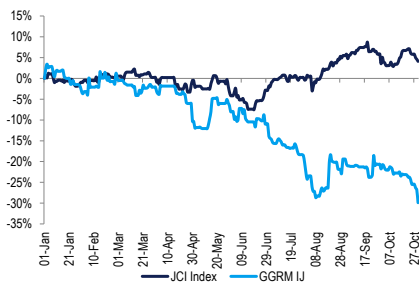


Stock Data

Target price	Rp14,400
Prior TP	Rp15,000
Current price	Rp14,250
Upside/downside	+1%
Shares outstanding (mn)	1,924
Market cap (Rp bn)	27,418
Free float	24%
Avg. 6m daily T/O (Rp bn)	12

Price Performance

	3M	6M	12M
Absolute	-12.0%	-21.8%	-38.8%
vs. JCI	-16.6%	-26.5%	-50.9%
52w low/high (Rp)	14,250 – 23,275		



Major Shareholders

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

Lukito Supriadi

PT Indo Premier Sekuritas
lukito.supriadi@ipc.co.id
+62 21 5088 7168 ext. 716

Andrianto Saputra

PT Indo Premier Sekuritas
andrianto.saputra@ipc.co.id
+62 21 5088 7168 ext. 712

3Q24 result: big miss from inability to pass on excise hike

- 9M24 net profit of Rp992bn (-77.7% yoy) came way below our/consensus estimate at 34/32% vs. 5yr avg. of 70%.
- 3Q24's net profit dropped to Rp67bn (-94% yoy), primarily due to soft GPM/NPM deterioration of -402/-423bps yoy to 9.4/0.3%.
- We cut FY25F net profit by -8% but upgrade to HOLD with a lower TP of Rp14,400 given the share price has dropped by 12% in the past 3M.

9M24 earnings significantly miss our/consensus estimate

GGRM booked 9M24 net profit of Rp992bn (-77.7% yoy) and severely missed our/consensus estimate at 34/32% (vs. 5yr avg of 70%). 9M24 revenue declined to Rp74tr (-9.6% yoy) while GPM sharply declined to 9.9% (-406bps yoy) – a clear indication that GGRM struggles to pass on excise hike. At the same time, negative operating leverage kicked in resulting in EBIT/net profit margin deterioration of -511/-411bps yoy to 2.2/1.3%.

3Q24: an extremely soft bottom line

In 3Q24, GGRM's dwindled to only Rp67bn (-94% yoy/-80% qoq). Pace of revenue contraction actually decelerated to -7.8% yoy (vs. 2Q24's -9.1% yoy). Nonetheless, GPM continued to decline to 9.4% (-402bps yoy/-15bps qoq). Given opex growth of +8.7% yoy, opex to sales increased to 8.5% (+129bps yoy/+95bps yoy). Hence, it translated to an NPM of merely 0.3%.

FY25F zero excise hike is a temporary reprieve; Adjust FY24/25F earnings by -55/-8%

Accounting for weak 3Q24 results, we adjust GGRM's FY24/25F earnings by -55/-8% along with the assumption of zero FY25F excise hike discussed in our recent tobacco report ([link](#)). Nonetheless, as discussed, we are not very upbeat on the tobacco names given that tier-1 players may struggle to raise ASP amidst the down-trading trend to more affordable alternatives. Further, in the previous zero tobacco excise hike in FY19, tobacco excise rose significantly in the following year by 23% in FY20.

Upgrade to HOLD with a lower TP of Rp14,400

Given GGRM's share price has declined by -12% in 3M, we upgrade our SELL rating to HOLD rating for GGRM. Amidst the soft spending power backdrop, we do not see a near-term catalyst to revive GGRM's margins and profits. Further, we note GGRM's capital allocation may still prioritize its infrastructure spending (toll-road), which is likely to reduce dividend payout in the near term. In sum, we upgrade our call upgrade to HOLD rating with a lower TP of Rp14,400/sh based on 9.0x FY25F PE (-1 s.d. from its 5yr avg).

