

Gudang Garam

BUY (unchanged)

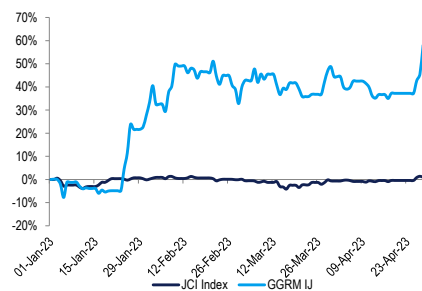
Company Update | Tobacco | GGRM IJ | 28 April 2023

Stock Data

Target price	Rp37,200
Prior TP	Rp30,750
Current price	Rp28,450
Upside/downside	30.8%
Shares outstanding (mn)	1,924
Market cap (Rp bn)	54,740
Free float	24%
Avg. 6m daily T/O (Rp bn)	46

Price Performance

	3M	6M	12M
Absolute	27.7%	11.7%	-7.3%
vs. JCI	27.0%	14.2%	-3.0%
52w low/high (Rp)	16,600 – 31,800		



Major Shareholders

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

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1Q23 results: strong beat driven by significant margin recovery

- GGRM's 1Q23 net profit of Rp2.8tr (+82.3% yoy/+53.1% qoq) was a beat at 37/44% of our/consensus estimate, led by GPM improvement to 14.7% (vs. 1Q22's 11.2%).
- We lifted our FY23/24F net profit forecasts by +21/23% to reflect higher price increase, GPM but lower sales volume
- Maintain our Buy call with higher TP of Rp37,200

1Q23 results was a strong beat to our/consensus FY23F estimate

GGRM delivered robust 1Q23 net profit of Rp2.0tr (+82.3% yoy/+53.1% qoq), above ours/consensus FY23F estimate (at 37/44% vs. 5y avg of 30%). 1Q23 net sales stood at Rp29.7tr (+1.5% yoy/ -3.4% qoq), below our estimate (at 20% of FY23F), but in-line with consensus (at 23% of FY23F estimate vs. 5y avg of 24%). Amid GGRM's aggressive price hikes starting 4Q22 (full details in Fig 2), its 1Q23 selling prices for SKM/SKT were c.17/11% higher compared to 1Q22's. This resulted in higher-than-expected (implied) volume decline for SKM/SKT of c.-14/-1% yoy in 1Q23 (which was also evidenced by lower raw materials used in COGS of -15.5% yoy). Nonetheless, the price hikes led to GPM improvement to 14.7% in 1Q23 (+348bps yoy/+358bps qoq), significantly above our FY23F forecast of 10.2%. Meanwhile, 1Q23 opex-to-sales was still manageable at 6.2% (-33bps yoy/+100bps qoq).

Estimates revision to reflect lower volumes, higher ASP and margins

Following 1Q23 result, we adjust our FY23/24F earnings forecast to reflect i) steeper FY23/24F volume decline of -9.2/-3.7% yoy (from previously -0.7/2.1%); ii) higher FY23F ASP adjustment to 13.1% from previously 11.9% given the frontloading of price adjustments in 1Q23, hence translating to higher gross margin assumption of 12.5/12.9% in FY23/24F (vs previously 10.2/10.3%). We expect the upcoming pricing adjustment (from May23 onward) to be less significant given that GGRM has sufficiently raised prices to more than pass on FY23F excise hike. In sum, we adjust our sales/net profit forecast to Rp128.1/6.5tr for FY23F (-13.2/+21.3% vs. prev. forecast) and FY24F to Rp134.8/7.3tr for FY24F (-14.6/+23.3% vs. prev. forecast).

Reiterate Buy rating with higher TP of 37,200

We reiterate our Buy rating following the 1Q23 results beat. We raise our TP to Rp37,200 (vs. Rp30,750 previously) to reflect our forecast upgrade, still pegged to -1SD 5Y FY23F P/E of 11x. Given light institutional ownership (Fig 6-7) by both local and foreign investors, we view that downside risk may be limited for GGRM. Key risks are weaker than expected sales volume decline.

