

# Hold

(Downgrade)

## Gudang Garam (GGRM)

**A still challenging outlook limits re-rating potential; downgrade rating to Hold**

Last Price (Rp)	16,950
Target Price (Rp)	17,500
Previous Target Price (Rp)	24,000
Upside/Downside	+3.2%
No. of Shares (mn)	1,924
Mkt Cap (Rpbn/US\$mn)	32,661/2,020
Avg, Daily T/O (Rpbn/US\$mn)	18.2/1.1
Free Float (%)	23.8
Major Shareholder (%)	
SURYADUTA INVESTAMA	69.3
SURYAMITRA KUSUMA	6.3
EPS Consensus (Rp)	
	2024F 2025F 2026F
BRIDS	2,069 2,104 2,222
Consensus	2,334 2,530 2,242
BRIDS/Cons (%)	(11.6) (16.8) (0.8)

- GGRM's 6-8% price adjustment YTD may support FY24F margins, but we expect volume may continue to be under pressure.
- We trim our FY24-25F NP by 42-47% due to lower volume assumptions (-8/-13% yoy from -5/0% prev.) and yoy margin pressure.
- We downgrade our rating to Hold with a lower TP of Rp17,500 as we see less rosy NP outlook.

### Two price adjustments YTD, but volume remains weak

GGRM has adjusted its ex-factory prices twice in Mar and May24, resulting in total YTD ASP increases of +6% for GG Merah 12s (SKT), +6% for GG Intl 12s, and +8% for Surya 16s. While these price adjustments may only partly support GGRM's margin, we now expect weaker FY24F volumes as our expectation of an election-driven volume boost in 1Q24 failed to materialize. In FY23, GGRM's sales volume fell -25.6% yoy, with a lower market share of 21.2% (FY22: 25.5%). SKT reported a 2% yoy lower volume, while SKM's volume tanked 28% yoy.

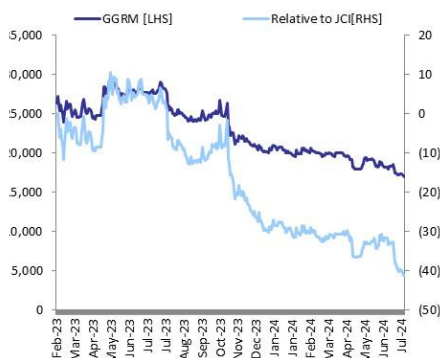
### FY24-25F estimates cut on lower volume growth and margin assumptions

As FY24 excise regulation continues to have a bigger cost impact on tier-1 producers (incl. GGRM), we believe the company's focus will be on preserving margins. We expect our higher price hike adjustment to result in FY24-25F gross margins of 11.6-11.7% (down from 12.3% in FY23). Furthermore, we expect this will come at the expense of volume. Hence, we have lowered our FY24-25F volume growth assumptions to -13% and -8% yoy (down from -5% and 0% yoy prev.). Overall, we trimmed our FY24-25F net profit estimates by 42% and 47% to Rp4tn (-25% yoy) and Rp4.1tn (+1.7% yoy), respectively.

### Downgrade rating to Hold with lower TP of Rp17,500 on challenging outlook

While GGRM currently trades at an undemanding 0.5x FY25F P/BV and 8.2x P/E (-1SD avg 3y P/E), we see the outlook remaining challenging amid weak volume growth outlook, which may delay further price adjustments and drive further product mix shift toward value products. GGRM recently announced it will not pay dividends from FY23 net profit, as it aims to preserve earnings for working capital. We downgrade our rating to Hold with a lower TP of Rp17,500, based on -1SD avg 3y PE of 8.3x. Upside risks include favorable regulations for Tier-1 cigarette companies (i.e the 2025 excise and a new excise structure that narrows the gap between Tier-1 and lower-tier producers).

