

Gudang Garam

SELL (unchanged)

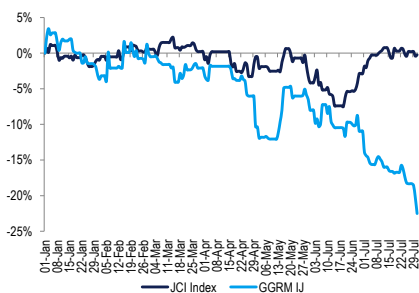
Company Update | Tobacco | GGRM IJ | 31 July 2024

Stock Data

Target price	Rp15,000
Prior TP	Rp15,000
Current price	Rp15,750
Upside/downside	5%
Shares outstanding (mn)	1,924
Market cap (Rp bn)	30,304
Free float	24%
Avg. 6m daily T/O (Rp bn)	19

Price Performance

	3M	6M	12M
Absolute	-13.6%	-21.0%	-42.7%
vs. JCI	-13.9%	-21.8%	-48.1%
52w low/high (Rp)	15,750 – 27,500		



Major Shareholders

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

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2Q24 results: significant miss from further margin deterioration

- 1H24 net profit of Rp926bn (-71.9% yoy) came way below ours/consensus estimate at 32/22% vs. 5yr avg. of 45%.
- 2Q24 GPM of 9.6% saw further contraction of -411bps yoy/-105bps qoq as GGRM struggled to raise prices to pass on excise.
- Management has decided not to distribute dividend in the recent AGMS. Maintain SELL with unchanged TP of Rp15,000.

1H24 earnings missed our/consensus estimates

GGRM posted 1H24 net profit of Rp926bn (-71.9% yoy) and this came way below ours/consensus estimate at 32/22% (vs. 5yr avg of 45%). 1H24 revenue declined to Rp50tr (-10.4% yoy) while GPM declined to 10.1% (-407bps yoy). At the same time, opex still up by +2.6% yoy resulting in negative operating leverage to EBIT/net profit margin deterioration of -500/-404bps yoy to 2.8/1.9%. Separately, the company has spent 1H24 capex of Rp1.8tr likely related to the toll-road infrastructure projects, part of which is expected to commence construction in 2H24.

2Q24: another challenging quarter with market share decline

Reading across from PMI's 2Q24 data, we infer smokers' downtrading trend to lower tiered cigarettes intensifies as industry volume growth (-0.4% yoy) remained stable in 2Q24. Coupled with the soft spending power backdrop, this explain GGRM's 2Q24 revenue decline of -9.1% yoy. Based on our channel check, GGRM's 2Q24 SKM price adjustment was benign at +1.4% YTD (vs. +15.1% in 2Q23), resulting in a sharp GPM contraction of -411bps yoy/-105bps qoq to 9.6%. In addition, opex to sales rose by 89bps yoy to 7.6% as total opex remained stable (+3.2% yoy).

Maintain SELL with TP of Rp15,000

In the recent AGMS, management has disclosed to fully allocate FY23 profits to retained earnings to bolster working capital – which is a disappointment for investors that were investing in anticipation for the dividends. Amidst the soft spending power backdrop, we do not see a near-term catalyst to revive GGRM's margins and profits. Hence, we maintain sell for GGRM with TP of Rp15,000 based on 10.0x FY24F PE (-1.s.d from its 5yr avg).

Financial Summary (Rp bn)	2022A	2023A	2024F	2025F	2026F
Revenue	124,683	118,953	103,494	104,717	110,809
EBITDA	6,832	10,362	7,268	8,035	8,853
Net profit	2,780	5,325	2,929	3,328	3,765
EPS (Rp)	1,445	2,767	1,523	1,729	1,957
EPS growth	-50.4%	91.5%	-45.0%	13.6%	13.2%
ROE	4.7%	9.0%	4.8%	5.4%	5.9%
PER (x)	12.6	6.6	12.0	10.5	9.3
Dividend yield	12.3%	12.3%	7.6%	4.2%	4.7%
Forecast change			-36%	-31%	-10%
IPS vs. consensus			53%	56%	61%

Sources: Company, Indo Premier

Share price closing as of: 31 July 2024

Fig. 1: GGRM's 2Q24 results

(Rp bn)	2Q24	2Q23	% YoY	1Q24	%QoQ	1H24	1H23	% YoY	IPS FY24F	% IPS	Cons FY24F	% Cons	5yr avg
Total sales	23,754	26,120	-9.1%	26,265	-9.6%	50,019	55,851	-10.4%	103,494	48%	108,786	46%	48%
Total COGS	(21,478)	(22,543)	-4.7%	(23,473)	-8.5%	(44,950)	(47,918)	-6.2%					
Gross profit	2,276	3,577	-36.4%	2,792	-18.5%	5,069	7,933	-36.1%					
Opex	(1,794)	(1,739)	3.2%	(1,870)	-4.1%	(3,664)	(3,571)	2.6%					
EBIT	483	1,839	-73.8%	922	-47.7%	1,405	4,362	-67.8%	4,417	32%	5,601	25%	45%
PBT	460	1,713	-73.2%	791	-41.9%	1,251	4,212	-70.3%					
Tax benefit (expense)	(130)	(388)	-66.5%	(196)	-33.7%	(325)	(924)	-64.8%					
Net profit	330	1,325	-75.1%	596	-44.6%	926	3,288	-71.9%	2,929	32%	4,260	22%	45%
Margins													
Gross margin	9.6%	13.7%		10.6%		10.1%	14.2%						
EBIT margin	2.0%	7.0%		3.5%		2.8%	7.8%						
Net margin	1.4%	5.1%		2.3%		1.9%	5.9%						

