

Gudang Garam Tbk (GGRM)

Profitability Margin Contracts

Throughout 1Q22, GGRM booked 1.5% YoY decline in revenue to IDR29.3 trillion, pressured by falling SKM and SKT. The profit in 1Q22 also fell 38.3% YoY to IDR1.1 trillion. Meanwhile, the profitability margins, GPM, OPM, and NPM in 1Q22 were also lower at 11.2%, 5.0%, and 3.7%.

SKM and SKT Not Yet Able to Grow

- GGRM booked 1Q22 revenue of IDR29.3 trillion or down 1.5% YoY (vs 1Q21: IDR29.7 trillion). The decline was also due to lower SKM revenue which contributed 91.2% to IDR26.7 trillion (-1.7% YoY) and SKT revenue also declined 6.3% YoY to IDR2.0 trillion.
- Domestic revenue in 1Q22 was down 1.2% YoY to IDR28.9 trillion (vs 1Q21: IDR29.3 trillion) where income from both SKM and SKT each declined 1.4% YoY and 6.1% YoY. Meanwhile, export revenue which only contributed 1.2% in 1Q22 also fell 20.8% YoY to IDR346.9 billion (vs 1Q21: IDR437.8 billion).
- Amid the top line decline in 1Q22, we projected 2022F revenue to be able to grow 7.6% YoY to IDR134.3 trillion (vs 2021: IDR124.9 trillion) in line with the expectation that the consumers' purchasing power will recover.

Excise Tax Increase Suppress Profit

- Gross profit in 1Q22 fell 16.3% YoY to IDR3.3 trillion amid 0.7% YoY increase to the cost of sold goods. This increase is due to the 6.4% rise of excise tax rate to IDR25.1 trillion (vs 1Q21: IDR 23.5 trillion) that contributed 96.3%.
- Selling expenses went up 9.5% YoY in 1Q22, supported by rising transportation, freight, advertisement, promotion and other marketing costs by 22.4% YoY to IDR642.2 billion so profit contracted 9.8% YoY to IDR5.3 trillion. Net profit in 1Q22 was also not able to grow, and fell 38.3% YoY to IDR1.1 trillion (vs 1Q21: IDR1.7 trillion).
- In line with the decline of profit, GGRM margin in 1Q22 contracted. GPM contracted 15.0% YoY to 11.2% (vs 1Q21: 13.1%), while OPM and NPM were down each to 5.0% and 3.7% (vs 1Q21: 7.5% dan 5.9%).

Recommend OVERWEIGHT with TP of IDR32,700/share

- We recommend OVERWEIGHT for GGRM with TP of IDR32,700/share with a potential upside of 6.6%. Meanwhile, risks of excise tax increase, down trading to more affordable cigarettes, and consumer purchasing power.

Gudang Garam Tbk | Summary (IDR bn)

	2021A	2022E	2022F	2023F
Revenue	124,881	134,322	145,739	158,418
Growth	9.1%	7.6%	8.5%	8.7%
Net Profit	5,605	5,582	5,643	5,911
Growth	-26.7%	-0.4%	1.1%	4.8%
EPS (IDR)	2,913	2,901	2,933	3,072
P/E	10.5x	11.3x	11.1x	10.6x
P/BV	1.0x	1.0x	1.0x	1.0x
EV/EBITDA	5.9x	6.8x	7.0x	6.6x
ROE	9.5%	9.2%	9.0%	9.2%
DER	0.2x	0.2x	0.2x	0.2x
Dividend Yield	8.5%	6.0%	5.7%	5.4%

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

Company Report | June 14, 2022

OVERWEIGHT

Target Price (IDR)	32,700
Consensus Price (IDR)	31,863
TP to Consensus Price	+2.6%
vs. Last Price	+6.6%

