

1Q21 results: weak margin as expected. In 1Q21, GGRM recorded revenue of IDR 29.7tn (-4.4% QoQ/+9.1% YoY), driven by SKM segment (-5.0% QoQ/+9.7% YoY). On margin side, GPM decreased to 13.1% (vs. 18.1%/14.2% in 1Q20/4Q20), mainly due to higher excise duty ribbon cost (+17.0% QoQ/+20.5% YoY) paired with limited ASP hike. Opex rose to IDR 1.8tn (+5.2% YoY), driven by higher marketing expenses (+10.9% YoY), bringing operating profit to IDR 2.2tn (-7.1% QoQ/-32.4% YoY) with OPM of 13.1%. Interest expenses dropped to IDR 29.3bn (-82.5% YoY) as GGRM's debt fell from IDR 4.8tn in 1Q20 to IDR 171bn in 1Q21. As a result, GGRM booked a lower net profit of IDR 1.7tn (-13.6% QoQ/-28.6% YoY) with NPM of 5.9%. In all, GGRM's top-line and bottom-line reached 25%/25% and 27%/23% of our/consensus estimate.

New normal margin. Looking back to 4Q20, GGRM didn't fully pass on the 2020 excise hike, which we believe should aggravate GGRM's margin onwards. In 1Q21, despite posting a 9.1% YoY revenue growth, GGRM still booked a sluggish margin of 13.1%, which shows GGRM has not passed on the increase in excise tax for FY21 and the remaining impact from FY20 as well. Going forward, we believe that GGRM's margin will be normalized within range of 13-15%, supported by 1) down-trading due to weaker purchasing power, leading to limited ASP hike, 2) 93% of GGRM's sales were in non-SKT segment (vs. HMSP at 76%), and 3) the fully implementation of 2021 excise tax in 2Q21 onwards. In addition, we believe that GGRM will not be able to fully pass on the 2021 excise hike to consumer. In order to maintain their market share, especially given that GGRM's flagship products serve toward the lower-middle segment. As a result, we maintain our sales volume growth/ASP hike assumption of -8.4%/+14.6% in FY21E, which result in 15.3% earnings decline in FY21E.

We upgrade our call on PT Gudang Garam Tbk. (GGRM) from SELL to NEUTRAL rating with a lower TP of IDR 33,300, derived from 9.9x FY21E PE. We believe that GGRM will continue to face a huge challenge onwards as the company held non-SKT segment of >90%. Meanwhile, we believe government will continue to aggressively increase the non-SKT's excise due to less labor-intensive. In addition, overhang on dividend payment provide another risk for the stock. Upside risks to our call are lower excise hike expectation, and distribute the dividend.

Financial Highlights	2019	2020	2021E	2022F	2023F
Revenue (IDR bn)	110,524	114,477	117,794	125,168	133,323
% growth	15.5%	3.6%	2.9%	6.3%	6.5%
Gross Profit (IDR bn)	22,783	17,388	16,626	18,158	19,791
Net Profit (IDR bn)	10,881	7,648	6,474	7,112	7,946
% growth	39.6%	-29.7%	-15.3%	9.9%	11.7%
Gross Margin (%)	20.6%	15.2%	14.1%	14.5%	14.8%
Net Margin (%)	9.8%	6.7%	5.5%	5.7%	6.0%
Return on Equity (%)	22.7%	14.0%	10.5%	10.7%	11.6%
Return on Assets (%)	14.7%	9.8%	8.0%	8.2%	8.7%
EPS (IDR)	5,655	3,975	3,365	3,696	4,130

Andrianto Saputra

Equity Analyst

+62 21 392 5550 ext. 159

andrianto.saputra@sinarmassekuritas.co.id**Stock Information**

Sector	Tobacco
Bloomberg Ticker	GGRM IJ
Market Cap. (IDR tn)	68.1
Share Out./Float (mn)	1,924/470
Current Price	35,400
FY21E Target Price	33,300
Downside	5.9%

Share Price Performance

52W High (20/08/19)	55,000
52W Low (20/03/20)	35,425
52W Beta	0.9
YTD Change	-13.5%

