

BUY | TP : IDR31,000
Stock Price Data

Last Price	:	IDR21,450
52wk High	:	IDR30,050
52wk Low	:	IDR16,500
Share Out	:	1.9bn
Market Cap	:	IDR41.3tn

Stock Price Performance

1-Day	:	-0.5%
1-Week	:	-1.6%
1-Month	:	-19.5%
3-Month	:	-23.8%
Year-to-Date	:	+19.2%

Shareholders

PT Suryaduta Investama (P)	:	69.3%
PT Suryamitra Kusuma	:	6.3%
Public	:	24.4%

PT Gudang Garam Tbk (GGRM IJ)
Miss Earnings but Prospect Remain Intact
9M23; below our estimates, SKT continued to outplay

In 3Q23, GGRM recorded a revenue of IDR25.9tn, or relatively flat at -0.9% QoQ, but down by -19.7% YoY. This resulted in 9M23 revenue of IDR81.7tn, or slipped -13.0% YoY (vs IDR93.9tn in 9M22). These figures fell below our/cons estimates, reflecting 62.7%/65.0% of the FY23E target, respectively. Quarterly, SKM segment (accounting for 89.4%) decreased by -2.4% QoQ/-21.4% YoY, while SKT segment grew significantly by +15.0% QoQ/+4.4% YoY. Annually, the SKM segment (accounting for 90.4%) decreased by -14.1% YoY, while SKT went up +5.1% YoY. On the bottom-line, 3Q23 net profit accumulated to IDR1.2tn, down -11.8% QoQ but up +115.9% YoY. This translates to 9M23 net profit of IDR4.5tn, or rose by +197.6% YoY. These figures are below our/cons estimates, achieving 70.6%/67.3% of the FY23E target. The significant growth in net profit is attributed to aggressive ASP adjustments to enhance profitability, NPM climbed up to 5.5% (vs 1.6% in 9M22).

Fostering FY24F excise hikes; soft price adjustment to defend market share

We expect GGRM to maintain profitability moving forward, amidst a 10% excise tax increase in FY24F (PMK 191/2022). In 2H24, we estimate retail prices for flagship GGRM products like Gudang Garam Int.'12 to be IDR27,100-27,900/pack, while Surya'16 will be IDR36,200-37,300/pack ([exhibit 04](#)). These figures represent a 7%-10% increase compared to retail prices in Oct-2023 ([exhibit 03](#)). Overall, we project a moderate blended ASP increase of +9.5% YoY in FY24F, lower than the double-digit realization of the previous two years (FY23E: 11.9% YoY/FY22:10.2% YoY). We expect a softer ASP adjustment to ensure a smoother decline in sales volume (due to downtrading behavior), translating into a solid market share of ~25%. Additionally, we anticipate that the election year will act as a cushion for consumer purchasing power.

Revising our figures

We trimmed our projections for FY23E/FY24F ([exhibit 02](#)). For the revenue, we have lowered our estimates by -15.1% to IDR110.8tn in FY23E. This was primarily due to a decrease in sales volume estimates. Meantime, we also reduced our net profit projections for FY23E by -4.8% to IDR6.0tn, respectively, on the back of : 1) muted ASP adjustment, resulting in soft margin; 2) OPEX decreased. Meanwhile, we expect revenue/net profit growth in 4Q23 to be +12.0% QoQ/+32.4% QoQ, respectively. We believed that consumers would conduct substantial spending in 4Q23 solely to secure lower pricing (particularly for the elections), anticipating the ASP adjustment in early FY24F.

Potential double-digit dividend yield

An aggressive ASP adjustment leading to profitability recovery should bolster the dividend value for the FY23E fiscal year. After revising net profit figures for FY23E to IDR6.0tn (+116.0% YoY), this translates to a dividend per share of IDR2,300 (total dividend: IDR4.4tn), delivering a dividend yield of ~11% from the current price. It sounds more appealing than HMP's of ~7%, in our estimates. On the flip side, cash equivalents in 9M23 reached IDR4.2tn, while the avg. 5Y working capital spending stood at IDR28.0tn.

Recommendation: BUY GGRM with a TP of IDR31,000

We reiterate our BUY recommendation for GGRM with a lower TP of IDR31,000 (IDR32,500 previously), implying PE/PBV of 9.9x/1.0x in FY23E and 9.4x/0.9x in FY24F. Despite a +20% YTD price increase, a short correction makes the price attractive as it trades near at -1.5 STD PE ratio (5-year-average) of 7.4x. Downside risks include: 1) slow-moving price adjustments; 2) muted by competitors' favored downtrading behavior.


