

Avia Avian Tbk. (AVIA)

Still in Color Despite Sluggish 2Q24 Performance

In the first semester of 2024, AVIA posted a flat profit compared to the same period last year, at IDR 808.1B in 1H24 (1H23: IDR 807.6B). Sales revenue still grew +3.21% YoY to IDR 3.62T in 1H24 (1H23: IDR 3.51T). The stagnant performance was caused by a decline in 2Q24, where revenue fell by -0.63% YoY and -9.95% QoQ to IDR 1.71T and net profit contracted by -7.32% YoY and -18.9% QoQ to IDR 362B in 2Q24. This weakening revenue is a challenge faced by AVIA, as the purchasing power of the community is quite eroded. This was reflected in the decline in both volume and nominal sales in 2Q24. Other than that, several competitors in the paint and coatings industry have also shown more aggressive marketing strategies, causing AVIA to increase its budget for marketing purposes.

AVIA's 2Q24 Performance: Sluggishness in Architectural Solutions Segment

- AVIA's 2Q24 performance was weak, as seen from the company's revenue dropping by -9.95% QoQ and -0.63% YoY to IDR 1.71T in 2Q24. Apart from food inflation, the decline in consumer purchasing power caused by the rise of online gambling and online lending started to show up in non-primary materials, especially paints and coatings as finishing materials. This was also reflected in AVIA's 2Q24 sales performance, where the architectural solutions segment's volume quantity sold decreased by -17.1% QoQ and -6.2% YoY (2Q24: 37,099 MT).
- In nominal terms, sales in the architectural solutions segment on a year-on-year basis were relatively stagnant +0.34% YoY to IDR 2.89T in 1H24. However, on a quarterly basis, the architectural solutions segment's sales performance as of 2Q24 decreased -16.1% QoQ and -5.5% YoY to IDR 1.32T in 2Q24. In the past year, it seems that AVIA has not increased the selling price of its products which is reflected in its sustainable Average Selling Price (ASP). The ASP of this architectural solutions segment is still quite stable and not increasing, as it recorded at +0.8% YoY and +1.2% QoQ to IDR 35,580/Kg in 2Q24. AVIA's ASP in 1H24 stood at IDR 35,354/Kg which only rose by 0.34% YoY.
- The merchandise segment experienced an increase in revenue growth by rising +19.7% YoY and +19.3% QoQ to IDR 395B in 2Q24. This segment experienced attractive growth amidst the sluggish sales of paints and coatings in 2Q24. As a result, the increase in merchandise contribution revenue triggered a slight contraction in AVIA's GPM in 2Q24.

Indonesia's Paint and Coatings Industry is Competitive and Aggressive

- In addition to the impact of food inflation and declining purchasing power leading to weak sales volumes of paints and coatings, AVIA's management provided insight into the paints and coatings industry. Several competitors in similar industries have been conducting aggressive marketing campaigns, which has spurred AVIA to increase its marketing intensity. As a result, this increased the cost of advertising and promotion expenses to IDR 81.53B in 1H24 (1H23: IDR 44.56B, +82.97% YoY). In addition, as of 2Q-24, AVIA did not release any new products.

Cirebon Factory Development Update

- Currently, the construction stage of AVIA's third factory in Cirebon, especially the lower structure of the foundation piles, has been successfully completed. Currently, the construction of the factory building is underway. As for the future, the Cirebon Factory is targeted to have a planned production capacity of 225,000 MT, where in the initial stage it will only use a capacity of 80,000-100,000 MT specifically focused on wall paint production and gradually increased as needed.

Buy Recommendation with Lower TP at IDR 620 (+38.4% Upside Potential)

- NHKSI Research maintains its BUY rating recommendation for AVIA, but with a lower target price of IDR 620 (+38.4% upside potential, implying 20.3x Forward-PE 2024). Despite AVIA's performance per 2Q24 experiencing a slight setback and contraction due to weakening sales, AVIA's valuation is still quite attractive given its position as a market leader in Indonesia's paint and coatings industry, as well as having a strong balance sheet if it wants to expand inorganically. Risks for AVIA include: the weakening of the rupiah which could lead to higher prices of some raw materials, weak purchasing power due to food inflation and the unfavorable macro-economic situation.

