

## Gudang Garam

BUY (unchanged)

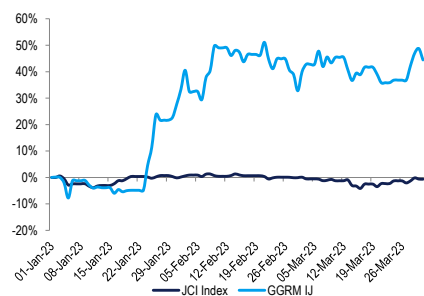
Company Update | Tobacco | GGRM IJ | 31 March 2023

## Stock Data

Target price	Rp30,750
Prior TP	Rp30,750
Current price	Rp26,000
Upside/downside	18%
Shares outstanding (mn)	1,924
Market cap (Rp bn)	50,026
Free float	24%
Avg. 6m daily T/O (Rp bn)	46

## Price Performance

	3M	6M	12M
Absolute	41.3%	11.9%	-17.7%
vs. JCI	42.1%	15.2%	-14.0%
52w low/high (Rp)	16,600 – 32,175		



## Major Shareholders

PT. Suryaduta Investama	69.3%
PT. Suryamitra Kusuma	6.26%

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## Strong 4Q22 qoq recovery is ahead of consensus but still below our estimate

- GGRM's FY22 net profit of Rp2.8tr (-50.4% yoy) came below at 86% of our estimate, but above at 113% of consensus estimate.
- 4Q22 net profit recorded a recovery of +136.8% qoq, but still -12.8% lower than 4Q21's. 4Q22 net profit represent 46% of FY22's compared to 5Y historical average 4Q contribution to FY of 29% (FY16-21).
- Maintain our Buy call with unchanged TP of Rp30,750

## FY22 results: earnings was below on the back of soft top-line

FY22 earnings declined by -50.4% yoy to Rp2.8tr and this was below at 86% of our estimate, but above at 113% of consensus'. FY22 revenue was flat at Rp124.7tr (-0.2% yoy) and came below at 94% of ours, but in-line at 97% of consensus estimate. FY22 GPM of 8.9% was in-line with our GPM expectation of 8.8%. Miss in FY22 earnings was likely due to our initial assumption of FY22 sales volume (-1.8% yoy) which may be too aggressive.

## 4Q22 strong earnings recovery qoq, but still below on yoy basis

Despite coming below our expectation, 4Q22 continued to show a positive qoq recovery trend as net profit jumped +136.8% qoq, but declined -12.8% yoy. 4Q22 gross margin of 11.1% shows a sustained recovery from 3Q22/2Q22's 7.9/5.8% on the back of 4Q22 effective ASP adjustment of 3.9%. Although, this is still lower compared to 4Q21's gross margin of 11.8%, 4Q22's net profit achievement represent 46% of FY22's earnings – significantly higher than the 5Y historical average 4Q contribution to FY earnings of 29% in FY16-21.

## Bright FY23F outlook on series of price hikes 4Q22-1Q23; Maintain BUY

The series of price hikes witnessed in 1Q23 of 8.4% (in SKM) implies that the margin expansion thesis for GGRM remains intact. With this, we note that GGRM only has to raise prices by 0.8% remaining in the year to fully pass on FY23F excise increment. We are reviewing our forecast as we seek clarity on GGRM's operational matrix. For now, our forecasts indicate a sales/net profit growth of 18.6/93.4% yoy in FY23F. As such, we maintain our BUY call for GGRM with unchanged TP of Rp30,750 based on 11.0x FY23F P/E (or 1.s.d. below its 3Y mean).

Financial Summary (Rp bn)	2021A	2022A	2023F	2024F	2025F
Revenue	124,881	124,683	147,567	157,815	174,526
EBITDA	10,009	6,832	10,163	11,013	12,046
EBITDA growth	-20.1%	-31.7%	48.8%	8.4%	9.4%
Net profit	5,605	2,780	5,377	5,910	6,585
EPS (Rp)	2,913	1,445	2,795	3,072	3,422
EPS growth	-26.7%	-50.4%	93.4%	9.9%	11.4%
ROE	9.5%	4.7%	9.0%	9.4%	10.0%
PER (x)	8.9	18.0	9.3	8.5	7.6
EV/EBITDA (x)	7.9	14.8	5.3	4.6	4.1
Dividend yield	10.0%	10.0%	3.9%	6.4%	7.1%
Forecast change			0%	0%	N/A
IPS vs. consensus			137%	129%	80%