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Key Financial Highlight	FY20	FY21	FY22	FY23E	FY24F
Revenue (IDR Bn)	114,477.3	124,881.3	124,682.7	110,763.0	113,025.1
EBITDA (IDR Bn)	12,593.5	9,949.0	6,600.4	11,133.7	11,789.2
EBITDA Margin (%)	11.0	8.0	5.3	10.1	10.4
Net Profit (IDR Bn)	7,647.7	5,605.3	2,779.7	6,005.1	6,329.8
ROA (%)	9.8	6.2	3.1	6.7	6.9
ROE (%)	13.1	9.5	4.8	9.8	10.0
PE (x)	5.4	7.4	14.8	6.9	6.5
PBV (x)	0.7	0.7	0.7	0.7	0.7

Sources : Company, MNCS

Exhibit 01. 9M23 revenue/net profit miss our target

IDR Bn	2Q23	3Q23	QoQ	9M22	9M23	YoY	FY23E Cons	FY23E MNCS	%Cons	%MNCS
Revenues	26,119.9	25,897.5	-0.9%	93,919.5	81,748.6	-13.0%	125,811.9	130,437.6	65.0%	62.7%
COGS	22,542.6	22,412.9	-0.6%	86,230.1	70,330.6	-18.4%	108,248.6	113,495.1		
Operating Profit	1,875.3	1,666.4	-11.1%	2,148.7	6,197.3	188.4%	8,366.3	8,578.5	74.1%	72.2%
Operating Profit Margin	7.2%	6.4%		2.3%	7.6%		6.6%	6.6%		
PBT	1,712.5	1,540.0	-10.1%	1,943.8	5,751.8	195.9%	8,415.4	8,278.1	23.1%	23.5%
Net Profit	1,324.7	1,169.0	-11.8%	1,497.6	4,457.2	197.6%	6,621.0	6,310.4	67.3%	70.6%
Net Profit Margin	5.1%	4.5%		1.6%	5.5%		5.3%	4.8%		

Sources : Bloomberg, Company, MNCS

Exhibit 02. Yet, we anticipate a bounce back in 4Q23 coming up to the elections

	FY23E			FY24F		
	Revised	Old	Change	Revised	Old	Change
Revenue (IDR Bn)	110,763.0	130,437.6	-15.1%	113,025.1	137,200.3	-17.6%
Gross Profit (IDR Bn)	15,287.4	16,942.5	-9.8%	15,639.7	18,737.4	-16.5%
Operating Profit (IDR Bn)	8,185.0	8,578.5	-4.6%	8,580.6	9,269.0	-7.4%
Net Profit (IDR Bn)	6,005.1	6,310.4	-4.8%	6,329.8	6,866.4	-7.8%
GPM (%)	13.8	13.0	81bps	13.8	13.7	18bps
OPM (%)	7.4	6.6	81bps	7.6	6.8	83bps
NPM (%)	5.4	4.8	58bps	5.6	5.0	60bps

Sources : Company, MNCS

Exhibit 03. Retail prices (IDR/pack)

	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23
Gudang Garam Int.'12	25,200	25,600	25,400	25,400	25,400	25,400	25,400
Surya'16	33,900	34,000	33,700	33,700	33,700	33,700	33,900
Surya Pro Red'16	31,800	32,700	32,700	32,400	32,400	32,400	32,400
Surya Pro Mild'16	31,800	32,700	32,700	32,400	32,400	32,400	32,400
Gudang Garam Signature Mild'16	33,000	33,000	33,000	33,000	33,000	33,000	33,000
GG Mild Shiver'16	33,000	33,000	33,000	33,000	33,000	33,000	33,000

Sources : Various Source, MNCS

Exhibit 04. Retail prices estimates for Gudang Garam Int.'12 and Surya'16 in FY24F

2023									
Cigarettes	SRP	Excise	SRP/pack	Excise/pack	Local Tax 10%	VAT 9.9%	Total Excise, VAT, etc.	Price Oct-2023	Margin
Gudang Garam Int.'12	2,055	1,101	24,660	13,212	1,321.2	2,441.34	16,975	IDR25,400/pack	33%
Surya'16	2,055	1,101	32,880	17,616	1,761.6	3,255.12	22,633	IDR33,900/pack	33%

2024									
Cigarettes	SRP	Excise	SRP/pack	Excise/pack	Local Tax 10%	VAT 9.9%	Total Excise, VAT, etc.	Price est.	Margin
Gudang Garam Int.'12	2,260	1,231	27,120	14,772	1,477.2	2,684.88	18,934	IDR27,100-27,900/pack	30%-32%
Surya'16	2,260	1,231	36,160	19,696	1,969.6	3,579.84	25,245	IDR36,200-37,300/pack	30%-32%

Source : MNCS

Exhibit 05. GGRM's currently trading near at -1.5 STD PE ratio (5-year-average) of 7.4x