Financial Summary (Rp bn)	2021A	2022A	2023F	2024F	2025F
Revenue	124,881	124,683	128,080	134,812	147,794
EBITDA	10,009	6,832	11,797	13,333	15,089
EBITDA growth	-20.1%	-31.7%	72.7%	13.0%	13.2%
Net profit	5,605	2,780	6,503	7,267	8,420
EPS (Rp)	2,913	1,445	3,380	3,777	4,376
EPS growth	-26.7%	-50.4%	133.9%	11.7%	15.9%
ROE	9.5%	4.7%	10.8%	11.2%	12.1%
PER (x)	9.8	19.7	8.4	7.5	6.5
EV/EBITDA (x)	6.1	8.8	5.0	4.2	3.5
Dividend yield	9.1%	7.9%	2.5%	5.9%	6.6%
Forecast change			21%	23%	28%
IPS vs. consensus			145%	148%	120%

Sources: Company, Indo Premier

Share price closing as of: 28 April 2023

Fig. 1: GGRM's 1Q23 results

(Rp bn)	1Q23	1Q22	% YoY	4Q22	%QoQ	3M23	3M22	% YoY	IPS FY23F	% IPS	Cons FY23F	% Cons	5yr avg.
Net sales	29,731	29,291	1.5%	30,763	-3.4%	29,731	29,291	1.5%	147,567	20%	131,518	23%	24%
COGS	(25,375)	(26,018)		(27,357)		(25,375)	(26,018)						
Gross profit	4,356	3,273	33.1%	3,406	27.9%	4,356	3,273	33.1%					
Opex	(1,833)	(1,903)		(1,589)		(1,833)	(1,903)						
EBIT	2,523	1,370	84.2%	1,817	38.8%	2,523	1,370	84.2%	6,819	37%	5,688	44%	29%
Other income (charges)	132	93		(20)		132	93						
PBT	2,499	1,374	81.9%	1,703	46.8%	2,499	1,374	81.9%					
Tax benefit (expense)	(536)	(297)		(421)		(536)	(297)						
Net profit	1,963	1,077	82.3%	1,282	53.1%	1,963	1,077	82.3%	5,361	37%	4,470	44%	30%
	-0.0616	-0.065		-0.0517									
Margins													
Gross margin	14.7%	11.2%		11.1%		14.7%	11.2%						
EBIT margin	8.5%	4.7%		5.9%		8.5%	4.7%						
Net margin	6.6%	3.7%		4.2%		6.6%	3.7%						
Segment information													
Revenue breakdown													
SKM	27,033	26,713	1.2%	28,254	-4.3%	27,033	26,713	1.2%					
SKT	2,245	2,047	9.7%	2,205	1.8%	2,245	2,047	9.7%					
Others	453	531	-14.8%	305	48%	453	531	-14.8%					
Revenue contribution													
SKM	90.9%	91.2%		91.8%		90.9%	91.2%						
SKT	7.6%	7.0%		7.2%		7.6%	7.0%						
Others	1.5%	1.8%		1.0%		1.5%	1.8%						