Avia Avian Tbk | Summary (IDR Bn)

In IDR Bn	2023A	2024E	2025F	2026F
Revenues	7,017	7,559	8,164	8,833
Revenues growth	4.8%	7.7%	8.0%	8.2%
Net profit	1,643	1,746	1,898	2,081
Growth	17.3%	6.3%	8.7%	9.6%
EPS (IDR)	27	28	31	34
P/E	16.9x	22.0x	21.1x	20.2x
P/BV	2.8x	3.8x	3.8x	3.9x
EV/EBITDA	11.3x	15.5x	15.2x	14.5x
ROE	16.6%	17.2%	18.1%	19.3%
Dividend yield	4.9%	3.9%	4.0%	4.2%
BVPS (IDR)	160	164	169	174
EBITDA margin	27.5%	27.2%	26.6%	27.5%
NPM	23.4%	23.1%	23.3%	23.6%
ROE	16.6%	17.2%	18.1%	19.3%
ROA	14.7%	14.5%	15.0%	16.0%
DPS (IDR)	22.0	24.0	26.0	28.5
EBITDA	1,928	2,057	2,175	2,426

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer



Company Report | 7 August 2024

Buy

Target Price (IDR)	620
Consensus Price (IDR)	694
TP to Consensus Price	-10.7%
Potential Upside	+38.4%

Shares data

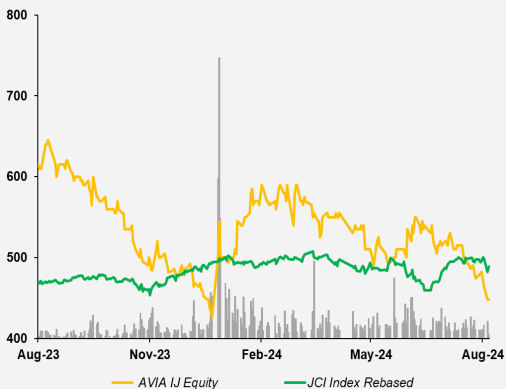
Last Price (IDR)	448
Price date as of	6 August, 2024
52 wk range (Hi/Low)	650 / 422
Free float (%)	24.36
Outstanding sh. (mn)	61,954
Market Cap (IDR bn)	27,879
Market Cap (USD mn)	1,725
Avg. Trd Vol - 3M (mn)	25
Avg. Trd Val - 3M (IDR bn)	12.49
Foreign Ownership	16.7%

Financial Services

Banking

Bloomberg	AVIA IJ
Reuters	AVIA.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-10.4%	-12.2%	-14.7%	-30.0%
Rel. Ret.	-7.7%	-10.5%	-14.7%	-33.5%

Leonardo Lijuwardi

(021) 5088 9127

Leonardo.lijuwardi@nhsec.co.id

Summary of 1H24 / 2Q24 AVIA Result

(In IDR Billion)	1H23	1H24	YoY Growth	1Q23	2Q23	1Q24	2Q24	QoQ Growth	YoY Growth
AVIA Income Statement 1H24									
Revenue	IDR 3,508	IDR 3,621	3.21%	IDR 1,782	IDR 1,726	IDR 1,905	IDR 1,716	-9.95%	-0.63%
COGS	IDR (1,924)	IDR (1,991)	3.49%	IDR (975)	IDR (949)	IDR (1,019)	IDR (972)	-4.66%	2.37%
Gross Profit	IDR 1,584	IDR 1,629	2.87%	IDR 807	IDR 777	IDR 886	IDR 744	-16.03%	-4.29%
GPM	45.2%	45.0%		45.3%	45.0%	46.5%	43.3%		
Operating Expenses									
Marketing Expenses	IDR (548)	IDR (621)	13.21%	IDR (268)	IDR (280)	IDR (332)	IDR (289)	-12.81%	3.28%
G&A Expenses	IDR (113)	IDR (125)	10.70%	IDR (52)	IDR (61)	IDR (58)	IDR (67)	14.61%	8.72%
Operating Profit	IDR 923	IDR 884	-4.23%	IDR 487	IDR 436	IDR 496	IDR 388	-21.78%	-10.99%
OPM	26.3%	24.4%		27.3%	25.2%	26.0%	22.6%		
Other Income	IDR (17)	IDR (3)	-83.48%	IDR (22)	IDR 5	IDR (1)	IDR (2)	98.41%	-137.51%
Finance Income (Expenses)	IDR 138	IDR 142	2.58%	IDR 73	IDR 65	IDR 73	IDR 69	-5.95%	6.07%
Finance Costs	IDR (2)	IDR (1)		IDR (1)	IDR (1)	IDR (1)	IDR (1)	12.45%	-29.23%
Earning Before Tax	IDR 1,042	IDR 1,021	-2.00%	IDR 538	IDR 505	IDR 567	IDR 454	-19.98%	-10.02%
Income Tax Expenses	IDR (235)	IDR (213)	-9.13%	IDR (121)	IDR (114)	IDR (121)	IDR (92)	-23.95%	-19.26%
Net Profit	IDR 808	IDR 808	0.07%	IDR 417	IDR 390	IDR 446	IDR 362	-18.90%	-7.32%
NPM	23.0%	22.3%		23.4%	22.6%	23.4%	21.1%		

