

17 October 2024

Industrials | Misc. Manufacturer

**Arwana Citramulia (ARNA IJ)****Buy** (Maintained)**Expecting a Better Competition Landscape; BUY**

Target Price (Return): IDR870 (20%)  
 Price (Market Cap): IDR725 (USD343m)  
 ESG score: 3.3 (out of 4)  
 Avg Daily Turnover (IDR/USD) 1,832m/0.12m

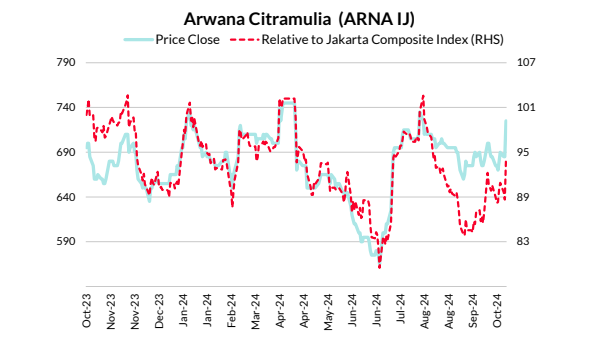
- **Maintain BUY and IDR870 TP, 20% upside and c.6% yield.** As we have anticipated, the official import tariff is out. At least 31 importers have been identified and charged with anti-dumping. We expect further ASP adjustments from sector players and a healthier competition landscape in the industry. Meanwhile, 9M24 sales volumes so far are in line. Arwana Citramulia currently trades at 11.5x FY25F P/E. Our TP implies 13.6x FY25F P/E – at par with the building material sector's 14x P/E. Our TP also includes a 6% ESG premium, given ARNA's 3.3 score vs the 3.0 country median.
- **The official import tariff is out.** This has been highly anticipated by local ceramic producers, including ARNA. Through Minister of Finance Regulation 70/2024 or PMK 70/2024, the ministry regulates tariffs charged on importers that are identified as price dumping their products. At least 31 importers have been identified under this policy, with tariffs ranging between IDR14k and ID90k/sq m, as we anticipated before (refer to our [Stable Volume Recovery; Maintain BUY](#) report for more details). This regulation is valid for the next five years.
- **Possible further ASP adjustments.** Based on our recent ground checks, the import tariffs charged are equivalent to 10-60% of the current selling prices of ARNA's closest competitors. If these importers choose to fully pass on this tariff to customers, we shall see ASP adjustments at least in the early part of next year (assuming current inventory levels are still sufficient to support sales towards the end of the year). And, if so, our scenario suggests that ARNA's pricing can be positioned significantly lower (up to 80-90% of its competitors). The company itself has raised its selling price for some of its selected porcelain products by IDR2k/sq m (c.1.6% to the current ASP) in Sep-Oct 2024. We are still seeing limited impact from this ASP hike. However, we are expecting the company to have room to raise its ASP further.
- **Meanwhile, 9M24 sales volumes were in line.** Sales volume in Sep 2024 stood at a steady 5.8m sq m (+0.6% MoM, +11% YoY), still above FY23's monthly average of 5.1m sq m. This leads to 3Q24 sales volume at 17.5m sq m (+17% QoQ, +12% YoY) and brought the 9M24 figure to 48.5m sqm (+6% YoY). This is in line with our expectation, as it is attributed to 76% of our FY24F earnings target of 63.7m sq m (+3.4% YoY).
- **Risks to our call:** i) Slower-than expected sales volumes, ii) higher-than-expected raw material costs, iii) further price wars, and iv) changes in government regulations

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**Share Performance (%)**

	YTD	1m	3m	6m	12m
Absolute	9.0	7.4	4.3	1.4	1.4
Relative	3.8	9.5	(1.6)	(5.4)	(9.5)
52-wk Price low/high (IDR)	565 – 745				



Source: Bloomberg

**Overall ESG Score: 3.3 (out of 4)****E: EXCELLENT**

ARNA has been recognised for its green industry over the last eight years. Its manufacturing facilities are certified for ISO 14001:2015 (environmental management systems). The company's production processes mainly use gas-fired kilns, which emit lower levels of greenhouse gases. It has consistently lowered gas consumption to improve operating efficiency, as well as cut down carbon emissions

**S: EXCELLENT**

Corporate social responsibility activities include renovating schools and homes, and donating blood and medical treatment. On recruitment, ARNA prioritises locals when hiring workers. There have been no media reports on any conflicts between the company and the local communities

**G: EXCELLENT**

Its good corporate governance is supported by audit and remuneration committees. It has good transparency, business ethics, and discloses information about its business activities.

