



BUY

Target Price : IDR32,500

Stock Data

Current Price : IDR28,875
 52w Range H-L : 32,125-16,500
 Share Outstanding : 1.92bn
 Free Float : 23.78%
 Mkt Capitalization : IDR55.56tn

Major Shareholders

PT. Suryaduta Investasi (P) : 69.29%
 PT Suryamitra Kusuma : 6.26%
 Public : 24.45%



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PT Gudang Garam Tbk (GGRM IJ)

Cigarettes

De-Stressing as Higher Profitability Given Margins Improved

1Q23 Results: Pleasantly Surprised, Net Profit Above Expectation

- GGRM's revenue in 1Q23 was relatively flat (+1.5% YoY) at IDR29.7tn, or slightly below consensus/ours estimates, achieving 22.5%/22.8% of FY23E target. The revenue was supported by the increase in sales of all its segments, in which SKM grew +1.2% YoY followed by SKT +9.7% YoY.
- We see the increase in SKM sales as the main contributor (accounted for 90.1%), mainly owing to higher average retail prices based on our channel check which grew +11.4% YTD, thus boosting its blended ASP in 1Q23 by +11.4% YoY amidst presumed lower sales volume -13.3% YoY.
- GGRM delivered a higher GPM which climbed up to 14.7% (+5.8 ppt QoQ/+3.5 ppt YoY) along with a lower COGS (-2.5% YoY), mainly driven by the decrease in total excise (-14.3% YoY) coupled with milder production cost (-14.9% YoY), and is in line with our assumption given the lower production.
- Net profit came at IDR2.0tn, or soared +82.3% YoY, which exceeded consensus/ours estimates, implying 43.0%/31.1% of FY23E target and thus led the NPM to 6.6% (+4.4 ppt QoQ/+2.1 ppt YoY).

Competitive Pricing Increases Result in Margin Ballooning

- An aggressive lift in cigarette prices is effective in suppressing the weighted-average-excise-tax increase by 10% in FY23. We noticed Gudang Garam International'12 was a preferred brand, and has experienced a YTD price increase of +8.6%, or +17.2% compared to 3Q22.
- Along with the price increases, we take into account and compared the price differential between the total excise and its retail prices through PMK 191 2022, whereas the Gudang Garam International'12 margin widened to 33% (previously 31%) ([exhibit 03](#)).
- Meanwhile, we expect that the price increase in 2Q23 will keep the OPM above mid-single digits. Looking forward, we think that GGRM will cease rising its price in 3Q23 before readjusting its pricing in 4Q23.

Expect a Solid Volume Throughout Election Period

Although we assume that sales volume experienced a drop in 1Q23, which was shown by a decrease in production cost and excise tax components, we remain positive that sales volume could be solid at 82.6 billion sticks (vs 82.5 billion sticks in FY22), lifted by higher sales in the run-up to the country's elections in 4Q23. Albeit GGRM's flagship brand was dominated by competitors' SKM Full Flavor (FF) and SKM Medium Tar (MT) as it was sold at a premium of IDR1.0k-1.7k, we believe that competitors will soon adjust their prices, resulting in minimal competition in the SKM FF and SKM MT lineups.