### GGRM relative to JCI Index



Source: Bloomberg

### BRI Danareksa Sekuritas Analysts

#### Natalia Sutanto

(62-21) 5091 4100 ext. 3508  
natalia.sutanto@brids.co.id

#### Sabela Nur Amalina

(62-21) 5091 4100 ext. 4202  
sabela.amalina@brids.co.id

### Key Financials

Year to 31 Dec	2022A	2023A	2024F	2025F	2026F
Revenue (Rpbn)	124,683	118,953	101,631	102,290	104,918
EBITDA (Rpbn)	6,743	10,362	8,590	8,989	9,675
EBITDA Growth (%)	(32.6)	53.7	(17.1)	4.6	7.6
Net Profit (Rpbn)	2,780	5,325	3,981	4,049	4,276
EPS (Rp)	1,444.7	2,767.3	2,069.1	2,104.4	2,222.5
EPS Growth (%)	(50.4)	91.5	(25.2)	1.7	5.6
BVPS (Rp)	30,069.2	31,632.0	33,701.1	34,150.5	34,689.8
DPS (Rp)	1,195.4	0.0	1,655.1	1,683.3	1,777.7
PER (x)	11.7	6.1	8.2	8.1	7.6
PBV (x)	0.6	0.5	0.5	0.5	0.5
Dividend yield (%)	7.0	0.0	9.7	9.9	10.5
EV/EBITDA	5.7	4.0	4.4	4.2	3.8

Source: GGRM, BRIDS Estimates

### Exhibit 1. GGRM Earnings Revision

	Previous		New		Changes	
	2024F	2025F	2024F	2025F	2024	2025
Revenue	122,436	133,400	101,631	102,290	-17.0%	-23.3%
Gross profit	17,106	18,645	11,797	11,947	-31.0%	-35.9%
Operating profit	9,082	9,659	5,333	5,376	-41.3%	-44.3%
Net profit	6,928	7,624	3,981	4,049	-42.5%	-46.9%
Gross margin	14.0%	14.0%	11.6%	11.7%		
Operating margin	7.4%	7.2%	5.2%	5.3%		
Net margin	5.7%	5.7%	3.9%	4.0%		
<b>Assumption</b>						
Volume growth	-5.1%	0.0%	-13.1%	-8.3%		
ASP blended growth	8.6%	9.1%	9.7%	9.7%		
Excise growth						
SKM	11.8%	11.8%	11.8%	11.8%		
SKT	5.0%	5.0%	5.0%	5.0%		

Source: Company, BRIDS Estimates

### Exhibit 2. Higher ASP leads to improved FY24F net profit (Rpbn)

ASP			
Volume	8.7%	9.7%	10.7%
-3.00%	3,732	4,342	4,951
-13.10%	3,443	3,981	4,519
-18.00%	3,302	3,806	4,309

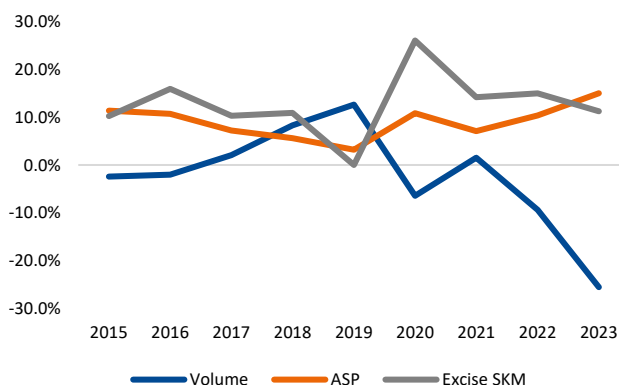
Source: BRIDS Estimates. FY24 SKM excise +11.8%, SKT +5% yoy

### Exhibit 3. ... also translates to higher NP growth

ASP			
Vol	8.7%	9.7%	10.7%
-3.00%	-6.3%	9.1%	24.4%
-13.00%	-13.5%	0.0%	13.5%
-18.00%	-17.1%	-4.4%	8.2%

