

5 June 2025

Consumer Non-cyclical | Tobacco

## Gudang Garam (GGRM IJ)

**Sell** (Maintained)

### Cloudy Skies And Long Runways Ahead

Target Price (Return): IDR2,980 (-69%)  
 Price (Market Cap): IDR9,775 (USD1,153m)  
 ESG score: 2.9 (out of 4)  
 Avg Daily Turnover (IDR/USD) 5,045m/0.31m

- **Maintain SELL, new IDR2,980 TP from IDR13,700, 69% downside.** We slash our FY25-26F earnings by 90% and 87% on Gudang Garam's declining sales volumes, weak consumer purchasing power, and its declining market share. The zero excise tax increase in 2025 should not support volume growth as we believe the demand for tier-1 full flavour (FF) machine-rolled cigarettes (SKM) has greatly shifted to illicit cigarettes or below-tier-2 ones, as evidenced by GGRM's declining market share. Our TP, which includes a 2% ESG discount, is based on a 12x P/E – a 27% premium to the peer average.
- **Declining appetite for FF smokes.** GGRM has been long known for its FF SKM brand compared to its peer, Hanjaya Mandala Sampoerna (HMSP IJ, BUY, TP: IDR730), which has made a name for its low-tar, low-nicotine (LTLN) brand and hand-rolled cigarette (SKT) brand, Dji Sam Soe. GGRM's FF SKM prices range IDR2,038-2,192 a stick, while its LTLN SKM prices are IDR2,106-2,250 per stick. In comparison, HMSP's LTLN products are cheaper, with prices at IDR1,900-2,300 per stick. HMSP offers a wider price range vs GGRM, which was one of the reasons behind the latter's declining market share. Also, as a market leader in the FF SKM segment, GGRM has been continuously ceding market share (Figure 3) since the post-pandemic days – which also indicates that there is decreasing demand for FF SKM.
- **Still-weak consumer purchasing power, growing illicit cigarette trade, and growing usage of e-cigarettes should lead to declining sales volumes.** We estimate GGRM's sales volume to decline by 7.1% YoY in 2025. Persistently soft purchasing power, meanwhile, will likely compel consumers to opt for cheaper cigarettes, eg below Tier-2 products, SKT, and illicit cigarettes. Additionally, the growing popularity of e-cigarettes – believed to be a healthier option – and the decreasing demand for FF SKM has also put further pressure on GGRM's sales volume growth prospects.
- **Business diversification towards airports and toll roads would take longer to monetise.** GGRM's diversification into the infrastructure business via the Dhoho International Airport and Kediri-Tulungagung toll road enables it to have a buffer against the risks associated with the structural decline in Indonesia's tobacco industry. The airport, backed by a 50-year unsolicited concession, and the 44km toll road (targeted for completion in October) are expected to form a synergistic ecosystem that supports long-term regional connectivity and asset monetisation. However, while both assets are projected to start contributing meaningfully from 2026 onwards, their impact will remain relatively modest in the near term, ie insufficient to offset the earnings drag from declining cigarette volumes and continued regulatory headwinds. Tobacco remains GGRM's primary revenue driver.
- **Key risks to our call:** i) Tight competition, ii) cut in fuel subsidies, and iii) weak consumer purchasing power.

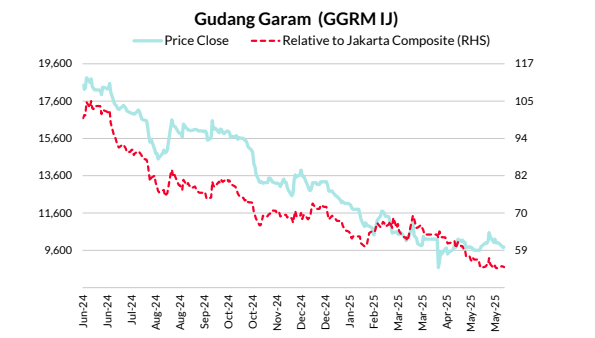
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(26.4)	0.5	(6.7)	(26.8)	(47.0)
Relative	(26.2)	(3.2)	(17.5)	(23.3)	(46.6)
52-wk Price low/high (IDR)	8,675 – 18,850				