Financial Summary (Rp bn)	2022A	2023A	2024F	2025F	2026F
Revenue	124,683	118,953	94,337	93,863	98,495
EBITDA	6,832	10,362	5,206	7,542	7,470
Net profit	2,780	5,325	1,418	3,070	2,547
EPS (Rp)	1,445	2,767	737	1,596	1,324
EPS growth	-50.4%	91.5%	-73.4%	116.6%	-17.1%
ROE	4.7%	9.0%	2.3%	4.8%	3.8%
PER (x)	9.9	5.1	19.3	8.9	10.8
Dividend yield	15.8%	15.8%	0.0%	0.0%	0.0%
Forecast change			-52%	-8%	-32%
IPS vs. consensus			50%	91%	60%

Sources: Company, Indo Premier

Share price closing as of: 30 October 2024

Fig. 1: GGRM's 3Q24 results

(Rp bn)	3Q24	3Q23	% YoY	2Q24	%QoQ	9M24	9M23	% YoY	IPS FY24F	% IPS	Cons FY24F	% Cons	5yr avg
Total sales	23,875	25,897	-7.8%	23,754	0.5%	73,893	81,749	-9.6%	94,337	78%	104,896	70%	73%
Total COGS	(21,622)	(22,413)	-3.5%	(21,478)	0.7%	(66,573)	(70,331)	-5.3%					
Gross profit	2,252	3,485	-35.4%	2,276	-1.0%	7,321	11,418	-35.9%					
Opex	(2,031)	(1,868)	8.7%	(1,794)	13.2%	(5,694)	(5,439)	4.7%					
EBIT	222	1,617	-86.3%	483	-54.0%	1,627	5,979	-72.8%	4,417	37%	4,451	37%	70%
Other income (charges)	(1)	35	-102.5%	149	NA	208	200	3.8%					
PBT	126	1,540	-91.8%	460	-72.5%	1,377	5,752	-76.1%					
Tax benefit (expense)	(60)	(371)	-83.9%	(130)	-53.9%	(385)	(1,295)	-70.2%					
Net profit	67	1,169	-94.3%	330	-79.8%	992	4,457	-77.7%	2,929	34%	3,085	32%	70%
Margins													
Gross margin	9.4%	13.5%		9.6%		9.9%	14.0%						
EBIT margin	0.9%	6.2%		2.0%		2.2%	7.3%						
Net margin	0.3%	4.5%		1.4%		1.3%	5.5%						
Segment information													
Revenue breakdown													
SKM	21,386	23,150	-7.6%	21,179	1.0%	23,353	27,033	-13.6%					
SKT	2,264	2,489	-9.1%	2,343	-3.4%	2,563	2,245	14.1%					
Others	225	258	-12.6%	232	-3%	47,978	52,470	-8.6%					
Revenue contribution													
SKM	89.6%	89.4%		89.2%		31.6%	33.1%						
SKT	9.5%	9.6%		9.9%		3.5%	2.7%						
Others	0.9%	1.0%		1.0%		64.9%	64.2%						

Sources: Company, Bloomberg, Indo Premier

Fig. 2: GGRM's forecast changes

	Previous			Current			Changes		
	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F
Assumption									
Blended ASP growth	3.7%	4.8%	4.9%	1.5%	2.7%	5.0%	-2.2%	-2.1%	0.1%
Blended volume growth	-6.4%	-3.4%	1.0%	-12.9%	-3.1%	0.0%	-6.5%	0.3%	-1.0%
Financial Perform. (Rp bn)									
Net sales	103,454	104,717	110,809	94,337	93,863	98,495	-8.8%	-10.4%	-11.1%
Gross profit	11,171	12,001	13,118	9,666	11,779	11,325	-13.5%	-1.8%	-13.7%
EBIT	4,417	4,928	5,489	2,356	4,434	3,951	-46.7%	-10.0%	-28.0%
EBITDA	7,267	8,035	8,853	5,206	7,542	7,470	-28.4%	-6.1%	-15.6%
Net profit	2,929	3,328	3,765	1,418	3,070	2,547	-51.6%	-7.7%	-32.4%
EPS (Rp)	1,522	1,729	1,957	737	1,596	1,324	-51.6%	-7.7%	-32.4%
Profitability (%)									
Gross margin	10.8%	11.5%	11.8%	10.2%	12.5%	11.5%	-0.5%	1.1%	-0.3%
EBIT margin	4.3%	4.7%	5.0%	2.5%	4.7%	4.0%	-1.8%	0.0%	-0.9%
Net profit margin	2.8%	3.2%	3.4%	1.5%	3.3%	2.6%	-1.3%	0.1%	-0.8%

Sources: Company, Bloomberg, Indo Premier

Fig. 3: GGRM is traded at 8.9x 12M forward P/E, (-0.4 s.d. from its 5-year mean)