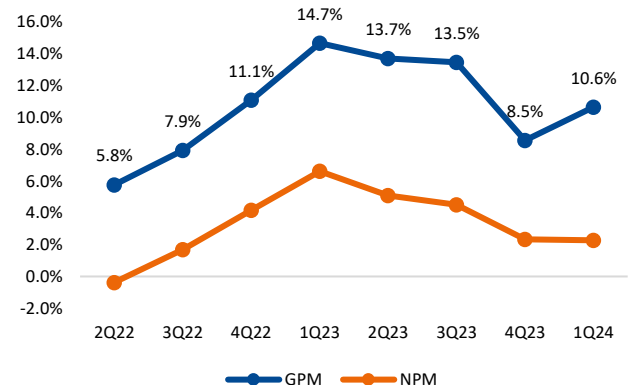
Source: BRIDS Estimates

### Exhibit 4. GGRM's Volume, ASP and SKM Excise Growth

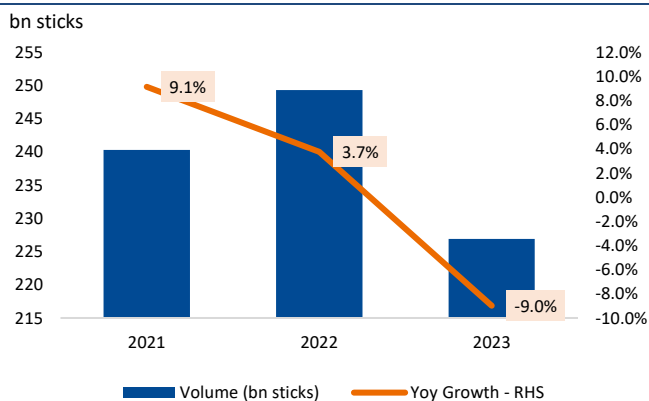


Source: Company

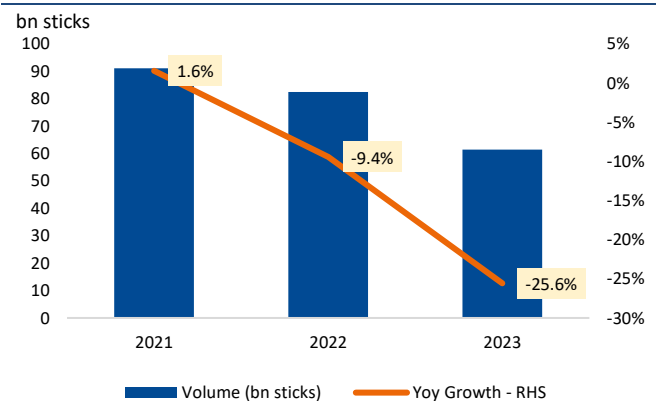
### Exhibit 5. GGRM's Gross and Net Margin in The Past 8 Quarters