Sources: Company, Indo Premier

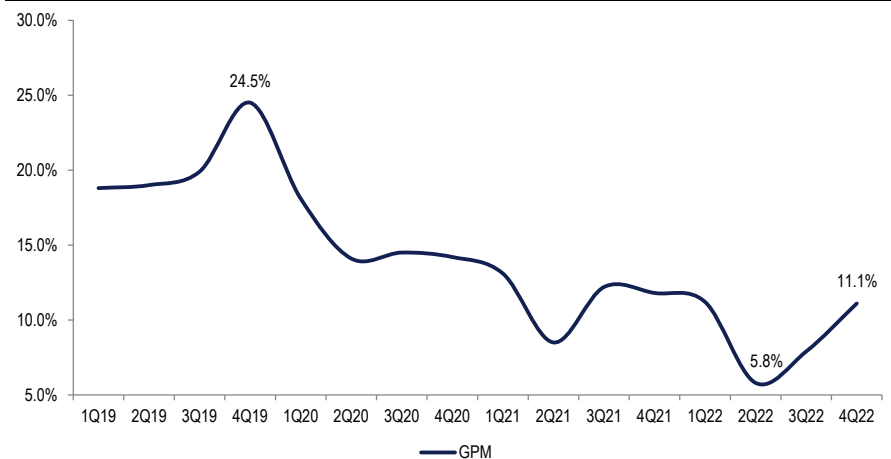
Share price closing as of: 31 March 2023

Fig. 1: GGRM's FY22 results

(Rp bn)	4Q22	4Q21	% YoY	3Q22	%QoQ	12M22	12M21	% YoY	Prev. FY22F	Comment
Net sales	30,763	32,810	-6.2%	32,247	-4.6%	124,683	124,881	-0.2%	132,623	Below at 94% of ours', but in-line at 97% of consensus' estimate
COGS	(27,357)	(28,937)		(29,694)		(113,587)	(110,609)			
Gross profit	3,406	3,873	-12.1%	2,553	33.4%	11,096	14,273	-22.3%		
Opex	(1,589)	(1,825)		(1,846)		(7,325)	(7,160)			
EBIT	1,817	2,048	-11.3%	707	157.1%	3,771	7,113	-47.0%	4,057	Below at 93% of ours', but above at 119% of consensus' estimate
Other income (charges)	(20)	(8)		35		147	232			
PBT	1,703	2,007	-15.2%	714	138.5%	3,647	7,287	-50.0%		
Tax benefit (expense)	(421)	(537)		(172)		(867)	(1,682)			
Net profit	1,282	1,471	-12.8%	541	136.8%	2,780	5,605	-50.4%	3,223	Below at 86% of ours', but above at 113% of consensus estimate
<b>Margins</b>										
Gross margin	11.1%	11.8%		7.9%		8.9%	11.4%			
EBIT margin	5.9%	6.2%		2.2%		3.0%	5.7%			
Net margin	4.2%	4.5%		1.7%		2.2%	4.5%			

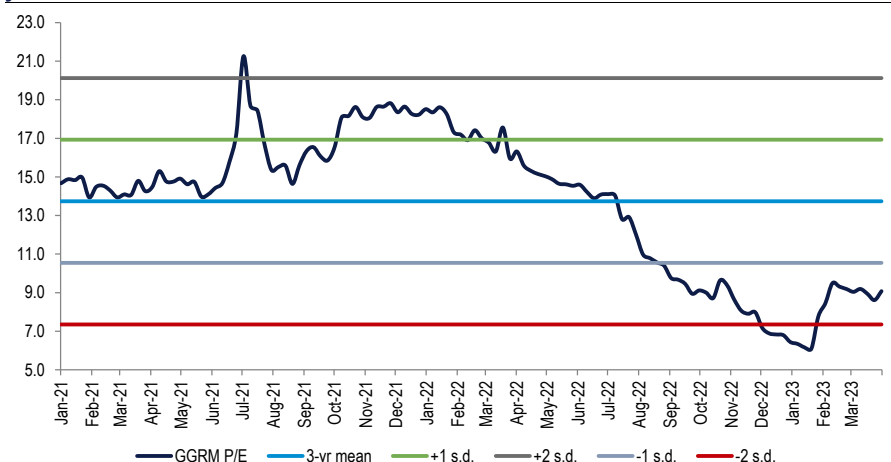
Sources: Company, Bloomberg, Indo Premier

Fig. 2: GGRM's quarterly GPM trend



Sources: Company, Indo Premier

Fig. 3: GGRM is currently trading at 9.1x 12M forward P/E, or around 1.5 s.d. below its 3-year mean of 13.7x



Sources: Bloomberg, Indo Premier

Income Statement (Rp bn)	2021A	2022A	2023F	2024F	2025F
Net revenue	124,881	124,683	147,567	157,815	174,526
Cost of sales	(110,609)	(113,587)	(132,485)	(141,558)	(156,692)
<b>Gross profit</b>	<b>14,273</b>	<b>11,096</b>	<b>15,081</b>	<b>16,257</b>	<b>17,834</b>
SG&A Expenses	(7,160)	(7,325)	(8,262)	(8,755)	(9,466)
<b>Operating profit</b>	<b>7,113</b>	<b>3,771</b>	<b>6,819</b>	<b>7,502</b>	<b>8,368</b>
Net interest	(75)	(262)	(93)	(93)	(93)
Forex gain (loss)	17	(9)	0	0	0
Others	232	147	168	168	168
<b>Pre-tax income</b>	<b>7,287</b>	<b>3,647</b>	<b>6,894</b>	<b>7,577</b>	<b>8,443</b>
Income tax	(1,682)	(867)	(1,517)	(1,667)	(1,857)
Minority interest	(0)	(0)	(0)	(0)	(0)
<b>Net income</b>	<b>5,605</b>	<b>2,780</b>	<b>5,377</b>	<b>5,910</b>	<b>6,585</b>

