

BUY | TP : IDR900
ARNA Stock Price Data

Last Price	:	IDR675
52wk High	:	IDR1,080
52wk Low	:	IDR650
Share Out	:	7.3bn
Market Cap	:	IDR5.0tn

ARNA Stock Price Performance

1-Day	:	-0.8%
1-Week	:	-6.4%
1-Month	:	-14.9%
3-Month	:	-29.2%
Year-to-Date	:	-34.2%

Shareholders

Tandean Rustandy (P)	:	37.3%
PT Suprakreasi Eradinamika	:	14.4%
Public	:	47.3%
Treasury	:	1.0%

PT Arwana Citramulia Tbk (ARNA IJ)
A Rough Year but Buyback Initiation Provides Allure
Ceramic industry shows promising recovery

In 3Q23, ARNA's sales volume witnessed a +14.5% QoQ increase, reaching 15.6mn sqm (vs 13.7mn sqm in 2Q23). This increase in-line with our expectations, as moderating construction material prices have aided in the recovery of purchasing power. It is worth noting that the wholesale price indices of construction materials for residential and non-residential buildings in Sep-23 decelerated to +1.1% YoY, following its peak of +5.5% in Sep-22 ([exhibit 03](#)). Furthermore, the inflation rate for building materials hit its lowest level in 23 consecutive months in Sep-23 at +0.1% YoY. Looking ahead, we anticipate that the sustained recovery of consumer purchasing power will serve as a catalyst for sales volume. We believe that the realization of construction projects, following seasonal trends in 4Q, has the potential to boost sales volume. Moreover, the political year in FY24F, along with the festive season of Idul Fitri, will uphold consumer purchasing power through disbursements, encouraging consumers to undertake home renovations.

A new plant to bolster market share

We have observed that ceramic import volumes have decreased by -31.5% YoY in 9M23, likely due to declining purchasing power. However, we see that ARNA can capitalize on this trend to increase market penetration. We expect that the commissioning of the new plant (4C) in FY24F will raise the ceramic capacity in the high segment to 11.4mn sqm/year, up from the previous 7.4mn sqm/year. With the market size for high segment 60x60cm ceramics at approx 150mn sqm/year. ARNA has the potential to capture a market share of about 8%. Additionally, we believe that sales of high segment ceramics with thicker margins will act as a buffer to profitability, especially with the adjustment of gas prices to USD6.2/MMBtu in FY24F (PMK No.91/2023), as opposed to the previous USD5.9/MMBtu.

Buyback programme as a catalyst for shares; balance sheet to remain solid

We expected that ARNA's balance sheet will remain strong despite the buyback program as well as the expansion of Plant 4C and 6 (capex : IDR700bn). It is worth mentioning that, the avg. 5Y working capital reached IDR621.5bn. ARNA shares yielded -32% YTD, mainly owing to disappointing performance throughout FY23E, in our view. Hence, the management intends to execute an 18-months buyback program extending to FY25F with a max. allocation of IDR150.0bn. The management asserted that the fair price is at a 15x PE, based on the historical 10Y. However, specific details, such as the maximum share price, are yet to be disclosed. Assuming a ceteris paribus scenario of the buyback program in FY20, the share absorption projection spans between 146.5mn - 172.8mn shares, representing 2.0% - 2.4% of the total out. shares (free float: 47.3%). We also projected the balance sheet to remain solid during the buyback with a disciplined DER of 0.1x going forward. Furthermore, we assess the buyback program as a reflection of the undervalued stock price, potentially serving as a positive catalyst for the shares. Interestingly, the previous buyback periods (FY15, FY18, FY20) have yielded positive returns ([exhibit 04](#)).

Earnings figure missed the estimates

ARNA booked a revenue of IDR616.2bn in 3Q23 (+8.9% QoQ/-4.5% YoY). This led to a total revenue of IDR1.8tn in 9M23, or grew by +8.1% YoY. These figures were below ours/cons estimates, reflecting 64.4%/61.7% of FY23E target, respectively. The drop in revenue is attributed to weakened demand in the domestic ceramic industry since 4Q22, which affected sales volume. Meanwhile, net profit for 3Q23 stood at IDR109.1bn (+11.0% QoQ/-28.5% YoY). This translated into 9M23's net profit of IDR352.7bn, or slipped -23.1% YoY. These figures were also below ours/cons estimates, with a run rate of 58.5%/52.5% of FY23E target, respectively. Furthermore, the NPM for 9M23 fell by 373 bps YoY to 19.1% (vs 22.9% in 9M22). The lower-than-anticipated bottom line is attributed to both decreased revenue and a higher-than-expected OPEX (+8.2% YoY). The increasing OPEX was due to the expansion of the new plant and rising freight costs.