	1H23	1H24	YoY Growth	1Q23	2Q23	1Q24	2Q24	QoQ Growth	YoY Growth
AVIA Segment Breakdown									
Revenue (In IDR Billion)									
Architectural Solution	IDR 2,888	IDR 2,894	0.21%	IDR 1,491	IDR 1,397	IDR 1,574	IDR 1,320	-16.14%	-5.51%
Trading Goods	IDR 620	IDR 726	17.10%	IDR 290	IDR 330	IDR 331	IDR 395	19.34%	19.70%
Gross Profit Margin Per Segment									
Architectural Solution	51.0%	51.8%		50.6%	51.4%	52.4%	51.0%		
Trading Goods	18.0%	18.1%		18.1%	17.9%	18.4%	17.8%		

Source: Company Data, Bloomberg, NHKSI Research

AVIA Global—Asian Peers Comparison

Ticker Name	Country	Market Cap (IDR Bn)	Net Profit LTM (IDR Bn)	ROE (LTM)	Dividend Yield (%)
Sherwin-Williams	United States	1,227,282	36,397	72.5%	0.9
RPM International Inc.	United States	228,321	7,243	25.3%	1.7
Nippon Paint Holdings Co. Ltd	Japan	258,011	12,865	9.4%	1.3
Kansai Paint Co. Ltd.	Japan	54,305	7,127	22.3%	1.6
Asian Paints Ltd.	India	539,146	10,121	31.5%	1.2
Berger Paints India Ltd.	India	114,385	2,164	23.7%	0.5
Akzo Nobel N.V	Netherlands	172,236	7,282	11.8%	3.5
Average				28.0%	1.5
Avia Avian Tbk.	Indonesia	27,879	1,642	16.9%	4.9

Ticker Name	Country	P/E Ratio			P/B Ratio			Gross Profit Margin (%)			EBITDA Margin (%)			Net Profit Margin (%)		
		2022	2023	2024F	2022	2023	2024F	2022	2023	2024F	2022	2023	2024F	2022	2023	2024F
Sherwin-Williams	United States	30.2x	32.4x	26.0x	19.8x	21.4x	18.2x	42.1%	46.7%	48.1%	18.4%	20.5%	19.2%	9.1%	10.4%	11.7%
RPM International Inc.	United States	23.8x	17.0x	22.3x	5.7x	4.8x	5.7x	36.3%	37.9%	41.2%	13.7%	13.8%	15.2%	7.3%	6.8%	8.6%
Nippon Paint Holdings Co. Ltd	Japan	30.7x	22.6x	19.3x	2.1x	2.0x	1.7x	37.2%	39.9%	41.6%	12.1%	15.3%	15.3%	6.1%	8.2%	8.3%
Kansai Paint Co. Ltd.	Japan	19.1x	17.1x	7.3x	1.6x	1.4x	1.5x	29.8%	26.9%	30.8%	11.5%	10.2%	13.2%	6.3%	4.9%	11.9%
Asian Paints Ltd.	India	97.5x	64.5x	50.0x	21.4x	16.6x	14.6x	37.8%	38.3%	42.5%	16.6%	18.2%	21.4%	10.5%	11.9%	15.4%
Berger Paints India Ltd.	India	81.6x	65.7x	57.2x	17.3x	12.6x	12.4x	38.7%	36.2%	40.7%	15.7%	14.5%	16.6%	9.8%	8.3%	10.4%
Akzo Nobel N.V	Netherlands	30.2x	28.6x	15.7x	2.5x	3.0x	2.3x	36.2%	39.7%	41.0%	9.9%	13.0%	14.4%	3.2%	4.1%	6.3%
Average		44.7x	35.4x	28.3x	10.1x	8.8x	8.1x	36.9%	37.9%	40.8%	14.0%	15.1%	16.5%	7.5%	7.8%	10.4%
Avia Avian Tbk.	Indonesia	27.9x	18.9x	20.3x	4.1x	3.1x	3.6x	40.8%	45.4%	43.9%	25.0%	27.5%	27.2%	20.9%	23.4%	23.1%