Shares data

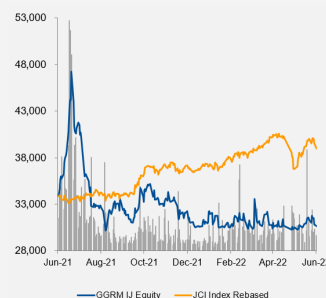
Last Price (IDR)	30,675
Price date as of	June 13, 2022
52 wk range (Hi/Low)	47,250 / 29,850
Free float (%)	23.8
Outstanding sh.(mn)	1,924
Market Cap (IDR bn)	59,021
Market Cap (USD mn)	4,020
Avg. Trd Vol - 3M (mn)	1,010
Avg. Trd Val - 3M (bn)	31,338
Foreign Ownership	6.0%

Consumer Staples

Cigarette

Bloomberg	GGRM IJ
Reuters	GGRM.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	0.0%	0.5%	0.4%	-15.3%
Rel. Ret.	-5.0%	-5.5%	-0.2%	-25.9%

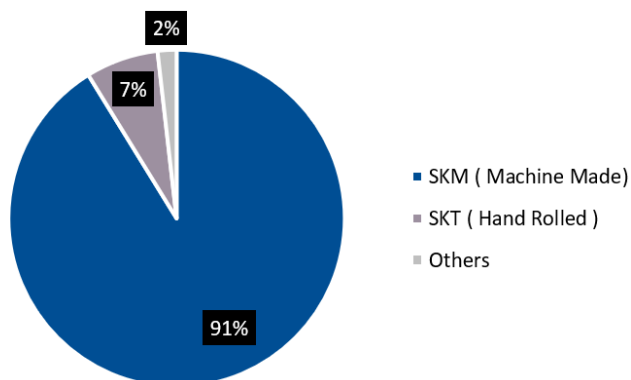
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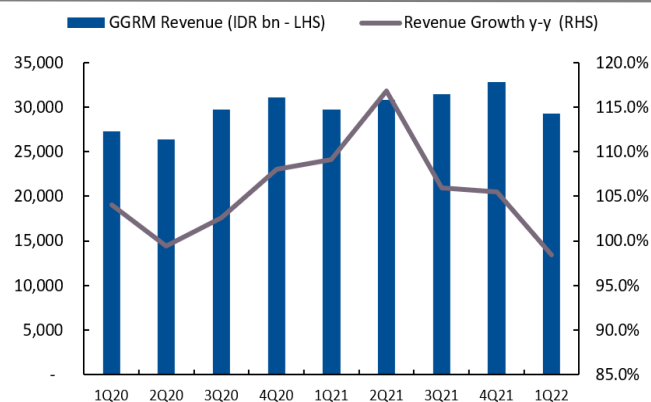
Performance Highlights in Charts