Revising our projection in FY23E/FY24F

We updated our figures in FY23E/FY24F due to headwinds in the building materials industry that have persisted since the end of last year, and are likely to continue ahead. Meanwhile, we continue to monitor the moderation in building materials production that began in early 3Q23. We revised revenue projections to IDR2.5tn/IDR2.6tn for FY23E/FY24F, primarily due to a decrease in sales volume projections to 60.9mn sqm/65.8mn sqm in FY23E/FY24F. On the bottom line, we revised net profit estimates to IDR443.5bn/IDR485.7bn for FY23E/FY24F, on the back of higher assumption freight cost and salaries given the plant expansions.

Recommendation: BUY ARNA with a Target Price IDR900

We recommend **BUY** for ARNA IJ with a lower TP of **IDR900** from IDR1,250 previously, implying PE/PBV of 14.9x/3.2x in FY23E and 13.6x/2.9x in FY24F. Despite its disappointing performance, ARNA shares are currently trading at an attractive price at around -1.4x STD PE ratio (5-year-average) of 10.1x. Downside risks include: 1) lower ASP; 2) lower-than-anticipated sales volume; 3) higher-than-expected logistic costs.

Key Financial Highlight	FY20	FY21	FY22	FY23E	FY24F
Revenue (IDR Bn)	2,211.7	2,554.9	2,586.7	2,462.5	2,612.8
EBITDA (IDR Bn)	524.9	703.7	835.3	685.1	759.5
EBITDA Margin (%)	23.7	27.5	32.3	27.8	29.1
Net Income (IDR Bn)	323.0	470.9	576.2	444.2	484.7
Dividend Yield (%)	3.3	4.4	6.6	8.1	5.1
ROE (%)	24.8	29.9	31.4	23.8	23.1
PE (x)	15.3	10.5	8.6	11.2	10.2
PBV (x)	3.8	3.1	2.7	2.7	2.4

Sources : Company, MNCS


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Exhibit 01. ARNA's 9M23 results was below consensus/MNCS estimates

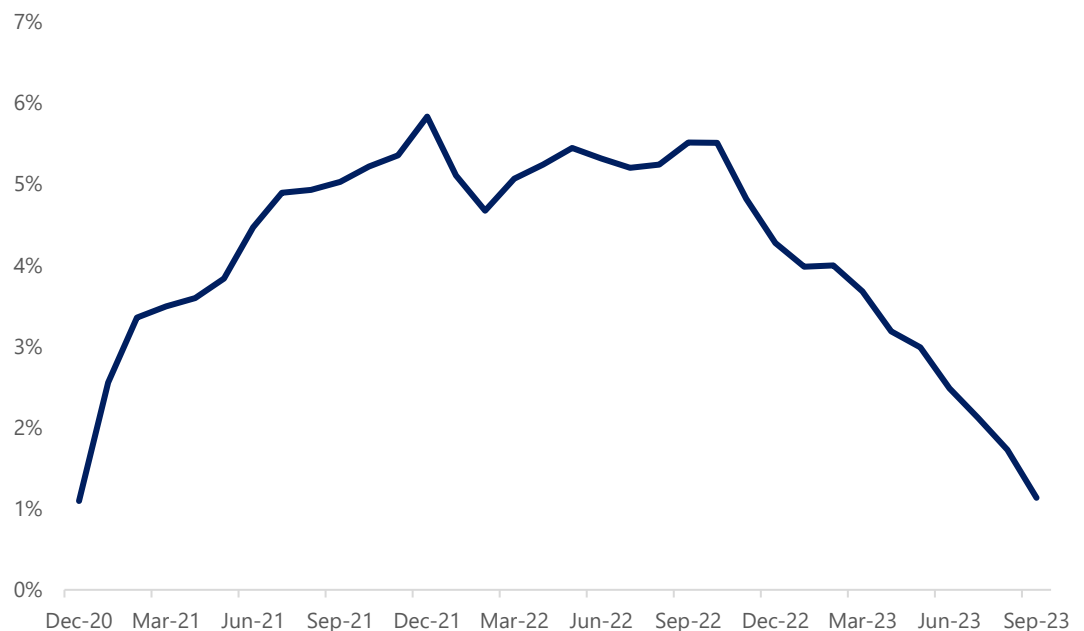
IDR Bn	2Q23	3Q23	QoQ	9M22	9M23	YoY	FY23E Cons	FY23E MNCS	% Cons	% MNCS
Revenues	565.6	616.2	8.9%	2,003.1	1,841.7	-8.1%	2,986.7	2,859.3	61.7%	64.4%
COGS	363.2	393.9	8.5%	1,181.0	1,148.9	-2.7%				
Operating Profit	129.4	138.1	6.7%	591.8	451.9	-23.6%	855.4	782.0	52.8%	57.8%
Operating Profit Margin	22.9%	22.4%		29.5%	24.5%					
PBT	128.9	138.5	7.4%	594.7	455.3	-23.4%				
Net Profit	98.3	109.1	11.0%	458.4	352.7	-23.1%	675.4	602.6	52.2%	58.5%
Net Margin	17.4%	17.7%		22.9%	19.1%					