Balance Sheet (Rp bn)	2021A	2022A	2023F	2024F	2025F
Cash & equivalent	4,774	4,407	6,052	8,958	11,275
Receivable	2,556	2,181	2,745	2,935	3,246
Inventory	39,895	47,640	48,684	50,079	53,286
Other current assets	2,313	1,217	5,724	6,091	6,688
<b>Total current assets</b>	<b>49,538</b>	<b>55,445</b>	<b>63,205</b>	<b>68,063</b>	<b>74,495</b>
Fixed assets	27,605	32,426	31,463	30,952	30,275
Goodwill	0	0	0	0	0
<b>Total non-current assets</b>	<b>28,653</b>	<b>33,117</b>	<b>32,335</b>	<b>31,824</b>	<b>31,146</b>
<b>Total assets</b>	<b>78,191</b>	<b>88,563</b>	<b>95,540</b>	<b>99,887</b>	<b>105,641</b>
ST loans	6,009	10,048	9,948	9,948	9,948
Payable	1,124	1,309	910	973	1,077
Other payables	216	574	628	672	743
Current portion of LT loans	20	0	0	0	0
<b>Total current liab.</b>	<b>17,010</b>	<b>29,125</b>	<b>31,333</b>	<b>32,816</b>	<b>35,240</b>
Long term loans	157	65	123	123	123
Other LT liab.	2,502	1,516	2,581	2,760	3,052
<b>Total liabilities</b>	<b>19,669</b>	<b>30,707</b>	<b>34,037</b>	<b>35,699</b>	<b>38,415</b>
Equity	1,016	1,016	1,016	1,016	1,016
Retained earnings	57,540	56,874	60,488	63,172	66,211
Minority interest	0	0	0	0	0
<b>Total SHE + minority int.</b>	<b>58,522</b>	<b>57,856</b>	<b>61,504</b>	<b>64,187</b>	<b>67,227</b>
<b>Total liabilities &amp; equity</b>	<b>78,191</b>	<b>88,563</b>	<b>95,540</b>	<b>99,887</b>	<b>105,641</b>

Sources: Company, Indo Premier

Cash Flow Statement (Rp bn)	2021A	2022A	2023F	2024F	2025F
EBIT	7,113	3,771	6,819	7,502	8,368
Depr. & amortization	2,897	3,061	3,344	3,511	3,678
Changes in working capital	(2,939)	4,761	(1,228)	(468)	(1,693)
Others	(1,745)	(982)	(1,442)	(1,592)	(1,783)
<b>Cash flow from operating</b>	<b>5,325</b>	<b>10,611</b>	<b>7,493</b>	<b>8,952</b>	<b>8,570</b>
Capital expenditure	(4,935)	(5,707)	(3,000)	(3,000)	(3,000)
Others	90	(181)	0	0	0
<b>Cash flow from investing</b>	<b>(4,844)</b>	<b>(5,888)</b>	<b>(3,000)</b>	<b>(3,000)</b>	<b>(3,000)</b>
Loans	(16,772)	42	0	0	0
Equity	0	0	0	0	0
Dividends	0	(4,329)	(1,934)	(3,226)	(3,546)
Others	15,297	(668)	261	179	292
<b>Cash flow from financing</b>	<b>(1,475)</b>	<b>(4,955)</b>	<b>(1,672)</b>	<b>(3,047)</b>	<b>(3,254)</b>
<b>Changes in cash</b>	<b>(994)</b>	<b>(241)</b>	<b>2,820</b>	<b>2,905</b>	<b>2,317</b>

Key Ratios	2021A	2022A	2023F	2024F	2025F
Gross margin	11.4%	8.9%	10.2%	10.3%	10.2%
Operating margin	5.7%	3.0%	4.6%	4.8%	4.8%
Pre-tax margin	5.8%	2.9%	4.7%	4.8%	4.8%
Net margin	4.5%	2.2%	3.6%	3.7%	3.8%
ROA	6.7%	3.1%	5.8%	6.0%	6.4%
ROE	9.5%	4.7%	9.0%	9.4%	10.0%
Acct. receivables TO (days)	7.8	7.3	6.8	6.8	6.8
Inventory TO (days)	144.1	152.8	134.1	129.1	124.1
Payable TO (days)	3.5	3.7	2.5	2.5	2.5
Debt to equity	17.0%	17.5%	16.4%	15.7%	15.0%
Interest coverage ratio (x)	94.9	14.4	73.0	80.3	89.6
Net gearing	10.0%	9.9%	6.5%	1.7%	-1.8%

Sources: Company, Indo Premier

## INVESTMENT RATINGS

BUY	: Expected total return of 10% or more within a 12-month period
HOLD	: Expected total return between -10% and 10% within a 12-month period
SELL	: Expected total return of -10% or worse within a 12-month period

## ANALYSTS CERTIFICATION

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