GGRM Revenue Breakdown | 1Q22



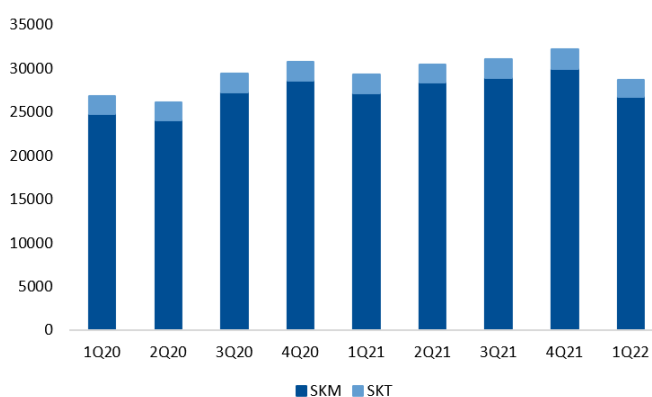
Source: Company Data, NHKSI Research

GGRM Quarterly Revenue (IDR bn) | 1Q20 - 1Q22



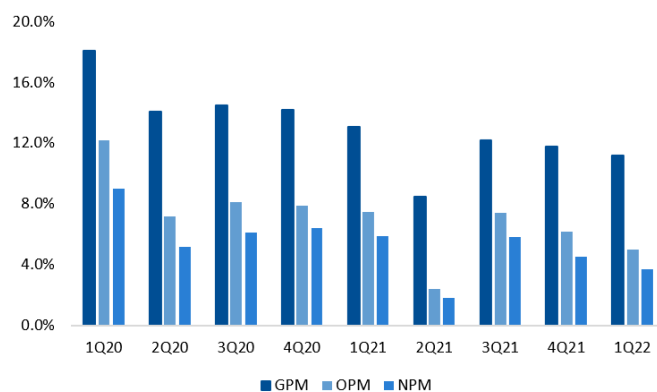
Source: Company Data, NHKSI Research

SKM and SKT Sales (IDR Bn) | 1Q20 - 1Q22



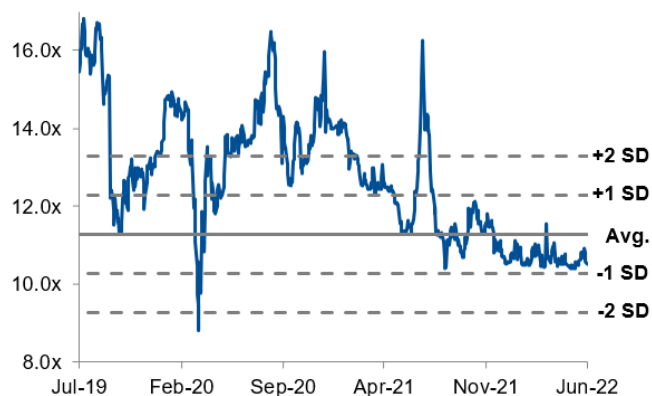
Source: Company Data, NHKSI Research

GGRM Quarterly Margins | 1Q20 - 1Q22



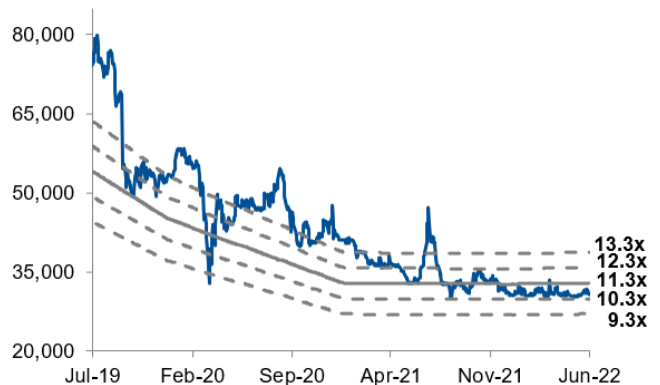
Source: Company Data, NHKSI Research

Forward P/E Band | Last 3 Years



Source: Company Data, NHKSI Research

Dynamic Forward P/E Band | Last 3 Years



Source: Company Data, NHKSI Research

Summary of Financials

INCOME STATEMENT

(IDR bn)	2021/12A	2022/12E	2023/12E	2024/12E
Sales	124,881	134,322	145,739	158,418
Growth	9.1%	7.6%	8.5%	8.7%
COGS	(110,609)	(119,467)	(130,107)	(141,770)
Gross Profit	14,273	14,855	15,632	16,648
Gross Margin	11.4%	11.1%	10.7%	10.5%
Operating Expenses	(6,928)	(7,388)	(8,161)	(8,791)
EBIT	7,345	7,467	7,471	7,857
EBIT Margin	5.9%	5.6%	5.1%	5.0%
Depreciation	2,897	2,717	2,780	2,798
EBITDA	10,242	10,185	10,250	10,655
EBITDA Margin	8.2%	7.6%	7.0%	6.7%
Interest Expenses	(75)	(229)	(152)	(190)
EBT	7,287	7,256	7,336	7,684
Income Tax	(1,682)	(1,675)	(1,693)	(1,773)
Minority Interest	-	-	-	-
Net Profit	5,605	5,582	5,643	5,911
Growth	-26.7%	-0.4%	1.1%	4.8%
Net Profit Margin	4.5%	4.2%	3.9%	3.7%