Sources: Company, Bloomberg, Indo Premier

Fig. 2: Indo's tobacco price adjustment at MT

Type	30-Sep-22	31-Dec-22	31-Jan-23	28-Feb-23	31-Mar-23	26-Apr-23	% mom price chg					Total changes	YTD
							31-Dec-22	31-Jan-23	28-Feb-23	31-Mar-23	26-Apr-23	from 30Sep22	
H.M. Sampoerna													
A Mild 16	28,500	29,750	32,150	32,000	32,000	32,200	4.4%	8.1%	-0.5%	0.0%	0.6%	12.3%	7.6%
A Mild 12	22,250	23,750	24,300	24,600	24,600	24,800	6.7%	2.3%	1.2%	0.0%	0.8%	10.6%	3.6%
DSS Magnum Mild 16	26,900	27,750	30,450	30,500	30,500	30,650	3.2%	9.7%	0.2%	0.0%	0.5%	13.4%	9.9%
Magnum Filter 12	19,600	21,950	22,600	22,600	22,600	24,050	12.0%	3.0%	0.0%	0.0%	6.4%	15.3%	3.0%
Marlboro Filter Black 12	19,950	21,100	21,550	21,550	21,550	22,800	5.8%	2.1%	0.0%	0.0%	5.8%	8.0%	2.1%
Marlboro Filter Black 16	26,750	27,400	27,850	27,850	27,850	29,200	2.4%	1.6%	0.0%	0.0%	4.8%	4.1%	1.6%
SKM's simple average							5.7%	4.5%	0.2%	0.0%	3.2%	10.6%	4.6%
Dji Sam Soe Kretek 12	19,550	19,600	19,550	19,550	19,550	19,700	0.3%	-0.3%	0.0%	0.0%	0.8%	0.0%	-0.3%
Kretek Hijau 12	14,400	15,150	15,450	15,450	15,450	15,800	5.2%	2.0%	0.0%	0.0%	2.3%	7.3%	2.0%
SKT's simple average							2.7%	0.9%	0.0%	0.0%	1.5%	3.6%	0.9%
Marlboro Red 20	37,750	38,850	39,900	40,050	40,050	41,245	2.9%	2.7%	0.4%	0.0%	3.0%	6.1%	3.1%
Marlboro Ice Burst 20	37,750	38,850	39,900	40,050	40,050	41,245	2.9%	2.7%	0.4%	0.0%	3.0%	6.1%	3.1%
Marlboro Light 20	37,750	38,850	39,900	40,050	40,050	41,245	2.9%	2.7%	0.4%	0.0%	3.0%	6.1%	3.1%
SPM's simple average							2.9%	2.7%	0.4%	0.0%	3.0%	6.1%	3.1%
Gudang Garam													
Surya 16	28,400	30,600	31,950	31,950	33,850	34,000	7.7%	4.4%	0.0%	5.9%	0.4%	19.2%	10.6%
Surya PRO 16	26,700	28,700	30,350	30,350	30,850	31,750	7.5%	5.7%	0.0%	1.6%	2.9%	15.5%	7.5%
Surya PRO Mild 16	26,400	28,600	30,350	30,350	30,850	31,650	8.3%	6.1%	0.0%	1.6%	2.6%	16.9%	7.9%
GG International Merah 12	22,500	23,600	24,400	24,400	25,100	25,300	4.9%	3.4%	0.0%	2.9%	0.8%	11.6%	6.4%
GG Mild Shiver 16	27,500	29,050	31,200	31,200	32,800	32,800	5.6%	7.4%	0.0%	5.1%	0.0%	19.3%	12.9%
GG Signature Mild (blue) 16	26,400	28,800	31,200	31,200	32,800	32,800	9.1%	8.3%	0.0%	5.1%	0.0%	24.2%	13.9%
GG Kretek Move 12	19,200	21,600	22,750	22,750	23,700	23,700	12.5%	5.3%	0.0%	4.2%	0.0%	23.4%	9.7%
Simple average							8.0%	5.8%	0.0%	3.8%	1.0%	18.6%	9.8%
Djarum													
Djarum Super 16	28,600	30,900	32,100	32,500	34,250	34,550	8.0%	3.9%	1.2%	5.4%	0.9%	19.8%	10.8%
Djarum Super Mid Black 16	28,500	30,000	31,600	31,600	32,850	32,850	5.3%	5.3%	0.0%	4.0%	0.0%	15.3%	9.5%
Djarum Coklat Filter 12	21,250	21,700	22,000	22,600	25,250	23,500	2.1%	1.4%	2.7%	11.7%	-6.9%	18.8%	16.4%
LA Bold 16	27,500	27,500	28,500	30,000	30,000	30,000	0.0%	3.6%	5.3%	0.0%	0.0%	9.1%	9.1%
SKM's Simple average							3.9%	3.6%	2.3%	5.3%	-1.5%	15.7%	11.4%
Djarum Kretek Coklat 12	14,900	15,200	15,300	15,300	15,300	15,300	2.0%	0.7%	0.0%	0.0%	0.0%	2.7%	0.7%
SKT's Simple average							3.5%	3.1%	1.9%	4.4%	-1.3%	13.6%	9.6%
Other brands													
Lucky Strike Filters 20	29,850	29,900	29,850	29,850	29,850	30,050	0.2%	-0.2%	0.0%	0.0%	0.7%	0.0%	-0.2%
Dunhill Fine Cut Filter 16	26,200	26,500	26,350	26,300	26,350	26,550	1.1%	-0.6%	-0.2%	0.2%	0.8%	0.6%	-0.6%
Clas Mild 16	23,950	26,750	26,950	27,000	27,000	27,200	11.7%	0.7%	0.2%	0.0%	0.7%	12.7%	0.9%
Clas Mild Silver 16	22,700	23,900	24,600	24,600	24,600	24,600	5.3%	2.9%	0.0%	0.0%	0.0%	8.4%	2.9%
Simple average							4.6%	0.7%	0.0%	0.0%	0.5%	5.4%	0.8%