Source: Bloomberg

Forecasts and Valuation	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
Total turnover (IDRb)	118,953	92,712	93,967	96,102	92,485
Recurring net profit (IDRb)	5,328	491	699	920	959
Recurring net profit growth (%)	91.4	(90.8)	42.5	31.5	4.3
Recurring P/E (x)	3.53	38.34	26.90	20.45	19.61
P/B (x)	0.3	0.3	0.3	0.3	0.3
P/CF (x)	2.86	3.69	18.15	12.18	12.70
Dividend Yield (%)	12.3	na	na	na	2.4
EV/EBITDA (x)	0.73	0.70	0.67	0.65	0.64
Return on average equity (%)	9.0	0.8	1.1	1.5	1.5
Net debt to equity (%)	15.0	9.2	8.8	9.2	9.8

Source: Company data, RHB

**Overall ESG Score: 2.9 (out of 4)**

**E Score: 3.0 (GOOD)**

**S Score: 3.0 (GOOD)**

**G Score: 2.5 (GOOD)**

Please refer to the ESG analysis on the next page

## Emissions And ESG

### Trend analysis

In FY24, GGRM's Scope 1 emissions decreased to 108,089 tCO2e, from 145,060 tCO2e in 2020

Emissions (tCO2e)	Dec-22	Dec-23	Dec-24	Dec-25
Scope 1	132,042	108,917	108,089	na
Scope 2	na	na	na	na
Scope 3	na	na	na	na
Total emissions	132,042	108,917	108,089	na

Source: Company data, RHB

## Latest ESG-Related Developments

Gudang Garam's sustainability strategy is anchored on four pillars: Product quality & waste reduction, people development, stakeholder value delivery, and regulatory responsibility. These guide its long-term ESG focus.

In 2024, GGRM achieved a 93.97% score in its SMK3 audit, reduced its use of electricity by 2.1%, use of diesel by 6.5%, and decreased its hazardous B3 waste generated by 15.7%. Environmental compliance includes routine wastewater and air quality testing, and licensed B3 waste handling.

IDR151bn on was allocated to corporate social responsibility programmes – spanning reforestation, flood mitigation, and farmer support. However, its external ESG scores remain weak, with S&P rating GGRM at 18/100 and Sustainalytics assigning a high-risk score of 44.7, citing limited ESG disclosure.

## ESG Unbundled

Overall ESG Score: 2.9 (out of 4)

Last Updated: 1 May 2025

E Score: 3.0 (GOOD)

GGRM has begun implementing environmental measures. It manages Scope 1 emissions from its manufacturing operations, which includes energy, greenhouse gases (GHG), water, and waste.

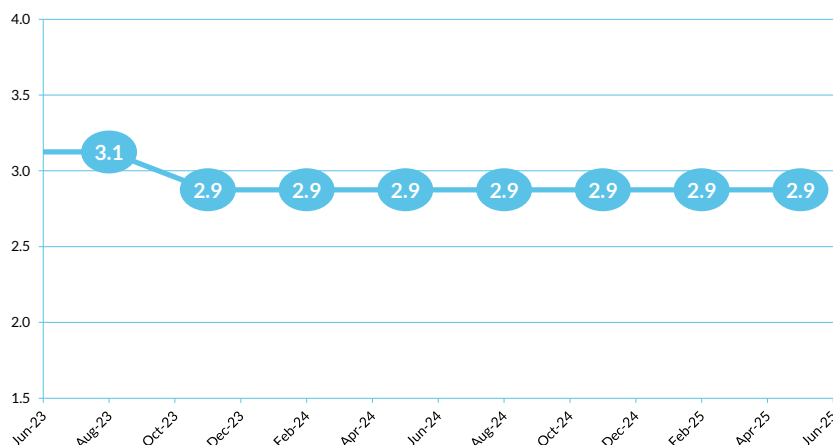
S Score: 3.0 (GOOD)

GGRM values equality, inclusiveness, and sound labour relations, which includes the provision of minimum wages, and investments in human capital and communities.