Source: Bloomberg, NHKSI Research

Summary of Financials

INCOME STATEMENT

(IDR bn)	2023/12A	2024/12E	2025/12F	2026/12F
Revenues	7,017	7,559	8,164	8,833
Growth (% y/y)	4.8%	7.7%	8.0%	8.2%
Cost of Revenues	(3,834)	(4,239)	(4,537)	(4,906)
Gross Profit	3,183	3,320	3,627	3,927
Gross Margin	45.4%	43.9%	44.4%	44.5%
Operating Expenses	(1,475)	(1,464)	(1,633)	(1,745)
EBIT	1,709	1,856	1,994	2,183
EBIT Margin	24.4%	24.6%	24.4%	24.7%
Depreciation	219	201	181	243
EBITDA	1,928	2,057	2,175	2,426
EBITDA Margin	27.5%	27.2%	26.6%	27.5%
Interest Expenses	284	360	408	451
EBT	1,992	2,216	2,402	2,633
Income Tax	(349)	(470)	(504)	(553)
Net Profit	1,643	1,746	1,898	2,081
Growth (% y/y)	17.3%	6.3%	8.7%	9.6%
Net Profit Margin	23.4%	23.1%	23.3%	23.6%

PROFITABILITY & STABILITY

	2023/12A	2024/12E	2025/12F	2026/12F
ROE	16.6%	17.2%	18.1%	19.3%
ROA	14.7%	14.5%	15.0%	16.0%
Inventory Turnover	2.52x	2.71x	2.68x	2.66x
Receivables Turnover	5.64x	5.74x	5.92x	5.91x
Payables Turnover	0.01x	0.01x	0.01x	0.01x
Dividend Yield	4.9%	3.9%	3.9%	3.9%
Dividend Payout Ratio	83.0%	85.0%	85.0%	85.0%
DER	0.00x	0.01x	0.01x	0.01x
Equity Ratio	88.8%	84.6%	82.7%	82.8%
Debt Ratio	0.00x	0.01x	0.00x	0.00x
Financial Leverage	112.6%	115.4%	119.6%	120.9%
Current Ratio	762.2%	554.7%	484.2%	475.7%
Quick Ratio	633.0%	462.6%	415.5%	403.4%
Par Value (IDR)	10	10	10	10
Total Shares (mn)	61,954	61,954	61,954	61,954
Share Price (IDR)	448	620	670	730
Market Cap (IDR tn)	27.8	38.4	41.5	45.2