Sources: Alfagift, Klikindomaret, Indo Premier

Fig. 3: GGRM's ASP hike on SKT and SKM segment

(Rp/stick)	1Q22	1Q23	yoy chg	Implied volume growth
SKT	1,020	1,133	11.1%	-1.2%
SKM	1,548	1,818	17.4%	-13.8%

Source: Company, Indo Premier

Fig. 4: GGRM's total asset under subsidiaries related to Airport & Toll road's

(Rp bn)	2021	2022	1Q23	Total estimated project cost*
Airport				
PT Surya Dhoho Investama	6,046	8,938	10,209	13,500
Toll road				
PT Surya Kerta Agung	1,020	1,035	1,138	10,500
PT Surya Kertaagung Toll	200	313	313	
Total	7,066	9,974	11,347	24,000

Source: Company, Indo Premier

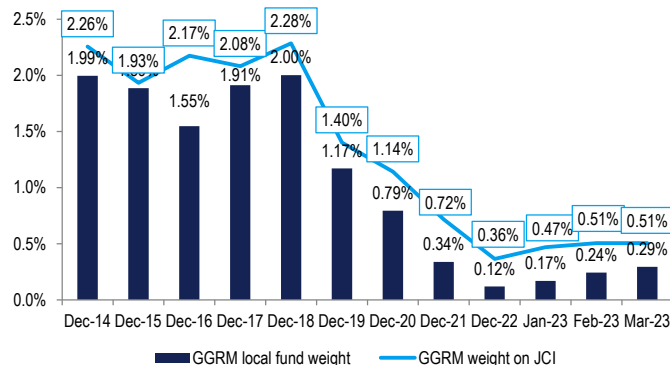
*From local news

Fig. 5: Forecast changes

	Previous			Current			Changes		
	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
Assumption									
Blended ASP growth	11.9%	9.3%	9.6%	13.1%	9.3%	9.6%	1.2%	0.0%	0.0%
Blended volume growth	-0.7%	-2.1%	1.0%	-9.2%	-3.7%	0.1%	-8.5%	-1.6%	-0.9%
Financial Perform. (Rp bn)									
Net sales	147,567	157,815	174,526	128,080	134,812	147,794	-13.2%	-14.6%	-15.3%
Gross profit	15,081	16,257	17,834	15,983	17,443	19,546	6.0%	7.3%	9.6%
EBIT	6,819	7,502	8,368	8,453	9,432	10,911	24.0%	25.7%	30.4%
EBITDA	10,163	11,013	12,046	11,797	13,333	15,089	16.1%	21.1%	25.3%
Net profit	5,361	5,894	6,569	6,503	7,267	8,420	21.3%	23.3%	28.2%
EPS (Rp)	2,786	3,063	3,414	3,380	3,777	4,376	21.3%	23.3%	28.2%
Profitability (%)									
Gross margin	10.2%	10.3%	10.2%	12.5%	12.9%	13.2%	2.3%	2.6%	3.0%
EBIT margin	4.6%	4.8%	4.8%	6.6%	7.0%	7.4%	2.0%	2.2%	2.6%
Net profit margin	3.6%	3.7%	3.8%	5.1%	5.4%	5.7%	1.4%	1.7%	1.9%

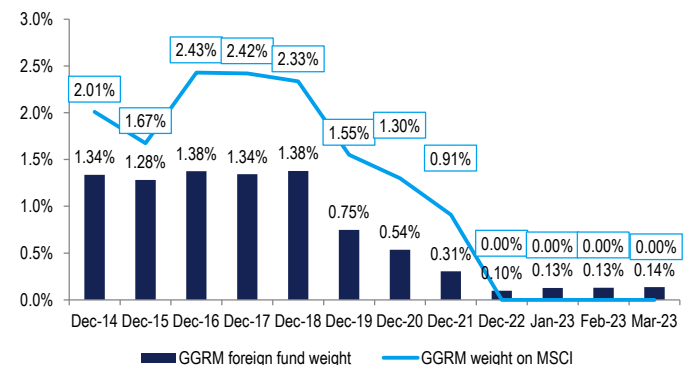
Sources: Company, Bloomberg, Indo Premier

Fig. 6: GGRM's local fund weight vs. JCI



Source: KSEI, Indo Premier

Fig. 7: GGRM's foreign fund weight vs. MSCI



Source: KSEI, Indo Premier

Fig. 8: GGRM is currently trading at 7.0x 12M forward P/E, or around 2.0 s.d. below its 5-year mean of 13.7x