Sources : Company, IDX, MNCS

Exhibit 06. Financial Projections

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	110,763.0	113,025.1	Cash & Equivalents	4,774.3	4,169.7	4,407.0	4,382.5	4,154.8
COGS	(97,089.1)	(110,608.7)	(113,587.1)	(95,475.6)	(97,385.4)	Trade Receivables	2,556.1	2,773.9	2,181.5	2,123.0	2,188.3
Gross Profit	17,388.2	14,272.6	11,095.6	15,287.4	15,639.7	Inventory	39,894.5	47,456.2	47,639.9	44,820.5	44,364.4
Selling Expense	(4,221.8)	(4,266.7)	(4,252.9)	(4,624.5)	(4,644.5)	Others Current Assets	2,313.0	4,912.7	1,216.7	2,894.6	2,733.2
G&A Expense	(3,359.7)	(2,893.2)	(3,072.1)	(2,664.5)	(2,604.5)	Total Current Assets	49,537.9	59,312.6	55,445.1	54,220.6	53,440.7
Other Income (Expense)	239.1	249.1	138.3	186.5	189.9	Fixed Assets-net	27,605.0	29,780.1	32,426.4	35,015.9	37,402.0
Operating Profit	10,045.9	7,361.8	3,908.9	8,185.0	8,580.6	Other Non-Current Assets	1,048.4	871.7	691.1	613.9	626.4
EBITDA	12,593.5	9,949.0	6,600.4	11,133.7	11,789.2	Total Non-Current Assets	28,653.5	30,651.8	33,117.5	35,629.8	38,028.4
Finance Cost (Income)	(382.7)	(74.9)	(262.4)	(307.3)	(277.0)	TOTAL ASSETS	78,191.4	89,964.4	88,562.6	89,850.3	91,469.1
Profit Before Tax	9,663.1	7,286.8	3,646.5	7,877.6	8,303.6	Trade Payables	1,123.7	1,002.2	1,309.0	1,578.0	1,798.9
Tax Income (Expense)	(2,015.4)	(1,681.5)	(866.8)	(1,872.5)	(1,973.8)	Short-term Debt	6,029.2	9,980.3	10,071.1	9,429.4	8,594.0
Minority Interest	(0.0)	(0.0)	(0.0)	-	-	Other Current Liabilities	9,857.1	17,386.7	17,745.0	15,828.0	16,139.5
Net Profit	7,647.7	5,605.3	2,779.7	6,005.1	6,329.8	Total Current Liabilities	17,010.0	28,369.3	29,125.0	26,835.4	26,532.4
EPS (IDR)	3,974.7	2,913.2	1,444.7	3,121.0	3,289.8	Long-term Debt	156.7	122.7	65.4	115.9	105.6
						Other Long-term Liabilities	2,502.3	2,184.1	1,516.3	1,347.0	1,374.5
						Total LT-Liabilities	2,658.9	2,306.8	1,581.6	1,462.9	1,480.1
						Total Equity	58,522.5	59,288.3	57,856.0	61,552.1	63,456.5
						TOTAL LIABILITY AND EQUITY	78,191.4	89,964.4	88,562.6	89,850.3	91,469.1

Cash Flow						Ratios					
in Billion IDR	FY20	FY21	FY22	FY23E	FY24F		FY20	FY21	FY22	FY23E	FY24F
Net Profit	7,647.7	5,605.3	2,779.7	6,005.1	6,329.8	Revenue Growth (%)	3.6	9.1	(0.2)	(11.2)	2.0
D&A	2,547.6	2,587.2	2,691.5	2,948.7	3,208.6	Operating Profit Growth (%)	(33.4)	(26.7)	(46.9)	109.4	4.8
Changes in WC	2,098.8	(7,900.9)	715.4	3,147.0	611.7	Net Profit Growth (%)	(29.7)	(26.7)	(50.4)	116.0	5.4
Others	4,549.2	5,093.0	4,171.4	(3,594.9)	473.0	Current Ratio (%)	291.2	209.1	190.4	202.0	201.4
Operating CF	16,843.4	5,384.7	10,358.1	8,505.9	10,623.0	Quick Ratio (%)	56.7	41.8	26.8	35.0	34.2
Capex	(4,778.7)	(4,762.3)	(5,337.8)	(5,538.2)	(5,594.7)	Receivable Days (x)	8.0	8.0	6.3	6.9	7.0
Others	143.7	176.8	180.6	77.1	(12.5)	Inventory Days (x)	147.9	154.5	151.0	169.0	164.0
Investing CF	(4,635.0)	(4,585.5)	(5,157.2)	(5,461.0)	(5,607.3)	Payable Days (x)	4.2	3.3	4.1	6.0	6.7
Dividend Paid	-	(5,002.6)	(4,329.2)	(2,308.9)	(4,425.4)	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	(591.2)	(845.6)	DER (x)	0.1	0.2	0.2	0.2	0.1
Equity Fund Raised	-	-	-	-	-	Dividend Yield (%)	-	12.1	10.5	5.6	10.7
Others	221.2	(318.1)	(667.9)	(169.3)	27.5	Gross Profit Margin (%)	15.2	11.4	8.9	13.8	13.8
Financing CF	(11,006.0)	(1,403.7)	(4,963.6)	(3,069.4)	(5,243.5)	Operating Profit Margin (%)	8.8	5.9	3.1	7.4	7.6
Cash at Beginning	3,571.9	4,774.3	4,169.7	4,407.0	4,382.5	EBITDA Margin (%)	11.0	8.0	5.3	10.1	10.4
Cash at Ending	4,774.3	4,169.7	4,407.0	4,382.5	4,154.8	Net Profit Margin (%)	6.7	4.5	2.2	5.4	5.6
						BVPS (IDR)	30,415.7	30,813.7	30,069.3	31,990.3	32,980.1

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

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- **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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