**Note:**

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (IDRbn)	2,587	2,447	2,555	2,722	3,162
Recurring net profit (IDRbn)	576	445	451	462	627
Recurring net profit growth (%)	22.4	(22.9)	1.4	2.6	35.5
Recurring P/E (x)	9.2	12.0	11.8	11.5	8.5
P/B (x)	3.0	2.9	2.6	2.5	2.2
Dividend Yield (%)	6.1	7.5	5.8	5.9	6.0
EV/EBITDA (x)	5.8	7.2	6.9	6.6	5.1
Return on average equity (%)	34.4	24.5	23.5	22.1	27.1
Net debt to equity (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company data, RHB

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## Financial Exhibits

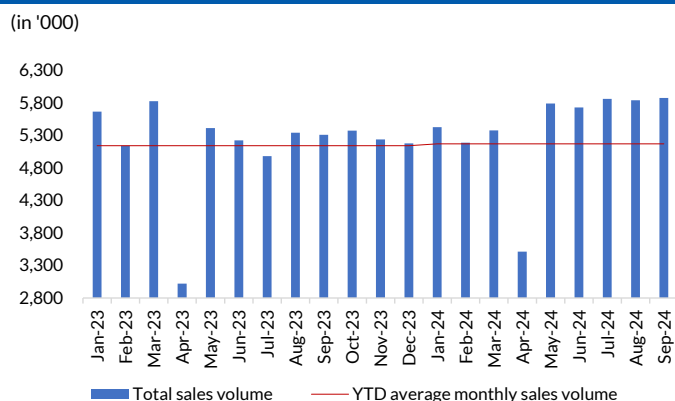
Asia	Financial Summary (IDR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Indonesia	Recurring EPS	78	61	61	63	85
Industrials	DPS	45	54	42	43	44
<b>Arwana Citramulia</b>	BVPS	246	248	274	295	336
ARNA IJ	Return on average equity (%)	34.4	24.5	23.5	22.1	27.1
Buy						
Valuation basis	Valuation Metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
10-year DCF valuation, assuming a WACC of 9% and TG of 2%, with a 6% ESG premium applied.	Recurring P/E (x)	9.2	12.0	11.8	11.5	8.5
	P/B (x)	3.0	2.9	2.6	2.5	2.2
	Dividend Yield (%)	6.1	7.5	5.8	5.9	6.0
	EV/EBITDA (x)	5.8	7.2	6.9	6.6	5.1
	EV/EBIT (x)	6.5	8.6	8.4	8.2	6.1
Key drivers	Income Statement (IDRbn)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. Lower gas tariff rates;	Total turnover	2,587	2,447	2,555	2,722	3,162
ii. Recovery in consumer spending;	Gross profit	1,053	904	903	944	1,218
iii. Acceleration of government spending on public housing	EBITDA	839	676	702	734	951
	Depreciation and amortisation	96	113	127	142	152
	Operating profit	742	563	575	592	799
	Net interest	4	3	3	1	4
	Pre-tax profit	746	575	583	598	809
	Taxation	- 165 -	- 127 -	- 128 -	- 132 -	- 178
	Reported net profit	576	445	451	462	627
	Recurring net profit	576	445	451	462	627
Key risks	Cash Flow (IDRbn)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. Slower-than expected sales volumes	Change in working capital	(264)	(64)	181	(85)	(147)
ii. Higher-than-expected raw material costs;	Cash flow from operations	409	493	759	520	632
iii. Further price wars;	Capex	(270)	(173)	(300)	(300)	(200)
iv. Changes in government regulations	Cash flow from investing activities	(281)	(182)	(300)	(300)	(200)
	Dividends paid	(327)	(400)	(308)	(313)	(321)
	Cash flow from financing activities	(291)	(309)	(279)	(309)	(346)
	Cash at beginning of period	603	438	441	620	531
	Net change in cash	(164)	1	180	(89)	86
	Ending balance cash	439	440	620	531	617
Company Profile	Balance Sheet (IDRbn)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Arwana Citramulia is a leading manufacturer of ceramic and porcelain floor and wall tiles based in Indonesia with a production capacity of 68.8m sq m per year	Total cash and equivalents	438	441	620	531	617
	Tangible fixed assets	945	1,007	1,180	1,337	1,385
	Total assets	2,579	2,620	2,801	2,987	3,300
	Short-term debt	50	111	50	53	58
	Total long-term debt	-	49	90	90	60
	Total liabilities	746	765	754	790	798
	Total equity	1,804	1,824	2,014	2,164	2,470
	Total liabilities & equity	2,579	2,620	2,800	2,986	3,299
	Key Metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue Growth (%)	1.2 -	5.4	4.4	6.6	16.1
	Recurrent EPS Growth (%)	22.4 -	22.9	1.4	2.6	35.5
	Gross margin (%)	40.7	36.9	35.3	34.7	38.5
	Operating EBITDA margin (%)	32.4	27.6	27.5	27.0	30.1
	Net profit margin (%)	22.3	18.2	17.6	17.0	19.8
	Dividend Payout Ratio (%)	69.5	69.4	69.4	69.4	69.4
	Capex/sales (%)	10.4	7.1	11.7	11.0	6.3
	Net gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company data, RHB