BALANCE SHEET

(IDR bn)	2021/12A	2022/12E	2023/12E	2024/12E
Cash	4,170	3,460	2,083	2,934
Receivables	2,774	2,984	3,237	3,519
Inventories	47,456	50,173	55,232	59,862
Total Current Assets	59,313	60,287	64,184	70,386
Net Fixed Assets	29,780	30,788	29,049	27,395
Other Non Current Assets	872	1,037	986	965
Total Non Current Asset	30,652	31,826	30,035	28,360
Total Assets	89,964	92,113	94,219	98,746
Payables	1,002	1,233	1,261	1,418
ST Bank Loan	9,980	12,329	9,861	11,382
Total Current Liabilities	28,369	28,695	29,477	31,701
LT Debt	123	199	179	176
Total Liabilities	30,676	31,299	31,743	34,185
Capital Stock	1,016	1,016	1,016	1,016
Retained Earnings	58,306	59,831	61,493	63,578
Shareholders' Equity	59,288	60,814	62,475	64,561

CASH FLOW STATEMENT

(IDR bn)	2021/12A	2022/12E	2023/12E	2024/12E
Operating Cash Flow	5,325	4,592	6,399	4,061
Investing Cash Flow	(4,844)	(3,974)	(1,724)	(1,342)
Financing Cash Flow	(1,086)	(1,327)	(6,052)	(1,867)
Net Changes in Cash	(605)	(710)	(1,377)	851

PROFITABILITY & STABILITY

	2021/12A	2022/12E	2023/12E	2024/12E
ROE	9.5%	9.2%	9.0%	9.2%
ROA	6.2%	6.1%	6.0%	6.0%
Inventory Turnover	2.3x	2.4x	2.4x	2.4x
Receivable Turnover	45.0x	45.0x	45.0x	45.0x
Payables Turnover	3.3x	3.8x	3.5x	3.7x
Dividend Yield	8.5%	6.0%	5.7%	5.4%
Payout Ratio	65.4%	66.9%	63.9%	60.0%
DER	0.2x	0.2x	0.2x	0.2x
Net Gearing	0.2x	0.2x	0.2x	0.2x
Equity Ratio	65.9%	66.0%	66.3%	65.4%
Debt Ratio	11.2%	13.6%	10.7%	11.7%
Financial Leverage	142.7%	151.6%	151.1%	151.9%
Current Ratio	209.1%	210.1%	217.7%	222.0%
Quick Ratio	0.4x	0.4x	0.3x	0.3x
Par Value (IDR)	500	500	500	500
Total Shares (mn)	1,924	1,924	1,924	1,924
Share Price (IDR)	30,600	32,700	32,700	32,700
Market Cap (IDR tn)	58.9	62.9	62.9	62.9

VALUATION INDEX

	2021/12A	2022/12E	2023/12E	2024/12E
Price /Earnings	10.5x	11.3x	11.1x	10.6x
PE/EPS Growth	-0.4x	-27.0x	10.2x	2.2x
Price /Book Value	1.0x	1.0x	1.0x	1.0x
EV/EBITDA	5.9x	6.8x	7.0x	6.6x
EV/EBIT	8.2x	9.2x	9.6x	9.0x
EV (IDR bn)	60,255	68,818	71,952	70,842
Sales CAGR (3-Yr)	11.2%	9.3%	6.7%	8.4%
Net Income CAGR (3-Yr)	-0.5%	-10.4%	-19.9%	-9.6%
Basic EPS (IDR)	2,913	2,901	2,933	3,072
BVPS (IDR)	30,814	31,607	32,470	33,554
DPS (IDR)	2,600	1,950	1,853	1,760

OWNERSHIP

Top Shareholders	%
Suryaduta Investama	69.3
Suryamitra Kusuma	6.3
Vanguard Group	0.8
Blacrock Inc	0.7
By Geography	%
Indonesia	94.0
United States	3.3
Unknown	0.8
Japan	0.5

Source: Bloomberg, NHKSI research

NH Korindo Sekuritas Indonesia (NHKSI) Stock Ratings

1. Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
2. Rating system based on a stock's potential upside from the date of publication
 - Buy : Greater than +15%
 - Overweight : +5% to 15%
 - Hold : -5% to +5%
 - Underweight : -5% to -15%
 - Sell : Less than -15%

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