BALANCE SHEET

(IDR bn)	2023/12A	2024/12E	2025/12F	2026/12F
Cash & Liquid Investments	5,987	6,519	6,996	6,811
Receivables	1,349	1,389	1,368	1,474
Inventories	1,519	1,611	1,437	1,556
Other Current Assets	102	180	330	391
Total Current Assets	8,957	9,698	10,132	10,232
Net Fixed Assets	1,754	1,953	2,134	2,378
Other Non Current Assets	455	377	396	409
Total Non Current Assets	2,210	2,330	2,530	2,787
Total Assets	11,167	12,028	12,662	13,019
Payables	1,036	1,436	1,513	1,661
ST Debt	16	34	37	30
Others Current Liab.	123	278	543	459
Total Current Liabilities	1,175	1,748	2,092	2,151
LT Debt	16	31	26	26
Others Non Current Liab.	55	71	71	66
Total Liabilities	1,245	1,850	2,189	2,242
Capital Stock + APIC	8,413	8,413	8,413	8,413
Retained Earnings	1,335	1,597	1,882	2,194
Shareholders' Equity	9,921	10,178	10,472	10,776

CASH FLOW STATEMENT

(IDR bn)	2023/12A	2024/12E	2025/12F	2026/12F
Operating Cash Flow	1,586	2,347	2,377	2,174
Investing Cash Flow	(1,083)	(556)	(608)	(706)
Financing Cash Flow	(1,441)	(1,259)	(1,293)	(1,653)
Net Changes in Cash	(938)	532	477	(185)

Source: Company Data, Bloomberg, NHKSI Research

VALUATION INDEX

	2023/12A	2024/12E	2025/12F	2026/12F
Price /Earnings	16.9x	22.0x	21.9x	21.7x
PE/EPS Growth	1.0x	3.5x	2.5x	2.3x
Price /Book Value	2.8x	3.8x	4.0x	4.2x
EV/EBITDA	11.3x	15.5x	15.9x	15.9x
EV (IDR bn)	21,800	31,956	34,576	38,471
Revenues CAGR (3-Yr)	-	3.7%	6.8%	8.0%
Net Income CAGR (3-Yr)	-	6.8%	10.7%	8.2%
Basic EPS (IDR)	27	28	31	34
BVPS (IDR)	160	164	169	174
DPS (IDR)	22.0	24.0	26.0	28.5

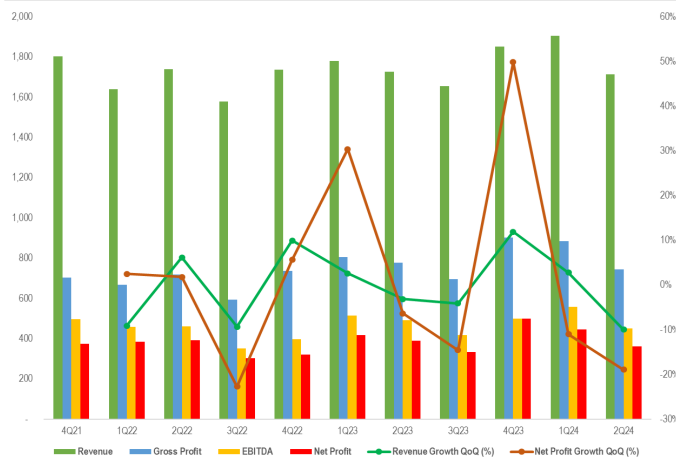
OWNERSHIP

By Geography	%
Indonesia	83.3
Singapore	7.0
Ireland	3.0
Others	6.7

Shareholders	%
PT Tancorp Surya Sentosa	36.6
PT Wahana Lancar Rejeki	32.5
Archipelago Investment Private Ltd. (GIC Singapore)	6.3
Others	24.6

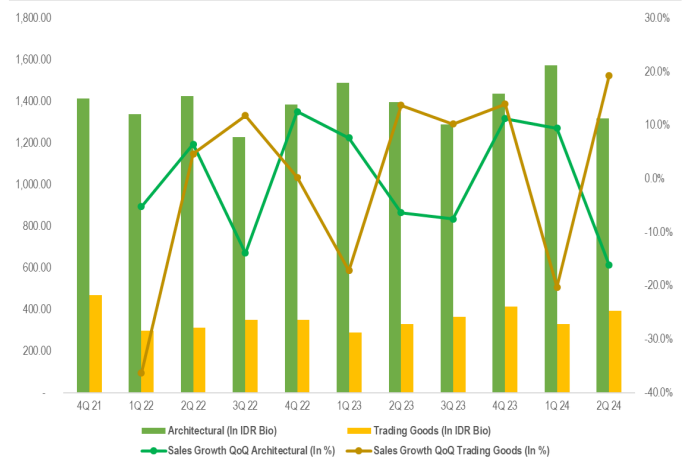
Performance Highlight For AVIA

Fig 1. AVIA Performance Quarterly



Source: AVIA, NHKSI Research

Fig 2. AVIA Sales Breakdown (Quarterly Basis)