Sources: Company, Bloomberg, Indo Premier

Fig. 2: GGRM is traded at 9.6x 12M forward P/E, (-1.2 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	103,494	104,717	110,809
Cost of sales	(113,587)	(104,357)	(92,322)	(92,717)	(97,691)
Gross profit	11,096	14,596	11,173	12,001	13,118
SG&A Expenses	(7,325)	(7,335)	(6,755)	(7,073)	(7,629)
Operating profit	3,771	7,261	4,417	4,928	5,489
Net interest	(262)	(579)	(661)	(661)	(661)
Forex gain (loss)	(9)	6	0	0	0
Others	147	173	0	0	0
Pre-tax income	3,647	6,861	3,756	4,266	4,827
Income tax	(867)	(1,536)	(826)	(939)	(1,062)
Minority interest	(0)	(0)	(0)	(0)	(0)
Net income	2,780	5,325	2,929	3,328	3,765

Balance Sheet (Rp bn)	2022A	2023A	2024F	2025F	2026F
Cash & equivalent	4,407	4,256	5,287	6,476	6,865
Receivable	2,181	1,952	1,798	1,819	1,925
Inventory	47,640	46,486	40,370	39,273	40,042
Other current assets	1,217	1,421	1,288	1,298	1,351
Total current assets	55,445	54,115	48,743	48,867	50,183
Fixed assets	32,426	24,551	26,700	28,592	30,228
Goodwill	0	13,008	13,008	13,008	13,008
Total non-current assets	33,117	38,336	40,485	42,377	44,012
Total assets	88,563	92,451	89,228	91,244	94,195
ST loans	10,048	13,396	13,396	13,396	13,396
Payable	1,309	1,065	1,050	1,054	1,111
Other payables	574	433	377	381	403
Current portion of LT loans	0	0	0	0	0
Total current liab.	29,125	29,536	26,793	26,931	27,707
Long term loans	65	0	0	0	0
Other LT liab.	1,516	1,461	1,271	1,286	1,361
Total liabilities	30,707	31,588	28,064	28,218	29,068
Equity	1,016	1,016	1,016	1,016	1,016
Retained earnings	56,874	59,880	60,148	62,010	64,112
Minority interest	0	0	0	0	0
Total SHE + minority int.	57,856	60,863	61,163	63,026	65,128
Total liabilities & equity	88,563	92,451	89,228	91,244	94,195

Sources: Company, Indo Premier

Cash Flow Statement (Rp bn)	2022A	2023A	2024F	2025F	2026F
EBIT	3,771	7,261	4,417	4,928	5,489
Depr. & amortization	3,061	3,101	2,851	3,108	3,365
Changes in working capital	4,761	(1,757)	3,659	1,204	(152)
Others	(1,724)	(4,196)	(1,488)	(1,600)	(1,723)
Cash flow from operating	9,868	4,409	9,440	7,639	6,978
Capital expenditure	(5,424)	(5,698)	(5,000)	(5,000)	(5,000)
Others	74	191	(590)	0	0
Cash flow from investing	(5,350)	(5,508)	(5,590)	(5,000)	(5,000)
Loans	(266)	3,312	0	0	0
Equity	0	0	0	0	0
Dividends	(4,329)	(2,309)	(2,662)	(1,465)	(1,664)
Others	0	0	(157)	15	75
Cash flow from financing	(4,595)	1,003	(2,819)	(1,450)	(1,589)
Changes in cash	(62)	(99)	1,031	1,189	389

Key Ratios	2022A	2023A	2024F	2025F	2026F
Gross margin	8.9%	12.3%	10.8%	11.5%	11.8%
Operating margin	3.0%	6.1%	4.3%	4.7%	5.0%
Pre-tax margin	2.9%	5.8%	3.6%	4.1%	4.4%
Net margin	2.2%	4.5%	2.8%	3.2%	3.4%
ROA	3.1%	5.9%	3.2%	3.7%	4.1%
ROE	4.7%	9.0%	4.8%	5.4%	5.9%
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%	21.9%	21.3%	20.6%
Interest coverage ratio (x)	14.4	12.5	6.7	7.4	8.3
Net gearing	9.9%	15.0%	13.3%	11.0%	10.0%

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

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