Relative Valuations

Trailing P/E	8.4x
Forward P/E	9.9x
P/BV	1.0x

GGRM 1Q21 Results

(IDR bn)	1Q20	4Q20	1Q21	QoQ	YoY	3M20	3M21	YoY	DH	Cons.
Revenue	27,261	31,102	29,747	-4.4%	9.1%	27,261	29,747	9.1%	25%	25%
Gross Profit	4,942	4,404	3,909	-11.2%	-20.9%	4,942	3,909	-20.9%		
Operating Expenses	(1,704)	(2,024)	(1,792)	-11.5%	5.2%	(1,704)	(1,792)	5.2%		
Operating Profit	3,143	2,288	2,125	-7.1%	-32.4%	3,143	2,125	-32.4%		
Net Profit	2,447	2,021	1,747	-13.6%	-28.6%	2,447	1,747	-28.6%	27%	23%
GPM	18.1%	14.2%	13.1%			18.1%	13.1%			
OPM	11.5%	7.4%	7.1%			11.5%	7.1%			
NPM	9.0%	6.5%	5.9%			9.0%	5.9%			
Revenue Contribution										
SKM	24,762	28,593	27,163	-5.0%	9.7%	24,762	27,163	9.7%		
SKT	2,151	2,171	2,184	0.6%	1.5%	2,151	2,184	1.5%		
Others	348	338	400	18.4%	15.0%	348	400	15.0%		

Source: Company Data, Sinarmas Investment Research

Income Statement (IDR bn)	2019	2020	2021E	2022F	2023F
Revenue	110,524	114,477	117,794	125,168	133,323
% growth	15.5%	3.6%	2.9%	6.3%	6.5%
Cost of Good Sold	(87,741)	(97,089)	(101,169)	(107,010)	(113,532)
% growth	13.9%	10.7%	4.2%	5.8%	6.1%
Gross Profit	22,783	17,388	16,626	18,158	19,791
% growth	22.2%	-23.7%	-4.4%	9.2%	9.0%
Operating Expenses	(7,993)	(7,581)	(8,055)	(8,570)	(9,137)
Opex to Sales (%)	-7.2%	-6.6%	-6.8%	-6.8%	-6.9%
Other Income (Expenses)	303	278	267	318	322
EBIT	15,073	10,046	8,838	9,906	10,976
% growth	35.1%	-33.4%	-12.0%	12.1%	10.8%
EBITDA	17,616	12,728	11,594	12,817	13,957
% growth	31.9%	-27.8%	-8.9%	10.5%	8.9%
Interest Expenses	(585)	(383)	(538)	(788)	(789)
EBT	14,488	9,663	8,300	9,118	10,187
% growth	38.3%	-33.3%	-14.1%	9.9%	11.7%
Tax	(3,607)	(2,015)	(1,826)	(2,006)	(2,241)
Net Income	10,881	7,648	6,474	7,112	7,946
% growth	39.6%	-29.7%	-15.3%	9.9%	11.7%
EPS	5,655	3,975	3,365	3,696	4,130

Balance Sheet (IDR bn)	2019	2020	2021E	2022F	2023F
Cash & Equivalents	3,572	4,609	4,518	5,030	5,438
Trade & Other Receivables	1,876	2,556	2,626	2,866	3,034
Inventories	42,847	39,895	42,467	44,781	47,495
Other Current Assets	3,786	2,479	2,794	2,667	2,963
Total Current Assets	52,081	49,538	52,405	55,343	58,930
Fixed Assets	25,374	27,605	29,849	31,938	32,957
Other Non Current Assets	1,192	1,048	1,469	1,622	1,758
Total Assets	78,647	78,191	83,723	88,903	93,645
Short Term Loans	17,216	6,009	11,009	14,009	15,009
Trade Payables	1,317	1,144	1,795	1,894	2,095
Taxes Payable	491	215,747	0	0	0
Other Current Liabilities	6,725	9,857	3,058	2,785	3,114
Total Current Liabilities	25,259	17,010	15,862	18,688	20,219
Other Non Current Liabilities	2,458	2,659	2,727	2,973	3,241
Total Liabilities	27,717	19,669	18,590	21,661	23,459
Share & APIC	1,016	1,016	1,016	1,016	1,016
Retained Earnings	49,748	57,340	63,951	66,060	69,003
Others	(33)	(33)	(33)	(33)	(33)
Total Equity	50,931	58,522	65,133	67,242	70,186
Total Equity & Liabilities	78,647	78,191	83,723	88,903	93,645