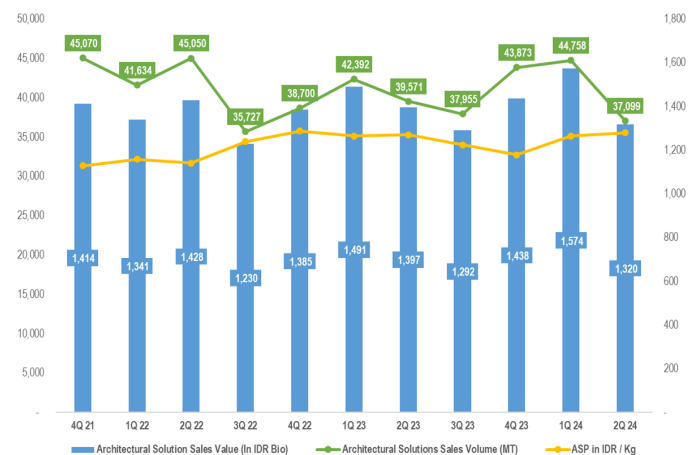
Source: AVIA, NHKSI Research

Fig 3. AVIA Architectural Solutions Sales Volume



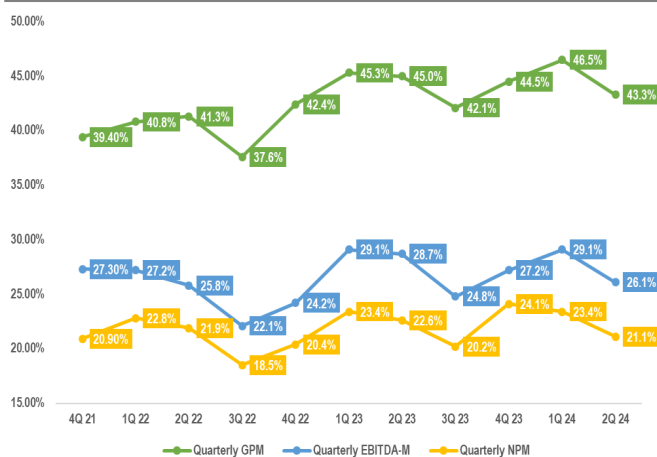
Source: AVIA, NHKSI Research

Fig 4. AVIA Quarterly ASP



Source: AVIA, NHKSI Research

Fig 5. AVIA Profitability Margin (Quarterly | In %)



Source: AVIA, NHKSI Research

Fig 6. AVIA Forward PE



Source: 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%

DISCLAIMER

This document is strictly confidential and is being supplied to you solely for your information. The recipients of this report must make their own independent decisions regarding any securities or financial instruments mentioned herein. This document may not be quoted, reproduced, exhibited, redistributed, transmitted, edited, translated, or published, in whole or in part, for any purpose without notice. Any failure to comply with this restriction may constitute a violation of civil or criminal laws.

This report and any electronic access hereto are restricted and intended only for the clients and related entities of PT NH Korindo Sekuritas Indonesia. This report is only for information and recipient use. It is not reproduced, copied, or made available for others. Under no circumstances is it considered as a selling offer or solicitation of securities buying. Any recommendation contained herein may not be suitable for all investors. Although the information hereof is obtained from reliable sources, its accuracy and completeness cannot be guaranteed. PT NH Korindo Sekuritas Indonesia, its affiliated companies, employees, and agents are held harmless from any responsibility and liability for claims, proceedings, action, losses, expenses, damages, or costs filed against or suffered by any person as a result of acting pursuant to the contents hereof. Neither is PT NH Korindo Sekuritas Indonesia, its affiliated companies, employees, nor agents are liable for errors, omissions, misstatements, negligence, inaccuracy contained herein.

All rights reserved by PT NH Korindo Sekuritas Indonesia