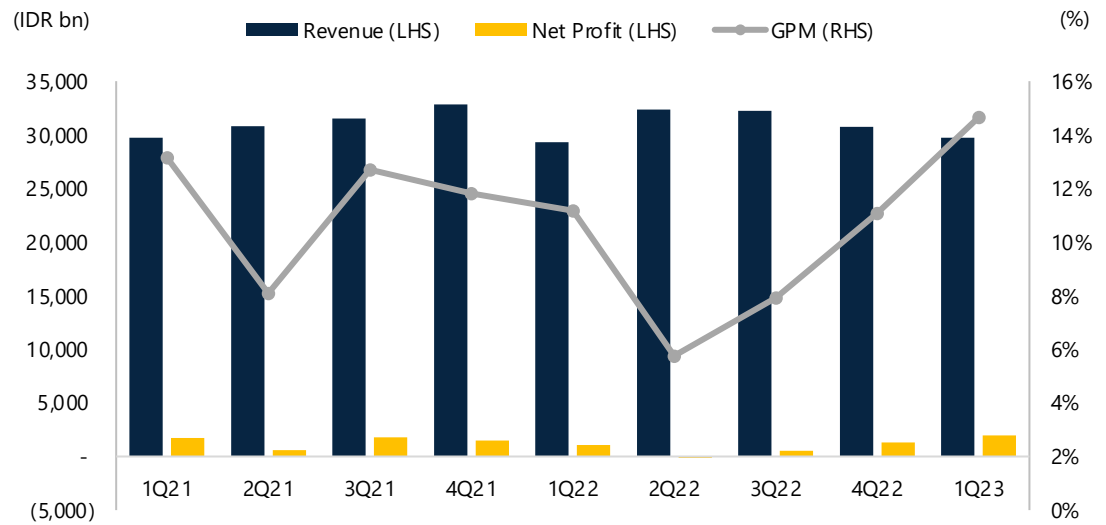
Valuation and Recommendation: BUY GGRM with a Target Price 32,500

We recommend **BUY** for **GGRM at a TP of IDR32,500**, implying PE/PBV of 9.9x/1.0x in FY23E. GGRM is currently trading above the 5 years mean of PE. We estimated that GGRM will deliver revenue/net income growth by +4.6% YoY/+127.0% YoY, respectively, in FY23E, mainly driven by a recovery in margins through price adjustments. Downside risks to our call include: 1) lower-than-expected sales volume; 2) slow-moving price adjustments; 3) muted by competitors favored by downtrading behaviour.

Key Financial Highlight	FY20	FY21	FY22	FY23E	FY24F
Revenue (IDR Bn)	114,477.3	124,881.3	124,682.7	130,437.6	137,200.3
EBITDA (IDR Bn)	12,593.5	9,949.0	6,600.4	11,600.5	12,592.7
EBITDA Margin (%)	11.0	8.0	5.3	8.9	9.2
Net Income (IDR Bn)	7,647.7	5,605.3	2,779.7	6,310.4	6,866.4
ROA (%)	9.8	6.2	3.1	7.0	7.3
ROE (%)	13.1	9.5	4.8	10.5	10.7
PE (x)	7.3	9.9	20.0	8.8	8.1
PBV (x)	0.9	0.9	1.0	0.9	0.9

Source: Company, MNCS

Exhibit 01. GGRM's Margin Continued to Improve as Price Increases



Sources : Company, MNCS

Exhibit 02. Gudang Garam International'12 Prices Experienced an Increase by 8.6% YTD

Company	Item	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	YTD % growth
RMBA	Dunhill Black'12	19,800	19,800	19,800	19,800	19,800	19,800	19,800	20,100	2%
Djarum	Djarum Super'16	29,000	28,000	29,000	29,000	31,000	32,500	32,500	34,600	19%
GGRM	Gudang Garam Int.'12	22,000	22,000	23,200	23,200	23,700	24,400	24,500	25,200	9%
HMSP	Sampoerna A Mild'16	28,500	28,500	29,500	29,500	30,600	32,000	32,000	32,200	9%
HMSP	Marlboro Red'20 (SE)	35,000	36,000	37,000	37,000	37,000	38,000	38,000	38,200	3%
WIIM	Diplomat Evo'16	19,500	19,500	19,500	19,500	20,500	21,500	21,500	22,800	17%
Djarum	Djarum Super'12	N/A	22,000	22,500	22,500	23,700	24,500	24,500	24,900	11%
HMSP	Sampoerna A Mild'12	N/A	22,500	23,000	23,000	22,900	24,600	24,600	24,800	8%