G Score: 2.5 (GOOD)

Under the supervision of the board of commissioners, the board of directors is responsible for maintaining corporate governance standards. The work of the independent audit committee has continued throughout 2024 – and is overseen by the board of commissioners.

## ESG Rating History



Source: RHB

5 June 2025

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## Financial Exhibits

Asia	Financial summary (IDR)	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
Indonesia	Recurring EPS	2,768.99	254.98	363.39	477.93	498.41
Consumer Non-cyclical	DPS	1,200.00	-	-	-	238.06
<b>Gudang Garam</b>	BVPS	31,632.01	32,179.67	32,428.31	32,785.35	33,256.94
GGRM IJ	Return on average equity (%)	9.0	0.8	1.1	1.5	1.5
Sell						
	<b>Valuation metrics</b>	<b>Dec-23</b>	<b>Dec-24</b>	<b>Dec-25F</b>	<b>Dec-26F</b>	<b>Dec-27F</b>
<b>Valuation basis</b>	Recurring P/E (x)	3.53	38.34	26.90	20.45	19.61
P/E	P/B (x)	0.3	0.3	0.3	0.3	0.3
	FCF Yield (%)	(8.2)	25.5	(4.5)	(2.0)	(2.0)
<b>Key drivers</b>	Dividend Yield (%)	12.3	-	-	-	2.4
i. Rising interest income;	EV/EBITDA (x)	0.73	0.70	0.67	0.65	0.64
ii. New products launched;	EV/EBIT (x)	3.85	26.45	19.70	15.89	15.79
iii. Stronger-than-expected consumer purchasing power.						
	<b>Income statement (IDRb)</b>	<b>Dec-23</b>	<b>Dec-24</b>	<b>Dec-25F</b>	<b>Dec-26F</b>	<b>Dec-27F</b>
<b>Key risks</b>	Total turnover	118,953	92,712	93,967	96,102	92,485
i. Intensifying competition;	Gross profit	14,596	8,152	8,559	9,038	8,796
ii. Cut in fuel subsidies;	EBITDA	38,200	34,788	36,232	37,707	38,865
iii. Weak consumer purchasing power.	Depreciation and amortisation	(30,939)	(33,862)	(34,998)	(36,160)	(37,278)
	Operating profit	7,261	925	1,234	1,547	1,587
<b>Company Profile</b>	Net interest	(402)	(257)	(268)	(267)	(250)
Gudang Garam manufactures and distributes cigarettes, and operates activities related to the cigarette industry. Through its subsidiaries, the company also runs paper-related businesses.	Pre-tax profit	6,861	696	993	1,308	1,364
	Taxation	(1,536)	(208)	(298)	(392)	(409)
	Reported net profit	5,325	487	696	916	956
	Recurring net profit	5,328	491	699	920	959
	<b>Cash flow (IDRb)</b>	<b>Dec-23</b>	<b>Dec-24</b>	<b>Dec-25F</b>	<b>Dec-26F</b>	<b>Dec-27F</b>
	Change in working capital	(1,593)	1,505	507	(324)	(635)
	Cash flow from operations	6,583	5,103	1,036	1,544	1,481
	Capex	(8,134)	(307)	(1,879)	(1,922)	(1,850)
	Cash flow from investing activities	(8,219)	(1,780)	(123)	(1,700)	(1,993)
	Dividends paid	(2,309)	0	0	0	(458)
	Cash flow from financing activities	1,486	(3,873)	(1,774)	(35)	213
	Cash at beginning of period	4,407	4,256	3,706	2,845	2,654
	Net change in cash	(151)	(551)	(861)	(191)	(298)
	Ending balance cash	4,256	3,706	2,845	2,654	2,356
	<b>Balance sheet (IDRb)</b>	<b>Dec-23</b>	<b>Dec-24</b>	<b>Dec-25F</b>	<b>Dec-26F</b>	<b>Dec-27F</b>
	Total cash and equivalents	4,256	3,706	2,845	2,654	2,356
	Tangible fixed assets	24,551	22,058	22,160	22,904	23,664
	Total assets	92,451	84,939	82,688	83,498	84,874
	Short-term debt	13,396	9,375	8,346	8,431	8,596
	Total liabilities	31,588	23,023	20,293	20,416	20,885
	Total equity	60,863	61,917	62,395	63,082	63,989
	Total liabilities & equity	92,451	84,939	82,688	83,498	84,874
	<b>Key metrics</b>	<b>Dec-23</b>	<b>Dec-24</b>	<b>Dec-25F</b>	<b>Dec-26F</b>	<b>Dec-27F</b>
	Revenue growth (%)	(4.6)	(22.1)	1.4	2.3	(3.8)
	Recurrent EPS growth (%)	91.4	(90.8)	42.5	31.5	4.3
	Gross margin (%)	12.3	8.8	9.1	9.4	9.5
	Operating EBITDA margin (%)	32.1	37.5	38.6	39.2	42.0
	Net profit margin (%)	4.5	0.5	0.7	1.0	1.0
	Dividend payout ratio (%)	43.4	0.0	0.0	0.0	47.9
	Capex/sales (%)	6.8	0.3	2.0	2.0	2.0
	Interest cover (x)	12.5	2.4	3.3	4.1	4.3