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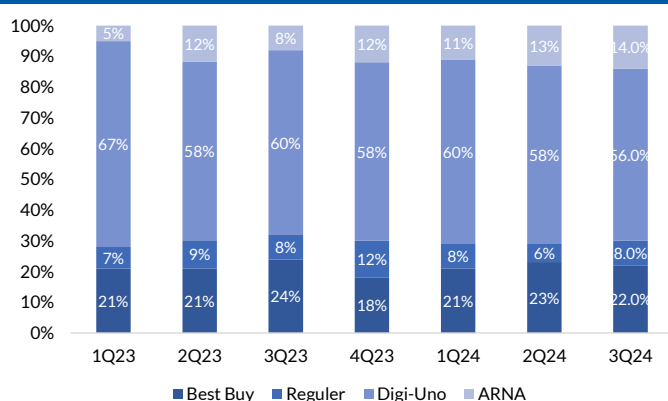
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Figure 1: Monthly sales volumes



Source: Company data, RHB

Figure 2: Sales mix by brand



Source: Company data, RHB

Figure 3: companies charged with antidumping policy

Companies	Anti-dumping tariff (IDR/sqm)
Foshan Sunny Ceramics	14,324
Guangdong Haosen Ceramics	14,324
Guangdong Leader Marble Ceramics	14,324
Guangxi Chunyi Ceramics	14,333
Zhaoqing Chunyi Ceramics	14,333
Qingyuan Ouya Ceramic	35,189
Zhaoqing Jin'ouya Ceramics	35,189
Jiangxi Ouya Ceramics	35,189
Guangdong Romantic Ceramics	34,305
Pingxiang Dacheng Ceramic Technology	34,305
Zhaoqing Guoshi Corporation Mingjia Ceramics	22,366
Enping Xianying Ceramics	15,259
Zhaoqing Aomilong Building Materials	17,082
Guangdong Tianbi Ceramics	36,616
Qingyuan Gani Ceramics	90,384
Guangdong Gani (Group) Ceramics	90,384
Guangdong Jiabin Ceramics	36,577
Zhao Qing City, Gao Yao District Jinshajiang Ceramic	13,446
Zhaoqing Zhenpeng Ceramic	15,268
Guangdong Yonghang New Material Industry	37,340
Dongguan City Wonderful Ceramics Industrial Park	37,364
Guangdong Jiamei Ceramics	37,364
Weder International Development	37,364
Qingyuan Qiangbiao Ceramics	32,486
Zhaoqing Langfeng Ceramics	37,349
Guangdong Homeway Ceramics Industry	47,740
Guangdong Xinruncheng Ceramics	22,409
Newpearl (Guangdong) New Materials	37,409
Foshan Sanshui Huiwanjia Ceramics	37,409
Foshan Sanshui Newpearl Building Ceramics Industrial	37,409
Foshan Newpearl Trade	37,409
Others	94,544

Source: Ministry of Finance, RHB

## Emissions And ESG

### Trend analysis

ARNA has been working to improve its technological capabilities to create more efficient production, including lower gas use per tonne and reducing its reject rates - all of which also contributed to its lower emissions

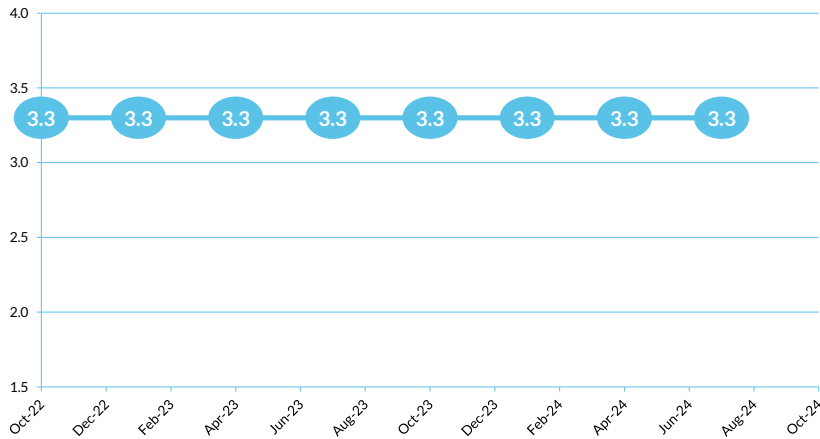
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23F
Scope 1	na	na	na
Scope 2	na	na	na
Scope 3	na	na	na
Total emissions	na	na	na

Source: Company data, RHB

## Latest ESG-Related Developments

- Among its major programmes are its solar power plants that have been installed at all factories in 2023, two of which are already fully operational and have recorded energy savings.
- Data for 2023 shows the significant benefits of this installation, with savings of 3.07m kWh at Plant II and 2.31m kWh at Plant V. This translates to a reduction of thousands of tonnes of CO2 emissions throughout the year.

## ESG Rating History



Source: RHB

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