Sources: Bloomberg, Indo Premier

Income Statement (Rp bn)	2022A	2023A	2024F	2025F	2026F
Net revenue	124,683	118,953	94,337	93,863	98,495
Cost of sales	(113,587)	(104,357)	(84,671)	(82,084)	(87,170)
Gross profit	11,096	14,596	9,666	11,779	11,325
SG&A Expenses	(7,325)	(7,335)	(7,310)	(7,345)	(7,374)
Operating profit	3,771	7,261	2,356	4,434	3,951
Net interest	(262)	(579)	(538)	(499)	(687)
Forex gain (loss)	(9)	6	0	0	0
Others	147	173	0	0	0
Pre-tax income	3,647	6,861	1,818	3,936	3,265
Income tax	(867)	(1,536)	(400)	(866)	(718)
Minority interest	(0)	(0)	(0)	(0)	(0)
Net income	2,780	5,325	1,418	3,070	2,547

Balance Sheet (Rp bn)	2022A	2023A	2024F	2025F	2026F
Cash & equivalent	4,407	4,256	3,738	4,054	4,723
Receivable	2,181	1,952	1,639	1,631	1,711
Inventory	47,640	46,486	37,025	34,769	35,729
Other current assets	1,217	1,421	1,209	1,205	1,245
Total current assets	55,445	54,115	43,611	41,659	43,408
Fixed assets	32,426	24,551	26,700	31,592	36,074
Goodwill	0	13,008	13,008	13,008	13,008
Total non-current assets	33,117	38,336	40,485	45,377	49,858
Total assets	88,563	92,451	84,096	87,036	93,267
ST loans	10,048	13,396	8,396	8,396	11,396
Payable	1,309	1,065	963	934	991
Other payables	574	433	343	341	358
Current portion of LT loans	0	0	0	0	0
Total current liab.	29,125	29,536	20,623	20,499	24,126
Long term loans	65	0	0	0	0
Other LT liab.	1,516	1,461	1,159	1,153	1,210
Total liabilities	30,707	31,588	21,782	21,652	25,336
Equity	1,016	1,016	1,016	1,016	1,016
Retained earnings	56,874	59,880	61,298	64,368	66,915
Minority interest	0	0	0	0	0
Total SHE + minority int.	57,856	60,863	62,314	65,384	67,930
Total liabilities & equity	88,563	92,451	84,095	87,035	93,266

Sources: Company, Indo Premier

Cash Flow Statement (Rp bn)	2022A	2023A	2024F	2025F	2026F
EBIT	3,771	7,261	2,356	4,434	3,951
Depr. & amortization	3,061	3,101	2,851	3,108	3,519
Changes in working capital	4,761	(1,757)	6,072	2,144	(453)
Others	(1,724)	(4,196)	(938)	(1,364)	(1,405)
Cash flow from operating	9,868	4,409	10,341	8,322	5,612
Capital expenditure	(5,424)	(5,698)	(5,000)	(8,000)	(8,000)
Others	74	191	(590)	0	0
Cash flow from investing	(5,350)	(5,508)	(5,590)	(8,000)	(8,000)
Loans	(266)	3,312	(5,000)	0	3,000
Equity	0	0	0	0	0
Dividends	(4,329)	(2,309)	0	0	0
Others	0	0	(269)	(6)	57
Cash flow from financing	(4,595)	1,003	(5,269)	(6)	3,057
Changes in cash	(62)	(99)	(518)	316	669

Key Ratios	2022A	2023A	2024F	2025F	2026F
Gross margin	8.9%	12.3%	10.2%	12.5%	11.5%
Operating margin	3.0%	6.1%	2.5%	4.7%	4.0%
Pre-tax margin	2.9%	5.8%	1.9%	4.2%	3.3%
Net margin	2.2%	4.5%	1.5%	3.3%	2.6%
ROA	3.1%	5.9%	1.6%	3.6%	2.8%
ROE	4.7%	9.0%	2.3%	4.8%	3.8%
Acct. receivables TO (days)	7.3	6.3	6.3	6.3	6.3
Inventory TO (days)	152.8	164.6	159.6	154.6	149.6
Payable TO (days)	3.7	4.2	4.2	4.2	4.2
Debt to equity	17.5%	22.0%	13.5%	12.8%	16.8%
Interest coverage ratio (x)	14.4	12.5	4.4	8.9	5.8
Net gearing	9.9%	15.0%	7.5%	6.6%	9.8%

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

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

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