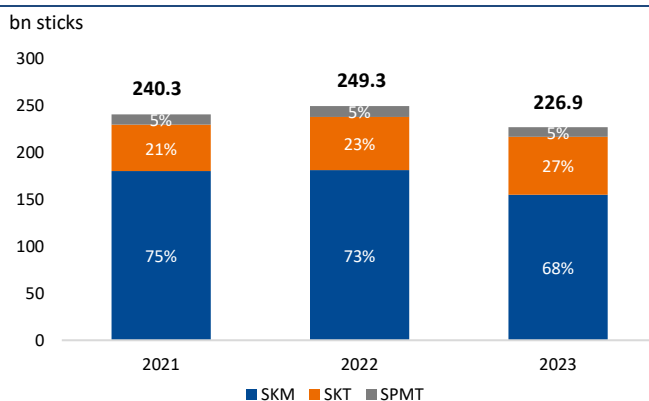
Source: BRIDS Estimates

**Exhibit 6. Industry volume (FY21-23) and yoy growth**


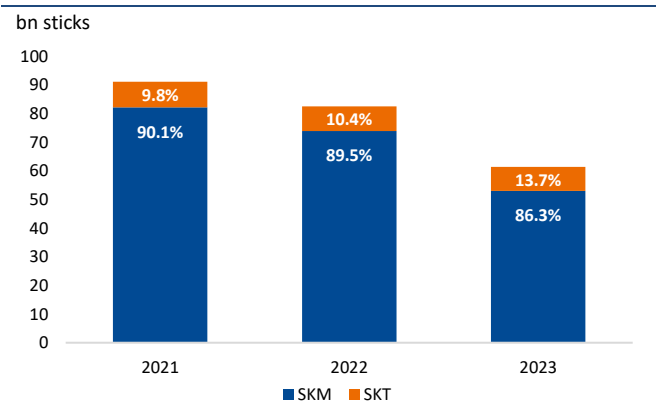
Source: Nielsen

**Exhibit 7. GGRM Volume (FY21-FY23) and yoy growth**


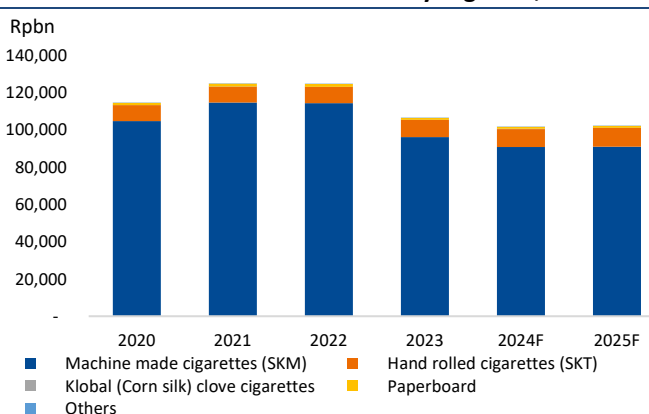
Source: Company

**Exhibit 8. Industry volume (FY21-FY23) – contribution by segment**


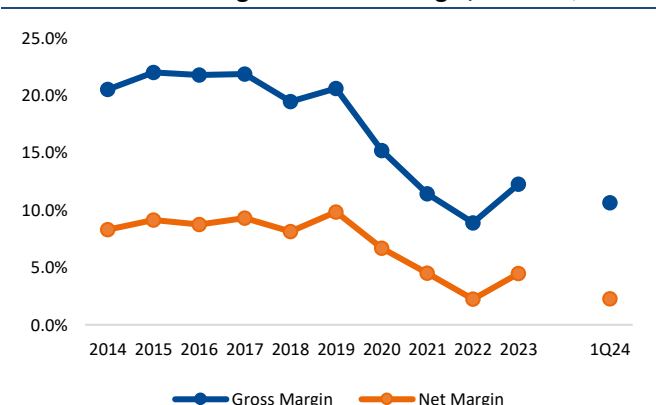
Source: Nielsen, GGRM

**Exhibit 9. GGRM Volume (FY21-FY23) – contribution by segment**


Source: Company, BRIDS Estimates

**Exhibit 10. GG Revenue contribution by segment, FY20-25F**


Source: Company, BRIDS Estimates

**Exhibit 11. Historical gross and net margin, FY14-1Q24**


Source: Company

**Exhibit 12. Our monthly price survey on several GGRM's products**

Product Name	Retail Price / Pack												ASP (yoy)	ASP (ytd)
	Dec-22	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24
GG Merah 12s	15,800	15,600	15,600	15,600	15,600	15,600	15,600	15,600	15,600	15,600	16,500	16,500	16,500	5.8%
GG Surya 16s	29,900	33,700	33,700	33,700	33,700	33,900	33,900	33,900	33,900	33,900	35,500	36,700	36,700	8.3%
GG Surya Promild 16s	27,900	32,400	32,400	32,400	32,400	32,400	32,400	32,400	32,400	32,400	33,100	33,100	33,100	2.2%
Surya Pro Merah	27,900	32,400	32,400	32,400	32,400	32,400	32,400	32,400	32,400	32,400	33,100	32,500	33,100	0.3%
GG Surya Coklat 12s	23,200	25,400	25,400	25,400	25,400	25,400	25,400	25,400	25,400	25,400	26,200	27,000	27,000	6.3%
GG Surya Exclusive 16s	40,500	44,500	44,500	44,500	44,500	44,500	44,500	44,500	44,500	44,500	46,300	46,300	46,300	4.0%
GG Signature Mild Blue 16s	27,900	33,000	33,000	33,000	33,000	33,000	33,000	33,000	33,000	33,700	33,700	33,700	33,700	2.1%

Source: BRIDS Survey

**Exhibit 13. GGRM – price gap between products**

Category	Brands	July 2024 Price (Rp)	Discount*
SKM High Tar	GG Surya 16s	36,700	
	Surya Pro Merah 16s	32,500	-11%
	Gudang Garam Surya Coklat 12	27,000	-26%
	GG Signature 12s	26,200	-29%
SKM Low Tar	Gg Signature Mild Blue 16	33,700	
	GG Mild Shiver 16s	32,000	-5%

