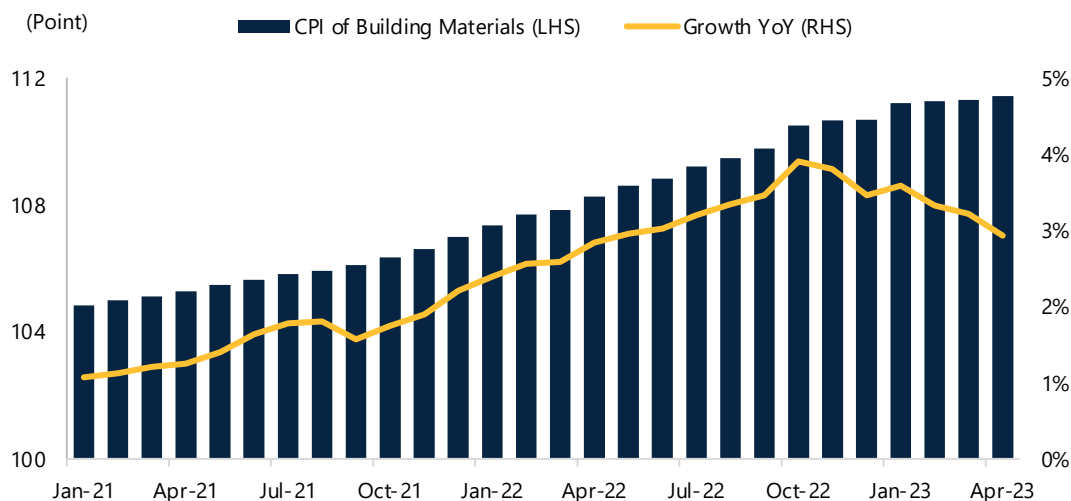
Exhibit 03. The average price increases of building materials included cement, nail, iron and steel in WoW basis

Based on our channel check, the average cement prices reach its peak in Mar-23 by +1.4% YTD, followed by nail +5.1% YT, iron concrete +1.9% YTD as well as steel +8.1% YTD



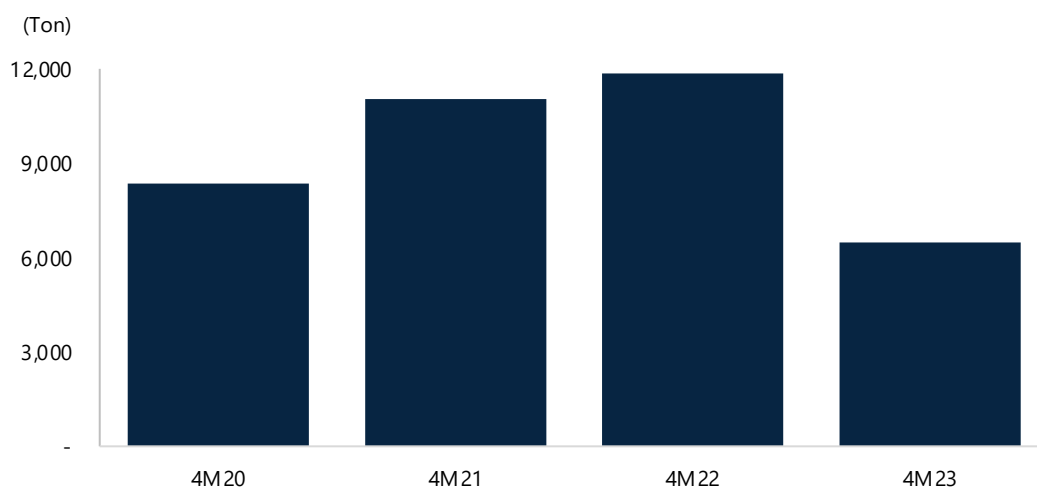
Sources : Ministry of Trade, MNCS

Exhibit 04. The inflation of building materials is downwarding



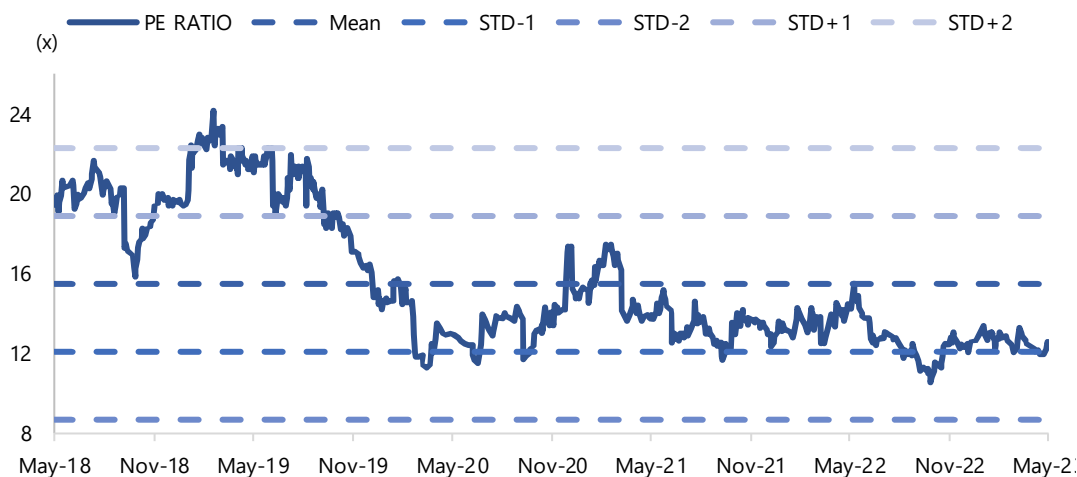
Sources : BPS, MNCS

Exhibit 05. The ceramic import volume dropped significantly -45.3% YoY in 4M23, lower than pandemic year