Source: Company data, Sinarmas Investment Research

Cash Flow (IDR bn)	2019	2020	2021E	2022F	2023F
Net Income	10,881	7,648	6,474	7,112	7,946
Depreciation & Adjustments	2,543	2,682	2,756	2,911	2,981
Change in Working Capital	1,898	(6,539)	9,106	2,600	2,649
Operating Cash Flow	11,305	16,734	125	7,423	8,278
Capital Expenditure	(5,167)	(5,050)	(5,000)	(5,000)	(4,000)
Change in LT Assets	138	(144)	421	153	135
Others	230	271	(0)	(0)	(0)
Investing Cash Flow	(5,075)	(4,635)	(5,421)	(5,153)	(4,135)
Change in Share & APIC	-	-	-	-	-
Change in Debts	(106)	(11,207)	5,000	3,000	1,000
Dividends Paid	(5,003)	-	-	(5,003)	(5,003)
Others	497	201	69	245	268
Financing Cash Flow	(4,692)	(11,062)	5,205	(1,757)	(3,735)
Change in Cash	1,538	1,037	(91)	512	407
Beginning Cash	2,034	3,572	4,609	4,518	5,030
Ending Cash	3,572	4,609	4,518	5,030	5,438

Financial Ratios	2019	2020	2021E	2022F	2023F
Liquidity					
Current Ratio	2.06	2.91	3.30	2.96	2.91
Profitability					
Gross Profit Margin	20.6%	15.2%	14.1%	14.5%	14.8%
EBIT Margin	13.6%	8.8%	7.5%	7.9%	8.2%
EBITDA Margin	15.9%	11.1%	9.8%	10.2%	10.5%
Net Profit Margin	9.8%	6.7%	5.5%	5.7%	6.0%
Solvency					
Debt to Equity	0.3	0.1	0.2	0.2	0.2
Interest Coverage	0.0	0.0	0.1	0.1	0.1
Valuation					
Price to Earnings (PE)	5.9	8.4	9.9	9.0	8.1
Price to Book (PBV)	1.3	1.1	1.0	1.0	0.9
Key assumptions					
Volume (Bn Sticks)	95.9	89.1	81.6	75.6	70.1
% growth	12.6%	-7.2%	-8.4%	-7.3%	-7.3%
Blended ASP Est.	1,138	1,247	1,429	1,639	1,884
% growth	3.2%	9.5%	14.6%	14.7%	15.0%

Source: Company data, Sinarmas Investment Research

SINARMAS SEKURITAS INVESTMENT RATINGS GUIDE

BUY: Share price may rise by more than 15% over the next 12 months.

ADD: Share price may range between 10% to 15% over the next 12 months.

NEUTRAL: Share price may range between -10% to +10% over the next 12 months.

REDUCE: Share price may range between -10% to -15% over the next 12 months.

SELL: Share price may fall by more than 15% over the next 12 months.

DISCLAIMER

This report has been prepared by PT Sinarmas Sekuritas, an affiliate of Sinarmas Group.

This material is: (i) created based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such; (ii) for your private information, and we are not soliciting any action based upon it; (iii) not to be construed as an offer to sell or a solicitation of an offer to buy any security.

Opinions expressed are current opinions as of original publication date appearing on this material and the information, including the opinions contained herein, is subjected to change without notice. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst (s) responsible for the preparation of this publication may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, integrating and interpreting market information. Research will initiate, update and cease coverage solely at the discretion of Sinarmas Research department. If and as applicable, Sinarmas Sekuritas' investment banking relationships, investment banking and non-investment banking compensation and securities ownership, if any, are specified in disclaimers and related disclosures in this report. In addition, other members of Sinarmas Group may from time to time perform investment banking or other services (including acting as advisor, manager or lender) for, or solicit investment banking or other business from companies under our research coverage. Further, the Sinarmas Group, and/or its officers, directors and employees, including persons, without limitation, involved in the preparation or issuance of this material may, to the extent permitted by law and/or regulation, have long or short positions in, and buy or sell, the securities (including ownership by Sinarmas Group), or derivatives (including options) thereof, of companies under our coverage, or related securities or derivatives. In addition, the Sinarmas Group, including Sinarmas Sekuritas, may act as market maker and principal, willing to buy and sell certain of the securities of companies under our coverage. Further, the Sinarmas Group may buy and sell certain of the securities of companies under our coverage, as agent for its clients.

Investors should consider this report as only a single factor in making their investment decision and, as such, the report should not be viewed as identifying or suggesting all risks, direct or indirect, that may be associated with any investment decision. Recipients should not regard this report as substitute for exercise of their own judgment. Past performance is not necessarily a guide to future performance. The value of any investments may go down as well as up and you may not get back the full amount invested.

Sinarmas Sekuritas specifically prohibits the redistribution of this material in whole or in part without the written permission of Sinarmas Sekuritas and Sinarmas Sekuritas accepts no liability whatsoever for the actions of third parties in this respect. If publication has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of this publication, which may arise as a result of electronic transmission. If verification is required, please request a hard-copy version.

Additional information is available upon request.

Images may depict objects or elements which are protected by third party copyright, trademarks and other intellectual properties.

©Sinarmas Sekuritas(2021). All rights reserved.