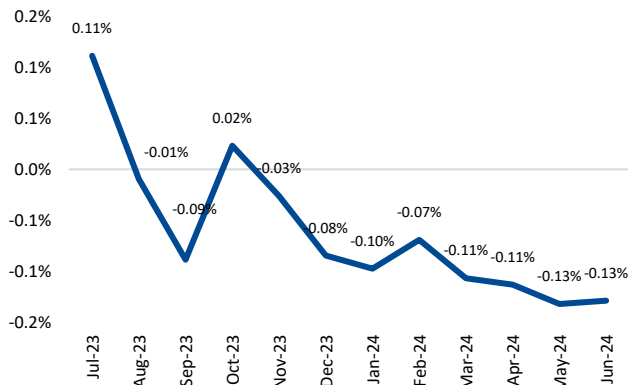
Source: BRIDS Survey \*to major products

**Exhibit 14. GGRM's 1Q24 earnings**

GGRM	1Q23	4Q23	1Q24	qoq	yoy	2024F	A/F	A/Cons
Revenue, Rpbm	29,731	37,204	26,265	-29%	-12%	101,631	26%	24%
Gross profit	4,356	3,178	2,792	-12%	-36%	11,797	24%	21%
Operating profit	2,523	1,282	922	-28%	-63%	5,333	17%	14%
Pretax profit	2,499	1,109	791	-29%	-68%	5,104		
Net profit	1,963	867	596	-31%	-70%	3,981	15%	14%
Gross margin, %	14.7%	8.5%	10.6%			11.6%		
Opex to revenue, %	6.2%	5.1%	7.1%			6.4%		
Operating margin, %	8.5%	3.4%	3.5%			5.2%		
Pretax margin, %	8.4%	3.0%	3.0%			5.0%		
Net margin, %	6.6%	2.3%	2.3%			3.9%		
By divisions	1Q23	4Q23	1Q24	qoq	yoy			
Revenue, Rpbm								
Export	389	345	384	11.5%	-1.1%			
Domestic								
SKM	26,708	21,826	23,018	5.5%	-13.8%			
SKT	2,245	2,404	2,562	6.6%	14.1%			