Source: Company data, RHB

Figure 1: Changes to earnings estimates

	New			Old			New/old (%)		
	2025F	2026F	2027F	2025F	2026F	2027F	2025F	2026F	2027F
<b>Income statement (IDRbn)</b>									
Total turnover	92,712	93,967	-	105,658	104,841	-	(12.3)	(10.4)	-
Gross profit	8,152	8,559	-	13,659	14,100	-	(41.3)	(41.2)	-
EBIT	925	1,234	-	6,444	6,940	-	(87.7)	(86.1)	-
Net Profit	487	696	-	4,858	5,371	-	(91.9)	(90.8)	-
<b>Key metrics</b>									
Revenue growth (%)	(6.0)	1.4	-	7.1	(0.8)	-			
Gross margin (%)	8.8	9.1	-	12.9	13.4	-			
EBIT margin (%)	1.0	1.3	-	6.1	6.6	-			
Net profit margin (%)	0.5	0.7	-	4.6	5.1	-			

Source: Company data, RHB

Figure 2: RHB vs Street estimates

	RHB			Street			RHB/Street (%)		
	2025F	2026F	2027F	2025F	2026F	2027F	2025F	2026F	2027F
<b>Income statement (IDRbn)</b>									
Total turnover	92,712	93,967	-	92,603	95,474	-	100.1	98.4	-
Gross profit	8,152	8,559	-	10,466	10,707	-	77.9	79.9	-
EBIT	925	1,234	-	2,547	2,677	-	36.3	46.1	-
Net profit	487	696	-	1,581	1,766	-	30.8	39.4	-