Sources : Company, Bloomberg, MNCS

Exhibit 02. We revised our projection in FY23E-FY24F

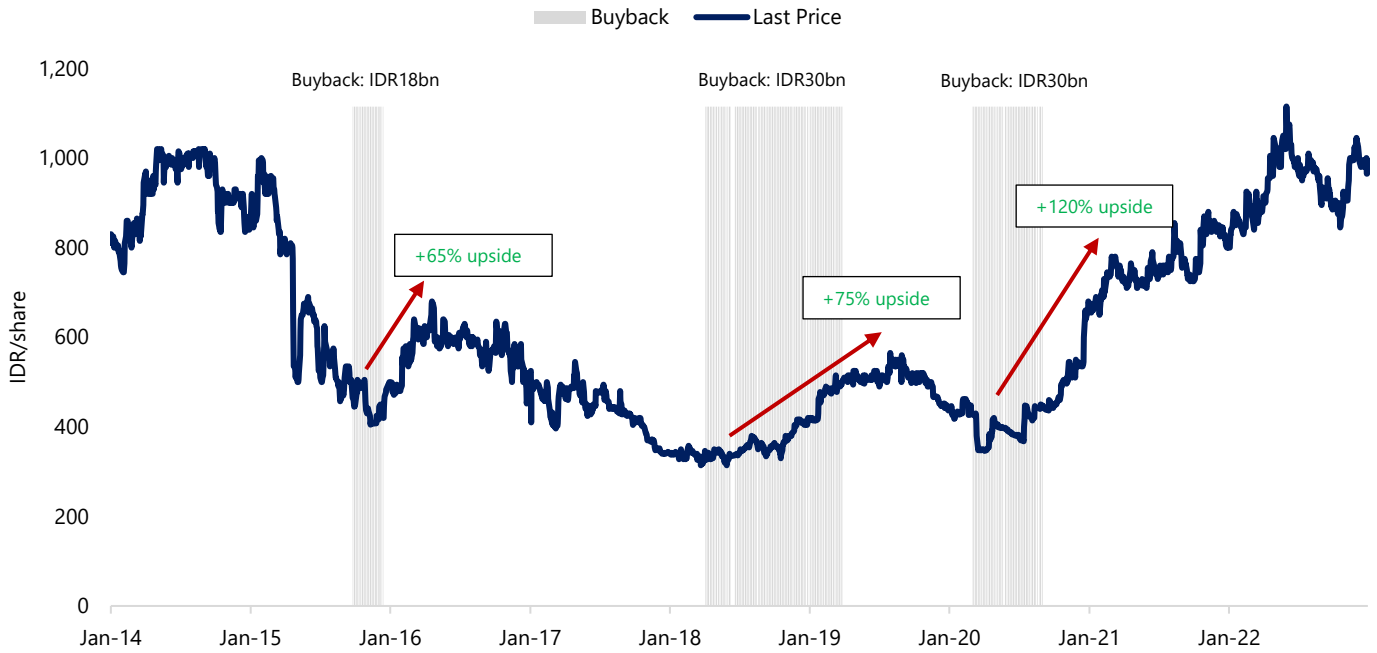
	FY23E			FY24F		
	Revised	Old	Change	Revised	Old	Change
Revenue (IDR Bn)	2,462.5	2,859.3	-13.9%	2,612.8	3,203.9	-18.4%
Gross Profit (IDR Bn)	911.9	1,136.3	-19.7%	994.2	1,348.3	-26.3%
Operating Profit (IDR Bn)	579.8	782.0	-25.9%	636.5	957.8	-33.5%
Net Income (IDR Bn)	444.2	602.6	-26.3%	484.7	736.3	-34.2%
GPM (%)	37.0	39.7	-271 bps	38.0	42.1	-403 bps
OPM (%)	23.5	27.3	-380 bps	24.4	29.9	-553 bps
NPM (%)	18.0	21.1	-304 bps	18.6	23.0	-443 bps