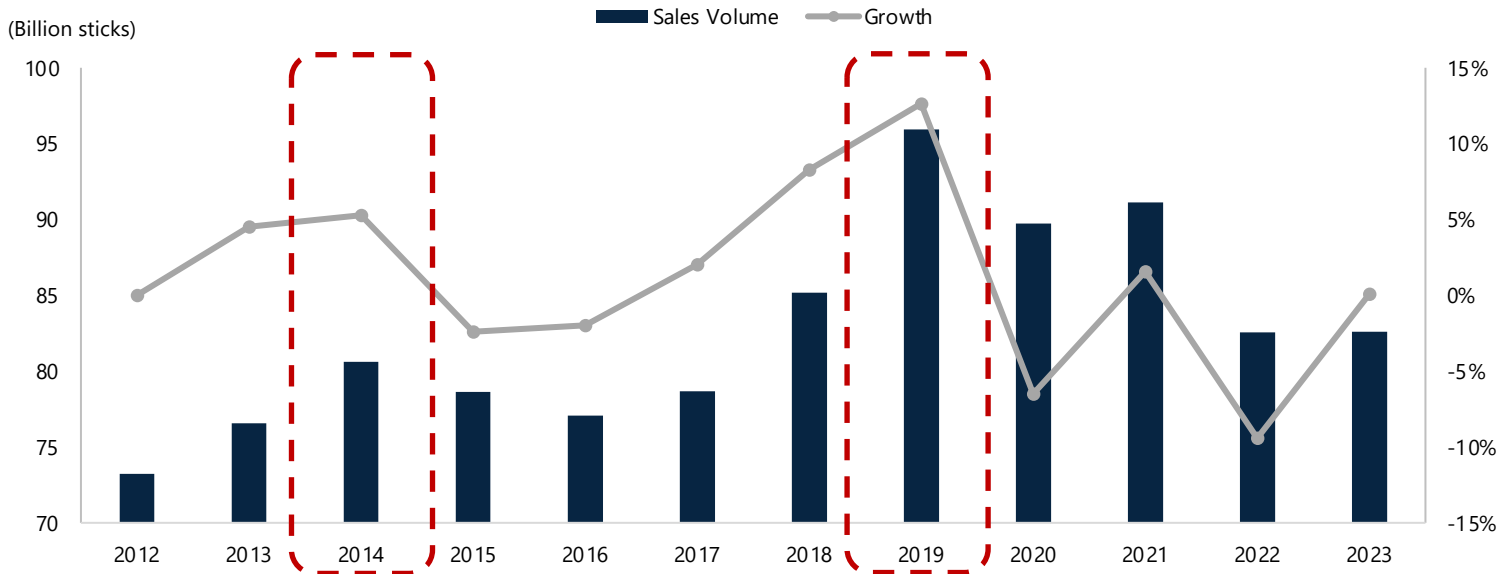
Source : MNCS

Exhibit 03. Gudang Garam International'12 Margins is Shown to Increase as Price Jumped Significantly to Offset the Excise Tax Soar

Cigarette	HJE	Excise	HJE per pack	Excise	PDRD 10%	PPn 9.9%	Total Excise	Price	diff	Margin	Increase
FY23	PMK 191 22							Apr-23			
Gudang Garam Int.'12	2,055	1,101	24,660	13,212	1,321	2,441	16,975	25,200	8,225	33%	22%
FY22	PMK 109 22							Sep-22			
Gudang Garam Int.'12	1,905	985	22,860	11,820	1,182	2,263	15,265	22,000	6,735	31%	