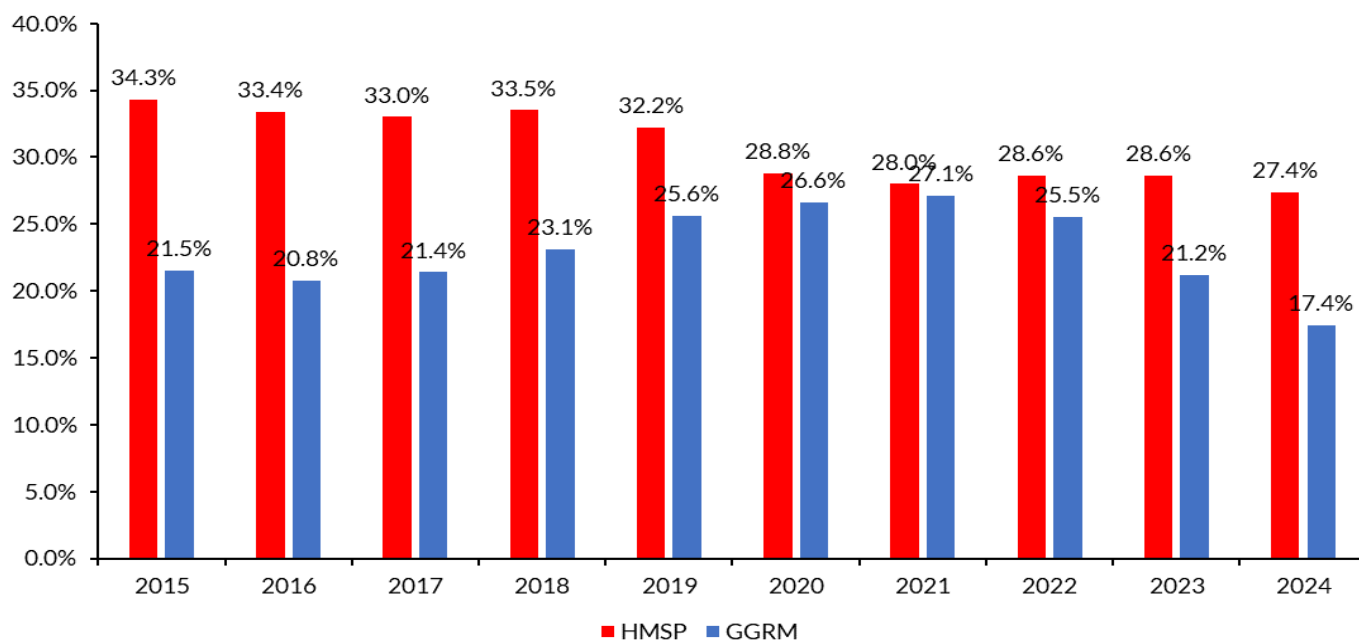
Source: Company data, Bloomberg, RHB

Figure 3: Peer comparison

Company	Ticker	Market cap (USDm)	P/E (x)	
			2025F	2026F
Hanjaya Mandala Sampoerna	HMSP IJ	4,635	11.3	10.5
Gudang Garam	GGRM IJ	1,153	38.6	27.0
Wismilak Inti Makmur	WIIM IJ	105	3.5	3.1
<b>Global weighted average</b>		<b>5,893</b>	<b>16.5</b>	<b>13.6</b>

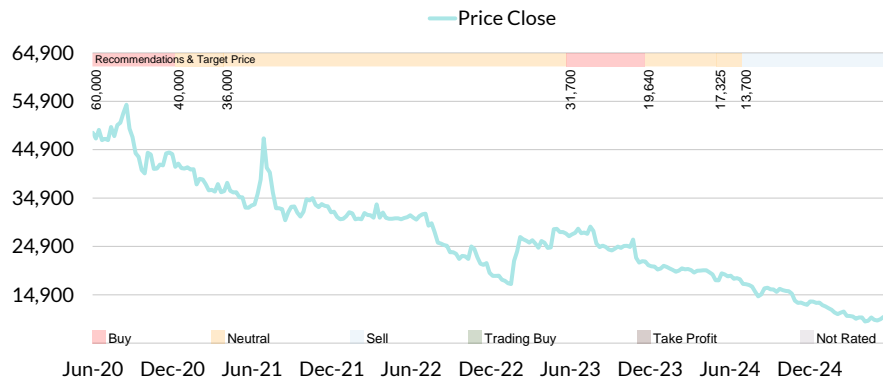
Source: Bloomberg, RHB

Figure 4: HMSP's vs GGRM's market share (2015-2024)



Source: Company data, RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-07-04	Sell	13,700	17,200
2024-05-05	Neutral	17,325	17,925
2023-11-22	Neutral	19,640	21,425
2023-10-31	Buy	31,700	23,275
2023-05-26	Buy	31,700	27,575
2021-04-01	Neutral	36,000	36,325
2020-12-11	Neutral	40,000	41,350
2020-04-29	Buy	60,000	45,000
2020-03-31	Buy	60,000	41,100
2019-11-05	Buy	66,000	53,925
2019-10-31	Buy	66,000	56,100
2019-09-20	Neutral	57,700	54,600
2019-09-16	Sell	57,700	54,600
2019-08-28	Buy	100,000	74,525
2019-08-01	Buy	100,000	74,625

Source: RHB, Bloomberg

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