Sources: Bloomberg, Indo Premier

Income Statement (Rp bn)	2021A	2022A	2023F	2024F	2025F
Net revenue	124,881	124,683	128,080	134,812	147,794
Cost of sales	(110,609)	(113,587)	(112,097)	(117,369)	(128,248)
Gross profit	14,273	11,096	15,983	17,443	19,546
SG&A Expenses	(7,160)	(7,325)	(7,530)	(8,010)	(8,635)
Operating profit	7,113	3,771	8,453	9,432	10,911
Net interest	(75)	(262)	(264)	(264)	(264)
Forex gain (loss)	17	(9)	0	0	0
Others	232	147	147	147	147
Pre-tax income	7,287	3,647	8,337	9,316	10,795
Income tax	(1,682)	(867)	(1,834)	(2,050)	(2,375)
Minority interest	(0)	(0)	(0)	(0)	(0)
Net income	5,605	2,780	6,503	7,267	8,420

Balance Sheet (Rp bn)	2021A	2022A	2023F	2024F	2025F
Cash & equivalent	4,170	4,407	5,652	8,948	12,177
Receivable	2,774	2,181	2,370	2,494	2,734
Inventory	47,456	47,640	45,389	45,916	48,415
Other current assets	4,913	1,217	1,239	1,284	1,370
Total current assets	59,313	55,445	54,650	58,642	64,696
Fixed assets	29,780	32,426	38,463	39,563	40,385
Goodwill	0	0	0	0	0
Total non-current assets	30,652	33,117	39,154	40,254	41,076
Total assets	89,964	88,563	93,804	98,896	105,772
ST loans	9,948	10,048	10,048	10,048	10,048
Payable	1,002	1,309	987	1,033	1,129
Other payables	532	574	589	620	680
Current portion of LT loans	0	0	0	0	0
Total current liab.	28,369	29,125	29,179	30,174	32,105
Long term loans	123	65	65	65	65
Other LT liab.	2,184	1,516	1,558	1,639	1,797
Total liabilities	30,676	30,707	30,802	31,879	33,968
Equity	1,016	1,016	1,016	1,016	1,016
Retained earnings	58,306	56,874	61,986	66,002	70,788
Minority interest	0	0	0	0	0
Total SHE + minority int.	59,288	57,856	63,002	67,017	71,804
Total liabilities & equity	89,964	88,563	93,804	98,896	105,772

Sources: Company, Indo Premier

Cash Flow Statement (Rp bn)	2021A	2022A	2023F	2024F	2025F
EBIT	7,113	3,771	8,453	9,432	10,911
Depr. & amortization	2,897	3,061	3,344	3,900	4,178
Changes in working capital	(2,939)	4,761	2,094	299	(894)
Others	(1,745)	(6,267)	(1,950)	(2,166)	(2,491)
Cash flow from operating	5,325	5,325	11,941	11,466	11,704
Capital expenditure	(4,935)	(4,935)	(9,381)	(5,000)	(5,000)
Others	90	90	0	0	0
Cash flow from investing	(4,844)	(4,844)	(9,381)	(5,000)	(5,000)
Loans	(16,772)	(16,772)	0	0	0
Equity	0	0	0	0	0
Dividends	0	(4,329)	(1,390)	(3,251)	(3,633)
Others	15,297	19,627	75	82	158
Cash flow from financing	(1,475)	(1,475)	(1,315)	(3,169)	(3,475)
Changes in cash	(994)	(994)	1,245	3,296	3,228

Key Ratios	2021A	2022A	2023F	2024F	2025F
Gross margin	11.4%	8.9%	12.5%	12.9%	13.2%
Operating margin	5.7%	3.0%	6.6%	7.0%	7.4%
Pre-tax margin	5.8%	2.9%	6.5%	6.9%	7.3%
Net margin	4.5%	2.2%	5.1%	5.4%	5.7%
ROA	6.7%	3.1%	7.1%	7.5%	8.2%
ROE	9.5%	4.7%	10.8%	11.2%	12.1%
Acct. receivables TO (days)	7.8	7.3	6.8	6.8	6.8
Inventory TO (days)	144.1	152.8	147.8	142.8	137.8
Payable TO (days)	3.5	3.7	3.2	3.2	3.2
Debt to equity	17.0%	17.5%	16.1%	15.1%	14.1%
Interest coverage ratio (x)	94.9	14.4	32.1	35.8	41.4
Net gearing	10.0%	9.9%	7.1%	1.7%	-2.9%

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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