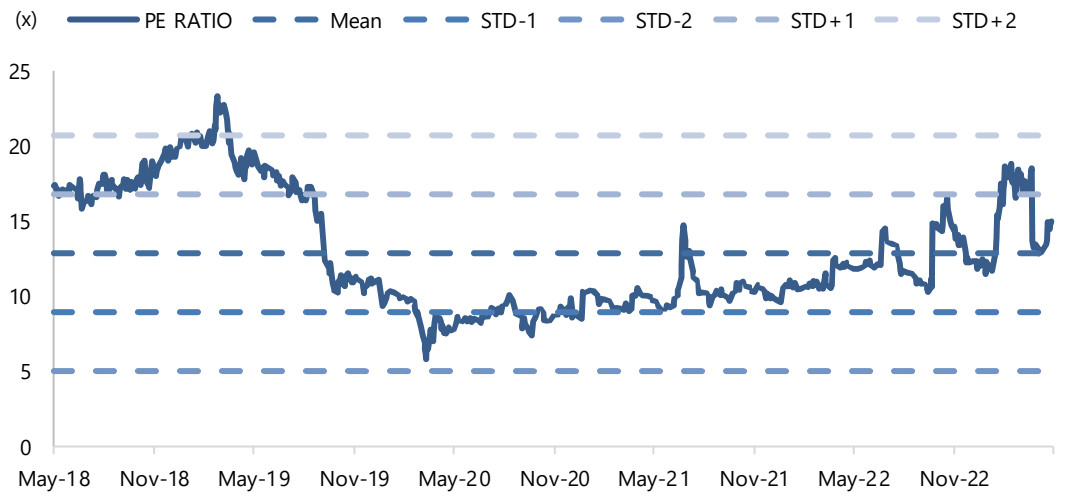
Source : MNCS

Exhibit 04. GGRM's Sales Volume Usually Peak During Period Election



Sources : Company, MNCS

Exhibit 05. GGRM is currently trading above the 5 years mean of 15.15x PE



Sources : Bloomberg, MNCS

Exhibit 06. Financial Summary

Income Statement						Balance Sheet					
in Billion IDR	FY20	FY21	FY22	FY23E	FY24F	in Billion IDR	FY20	FY21	FY22	FY23E	FY24F
Revenue	114,477.3	124,881.3	124,682.7	130,437.6	137,200.3	Cash & Equivalents	4,774.3	4,169.7	4,407.0	4,083.8	4,361.1
COGS	(97,089.1)	(110,608.7)	(113,587.1)	(113,495.1)	(118,462.9)	Trade Receivables	2,556.1	2,773.9	2,181.5	2,029.0	2,160.9
Gross Profit	17,388.2	14,272.6	11,095.6	16,942.5	18,737.4	Inventory	39,894.5	47,456.2	47,639.9	46,343.8	48,767.2
Selling Expense	(4,221.8)	(4,266.7)	(4,252.9)	(5,445.9)	(6,537.3)	Others Current Assets	2,313.0	4,912.7	1,216.7	2,946.6	2,788.3
G&A Expense	(3,359.7)	(2,893.2)	(3,072.1)	(3,137.7)	(3,161.6)	Total Current Assets	49,537.9	59,312.6	55,445.1	55,403.3	58,077.6
Other income (Expense)	239.1	249.1	138.3	219.6	230.5	Fixed Assets-net	27,605.0	29,780.1	32,426.4	34,230.6	35,311.0
Operating Income	10,045.9	7,361.8	3,908.9	8,578.5	9,269.0	Other Non-Current Assets	1,048.4	871.7	691.1	722.9	760.4
EBITDA	12,593.5	9,949.0	6,600.4	11,600.5	12,592.7	Total Non-Current Assets	28,653.5	30,651.8	33,117.5	34,953.5	36,071.4
Finance Cost (Income)	(382.7)	(74.9)	(262.4)	(300.4)	(261.5)	TOTAL ASSETS	78,191.4	89,964.4	88,562.6	90,356.8	94,149.0
Profit Before Tax	9,663.1	7,286.8	3,646.5	8,278.1	9,007.5	Trade Payables	1,123.7	1,002.2	1,309.0	1,875.8	2,188.3
Tax Income (Expense)	(2,015.4)	(1,681.5)	(866.8)	(1,967.7)	(2,141.1)	Short-term Debt	6,029.2	9,980.3	10,071.1	9,217.9	8,113.6
Minority Interest	(0.0)	(0.0)	(0.0)	-	-	Other Current Liabilities	9,857.1	17,386.7	17,745.0	17,781.3	17,824.0
Net Income	7,647.7	5,605.3	2,779.7	6,310.4	6,866.4	Total Current Liabilities	17,010.0	28,369.3	29,125.0	28,875.0	28,125.9
EPS (IDR)	3,974.7	2,913.2	1,444.7	3,279.7	3,568.7	Long-term Debt	156.7	122.7	65.4	113.3	99.7
						Other Long-term Liabilities	2,502.3	2,184.1	1,516.3	1,531.4	1,549.2
						Total LT-Liabilities	2,658.9	2,306.8	1,581.6	1,644.7	1,648.9
						Total Equity	58,522.5	59,288.3	57,856.0	59,837.1	64,374.3
						TOTAL LIABILITY AND EQUITY	78,191.4	89,964.4	88,562.6	90,356.8	94,149.0