Sources : BPS, MNCS

Exhibit 06. ARNA's Currently Trading Near at -2 STD (5-Year Average) at 12.4x PE



Sources : Bloomberg, MNCS

Exhibit 07. Financial Projections

Income Statement					
in Billion IDR	FY20	FY21	FY22	FY23E	FY24F
Revenue	2,211.7	2,554.9	2,586.7	2,859.3	3,203.9
COGS	(1,508.7)	(1,635.8)	(1,533.9)	(1,723.0)	(1,855.5)
Gross Profit	703.0	919.1	1,052.7	1,136.3	1,348.3
Selling Expense	(208.6)	(228.6)	(216.0)	(262.1)	(297.8)
G&A Expense	(78.4)	(94.3)	(94.4)	(97.4)	(98.8)
Other income (Expense)	4.2	6.5	(0.5)	5.3	6.0
Operating Income	420.1	602.7	741.8	782.0	957.8
EBITDA	524.9	703.7	835.3	887.3	1,080.7
Finance Cost (Income)	0.5	6.9	4.3	2.7	1.1
Profit Before Tax	420.6	609.7	746.1	784.7	958.9
Tax Income (Expense)	(94.4)	(133.7)	(164.5)	(176.1)	(215.2)
Minority Interest	(3.2)	(5.1)	(5.3)	(6.0)	(7.4)
Net Income	323.0	470.9	576.2	602.6	736.3
EPS (IDR)	44.0	64.1	78.5	82.1	100.3

Cash Flow					
in Billion IDR	FY20	FY21	FY22	FY23E	FY24F
Net Income	323.0	470.9	576.2	602.6	736.3
D&A	105.4	102.5	90.4	108.7	126.9
Changes in WC	(55.3)	(114.8)	(123.0)	(78.6)	(84.5)
Others	(17.1)	26.0	27.0	20.9	26.4
Operating CF	356.0	484.6	570.7	653.6	805.2
Capex	(72.9)	(101.4)	(269.6)	(300.0)	(300.0)
Others	3.6	(6.5)	(166.9)	(1.3)	(1.6)
Investing CF	(69.3)	(107.9)	(436.5)	(301.3)	(301.6)
Dividend Paid	(161.1)	(218.1)	(327.2)	(317.7)	(383.0)
Net Change in Debt	(16.8)	(10.0)	30.7	(5.0)	(3.6)
Equity Fund Raised	(24.3)	14.9	4.2	(15.8)	13.3
Others	2.5	3.1	(6.1)	6.3	8.0
Financing CF	(199.8)	(210.1)	(298.4)	(332.3)	(365.4)
Cash at Beginning	349.0	435.9	602.6	438.4	458.4
Cash at Ending	435.9	602.6	438.4	458.4	596.5

Balance Sheet					
in Billion IDR	FY20	FY21	FY22	FY23E	FY24F
Cash & Equivalents	435.9	602.6	438.4	458.4	596.5
Trade Receivables	616.0	682.5	735.1	802.2	890.0
Inventory	122.1	158.7	257.6	263.2	278.3
Others Current Assets	9.1	7.2	9.2	9.8	10.7
Total Current Assets	1,183.2	1,451.0	1,440.2	1,533.6	1,775.5
Fixed Assets-net	767.2	766.1	945.3	1,136.7	1,309.8
Other Non-Current Assets	20.0	26.4	193.3	194.6	196.2
Total Non-Current Assets	787.2	792.6	1,138.6	1,331.3	1,506.1
TOTAL ASSETS	1,970.3	2,243.5	2,578.9	2,864.9	3,281.5
Trade Payables	295.4	283.6	312.2	306.3	324.7
Short-term Debt	29.8	19.8	50.5	45.5	41.9
Other Current Liabilities	277.4	301.0	323.2	344.8	372.1
Total Current Liabilities	602.6	604.4	685.9	696.6	738.7
Long-term Debt	-	-	-	-	-
Other Long-term Liabilities	62.8	65.9	59.8	66.1	74.1
Total Non-Current Liabilities	62.8	65.9	59.8	66.1	74.1
Total Equity	1,304.9	1,573.2	1,833.2	2,102.2	2,468.8
TOTAL LIABILITY AND EQUITY	1,970.3	2,243.5	2,578.9	2,864.9	3,281.5

Ratios					
	FY20	FY21	FY22	FY23E	FY24F
Revenue Growth (%)	2.8	15.5	1.2	10.5	12.1
Operating Profit Growth (%)	45.1	43.5	23.1	5.4	22.5
Net Profit Growth (%)	49.9	45.8	22.4	4.6	22.2
Current Ratio (%)	196.4	240.0	233.5	243.3	262.2
Quick Ratio (%)	176.1	213.8	196.0	205.6	224.5
Receivable Days (x)	100.3	96.2	102.3	101.0	100.0
Inventory Days (x)	29.1	34.9	60.5	55.0	54.0
Payable Days (x)	70.5	62.4	73.3	64.0	63.0
DER (x)	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	2.3	3.1	4.7	4.6	5.5
Gross Profit Margin (%)	31.8	36.0	40.7	39.7	42.1
Operating Profit Margin (%)	19.0	23.6	28.7	27.3	29.9
EBITDA Margin (%)	23.7	27.5	32.3	31.0	33.7
Net Income Margin (%)	14.6	18.4	22.3	21.1	23.0
EPS (IDR)	44.0	64.1	78.5	82.1	100.3
BVPS (IDR)	177.7	214.3	249.7	286.4	336.3

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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