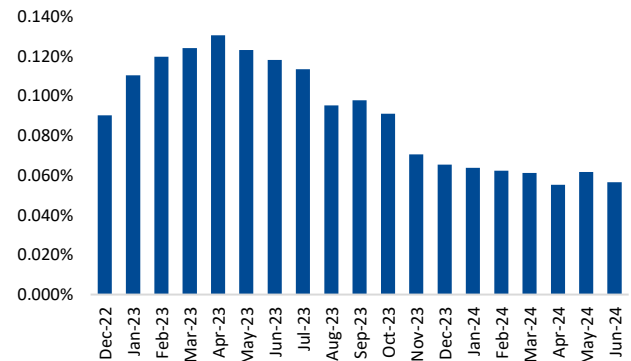
Source: Company, BRIDS Estimates

Exhibit 15. GGRM's Local Mutual Fund OW/UW Position



Source: KSEI, BRIDS

Exhibit 16. GGRM's Foreign Fund Positioning



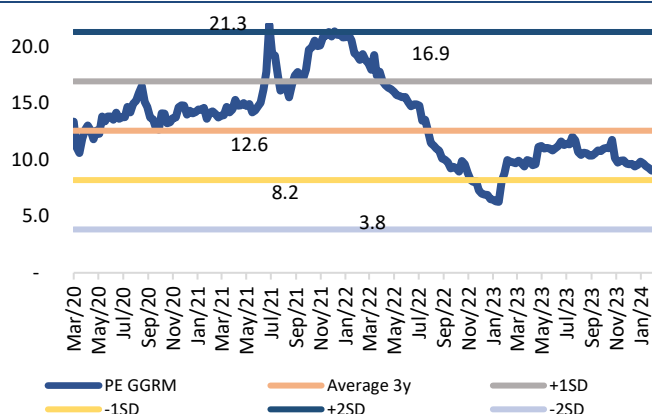
Source: KSEI, BRIDS

Exhibit 17. Peers Comparison

	2024F	HMSP	GGRM	Sector
<b>Growth (%)</b>				
Sales		11.2	(14.6)	3.9
EBITDA		13.4	(17.1)	4.8
Operating profit		13	(26.6)	1.8
Net profit		1.5	(25.2)	(6.0)
Core profit				
<b>Profitability (%)</b>				
Gross margin		16.5	11.6	15.1
EBITDA margin		8.9	8.5	8.8
Operating margin		7.9	5.2	7.1
Net margin		6.4	3.9	5.7
ROAA		14.5	4.3	11.6
ROAE		27.4	6.3	21.5
<b>Leverage and yield</b>				
Net Gearing (x)		(0.1)	0.1	
Interest coverage (x)		242.2	12.4	177.4
Dividend yield (%)		6.9	9.7	7.7
<b>Operational data</b>				
Cigarette volume (bn sticks)		84.9	53.4	
Volume growth - yoy (%)		0.3	(13.1)	
ASP growth - yoy (%)		10.8	9.7	
<b>Revenue contribution</b>				
SKM		61.5	89.3	
SKT		29.6	9.5	
SPM		7.3	0.0	

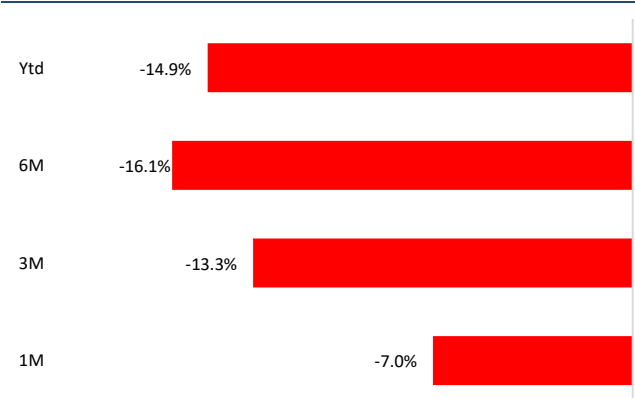
Source: BRIDS Estimates

Exhibit 18. GGRM's PE Band



Source: Bloomberg, BRIDS Estimates

Exhibit 19. GGRM's share price performance



Source: Bloomberg

**Exhibit 20. Income Statement**

Year to 31 Dec (Rpbn)	2022A	2023A	2024F	2025F	2026F
<b>Revenue</b>	<b>124,683</b>	<b>118,953</b>	<b>101,631</b>	<b>102,290</b>	<b>104,918</b>
COGS	(113,587)	(104,357)	(89,834)	(90,343)	(92,511)
<b>Gross profit</b>	<b>11,096</b>	<b>14,596</b>	<b>11,797</b>	<b>11,947</b>	<b>12,407</b>
<b>EBITDA</b>	<b>6,743</b>	<b>10,362</b>	<b>8,590</b>	<b>8,989</b>	<b>9,675</b>
<b>Oper. profit</b>	<b>3,771</b>	<b>7,261</b>	<b>5,333</b>	<b>5,376</b>	<b>5,667</b>
Interest income	0	0	0	0	0
Interest expense	(262)	(579)	(429)	(386)	(391)
Forex Gain/(Loss)	(9)	6	0	0	0
Income From Assoc. Co's	0	0	0	0	0
Other Income (Expenses)	147	173	200	201	206
<b>Pre-tax profit</b>	<b>3,647</b>	<b>6,861</b>	<b>5,104</b>	<b>5,191</b>	<b>5,482</b>
Income tax	(867)	(1,536)	(1,123)	(1,142)	(1,206)
Minority interest	0	0	0	0	0
<b>Net profit</b>	<b>2,780</b>	<b>5,325</b>	<b>3,981</b>	<b>4,049</b>	<b>4,276</b>
<b>Core Net Profit</b>	<b>2,789</b>	<b>5,319</b>	<b>3,981</b>	<b>4,049</b>	<b>4,276</b>

