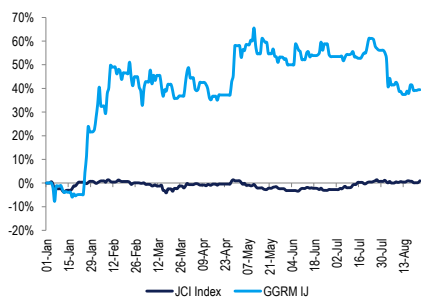


## Stock Data

Target price	Rp27,900
Prior TP	Rp33,000
Current price	Rp25,025
Upside/downside	11%
Shares outstanding (mn)	1,924
Market cap (Rp bn)	48,150
Free float	24%
Avg. 6m daily T/O (Rp bn)	46

## Price Performance

	3M	6M	12M
Absolute	-9.5%	-8.0%	2.4%
vs. JCI	-12.2%	-8.7%	5.7%
52w low/high (Rp)	16,600 – 29,800		



## Major Shareholders

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

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## Cautious tone from soft consumption outlook; downgrade our TP

- Soft purchasing power and a substantial volume decline of -22% yoy in 1H23 spell muted pricing adjustment for the remainder of FY23F.
- We tweak FY24F price/volume assumptions and adjust FY24F earnings by -8% as company balances between profitability and market share
- Despite potential earnings drag from airport commercialization, we maintain our Buy call with lower TP of Rp27,900 on attractive valuation.

### Soft consumption indicated muted price adjustment going forward

We recently met with GGRM's director Bpk. Heru Budiman. Among our discussions, we discussed about the softness in consumer's spending power, especially among grassroots; coupled with GGRM having raised prices significantly (+11.7%) in 1H23 YTD have resulted in volume decline of -22% yoy in 1H23, lower than industry's growth of -4.2% based on PMI data – as consumers down traded to cheaper lower tiered cigarette. Consequently, this means muted price adjustments for the remainder of FY23F. A potential consumption tailwind may come in the upcoming election spend (4Q23/1Q24F) but Pak Heru somewhat downplayed its significance while mentioning that the boost in spending may only impact for a few months.

### Volume and price hike adjustment for FY24F

Inferring from these, we slightly tweak our FY24F volume/ASP assumptions to -6.2/+8.7% yoy (from previously -3.6/+9.2% yoy) as a reflection of current weak spending power weighing on cigarette players' consideration to balance between profitability and market share, against the backdrop of yet a sizeable tier-1 excise hike of +11.5/+5.0% for SKM/SKT in FY24F. This leads to our downgrade of FY24F revenue/net profit by -3.2/-7.6% from previously.

### Airport commercialization may drag earnings and hasn't been priced-in

Separately, the commercialization the Dhoho Kediri International Airport would incur operational losses at the onset as airport traffic growth takes time. This is on top of depreciation costs that would be incurred upon commercialization – the ballpark calculation of which approximates at c.Rp 370bn, based on PT Surya Dhoho Investama's 1H23 non-land asset of Rp9.2tr and a depreciation rate of 4%. Based on [news](#) report, the timeline of its commercialization is expected to be in FY24F. Notably, we have yet to include the potential airport's operating losses to GGRM's FY24F forecasts.

### Maintain BUY with lower TP of Rp27,900/share on attractive valuation

Despite the slight cautious tone, we still maintain BUY rating for GGRM with a lower TP of Rp27,900/sh, pegged to 9.0x fwd. 12M PE (-1.5s.d. from its 5yr mean) vs. previously at Rp33,000 on attractive valuation and decent dividend yield. Downside risk is weak purchasing power.