Source : MNCS

Exhibit 03. Wholesale price indices of construction materials for residential and non residential buildings continued to decline following its peak in FY22


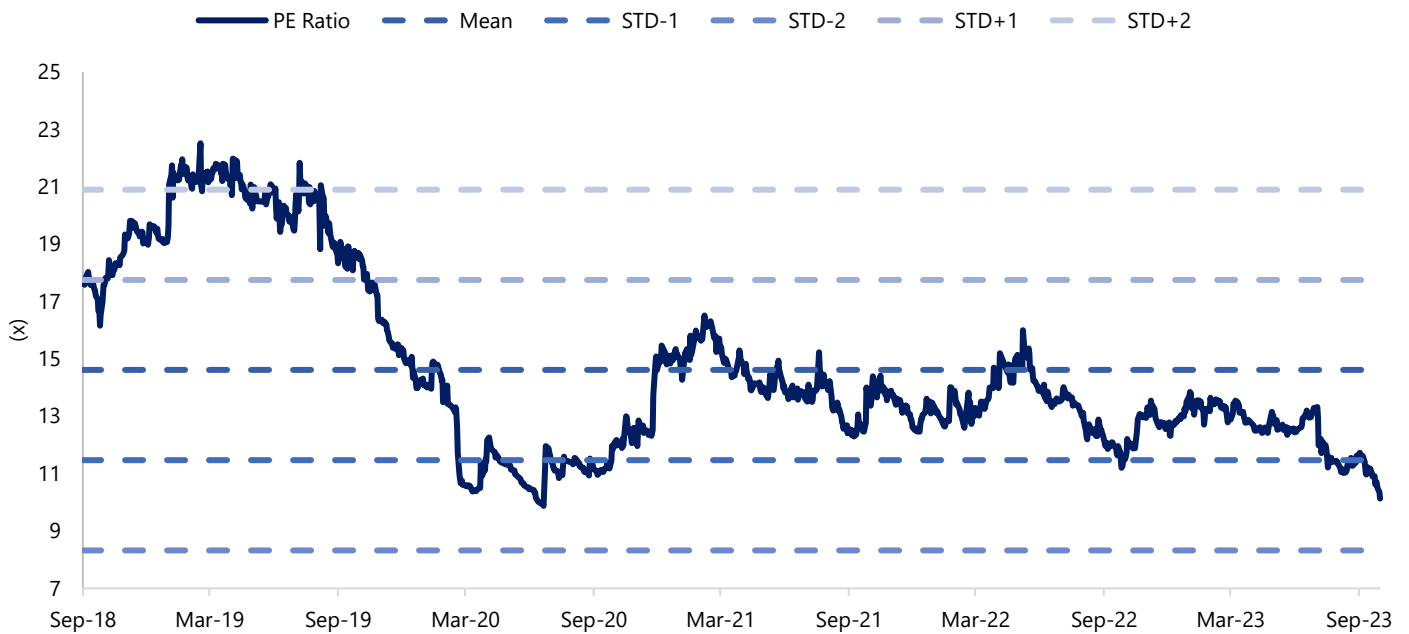
Sources : BPS, MNCS

Exhibit 04. ARNA's buyback program represents an undervalued stock price and has yielded a positive return in previous periods



Sources : Bloomberg, IDX, MNCS

Exhibit 05. ARNA currently trading at -1.4 STD (5-year-average) at 10.1x PE



Sources : Bloomberg, MNCS

Exhibit 06. Financial Projections

Income Statement					
in Billion IDR	FY20	FY21	FY22	FY23E	FY24F
Revenue	2,211.7	2,554.9	2,586.7	2,462.5	2,612.8
COGS	(1,508.7)	(1,635.8)	(1,533.9)	(1,550.7)	(1,618.7)
Gross Profit	703.0	919.1	1,052.7	911.9	994.2
Selling Expense	(208.6)	(228.6)	(216.0)	(245.0)	(271.6)
G&A Expense	(78.4)	(94.3)	(94.4)	(91.6)	(90.9)
Other income (Expense)	4.2	6.5	(0.5)	4.5	4.9
Operating Income	420.1	602.7	741.8	579.8	636.5
EBITDA	524.9	703.7	835.3	685.1	759.5
Finance Cost (Income)	0.5	6.9	4.3	(1.3)	(5.4)
Profit Before Tax	420.6	609.7	746.1	578.5	631.2
Tax Income (Expense)	(94.4)	(133.7)	(164.5)	(129.8)	(141.6)
Minority Interest	(3.2)	(5.1)	(5.3)	(4.4)	(4.9)
Net Income	323.0	470.9	576.2	444.2	484.7
EPS (IDR)	44.0	64.1	78.5	60.5	66.0