**Exhibit 21. Balance Sheet**

Year to 31 Dec (Rpbn)	2022A	2023A	2024F	2025F	2026F
Cash & cash equivalent	4,407	4,256	5,426	4,824	4,202
Receivables	2,181	1,952	1,976	1,989	2,040
Inventory	47,640	46,486	44,917	45,172	46,255
Other Curr. Asset	1,217	1,421	1,214	1,222	1,253
Fixed assets - Net	32,426	24,551	25,360	25,839	26,027
Other non-curr.asset	691	13,785	13,411	13,155	12,912
<b>Total asset</b>	<b>88,563</b>	<b>92,451</b>	<b>92,305</b>	<b>92,201</b>	<b>92,690</b>
ST Debt	10,071	13,396	10,717	9,645	8,680
Payables	1,309	1,065	998	1,004	1,028
Other Curr. Liabilities	17,745	15,076	13,906	13,996	14,356
Long Term Debt	65	0	0	0	0
Other LT. Liabilities	1,516	2,052	1,839	1,847	1,879
<b>Total Liabilities</b>	<b>30,707</b>	<b>31,588</b>	<b>27,459</b>	<b>26,492</b>	<b>25,943</b>
Shareholder's Funds	57,856	60,863	64,844	65,709	66,746
Minority interests	0	0	0	0	0
<b>Total Equity &amp; Liabilities</b>	<b>88,563</b>	<b>92,451</b>	<b>92,305</b>	<b>92,201</b>	<b>92,690</b>

**Exhibit 22. Cash Flow**

Year to 31 Dec (Rpbn)	2022A	2023A	2024F	2025F	2026F
Net income	2,780	5,325	3,981	4,049	4,276
Depreciation and Amort.	2,691	3,001	3,257	3,613	4,008
Change in Working Capital	879	(3,242)	773	(189)	(822)
Other Oper. Cash Flow	7,069	4,495	(286)	413	499
<b>Operating Cash Flow</b>	<b>13,419</b>	<b>9,578</b>	<b>7,725</b>	<b>7,886</b>	<b>7,962</b>
Capex	(5,338)	(8,134)	(4,065)	(4,092)	(4,197)
Others Inv. Cash Flow	0	0	0	0	0
<b>Investing Cash Flow</b>	<b>(5,338)</b>	<b>(8,134)</b>	<b>(4,065)</b>	<b>(4,092)</b>	<b>(4,197)</b>
Net change in debt	33	3,259	(2,679)	(1,072)	(964)
New Capital	0	0	0	0	0
Dividend payment	(4,329)	(2,300)	0	(3,184)	(3,239)
Other Fin. Cash Flow	(262)	(579)	(429)	(386)	(391)
<b>Financing Cash Flow</b>	<b>(4,558)</b>	<b>381</b>	<b>(3,108)</b>	<b>(4,642)</b>	<b>(4,594)</b>
<b>Net Change in Cash</b>	<b>3,523</b>	<b>1,825</b>	<b>552</b>	<b>(848)</b>	<b>(829)</b>
Cash - begin of the year	4,170	4,407	4,256	5,426	4,824
Cash - end of the year	4,407	4,256	5,426	4,824	4,202

**Exhibit 23. Key Ratios**

Year to 31 Dec	2022A	2023A	2024F	2025F	2026F
<b>Growth (%)</b>					
Sales	(0.2)	(4.6)	(14.6)	0.6	2.6
EBITDA	(32.6)	53.7	(17.1)	4.6	7.6
Operating profit	(47.0)	92.6	(26.6)	0.8	5.4
Net profit	(50.4)	91.5	(25.2)	1.7	5.6
<b>Profitability (%)</b>					
Gross margin	8.9	12.3	11.6	11.7	11.8
EBITDA margin	5.4	8.7	8.5	8.8	9.2
Operating margin	3.0	6.1	5.2	5.3	5.4
Net margin	2.2	4.5	3.9	4.0	4.1
ROAA	3.1	5.9	4.3	4.4	4.6
ROAE	4.7	9.0	6.3	6.2	6.5
<b>Leverage</b>					
Net Gearing (x)	0.1	0.2	0.1	0.1	0.1
Interest Coverage (x)	14.4	12.5	12.4	13.9	14.5