Financial Summary (Rp bn)	2021A	2022A	2023F	2024F	2025F
Revenue	124,881	124,683	113,390	115,548	122,715
EBITDA	10,009	6,832	11,610	12,387	13,259
Net profit	5,605	2,780	5,967	6,138	6,602
EPS (Rp)	2,913	1,445	3,101	3,190	3,431
EPS growth	-26.7%	-50.4%	114.6%	2.9%	7.6%
ROE	9.5%	4.7%	10.0%	9.7%	9.9%
PER (x)	8.6	17.3	8.1	7.8	7.3
Dividend yield	10.4%	9.0%	4.8%	6.2%	6.4%
Forecast change			0%	-8%	-14%
IPS vs. consensus			92%	89%	81%

Sources: Company, Indo Premier

Share price closing as of: 23 Aug 2023

Fig. 1: Forecast changes

	Previous			Current			Changes		
	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
<b>Assumption</b>									
Blended ASP growth	14.0%	9.2%	9.6%	14.0%	8.7%	9.0%	0.0%	-0.5%	-0.6%
Blended volume growth	-20.4%	-3.6%	0.1%	-20.4%	-6.2%	-2.5%	0.0%	-2.6%	-2.6%
<b>Financial Perform. (Rp bn)</b>									
Net sales	113,390	119,307	130,716	113,390	115,548	122,715	0.0%	-3.2%	-6.1%
Gross profit	15,894	17,270	19,288	15,894	16,482	17,577	0.0%	-4.6%	-8.9%
EBIT	8,252	9,122	10,479	8,252	8,473	9,067	0.0%	-7.1%	-13.5%
EBITDA	11,610	13,022	14,658	11,610	12,387	13,259	0.0%	-4.9%	-9.5%
Net profit	5,967	6,645	7,704	5,967	6,138	6,602	0.0%	-7.6%	-14.3%
EPS (Rp)	3,101	3,454	4,004	3,101	3,190	3,431	0.0%	-7.6%	-14.3%
<b>Profitability (%)</b>									
Gross margin	14.0%	14.5%	14.8%	14.0%	14.3%	14.3%	0.0%	-0.2%	-0.4%
EBIT margin	7.3%	7.6%	8.0%	7.3%	7.3%	7.4%	0.0%	-0.3%	-0.6%
Net profit margin	5.3%	5.6%	5.9%	5.3%	5.3%	5.4%	0.0%	-0.3%	-0.5%

Sources: Indo Premier

Fig. 2: GGRM Airport and Toll road's project (Rp bn)

	2021	2022	Mar-23	Jun-23	Total estimated project cost
<b>Airport</b>					
PT Surya Dhoho Investama	6,046	8,938	10,209	10,938	13,000
<b>Toll road</b>					
PT Surya Kerta Agung	1,020	1,035	1,138	1,141	10,250
PT Surya Kertaagung Toll	200	313	313	514	
<b>Total</b>	<b>7,266</b>	<b>10,286</b>	<b>11,660</b>	<b>12,593</b>	<b>23,250</b>

Sources: Company, Indo Premier

**Fig. 3: GGRM is traded at 7.9x 12M forward P/E, (-1.7 s.d. from its 5-year mean)**



Sources: Bloomberg, Indo Premier

Income Statement (Rp bn)	2021A	2022A	2023F	2024F	2025F
Net revenue	124,881	124,683	113,390	115,548	122,715
Cost of sales	(110,609)	(113,587)	(97,496)	(99,066)	(105,138)
<b>Gross profit</b>	<b>14,273</b>	<b>11,096</b>	<b>15,894</b>	<b>16,482</b>	<b>17,577</b>
SG&A Expenses	(7,160)	(7,325)	(7,642)	(8,010)	(8,510)
<b>Operating profit</b>	<b>7,113</b>	<b>3,771</b>	<b>8,252</b>	<b>8,473</b>	<b>9,067</b>
Net interest	(75)	(262)	(603)	(603)	(603)
Forex gain (loss)	17	(9)	0	0	0
Others	232	147	0	0	0
<b>Pre-tax income</b>	<b>7,287</b>	<b>3,647</b>	<b>7,650</b>	<b>7,870</b>	<b>8,464</b>
Income tax	(1,682)	(867)	(1,683)	(1,731)	(1,862)
Minority interest	(0)	(0)	(0)	(0)	(0)
<b>Net income</b>	<b>5,605</b>	<b>2,780</b>	<b>5,967</b>	<b>6,138</b>	<b>6,602</b>