Cash Flow						Ratios					
in Billion IDR	FY20	FY21	FY22	FY23E	FY24F		FY20	FY21	FY22	FY23E	FY24F
Net Income	7,647.7	5,605.3	2,779.7	6,310.4	6,866.4	Revenue Growth (%)	3.6	9.1	(0.2)	4.6	5.2
D&A	2,547.6	2,587.2	2,691.5	3,022.0	3,323.7	Operating Profit Growth (%)	(33.4)	(26.7)	(46.9)	119.5	8.0
Changes in WC	2,098.8	(7,900.9)	715.4	2,015.4	(2,242.9)	Net Profit Growth (%)	(29.7)	(26.7)	(50.4)	127.0	8.8
Others	4,549.2	5,093.0	4,171.4	(1,693.6)	201.0	Current Ratio (%)	291.2	209.1	190.4	191.9	206.5
Operating CF	16,843.4	5,384.7	10,358.1	9,654.2	8,148.2	Quick Ratio (%)	56.7	41.8	26.8	31.4	33.1
Capex	(4,778.7)	(4,762.3)	(5,337.8)	(4,826.2)	(4,404.1)	Receivable Days (x)	8.0	8.0	6.3	5.6	5.7
Others	143.7	176.8	180.6	(31.9)	(37.5)	Inventory Days (x)	147.9	154.5	151.0	147.0	148.2
Investing CF	(4,635.0)	(4,585.5)	(5,157.2)	(4,858.1)	(4,441.6)	Payable Days (x)	4.2	3.3	4.1	6.0	6.7
Dividend Paid	-	(5,002.6)	(4,329.2)	(4,329.2)	(2,329.2)	Net Gearing Ratio (x)	0.0	0.1	0.1	0.1	0.1
Net Change in Debt	(11,227.2)	3,917.1	33.5	(805.2)	(1,117.9)	DER (x)	0.1	0.2	0.2	0.2	0.1
Equity Fund Raised	0.0	0.0	0.0	(0.1)	-	Dividend Yield (%)	-	9.0	7.8	7.8	4.2
Others	221.2	(318.1)	(667.9)	15.1	17.8	Gross Profit Margin (%)	15.2	11.4	8.9	13.0	13.7
Financing CF	(11,006.0)	(1,403.7)	(4,963.6)	(5,119.4)	(3,429.3)	Operating Profit Margin (%)	8.8	5.9	3.1	6.6	6.8
Cash at Beginning	3,571.9	4,774.3	4,169.7	4,407.0	4,083.8	EBITDA Margin (%)	11.0	8.0	5.3	8.9	9.2
Cash at Ending	4,774.3	4,169.7	4,407.0	4,083.8	4,361.1	Net Income Margin (%)	6.7	4.5	2.2	4.8	5.0
						BVPS (IDR)	30,415.7	30,813.7	30,069.3	31,098.9	33,457.0

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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