Source: GGRM, BRIDS Estimates



**BRI Danareksa Equity Research Team**

Erindra Krisnawan, CFA	Head of Equity Research, Strategy, Coal	<a href="mailto:erindra.krisnawan@brids.co.id">erindra.krisnawan@brids.co.id</a>
Natalia Sutanto	Consumer, Cigarettes, Pharmaceuticals, Retail	<a href="mailto:natalia.sutanto@brids.co.id">natalia.sutanto@brids.co.id</a>
Niko Margaronis	Telco, Tower, Technology, Media	<a href="mailto:niko.margaronis@brids.co.id">niko.margaronis@brids.co.id</a>
Timothy Wijaya	Metal, Oil and Gas	<a href="mailto:timothy.wijaya@brids.co.id">timothy.wijaya@brids.co.id</a>
Victor Stefano	Banks, Poultry	<a href="mailto:victor.stefano@brids.co.id">victor.stefano@brids.co.id</a>
Ismail Fakhri Suweleh	Healthcare, Property, Industrial Estate	<a href="mailto:ismail.suweleh@brids.co.id">ismail.suweleh@brids.co.id</a>
Ni Putu Wilastita Muthia Sofi	Research Associate	<a href="mailto:wilastita.sofi@brids.co.id">wilastita.sofi@brids.co.id</a>
Naura Reyhan Muchlis	Research Associate	<a href="mailto:naura.muchlis@brids.co.id">naura.muchlis@brids.co.id</a>
Sabela Nur Amalina	Research Associate	<a href="mailto:sabela.amalina@brids.co.id">sabela.amalina@brids.co.id</a>
Christian Immanuel Sitorus	Research Associate	<a href="mailto:christian.sitorus@brids.co.id">christian.sitorus@brids.co.id</a>

**BRI Danareksa Economic Research Team**

Helmy Kristanto	Chief Economist, Macro Strategy	<a href="mailto:helmy.kristanto@brids.co.id">helmy.kristanto@brids.co.id</a>
Dr. Telisa Aulia Falianty	Senior Advisor	<a href="mailto:telisa.falianty@brids.co.id">telisa.falianty@brids.co.id</a>
Kefas Sidauruk	Economist	<a href="mailto:kefas.sidauruk@brids.co.id">kefas.sidauruk@brids.co.id</a>

**BRI Danareksa Institutional Equity Sales Team**

Yofi Lasini	Head of Institutional Sales and Dealing	<a href="mailto:yofi.lasini@brids.co.id">yofi.lasini@brids.co.id</a>
Novrita Endah Putrianti	Institutional Sales Unit Head	<a href="mailto:novrita.putrianti@brids.co.id">novrita.putrianti@brids.co.id</a>
Ehrlicch Suhartono	Institutional Sales Associate	<a href="mailto:ehrliech@brids.co.id">ehrliech@brids.co.id</a>
Yunita Nababan	Institutional Sales Associate	<a href="mailto:yunita@brids.co.id">yunita@brids.co.id</a>
Adeline Solaiman	Institutional Sales Associate	<a href="mailto:adeline.solaiman@brids.co.id">adeline.solaiman@brids.co.id</a>
Andreas Kenny	Institutional Sales Associate	<a href="mailto:andreas.kenny@brids.co.id">andreas.kenny@brids.co.id</a>
Christy Halim	Institutional Sales Associate	<a href="mailto:christy.halim@brids.co.id">christy.halim@brids.co.id</a>
Jason Joseph	Institutional Sales Associate	<a href="mailto:jason.joseph@brids.co.id">jason.joseph@brids.co.id</a>

**BRI Danareksa Sales Traders**

Mitcha Sondakh	Head of Sales Trader	<a href="mailto:mitcha.sondakh@brids.co.id">mitcha.sondakh@brids.co.id</a>
Suryanti Salim	Sales Trader	<a href="mailto:suryanti.salim@brids.co.id">suryanti.salim@brids.co.id</a>

**INVESTMENT RATING**

<b>BUY</b>	Expected total return of 10% or more within a 12-month period
<b>HOLD</b>	Expected total return between -10% and 10% within a 12-month period
<b>SELL</b>	Expected total return of -10% or worse within a 12-month period

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