Cash Flow					
in Billion IDR	FY20	FY21	FY22	FY23E	FY24F
Net Income	323.0	470.9	576.2	444.2	484.7
D&A	107.8	104.4	96.5	108.7	126.9
Changes in WC	(55.3)	(114.8)	(123.0)	(45.2)	(30.0)
Others	(19.5)	24.1	21.0	(9.5)	11.5
Operating CF	356.0	484.6	570.7	498.2	593.1
Capex	(75.4)	(103.5)	(281.3)	(300.0)	(300.0)
Others	6.1	(4.4)	(155.2)	0.6	(0.7)
Investing CF	(69.3)	(107.9)	(436.5)	(299.4)	(300.7)
Dividend Paid	(161.1)	(218.1)	(327.2)	(399.9)	(252.1)
Net Change in Debt	(16.8)	(10.0)	30.7	59.9	(32.0)
Equity Fund Raised	(26.6)	11.0	-	(8.0)	-
Others	4.8	7.0	(1.9)	(2.9)	3.5
Financing CF	(199.8)	(210.1)	(298.4)	(350.9)	(280.7)
Cash at Beginning	349.0	435.9	602.6	438.4	286.3
Cash at Ending	435.9	602.6	438.4	286.3	298.0

Balance Sheet					
in Billion IDR	FY20	FY21	FY22	FY23E	FY24F
Cash & Equivalents	435.9	602.6	438.4	286.3	298.0
Trade Receivables	616.0	682.5	735.1	762.7	798.4
Inventory	122.1	158.7	257.6	292.9	308.0
Others Current Assets	9.1	7.2	9.2	8.9	9.2
Total Current Assets	1,183.2	1,451.0	1,440.2	1,350.8	1,413.6
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	192.7	193.4
Total Non-Current Assets	787.2	792.6	1,138.6	1,329.4	1,503.2
TOTAL ASSETS	1,970.3	2,243.5	2,578.9	2,680.2	2,916.8
Trade Payables	295.4	283.6	312.2	329.9	350.7
Short-term Debt	29.8	19.8	50.5	54.2	38.5
Other Current Liabilities	277.4	301.0	323.2	313.4	325.3
Total Current Liabilities	602.6	604.4	685.9	697.5	714.5
Long-term Debt	-	-	-	56.2	39.9
Other Long-term Liabilities	62.8	65.9	59.8	56.9	60.4
Total Non-Current Liabilities	62.8	65.9	59.8	113.1	100.3
Total Equity	1,304.9	1,573.2	1,833.2	1,869.5	2,102.1
TOTAL LIABILITY AND EQUITY	1,970.3	2,243.5	2,578.9	2,680.2	2,916.8

Ratios					
	FY20	FY21	FY22	FY23E	FY24F
Revenue Growth (%)	2.8	15.5	1.2	(4.8)	6.1
Operating Profit Growth (%)	45.1	43.5	23.1	(21.8)	9.8
Net Profit Growth (%)	49.9	45.8	22.4	(22.9)	9.1
Current Ratio (%)	196.4	240.0	233.5	216.8	220.5
Quick Ratio (%)	176.1	213.8	196.0	174.8	177.3
Receivable Days (x)	100.3	96.2	102.3	111.5	110.0
Inventory Days (x)	29.1	34.9	60.5	68.0	68.5
Payable Days (x)	70.5	62.4	73.3	76.6	78.0
DER (x)	0.0	0.0	0.0	0.1	0.0
Dividend Yield (%)	3.3	4.4	6.6	8.1	5.1
Gross Profit Margin (%)	31.8	36.0	40.7	37.0	38.0
Operating Profit Margin (%)	19.0	23.6	28.7	23.5	24.4
EBITDA Margin (%)	23.7	27.5	32.3	27.8	29.1
Net Income Margin (%)	14.6	18.4	22.3	18.0	18.6
EPS (IDR)	44.0	64.1	78.5	60.5	66.0
BVPS (IDR)	177.7	214.3	249.7	254.7	286.3

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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