Balance Sheet (Rp bn)	2021A	2022A	2023F	2024F	2025F
Cash & equivalent	4,170	4,407	7,473	10,553	13,317
Receivable	2,774	2,181	2,098	2,138	2,270
Inventory	47,456	47,640	39,477	38,755	39,691
Other current assets	4,913	1,217	1,142	1,156	1,204
<b>Total current assets</b>	<b>59,313</b>	<b>55,445</b>	<b>50,190</b>	<b>52,602</b>	<b>56,482</b>
Fixed assets	29,780	32,426	39,069	40,154	40,962
Goodwill	0	0	0	0	0
<b>Total non-current assets</b>	<b>30,652</b>	<b>33,117</b>	<b>39,760</b>	<b>40,846</b>	<b>41,653</b>
<b>Total assets</b>	<b>89,964</b>	<b>88,563</b>	<b>89,949</b>	<b>93,448</b>	<b>98,135</b>
ST loans	9,948	10,048	10,048	10,048	10,048
Payable	1,002	1,309	858	872	926
Other payables	532	574	522	532	565
Current portion of LT loans	0	0	0	0	0
<b>Total current liab.</b>	<b>28,369</b>	<b>29,125</b>	<b>26,956</b>	<b>27,273</b>	<b>28,341</b>
Long term loans	123	65	65	65	65
Other LT liab.	2,184	1,516	1,379	1,405	1,492
<b>Total liabilities</b>	<b>30,676</b>	<b>30,707</b>	<b>28,400</b>	<b>28,744</b>	<b>29,898</b>
Equity	1,016	1,016	1,016	1,016	1,016
Retained earnings	58,306	56,874	60,533	63,688	67,221
Minority interest	0	0	0	0	0
<b>Total SHE + minority int.</b>	<b>59,288</b>	<b>57,856</b>	<b>61,549</b>	<b>64,704</b>	<b>68,237</b>
<b>Total liabilities &amp; equity</b>	<b>89,964</b>	<b>88,563</b>	<b>89,949</b>	<b>93,448</b>	<b>98,135</b>

Sources: Company, Indo Premier

Cash Flow Statement (Rp bn)	2021A	2022A	2023F	2024F	2025F
EBIT	7,113	3,771	8,252	8,473	9,067
Depr. & amortization	2,897	3,061	3,358	3,914	4,192
Changes in working capital	(2,939)	4,761	6,153	984	(48)
Others	(1,745)	(1,724)	(2,286)	(2,334)	(2,465)
<b>Cash flow from operating</b>	<b>5,325</b>	<b>9,868</b>	<b>15,477</b>	<b>11,037</b>	<b>10,746</b>
Capital expenditure	(4,935)	(5,424)	(10,000)	(5,000)	(5,000)
Others	90	74	0	0	0
<b>Cash flow from investing</b>	<b>(4,844)</b>	<b>(5,350)</b>	<b>(10,000)</b>	<b>(5,000)</b>	<b>(5,000)</b>
Loans	(16,772)	(266)	0	0	0
Equity	0	0	0	0	0
Dividends	0	0	(2,307)	(2,983)	(3,069)
Others	15,297	(4,329)	(104)	26	87
<b>Cash flow from financing</b>	<b>(1,475)</b>	<b>(4,595)</b>	<b>(2,411)</b>	<b>(2,957)</b>	<b>(2,982)</b>
<b>Changes in cash</b>	<b>(994)</b>	<b>(62)</b>	<b>3,066</b>	<b>3,080</b>	<b>2,764</b>

Key Ratios	2021A	2022A	2023F	2024F	2025F
Gross margin	11.4%	8.9%	14.0%	14.3%	14.3%
Operating margin	5.7%	3.0%	7.3%	7.3%	7.4%
Pre-tax margin	5.8%	2.9%	6.7%	6.8%	6.9%
Net margin	4.5%	2.2%	5.3%	5.3%	5.4%
ROA	6.7%	3.1%	6.7%	6.7%	6.9%
ROE	9.5%	4.7%	10.0%	9.7%	9.9%
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%	16.4%	15.6%	14.8%
Interest coverage ratio (x)	94.9	14.4	13.7	14.1	15.0
Net gearing	10.0%	9.9%	4.3%	-0.7%	-4.7%

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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